[Chairman: Mr. Kowalski] [2 p.m.]

MR. CHAIRMAN: Good afternoon, ladies and gentlemen, and welcome to another meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund Act. This afternoon we have with us Alberta's Auditor General, Mr. D.W. Rogers.

Mr. Rogers, it's my understanding that you'll soon be leaving your association with the province of Alberta. On behalf of all committee members, I must say that we've very much enjoyed the professional manner in which you have appeared before the committee in the past, and we all wish you the very best in the ensuing months and years. [applause]

MR. ROGERS: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Rogers, it has always been our tradition to provide the people appearing before the committee with an opportunity for an overview statement, and at this point we would welcome such from you, as well as an introduction of the gentlemen with you.

MR. ROGERS: Thank you, Mr. Chairman. The gentleman on my right, Ken Smith, who was also on my right last year, is the assistant Auditor General in charge of this area of the work of the office. On my left, also as last year, is David Birkby, who is the principal actually in charge of the Alberta Heritage Savings Trust Fund audit.

Mr. Chairman, I'm using the annual report of the Heritage Savings Trust Fund and am addressing the financial statements, page 30 onwards, unaccountably in gray. I don't know why that colour was chosen. I would like to make a few comments that summarize some of the salient events that took place during the year.

Statement A is the balance sheet. The one thing I wish to comment on on the balance sheet, which will be my last opportunity as you point out, is the matter of deemed assets. The deemed assets are there because of the provisions of the Alberta Heritage Savings Trust Fund Act. This Act says that the financial statements shall show

> the total money expended under Acts of the Legislature referred to in section 6(2)(a) in respect of investments in the Capital Projects Division of the Trust Fund.

We've always taken the approach, from 1976 onwards, that therefore these were deemed assets, and great efforts were taken by Treasury to ensure that there was a clear distinction on the balance sheet of both the deemed assets and that portion of the fund represented by deemed assets. The problem is — and this was foreseen — that as the years went by, that amount increased until we now have a fund that by some yardsticks and usage is $14,436,252,000, including the deemed assets. More rightfully, the fund is $12,273,859,000, because the deemed assets are represented by money spent and, in many cases, the assets that were acquired in many cases by that money are actually shown as assets on balance sheets of other entities: AOSTRA, the University hospitals, and so on and so forth. In some cases the assets are owned by municipalities: the park so adjacent to here.

I do appreciate that the Act meant that those things that were acquired by the Heritage Savings Trust Fund not be lost sight of. My problem as an accountant is that these assets don't satisfy the normal definition of an asset, which is something owned. The heritage trust fund does not own these particular assets that were purchased by the expenditure of these funds. Consequently, I would like to bring this up one last time, as I said, and perhaps give another thought; that is, there is no reason at all why the financial statements should not contain all the information relating to the expenditure of capital projects division funds over the years, from the start of the fund until the present date, in a statement contained within the financial statements, simply not shown on the balance sheet. It could be made quite clear to the reader of the financial statements that this was what had been achieved by the expenditure of these funds.

Mr. Chairman, I leave that subject. I don't want to belabour it too much, but I did want to bring up the thought that there is a way in which both the accounting, and therefore the fairness of the presentation of the financial statements, and the objective of the Act could still be achieved within the same set of financial statements, with no potential for misleading the reader.

On the next page, Mr. Chairman, is statement B, and this shows us the income and transfers to the General Revenue Fund. The first figure of interest is the $1.577 billion net investment income, which is about one-third of the way down the statement. I draw attention to the fact that the details of that are fully shown in note 3, which gives the segmented information and shows how that $1,577,062,000 is made up. It shows where those earnings came from. There was a transfer to the General Revenue Fund, again in accordance with legislation, of $1,575,285,000. That is the fourth item below net investment income, and that is commented on in note 5.

I would now like to go farther down that particular statement B to the nonrenewable resource revenue transfer for the year, and this was $737,198,000. The comments I would like to make with regard to that are actually taken from note 6, which gives it in full, but the point I'd like to make is that this reflects the amendments to legislation effective April 1, 1984, which was the first day of the fiscal year we are examining today. The changes in that legislation — amendments to the Mines and Minerals Act, the Alberta Corporate Income Tax Act, and the Alberta Income Tax Act — resulted in the nonrenewable resource revenue transfer being reduced by approximately $63,353,000. If the amendments had not been made, the nonrenewable resource revenue transfer from the General Revenue Fund would have amounted to approximately $800,551,000. That is as opposed to the actual transfer, which was $737,198,000.

If we look at what happened to the changes in financial position — I'll depart from this statement for a moment and sort of give you a summary, because I think it points out what really happened during the year. There was an increase in cash and cash equivalents, if we regard marketable securities under section 10 as cash equivalents — and they are because they can readily be disposed of at any time — from $919,620,000 to a total of $1,381,135,000, an increase of 50 percent between the beginning of the year and the end of the year.

So if we look at what was actually carried out during the year, we see that the capital projects division spent $245,860,000 or thereabouts. There was a net increase in other investments of $39,356,000, because all the net cash earned from investments in effect went over to the General Revenue Fund. So the fund itself spent money, nearly a quarter of a billion dollars, on the capital projects division. On other investments it only increased its investment by $39,356,000.

The balance of the funds of the heritage fund went into increasing marketable securities and cash. When I say there were additional investments of $39 million, one has to consider that there are proceeds from disposals, repayments, and redemptions of investments during the year. These totalled $573 million or thereabouts, and new investments made were $612 million, which is the $39 million in addition to the amount of proceeds that were received.

Mr. Chairman, I think those are some of the main points arising from the activities of the Heritage Savings Trust Fund in the course of the 12 months.

MR. GURNETT: I want to pursue a question that I asked Mr. Hyndman about this morning, Mr. Rogers. We were talking about the transfer of the $5 million in shares in Canadian Commercial Bank from the fund to general revenue. Mr. Hyndman explained that the fund was paid $5 million for those shares when they were transferred. I wonder if you can give any indication of the actual market value of those. The fund was apparently paid $5 million. What would they be worth on the market today?

MR. ROGERS: Because we were aware of the decision of the investment committee — at the time it was the impending decision of the investment committee, and that decision was made before the financial statements were completed — we didn't have to get into evaluation of those particular debentures. The transfer was made at cost, which was the book value, the carrying value, if you will, of the Heritage Savings Trust Fund. Therefore, we were aware that the savings trust fund could not incur any loss because of the way in which the transaction was to take place. It actually was authorized in full authority, and of course a special warrant has subsequently been raised. So we didn't actually have to get into that, and therefore it would be a hypothetical question at this point. We were quite satisfied that no provision had to be made for that under the circumstances. Whether or not there would have been, as I say, takes us into the realm of hypothesizing, which I couldn't do.

MR. GURNETT: Could I ask whether or not you're aware of any other instances in the dealings of the trust fund over the years when it has divested itself of assets at the book value of the assets rather than at their market value?

MR. ROGERS: I can't think of any others, but of course this was a rather unique situation in any event, as we know.

MR. GURNETT: Just a final question in connection with that. Is it a subject that there are grounds to pursue further? For example, in your report next spring can we look forward to there being any evaluation of what happened there and whether it is in fact unquestionable?

MR. ROGERS: No, I really don't have any information. Although, as I say, I wasn't faced with that problem, we did look very carefully at the marketable securities. In note (a) of schedule 1 on page 38 — we looked into that very carefully, of course. We had no reason not to accept the judgment of management in that case. There were no grounds for making any provision, if you will, for those particular investments not being good because of the continuing solvency of the bank and the fact that they were in good shape. Those particular investments appeared to be sound.

MR. GURNETT: May I pursue that a bit further? In connection with those marketable securities, Mr. Rogers, when the note indicates that those values are based on the continued solvency of the bank, those values date from what point in time? When was that set?

MR. ROGERS: Those are cost, of course. They're not established values; that is, on the basis that you put the money in the bank and when the time comes you take it out, having earned interest in the meantime.

MRS. CRIPPS: You partially answered my question when you were discussing the deemed assets. I guess one of the main concerns one would have is how the public would understand that those deemed assets are there and are in fact an expenditure of the fund. You said your problem was with ownership. Could you elaborate more on a statement contained within the balance sheet which would clearly indicate to Albertans that those deemed assets are there and are an expenditure of the fund but, I guess, are not recoverable as far as the capital that's been invested in them?

MR. ROGERS: Mr. Chairman, because a balance sheet has a peculiar connotation to most readers of financial statements, my suggestion would be a separate statement that clearly showed what had been achieved: subject to audit, the accumulated expenditure from the date of the start of the fund and what that money had been spent on, clearly identifying the projects. That is auditable; we would know that is where the money was spent. I feel that there would be no problem with having such a statement as a part of the financial statements.

I would share with you that this has not been presented to government in this form. We will be following this through, but I thought that as this was the last opportunity to talk with the committee on this subject, it might be a good time to air it. It will be presented to government later this year and will be in the annual report. I made a commitment some time ago that if anything relating to the Heritage Savings Trust Fund were going to be in the annual report, which, as you know, gets issued in the following spring, I would acquaint this committee with it ahead of time because of the timing difference we get between the issuance of these financial statements and those of the GRF and other financial statements.

The one thing I know will be in the annual report of the Auditor General will be a recommendation to this effect: that we now believe it is possible to both satisfy the requirements of the Act, perhaps even improve the disclosure in the financial statements, and avoid the possibility of inadvertent misleading, if you will, of a reader of the financial statements. We can achieve all those objectives. We will be making this presentation both in the form of a management letter to Treasury later on and also in the annual report to be issued next spring.

MRS. CRIPPS: A second question, not dealing with that aspect. On behalf of Alberta's citizens, and that's who you are working on behalf of, how would you evaluate the success of the fund's investment and activity in meeting the original objective of the fund; that is, an investment in the future to protect our children and grandchildren? Your last kick at the can.

MR. ROGERS: Mr. Chairman, I'm afraid that gets an auditor into a realm that perhaps he's not that qualified to speak to; that is, being subjective. An auditor, by training and background and everything else, has to be objective. I only point to the fact that I'm looking right now to the Canada investment division investments. That's money that presumably will be coming home to Alberta one day and will be available for the use of future generations. I'm allowing myself perhaps a little more latitude this time than I would have in the past. There are other things, like the investment in Syncrude and the grain terminal. I think these things will have an ongoing benefit.

I'd better close now, because otherwise I'll sound as though I'm making a speech, and that is not the intention. As an accountant, I feel that there are very considerable benefits in the fund, but that's really a matter for others to judge.

MRS. CRIPPS: Thank you.

MR. R. SPEAKER: Mr. Chairman, to Mr. Rogers. My question actually comes under the Alberta investment division. It relates to assets and deemed assets as well, understanding that under deemed assets we only have the capital projects. In the balance sheet on statement A, page 31, under the Alberta investment division investments, schedule 3, we have $8 billion. We have the Alberta Mortgage and Housing Corporation, in which the Heritage Savings Trust Fund has investments of $3.3 billion. It's been brought to my attention as I travel across the province — I guess my question is this: are the assets that we as the Heritage Savings Trust Fund are deemed to have here debentures, not really the way the moneys have been handled by those respective entities, such as the Alberta Mortgage and Housing Corporation?

What has been brought to my attention is that in the good years, prior to 1980, many parcels of land were purchased by that entity. One specific example just out of Grande Prairie: a quarter section parcel of land for housing development, purchased at just over $4 million. The asking price is just over $1 million. The selling possibility, talking to real estate people, is maybe $100,000 — a massive loss by that corporation. There are many other examples like that across the province, and many examples in private life as well, where the equity in our property has decreased significantly because of the times.

But the question I raise, in terms of what happened there, is: does that affect the security of our assets which we account for in statement A, schedule 3, under the Alberta investment division's investments? We account for it there as being a very secure asset. Is it a secure asset? I guess that's my real question. Is the security of that asset really the General Revenue Fund of the province?

MR. ROGERS: Mr. Chairman, to answer that question, the financial statements to March 31, 1985, of the Alberta Mortgage and Housing Corporation aren't issued yet. As a matter of fact, we're still working on the audit. Certainly, if there has been any loss of value of assets, this would be reflected in a deficit, and therefore provision would have to be made, let us say. I'm not speaking from the actual figures now, because I don't have them at this time. But that could create a deficit which then would either be carried by the corporation or reimbursed out of the General Revenue Fund.

What we're looking at is the long term, because most of these debentures have long spans. To be realistic, I think one has to take into account what is happening. Your view of where things are going has to enter into any judgment. But financial statements show a situation at a point in time. We have to try to show the situation as it existed at March 31, 1985, but that doesn't necessarily mean to say that there's any impairment of this asset. You're quite right, and of course these debentures are guaranteed in any event. The guarantee would have to be that if it ever became necessary — and there's no question in my mind that it is necessary, but if it ever became necessary, and again I'm afraid we're in a hypothetical area — then of course it would be a charge on the General Revenue Fund.

MR. R. SPEAKER: Mr. Chairman, this is a question in terms of the report that will be coming with regard to the Alberta Mortgage and Housing Corporation. Will we as members of the Legislature and of this committee be able to look at that report and see the actual cost of purchasing assets such as land, homes, et cetera, so we can assess what we do with this type of debenture? Will the report that comes back to us have today's estimated value of that property across the province -- for example, the piece of land I was talking about in Grande Prairie? Would that be the kind of report we will get?

MR. ROGERS: Many of the assets of the Alberta Mortgage and Housing Corporation, of course, are carried at cost. One of the situations we have to face is that where a known loss exists, either a provision has to be made for that loss or, if there has been a nontemporary loss of value — excuse the terminology, but this is the handbook — of an asset, that has to be recognized. I have to agree that that is very difficult to determine in the present climate, and it's one that's causing us a lot of sleepless nights, if you will. But very definitely we will try, and I know the corporation will try, to arrive at a fair disclosure and a fair statement of their assets and liabilities as of March 31.

MR. R. SPEAKER: Thank you.

MR. THOMPSON: Mr. Chairman, to Mr. Rogers. I am not any kind of an accountant, but I feel very uneasy every year when we look at these balance sheets. I think we are getting farther and farther from reality, if I could say that. For instance, on one side we have the AEC shares that are on the book at one price and are worth considerably more. I look over here at the hopper cars, on schedule 6, and I guess they are down at the same price we paid for them. I bought my car about the same year Alberta bought the hopper cars, and I don't think I could get half of what I paid for my car if I put it on the market. For a nonprofessional those are very, very confusing things that we have in here. As far as I'm concerned, the longer this type of thing goes on, the harder it is to reconcile it to the true picture down the road. Is there any way this committee could make recommendations that would start to bring the thing into what I would call clearer focus?

MR. ROGERS: Mr. Chairman, I'd like to deal with the hopper car situation. This is intended to be, and is, the accumulated expenditure on the capital projects division from the day the fund commenced. The new rail hopper cars, as you pointed out, cost $53,779,000. Let us assume that you're sitting here 20 years from now, still looking at the financial statements. Those cars may be long since gone, but that item is still there even if they've been cut up for scrap. I don't know what the life of a hopper car is, but let's assume they have been cut up for scrap. This would still show, because the purpose of this statement is to show what was achieved and the way in which the funds from the Heritage Savings Trust Fund were spent for capital projects. It does not try to place a present value on those assets. It's simply saying that this is what we spent the money for.

MR. THOMPSON: Mr. Chairman, a supplemental on this. The average person — maybe I'm not average; I don't know — looks at the bottom line on the front page and there is $14 billion-plus there. Actually, it is not accurate. I guess it's in the eye of the beholder more or less. I don't say anybody is deceiving anybody, but still and all, basically the value is not there in the dollars. As far as these deemed assets, and you explained them well, I really feel that we need to take a look at some way of eliminating them from the figures when it comes to making your balance sheet up.

MR. ROGERS: Thank you, Mr. Chairman.

MRS. CRIPPS: Further to your discussion with Mr. Thompson. You said that if that's the dollar value that was spent, that's the dollar value that's put in the book. If there's nothing left 10 years down the road, that dollar value is still shown in the financial statement. Is that really a true financial statement of the fund, or is that just a financial statement of the expenditures out of the fund? I have the same concern that Mr. Thompson does. I think we have to have an accurate assessment of what we really have in actual terms, factual terms, as opposed to what's gone down the drain or whatever.

MR. ROGERS: Mr. Chairman, to answer that question, the Act says that the financial statement, audited by the Auditor General, shows, among other things,

> the total money expended under Acts of the Legislature referred to in section

6(2)(a) in respect of investments in the Capital Projects Division of the Trust Fund.

By passing this Act, this Assembly said: we want to know from day one of the fund how much has been spent on capital projects, and we want you to show these, in effect, as deemed assets. That is where we are caught in including these as assets on the balance sheet. It does hold the potential for misleading the reader. I guess I wince every time I hear it referred to as a $14 billion fund, because it isn't. Although in excess of $2 billion has been spent on what in the broad sense can be called assets, they're not assets that are at the disposal of or can provide funds for the Heritage Savings Trust Fund.

MRS. CRIPPS: If I can elaborate, in your suggestion on how to include the deemed assets so that they accurately reflect what is there, maybe you could give some consideration to the future benefits — I don't mean benefits, because you can't pull them out, but evaluation of the assets so my grandchildren know what's there and what they have achieved through the Heritage Savings Trust Fund. Prince Rupert, if you can use that as an asset, is probably going to be more valuable although the hopper cars may have lost their value and Kananaskis may be 10 times as valuable as it is today. Maybe some consideration could be given to looking at giving a true evaluation of the asset.

MR. ROGERS: Mr. Chairman, that is a very difficult problem. The private sector is caught in the same vise, if you will, in that even in the private sector the assets shown on balance sheets of companies are the historical cost figures, because no one has really found a better way of showing them. If you were to show current replacement cost each year end, there would be a lack of comparability from year to year with the financial statements, and it would be very difficult to know how the company was doing over a period of years. Consequently, that has never been adopted in the private sector.

We're talking about the same situations here. For instance, what would be the replacement cost in, say, 30 or 40 years of the hospital across the river, which has been built with Heritage Savings Trust Fund money? It would probably make the original cost look fairly small. Yet what good would that information really be? I think financial statements have to deal with auditable facts and figures and those things that can be determined in absolute terms. Of course, the only one you really have a handle on is: how much did it cost us in the first place? If its value has increased and you start taking that into your books, you have a profit that isn't really recognizable.

MRS. CRIPPS: The reason I said that is that some of these things may be valueless in a number of years but others will be more valuable. I quite recognize that you can't change the value of your business assets. If you want a real story, I'll tell you what our herd of cows was worth a few years ago and what they're worth today. I know why you can't say that in the assets themselves and just give a different evaluation every year. It has to be constant.

MR. CHAIRMAN: Before we go to Mr. Zip, I should make a comment about Mrs. Cripps and her grandchildren. A woman of your age would surely have to wait at least 15 years before you'd even be in a position to have grandchildren.

MRS. CRIPPS: As slow as I am, probably.

MR. ZIP: Mr. Chairman, I'm happy to see the questions raised by the hon. members for Cardston and Drayton Valley on the real value of the assets of the Alberta heritage trust fund, because that question has been revolving in my mind for a long time. I often wonder what the real net worth of the assets would be if you held an auction sale, just as an individual from time to time has to sit down and see what he's worth in terms of real market value.

I wonder whether thinking is even directed toward setting up these values, because a lot of them are not real marketable values. They probably never were intended to be, but I really agree with the hon. Member for Drayton Valley that they reflect more the amount of moneys expended on these various items than their actual market value or realizable value at the present time. What, in your estimation, would that realizable value be, as far as the total assets of the Alberta heritage trust fund?

MR. ROGERS: I think realizable value is a very difficult thing, because it requires each asset, in effect, to be valued separately by whoever has the expertise in that area, and of course is a very costly project. It hasn't been undertaken, because this is a going concern. It goes on. There's not a question of saying, "How much cash can we realize as of this April 1 or this March 31?" That doesn't even arise. If you went through the very costly process of saying that at March 31, 1985, this was the realizable value of the fund, it's meaningless a day or two days or a week later, because everything has changed again. It's like a moving target. So the whole exercise really is of value only if you're selling out. If you say, "How much can we realize for this Heritage Savings Trust Fund?" it would be meaningful but not for annual reporting. The whole concept is of a going concern.

For instance, you mentioned the auction sale. The value you realize at an auction sale is often very much less than the worth to you, if you're on a going concern basis and continuing in business. Very often that asset is worth very much more to you than what you can obtain for it in an auction sale. We have the same thing here.

MR. ZIP: Nevertheless, individuals are required from time to time to get appraisals on the value of their assets. It seems to me that in such an important asset as the Alberta Heritage Savings Trust Fund, it would be very worth while to have an appraisal made from time to time. My feeling is that as the years go by, the stated value of the fund becomes more and more distorted as items that do not have a real marketable value are added to its assets. As a result, we have a false image in the mind of the public as to actually how much real money, if I can use that term, and realizable money there is in the whole fund. Really, a lot of that money shown as an asset in the fund has been spent. It has been spent for a good purpose; nevertheless, you could never recover that money.

MR. ROGERS: Mr. Chairman, I think you can reasonably determine what you could get for most of the investments other than the deemed assets, although they are based on holding to maturity, in effect. On that basis, yes, you could do that for most of those divisions. The deemed assets, of course, as we have said, aren't owned by the fund and are only an historical record of how much has been spent by the fund since day one.

I think that the $12 billion tends to be a little conservative, and I use the small "c" conservative. For instance, we have the Alberta Energy Company shares. What are not reflected, and this is noted in the financial statements, are the profits earned by that company during its lifetime. We did realize some of those, in effect, by the sale of those shares for $125 million early in April of this year, which was after the closing date for these financial statements. So I would say the realizable value is not far off the $12 billion. I don't think the difference would be startling enough for us to go through the very expensive operation of evaluation of all the assets. That's my own personal view. It really is a matter for management and this Legislature.

MR. CHAIRMAN: Will there be additional questions forthcoming from committee members? Mr. Hyland.

MR. HYLAND: Adjourn.

MR. CHAIRMAN: There being no further questions, Mr. Rogers, I repeat what I said at the beginning. All members of the committee wish you the very best in your upcoming retirement, not from active involvement, I'm sure, but from participation in your position as Auditor General in the province of Alberta.

MR. ROGERS: Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you very much, and to the gentlemen with you.

Members of the committee will now proceed to an adjournment. Just to remind you, tomorrow morning we'll be meeting with the Alberta Heritage Foundation for Medical Research, commencing at 10 o'clock. Further to the statement we made this morning with respect to both the index and the schedule of upcoming events, you'll note that the index and the schedule contained an adjustment for Monday, August 12, with respect to discussion of recommendations. Can I have the feeling of members of the committee whether or not we might just continue with that? Some members indicated that they thought that would perhaps be a bit premature, and we could simply move beyond Monday, August 12, and not hold that meeting. I recognize schedules were made, and from an administrative point of view I have no difficulty with the ordinary mechanism. Is it your feeling to have the meeting scheduled for Monday, August 12, or to postpone that one and go to Tuesday, August 13? What's your feeling?

MR. NELSON: Two on Tuesday and none on Monday.

MR. CHAIRMAN: There's been a suggestion by Mr. Nelson that we go with the two on Tuesday and forget about the one on Monday. Is that the general feeling?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Okay. We shall proceed on that basis. We'll see you tomorrow morning at 10 o'clock.

Thank you.

[The committee adjourned at 2:51 p.m.]