

[Chairman: Mr. Kowalski]

[10 a.m.]

MR. CHAIRMAN: Good morning, ladies and gentlemen, and welcome to another meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund Act.

I would like to draw to the attention of all members the sadness we must all experience as the result of the knowledge we now have of the passing of a former colleague and former member of the Alberta Legislative Assembly. Today the late Mr. Norman Magee, who represented the constituency of Red Deer from 1979 to 1982, will be laid to rest. I think it would be most appropriate if we all took a few seconds to meditate and ponder on the loss we must all feel as a result of the knowledge of hearing of one of our colleagues' . . . I ask that you join me in a moment of silence in respect to the late Mr. Magee.

[The committee observed a moment of silence]

MR. CHAIRMAN: Thank you very much.

Mr. Adair, we welcome you to another appearance before this committee. I would draw to the attention of all members of the committee the investments of the Alberta Heritage Savings Trust Fund in the Alberta Opportunity Company, which is a portfolio responsibility of the minister. On page 13 in the report members will note that as of March 31, 1985, investment had reached \$167 million, and investment during the fiscal year 1984-85 reached some \$35 million.

Mr. Adair, we welcome you. You have several gentlemen with you, and I would ask that perhaps at this point you might introduce them. If you have an overview statement to make, would you kindly proceed, and then we'll proceed to questions from committee members.

MR. ADAIR: Thank you very much, Mr. Chairman and members of the committee. It's my pleasure to be here and to introduce to you, on my right, the Deputy Minister of Tourism and Small Business, Al McDonald, and on my left, the managing director of the Alberta Opportunity Company, Mr. Roy Parker.

In going over the opening comments, if I can, as I have in the last number of years, give a bit of an overview about where we're at and if there were any changes of any significance that

might be there, and let you work from that particular point.

We still work on the principle of the loan process that has not changed in the number of years: \$30,000 to \$50,000 loans can be approved by branch managers and distributed; up to \$60,000, or a \$60,000 loan, by the credit superintendents; loans up to \$75,000 by the deputy managing director; loans up to \$100,000 by the managing director; and loans up to \$250,000 by the loans committee, which is made up of the managing director, the deputy managing directors, senior management, and branch managers. Over \$250,000, the management recommends to the board of directors on a twice-a-month basis. Loans over \$1 million go through the same process, but added to that is the fact that they must then come to me, be placed on the finance and priorities committee agenda, and from there to cabinet for approval.

An important point that I should possibly add this year, because there has been some mention of it over the years, is the average time for all of the loans, including the \$1 million loans and the lesser loans. Thirty-one days is the computer printout — if that's the term — of the average time of completion of those loans, and if we're talking loans up to roughly \$60,000, a period of 18 to 20 days is the norm. There are exceptions to that. There isn't any question of that, and I would have to ask Mr. Parker for the percentage of loans of \$1 million or more in relation to the total number of loans on an annual basis. Roy, maybe you might respond after I've completed my remarks.

So really, on the average our process of attempting to approve loans has improved steadily from the time that I've been involved and before. As I said, you do have the problem areas where, for whatever reasons, a lawyer on one side or the other may be on holidays and some time is spent while it sits on his or her desk. That does add to the time frame that's in there, and of course the provision of information that's required by the company in order to make its decisions has a bearing on that. But, again, where all of those points are taken into consideration, the average time is 31 days overall and 18 to 20 days on loans \$60,000 or less.

We operate with branch offices in Brooks, Calgary, Edmonton, Edson, Grande Prairie,

Lethbridge, Medicine Hat, Peace River, Red Deer, and St. Paul, and Ponoka is the head office. The number of loans since inception to March 31, 1985 — that's all the loans that have been made since AOC started well back in the early '70s — is 3,290, with the total number of dollars lent in that process, \$354.295 million. For the 12-month period to March 31, 1985, 292 loans were approved, versus 254 in the same period for 1984. The number of dollars in that 12-month period to March 31, 1985, was \$29.180 million, compared to slightly less, \$28.745 million, in '84. The average loan size since inception has remained fairly steady at \$108,400. The average loan size in fiscal 1985 was slightly less than that, at approximately \$100,000.

A figure I'm sure you're all interested in is the percentage of loans in arrears. Last year 15.68 percent of our loans were in arrears. We're pleased to report that that has dropped to 14.3 percent, and I think that has some significance in what appears to be the turning around of our economy. The number of loans outstanding at March 31, 1985, was 1,615. Another point you'd be interested in is that in 1984 we had 54 receiverships, and that dropped significantly in 1985 to 40. So there was a reduction of 14 in that period; again, an indication that things are turning around across the board.

With that, Mr. Chairman, I am pleased to say that we are pleased with the work of the Opportunity Company, and particularly under the directorship of Mr. Parker. Mr. Parker, you might just add that percentage of loans over \$1 million in relation to the others. I just don't have that one at my fingertips.

MR. PARKER: Over the past number of years it has ranged from 1 percent of the loans to about 3 percent. It's a significant amount in dollars, but as far as the number of loans that we deal with and approve, it's a very small percentage. As the minister said, obviously these will take a longer period of time to process, because they're of a larger amount. They have to have a more rigorous screening, and to do that, a greater period of time has to pass before the approval is received.

MR. CHAIRMAN: Committee members, we'll proceed with questions from Mrs. Cripps, Mr. Gurnett, and Mr. Gogo.

MRS. CRIPPS: Mr. Chairman, I'm pleased to have the minister back. Even though he knows my opinion on AOC as a lender of last resort, it's a good opportunity to follow through on the information. But since it is a lender of last resort, and that's the mandate of the company, how much does that 14.8 percent in bad loans amount to? What's the dollar figure on it?

MR. ADAIR: The 14.3 percent? I'd have to ask Mr. Parker the dollar amount.

MR. PARKER: Those in arrears? That varies from time to time. Most recently we had about \$7 million in arrears out of our total portfolio. That's the amount in arrears of the total number of accounts that are not up to date.

MRS. CRIPPS: A question for my colleague in Red Deer. Ram Steel was one of the favourite topics before this committee for some time. Could the minister give us an update on what's happened to that account and where we are with Ram Steel? I understand that the ... [interjection] The Member for Lethbridge West says personal guarantees also. I know Ram Steel itself now is a success story; there's no question about that. But as far as AOC and our investment in that company, could you give us an update?

MR. ADAIR: Okay. Mr. Chairman, I guess the best way for me to go is that there was one piece of unfinished business a year ago when we were sitting down at this table. That was that the transaction had occurred and the IPSCO people were taking it over. There was one unfinished piece of business that Mr. Parker, Mr. McDonald, and I spoke to. That was the pursuit of the personal guarantees that were out there. I believe there were \$2.1 million in personal guarantees. We indicated to you that we would be pursuing those.

I will indicate that pursuit, and you may want to comment on that further, Mr. Parker, in the sense that most of the work is done through the Opportunity Company board of management and board of directors. That pursuit occurred, and in the negotiations with Ram Steel shareholders and the third party — the third party was the CCB, the Canadian Commercial Bank — it was determined at some point, and I don't recall just exactly what the date was, that the CCB was willing to purchase those guarantees and, in

fact, did for \$1 million cash I believe it was. That was paid to the Alberta Opportunity Company. They released the guarantees and released the shareholders from any responsibilities to that. That was negotiated with the three parties involved. I can't comment beyond that.

MR. PARKER: The only thing I can add to that is that it occurred in October, I believe, of last year. We had extensive negotiations with senior people of the Canadian Commercial Bank and ultimately reached the figure of \$1 million, which we felt was suitable for AOC and certainly an excellent settlement to this problem. At that time the Canadian Commercial Bank had other methods of minimizing their loss through purchasing these guarantees on which they had to obtain the agreement of the guarantors. After we received our money and put it in the bank, we heard no more of it, and that was the end of the matter.

MR. ADAIR: The only other thing I can add is that to my understanding they are operating three shifts a week and doing very, very well indeed. The number of employees is up from what was originally there, in the sense that they were a round pipe plant and there is a need for that particular kind of pipe. So we're quite pleased with the way it has ended up.

MRS. CRIPPS: If the Canadian Commercial Bank is still a lender in Ram Steel, what would the effect of the collapse of the CCB be on that business and other small businesses in this province?

MR. ADAIR: I would ask my colleagues maybe to supplement what I'm about to say. In the Ram Steel case I can't respond. I'm not sure exactly what the percentages were in their picking up those shares.

MR. PARKER: Ram Steel is no more.

MR. ADAIR: Yes, but they were a part at one time, and I don't think there are any implications to it.

In the general sense, in the broader question you have — and I have to turn to either Mr. McDonald or Mr. Parker on that; I'm not sure — my understanding is that the percentage of

loans in the portfolio from a small business point of view was quite small, so the impact would be minimal on the small business community, albeit there may be some impact. I can't go much beyond that from my point. Do you have anything that you might add to that, Al?

MR. McDONALD: Mr. Chairman, I believe it will be very small in that we're not looking too much at those who have loans. That's money outside the bank and not deposits in the bank. We don't have the details, but we feel the impact is very minimal.

MR. GURNETT: Mr. Chairman, the first question I'd like to pose is about the process that's involved in making a decision for an AOC loan and particularly about a matter I have been approached on by a couple of businesses at different times. That is, what is done to ascertain whether there's going to be any negative effect on other similar businesses in a town; for example, in approving a loan to a restaurant, whether other restaurants in the town may be affected by that? I wonder if you would share just a little of how the employees of the corporation go about determining those things.

MR. ADAIR: I'm quite sure Mr. Parker can follow that for you and give you an explanation as to what we do. I might add that about two years ago now, I believe, we, being the government, suggested to AOC that they consider the possibility of refinancing in their portfolio, because we had not up till that time, keeping in mind competition and other features that would relate to the present-day method of lending.

With that, Roy, maybe you can go over the system that's used in pursuing and following through on an application. I think the question relates to both the positives and negatives, the competition and all the other features that may be before a decision is made. I underline the word "before", because I'm aware of people who have come to us well after and said, "Why did you do it?" With the best information provided to us at the time, that was the right decision to make, but in retrospect or hindsight it didn't appear to be. Ram Steel was a perfect example of that.

MR. PARKER: Okay. As far as the process is concerned with regard to excess competition, one of our major policies in AOC since inception has been not to knowingly finance undue competition where we are going to potentially do harm to an existing, taxpaying business. As a matter of fact, over the past three years some of the people who have expressed distress at our decisions most strongly have been people we have turned down because, while they had viable proposals, we thought it would do significant damage to existing businesses.

Another factor I should point out is that in many cases, particularly large loans, we will talk to people in the community where this development is going to take place, and on occasion even to the competition, to find out if they have extremely strong views on the matter, which on occasion they have and we will react to. One of the disappointing things we faced on a number of loans you may be familiar with — we talked to people; we were encouraged to go ahead, because at the time of the proposal for the facility there was a shortage and we were encouraged to provide the funding, which we did, followed within a year or two by economic problems. The people who said, "Yes, go ahead," are now complaining that we in fact have provided this unfair competition and it's doing harm to them. To that, all we can say is that we did not knowingly do this, and when we were in contact with them, they had the same view we did. While we feel sorry for them for being in difficult circumstances, we don't say that we went in and did it blindly, because we are very concerned about this.

On the second matter, as the minister said, in regard to refinancing of existing debt we adopted a policy several years ago whereby we would refinance the existing debt of businesses in difficulty if it met very simple criteria: (a) if it was evident that in the short or medium term their existing financing would result in the business going under, and (b) if the type of financing we could provide would see that they could survive. Our view was that if they were going to go under in three months with their existing financing and under in five months with our financing, there was no point in our doing it, but if we could see that they could at least break even and carry on and survive, we would certainly bend every effort to assist them.

MR. GURNETT: The whole issue of refinancing is a good one to hear about. I'd hope you could share your good experiences with refinancing with the people in ADC, who could, I think, with benefit do that for a lot of people farming in the province as well.

Let me ask about another aspect of the loans, though, as a second question. That relates to what I guess we tend to call, at least informally, write-offs of loans. Specifically I'm thinking about the case with Alberta Wildlife Park this summer and the business that happened there. I know, as perhaps the minister as well experiences, that people on farms that are facing stress have some strong opinions about what they understand happened there by way of a write-off. I wonder what the policy is about that. How do you qualify for a write-off as opposed to, say, refinancing? How are those kinds of decisions made, and in the case of a write-off, what's the process? Is there an effort to recover anything for AOC? What happens when that decision is taken?

MR. PARKER: Do you want me to answer that?

MR. ADAIR: Yes.

MR. PARKER: Our policy is to attempt to recover as much as we can without undue distress for the guarantors, on guarantees at least, bearing in mind that they should have housing and shouldn't be left destitute but that if there are funds, we should have those available. In the case of the Wildlife Park it was the view of our board of directors that the level of debt that had been accumulated by the Wildlife Park and our position in second place behind the Royal Bank were such that the existing business could not survive because of the accumulating deficit. We agreed with large numbers of people and the government that it is an excellent facility of benefit to the province of Alberta, and it would be unfortunate if it disappeared.

Our loans were written off in total, which represented about two-thirds principal and one-third accumulated interest. But the agreement was that in the event the Wildlife Park did not survive under the foundation, the assets of the Wildlife Park would revert to the province of Alberta. So the security we hold is now ultimately available for the province of

Alberta. So no one is going to be able to sell a giraffe or a gnu and take the money and benefit from it. They'll be buying and selling in the normal course of business, but if the foundation is not successful, those assets will return to the province of Alberta, of which we in AOC are one segment.

MR. ADAIR: I maybe should clarify an impression that was left in the way you stated the question. There is no suggestion, I would think, that the dollars that were involved were being taken away from, say, agriculture or some other area, in the sense of saying that the agricultural community could be upset because it appeared money was being taken from them to do that. That wasn't the case in this case and certainly isn't in the way AOC or ADC operate against or with each other, in that sense. I just want that clear.

MR. GURNETT: No. I think the way I posed it was simply a reflection of a sense of an inconsistency, not that one was losing out because of the other but more of people saying, "They got it and we didn't, and should it be generally available?" But it sounds from the response that decisions on write-offs are very individualized ones and that there isn't, in fact, a general policy that at a certain point a write-off takes place in a case.

Just to broaden that area a little bit, as another question I wonder if there are some statistics about legal actions that you could share. I don't know if there is the equivalent of quitclaims with AOC loans, but to pursue the figure given earlier about the \$7 million in arrears, how does that break down as far as actions that might be under way against so many companies that are being considered for write-offs, so many for perhaps having action taken against them to end the business continuing, and so on? It's useful to have numbers about those different categories of businesses.

MR. PARKER: Maybe I could give you a little background on how we approach this. First and foremost, we stress quite strongly to our borrowers and to the shareholders of our borrowers that we are here to lend money but that the other side of the coin is to get it back and that, whether it be by sale of assets or sale of assets and collection on guarantees, we

intend to pursue the recovery of our funds quite vigorously but with a reasonable level of compassion.

To do this we review on an individual basis accounts that are in difficulty and attempt to work with them, generally beyond what normal lending institutions would do. If there is any hope for salvation, we will go the extra mile with them. But there comes a point in time when, if a business is going down, it gets beyond the point of salvation. At that time we will act and either appoint a receiver or take whatever legal action is open to us. If it's not a limited company, we may petition into bankruptcy or seize the assets and sell and so on and then pursue the guarantees. Each of these actions is reviewed by a management committee and then approved after a thorough review by our board of directors at one of our directors meetings.

So it's not a kind of off-the-cuff, frivolous action, because we're very concerned about trying to save businesses and jobs. But on the other side, we have to minimize our losses if we can and, as well, attempt to minimize losses of unsecured creditors, because if we went on indefinitely, there could be unsecured creditors who would provide credit and ultimately they would lose. So as a result, these are individual decisions looked at by our board of directors and approved.

I think I've answered your question as much as I can remember its being put forward.

MR. ADAIR: It might not hurt, Roy, if you comment on some of the things that occur leading up to that; for example, deferment of payments and balancing, juggling with the companies to do everything possible before that action occurs. It's important that it's understood that we do do that in the Alberta Opportunity Company.

MR. PARKER: Yes. I'm glad you mentioned that, because during the course of an account in difficulty many things can happen, depending on the personality of the owner. Some people will not answer the phone, keep you at arm's length, and try to avoid you at all cost. Others, on the other extreme, will keep you completely up to date and work with you. Those are generally the ones you can do the most for, because you find out earlier and can take corrective action, either by way of providing consulting advice from our group of consultants within the

company or outside the company, in the department or other places, and make arrangements in regard to repayments or attempt to assist them in the selling off of their assets to reduce overhead and things of this nature.

In many cases people who we put into receivership or liquidation of some sort are many, many months in arrears, even after having had deferments of payments, postponement of principal, rewriting of the loan over a longer term, and things of this nature. We think we're not only a last-resort lender, but we're a last-resort liquidator as well, bearing in mind that we have the responsibility and stewardship of the money entrusted to us, and we have to balance the two.

MR. GOGO: Minister, I'm a very strong supporter of the Opportunity Company. I can't help but wonder when we say that small business is the creator of jobs and the strength of our province, and you've got 224 people in your department, and across the street Agriculture has 1,684. I just shake my head about priorities. However, that's aside.

One area that I think is of particular importance — I'm very familiar with the Lethbridge office — is the amount of advice they give applicants. They never get credit for that. All we hear about are delays in loans, bad loans, or no loans. I think your AOC plays a very important role with regard to advice to small business, because it's proven time and time again when they say, "Hey, man, don't do it, because our market analysis says you ain't got a chance." They're proven right. Quite frankly, Mr. Parker, your people don't get much credit, in my opinion, for all those things they do.

The loans in default, Minister, at 14 percent is still only half enough. You know, you don't lose near enough money. We as a Legislature gave you over \$10 million a year of the people's money. That's \$5 for every Albertan. Recreation gets 34 cents. We have a large investment in terms of subsidy, and I think, quite frankly, you're still too stringent, because if an applicant is prepared to risk everything, I think the people of Alberta, through AOC, should be prepared . . . So I'm a strong supporter of the Opportunity Company.

Minister, I have some difficulty with Mr. Parker's explanation of the average time of 31

days. Do you mean 31 days from the time it's received at Ponoka, or do you mean 31 days from the time someone walks into the office? I've got mail that takes 31 days.

MR. PARKER: This is 31 days from receipt of the application. The fellow may come in today, and we say: "Yes, we'll take a look at it. Here's an application form. Please give us some information that we can begin looking at it on." Until we get that back, that's just another casual inquiry. If he doesn't come back for a month, then that doesn't count. The figures were from the time we receive the application form until the loan is approved, not disbursed. The funds aren't out, but that's the date of approval, whether I, the board, or loans committee do it. That's the time frame we're talking about. In that time frame we have to receive financial information, projected costs, projections, information in regard to the background, where they're going to get their staff, who the staff are going to be and go out, investigate, write the report, provide it to either a recommending or authorizing body, and then ultimately have it approved. In many cases, within that 31 days there is a period of waiting to get projected operating statements, cash flows, and quotations from builders or whoever, because if the fellow comes in and says, "I can build this building for \$7 a square foot," and we know that the same building is \$34 a square foot around the country, then forget it. You've got to go and get your figures together.

We continually try to impress upon our loans officers and field people that they should act with a sense of urgency because generally people who come to us have been thinking about it for a long time. When they come in, I think human nature is that most people will — if I know about it and I've been thinking about it, why can't these guys grasp it? So we say you have to have a sense of urgency and compassion. And if the Lethbridge branch, for instance, is overloaded with applications, we will take a fellow from our St. Paul or Ponoka branch or whoever, and send him down there so that there isn't an undue delay, if we can avoid it.

MR. GOGO: I appreciate that, Mr. Parker. I think it had to be said, because the public does not generally know that. Mr. Minister, you have

a board of directors in AOC of 10 or 12, I suppose, from around the province, and I think they're all well recognized businessmen. This is kind of an internal administrative matter, but I'd be curious as to how the attendance is at those board meetings at Ponoka. Are these people, who are appointed by the cabinet, sincerely interested in the Alberta Opportunity Company? Do they regularly show up and make decisions, or are we talking about four out of 12 making decisions?

MR. ADAIR: No, Mr. Chairman. I don't have the exact percentage, but I can assure you that the information I get from the chairman -- and I think the managing director, who sits in on those board meetings, can certainly give a better percentage figure than I. My understanding from Mr. Chapman is that it's in the 90 percent range. There is a commitment by those people who are on the board, and that's in the main. I think, over the years I've been involved, there was only one member who, primarily because of illness, was not able to make the number of meetings he would have liked to and stepped down because of that.

I maybe also should point out that the board members of the Alberta Opportunity Company are six-year appointments. There was a reason for that. It's because we want to use the business community and their expertise and not just get them to the point where they are what I'll call understanding and knowledgeable and then have another new appointment come in. We go a little bit longer in that sense and give them that opportunity with a six-year appointment. We have a regional rotation basis that has been in effect for a number of years, and quite honestly, it's working very, very well.

If I might comment just a little on an earlier point, what happens when you get into the process of 31 or 21 days. That's across the board, and there isn't any question in our minds that there are exceptions. Within the last couple of years I had a meeting in my office with Mr. Parker, AOC's lawyer, and a client and his lawyer. We went through the delays, and each had documented the delays. As it turned out, I think it would be fair to say, without putting blame on anybody, that it was about 52/48 percent: tied into holiday seasons, lawyers away, moving it from the lawyer in charge to one of the other staff members to do the work, and then the client being away, our

being away, or whatever the case may be. It was an extreme one, but it was finally agreed that it wasn't all AOC, that there was a shared responsibility in that and let's get back and do what we were supposed to do. That one worked out very quickly, I think, in the next 12 days, once we quit trying to see who was going to be the culprit in that particular one.

There are cases of that, but on the average the AOC has made a conscious effort to decrease on a constant basis the days of application processing, and then added to that the consulting services. You pointed out a little earlier, and I think it should be restated, that with the consulting services in AOC, in combination with the consulting services we provide within the Department of Tourism and Small Business through the private-sector use of people, in many cases that is not counted in this time, because there's a process where a lot of information is exchanged and advice given leading to an application. But from the point of application to approval, it has improved steadily.

MR. GOGO: A final question, Minister. With the failure of the CCB and the uncertainty about Northland, it would seem to me that many borrowers of those companies are suddenly going to be perceived by other lenders not to be of bank quality. I anticipate there would be a fair number who suddenly need a lender of last resort and will be approaching the Opportunity Company. Would you agree that that's a reasonable expectation, and if it is, Mr. Parker, are you and your colleagues in a position to respond to a flood of applications?

MR. PARKER: The answer is a little bit of yes and no. I think we will have some approach, but most of the financing provided by the Canadian Commercial Bank and the Northland Bank is on an operating credit basis, which is an area that we are not involved in, whereby the cheques flow in and out on the daily doing of business. We're a term financier for fixed assets and, on occasion, provide a kind of lump of working capital. In the windup of the Canadian Commercial Bank there may be some who have term financing in place, and they will come to us to replace that and pay it out. We certainly will examine any approach. But as far as the business credits, the operating credits, they will be forced to find another chartered bank which



looks after the day-to-day current account business, which we're not set up to take care of.

MR. ADAIR: Mr. Chairman, may I just add to that. One of the other points that I think should be mentioned is that in the creation of the Alberta Opportunity Company back in the early '70s, it was primarily there to support the business community in — I won't use the words "isolated areas" but in the minds of the banking community, areas they weren't interested in, primarily the rural areas. It has served that purpose very well. I think we've come to the stage where you could almost go full circle, because I sense that in a lot of the lending institutions there is a tightening of lending policies today in our rural communities and extended areas away from the metropolitan centres. So in my mind, the value of the Alberta Opportunity Company again becomes much higher profile and much more needed.

MR. GOGO: Back to the Air Canada route.

MR. R. SPEAKER: Mr. Chairman, to the minister or Mr. Parker. You indicate in your statistics that the number in receivership in '83-84 was 55 and that it's gone down to 40 in the fiscal year '84-85. I wonder if you would comment on what seems to be the projection this year. I'd just like to bulk my other questions into that, too, and maybe you can answer them at the same time.

One of the things I see happening in the agricultural community at the present time is a very significant downturn. It's drought, but along with that, one of the factors that has been determined as very devastating is certainly the cost of money or the interest rate, in terms of operating loans, capital loans, on the farms. I take that information from Alberta government officials, economists who have done some work on it, the Farm Credit Corporation, and the Unifarm people. They all tell me that the significant factor that is just devastating at the moment is the cost of money.

I look in terms of the small business community, and lately I have had the opportunity of travelling around the province and dropping into a number of small businesses. They seem to indicate the very same thing to me, that it's that cost of money that's hurting them. Even at 12 and 13 percent,

it's hurting.

So two questions from that. First, what do you forecast in terms of receiverships in this '85-86 fiscal year? Do you see a greater pressure on businesses? Secondly, are there further considerations in terms of interest rates? I know you have some flexibility in terms of interest rates at the present time, and I think that over the last few years we've been down to 11, 12, and 13 percent in cases. When we were talking about 15 to 23 percent, those were reasonable interest rates, but now we're under some different circumstances. Possibly you could respond to those two questions first.

MR. PARKER: In regard to receiverships, this fiscal year, which ends March 31, 1986, we anticipate that again we will be fairly close to 40. We appear to be going along on the same basis as we were the previous year. From our perspective, although the economy has improved this year over last, there were still a number of businesses that we had in our portfolio that were in difficult circumstances, and we think that a proportion of those equal to last year will likely go under.

In regard to the cost of money, in fact we had a board meeting yesterday, and our board of directors looked at our interest rate policy and came to the conclusion that it was satisfactory for the moment, but we will be looking at it at least once a month into the foreseeable future because of the uncertainty of the markets and interest rates around us. We are not getting any significant number of complaints from people borrowing from us about the rates that we charge. At the moment we have a base rate of 12. Depending on a variety of factors, it can be as low as 10 percent and as high as 14 percent. It could go as high as 15, but we haven't had a 15 percent loan in a long time, and I doubt that we will.

Most of the people we deal with are quite pleased to get the money from us at 11 or 12 percent, because it is better than they can get from the chartered banks, if they could get it. Ours is a fixed, five-year term, if the length of the loan is five years, so that you're not subject to fluctuations up or down. Also, if loan interest rates drop to 8 percent, for instance, and the business is doing well, we can be prepaid without bonus or penalty at any time. Just send us a cheque and we'll send you your documents and away you go. You've got



your new money from the private sector at a lower rate.

One thing that should be considered, and you can see it from our financial statements, is that as far as the income that we're getting, certainly last year and I'm sure it will be this year, our interest income is virtually equivalent to our interest expense. So we're not having a large markup on our funds to take care of our operations, bad debts, and so on. I know that one of the factors in our Act is that we're to bear in mind the cost of our funding in the setting of our rates. So this is another consideration.

MR. R. SPEAKER: Mr. Chairman, the other question I had. I've been asked to sit on a committee in southern Alberta that has members from the machine dealers. There are small businessmen, federal government employees, and provincial government employees. Our objective is to look at the future of machine dealers in southern Alberta. We're to look at what's happening, what the projections are, and what the implications are. My own observation, at the moment, is that it's going to be devastating. This is going to happen right across the province. That spin-off reflects directly in terms of grocery purchases and all kinds of other little businesses around the province. I don't want to signal all kinds of gloom and doom, but it's there, and because of what's happened in the agricultural community, it's just backing up through the system.

For example, just to typify what I see happening, a grocery man phoned me from Blairmore two nights ago. We were talking about some other things, and he said that the bread man was in, he just passed through Crowsnest Pass, and he's still got 25 percent of his bread on the truck that grocers don't want to take because people are cutting down. A lot of jobs have been lost in that area, but secondly, people are cutting down on their grocery purchases. He said, "What an indicator!" So it's happening.

I guess my question is: has the Alberta opportunity program looked at machine dealers and the implication of this sort of hold position of many farmers' decreased ability to make purchases? I'm a very active farmer myself, and I know that I'm not making any purchases this fall or next spring. I'm going to sit in a hold position to keep my business in order, and

many others are like that. As the Alberta Opportunity Company, have you examined that? These are small businesses directly related to the machine industry. They are the machine dealers, as well. Has that problem been discussed in the board? Are you looking at that?

MR. PARKER: Our board of directors has discussed this and many other questions. Recently they discussed the farm machinery situation. In southern Alberta and anyplace else we are always willing to talk to people in financial difficulty and see if we can be of assistance to them. But from my understanding, the critical thing is that a lot of these businesses have an excessive level of debt now. By adding more debt, they're not going to do anything. If they need anything, it's an influx of equity from some source, and we are not an equity business. Without that, unfortunately, I think a great many of them will have to cease operations.

We are continually talking to people. We have Lethbridge, Brooks, and Medicine Hat branches as well as Calgary in the south. They are there and ready to talk to anyone. The unfortunate thing is that if a business is insolvent and has no source of additional equity to help restructure with revised debt, it is pointless for us to even look at adding more to the burden when there aren't going to be sales coming in to service that.

MR. ADAIR: Mr. Chairman, I might use the opportunity to indicate two areas where there is some movement — I guess that's the best word. The small business equity corporations program is broad enough and already has complemented a number of farm machinery dealers — I'll use that term in that sense — by getting involved with equity commitments to them in the province of Alberta. Just recently my colleague the Hon. Hugh Planche came up with a guarantee program for implement dealers which hopefully is going to be one step further to assist them. Recognizing all the other difficulties, those are two that I felt should be out there, because they have been utilized by people in the business community in making their case to people who have funds to invest.

On a number of occasions — I believe there are three or four; I stand to be corrected on

that number — investments have already been made by the small business equity corporations in farm machinery dealerships in the province of Alberta.

MR. R. SPEAKER: Mr. Chairman, just a final question to Mr. Parker, a clarification of the answer. I think I understand it. The operation of the Alberta Opportunity Company is providing funds as long as the recipient of the funds has the capability of repayment. When you clean everything else away, I guess that's the bottom line in terms of the operation.

MR. PARKER: If they have suitable management and can convince us that they have the ability to repay, assuming there are no other lenders who are willing to it, we'll do it. But if they can't repay, then our mandate is not to provide the funds.

MR. ADAIR: We don't provide grants.

MR. COOK: Mr. Chairman, there is a recommendation on the committee's "order paper", if you like, to suggest that we build another Kananaskis-type park on the east slope. This doesn't bear on the Alberta Opportunity Company, but I was wondering, Minister, if you could suggest to us whether that would be an appropriate way for the heritage fund to help strengthen and diversify the economy. In particular, I wonder if you could make any observations on the contribution of Kananaskis Country and those kinds of facilities to the future of tourism in the province.

MR. ADAIR: Thank you for the opportunity. How much time have I got?

MR. CHAIRMAN: We're tying this now to this committee, are we?

MR. ADAIR: I'm more than willing to respond, because there may well be — I guess that's the thread I will use — an opportunity for the Opportunity Company to become involved in projects of that nature by way of working with those private-sector investors who would be part of the package. Certainly, with the present Kananaskis Country and the investment by the heritage fund in that project, within the context and the confines of that 190 square

mile provincial park and 200,000 square mile area, there are a number of opportunities for the private sector.

Very early in the planning of Kananaskis, I sat down with the board of directors and the company, at an annual meeting as a matter of fact, and suggested that they might seek an opportunity to tour the area for two reasons: to become familiar with what is going on in the area and to determine the distance it was from what I'll call market.

It was apparent to us when talking to a number of lending institutions, if you get — if I can be even more facetious — five miles out of the metropolitan centres, they have a concern about how they can sort of keep their eye on it and their handle on it. If you live 311 miles away like I do, you have real concern. So we asked the company to do that, and they in fact did it and were quite enthused with what was happening in that project and certainly are there to look at any opportunities. My understanding is that a number have approached the company about the possibility of seeking some funds from them.

In that context, I should point out that one of the successes of the Opportunity Company is not just the straight loan by the company itself. They make and work many relationships where they are a third party, if I can use the term. In response to some of the other members, I guess the difficulty for us is that that really is the risk area because we're coming in sort of at the last, and if there's anything to be able to secure to, we're the last to be secured. But we're a part of the package, and it can work because we've tied in a bank, whichever it is, AOC, and the partnership.

So we have had an interest in partnership arrangements and have worked them very successfully, thanks to the capabilities of Mr. Parker and the management team.

MR. COOK: I realize you don't have any direct responsibility, Minister, for Kananaskis park, but tourism is a way for us to strengthen and diversify the economy, which is in part the mandate of the heritage fund. I wonder whether you could comment on whether or not the Kananaskis Country heritage fund investment is making a contribution to tourism and whether it would be appropriate for us to consider a similar heritage fund investment in a second park.

MR. ADAIR: Now you're asking me, and what I'm about to say I'd like to qualify in the sense that as minister of tourism and then individually, as I, J. Allen Adair: no question that Kananaskis Country is a very important part of our tourism. That's taking into consideration that it was a conscious decision not to promote the Kananaskis Country project outside the province of Alberta. In essence, we built it for Albertans, and if they were proud of it they, by word of mouth, would tell their friends, whoever they are. Having said that, in trips as far back as February of a year ago when I was in Europe, I picked up a tourism magazine and the centrefold picture was Kananaskis and was done by a writer who came to Alberta, Canada, went down and took a picture of this place he had heard of. So there's a tremendous amount of promotion and publicity of it.

Yes, it does a tremendous amount for tourism. Something we sometimes overlook is that probably the impact of tourism on the job market is as high as it is. I don't think many of us recognize that it's probably one of the most labour-intensive areas there is in our nation, not just in Alberta.

To ask me to say whether that might be another project, my first reaction is, yes, we should look at that. But taking times and other conditions into consideration, it may be that we look at that in the context of what other alternatives there may be to assist us in providing something similar to that, maybe not as large, maybe one or two, I'm not sure where.

I have my ideas, as the minister of tourism, that I would like to see one outside the mountain area in what I call the lakeland in northeastern Alberta. Those MLAs will appreciate that, and those who aren't in that won't. I can appreciate that position. But there are reasons in my mind, as minister of tourism, for doing and suggesting that. It's a comparative factor for us to determine whether the impact is strictly based on a mountain scene or the pristine lakes we have in the Touchwood, Pinehurst, Seibert, Spencer Lake, Sand River, Wolf Lake, Beaver Lake area, that are all Crown lands and an excellent opportunity. I may be getting somewhat verbose in saying that, but it's a good investment.

MR. COOK: Mr. Chairman, I wonder if I could ask a follow-up. Have there been any marketing studies done to determine what the

Alberta public would like to see in terms of a choice between the lakeland area and another foothills-type park with skiing facilities? Also, the international market; we might like to see people coming in from outside the province. Would they be attracted to the lakeland area, or would they be attracted to something like a mountain park or foothills-type park facility?

MR. ADAIR: In the area of tourism we certainly do marketing surveys and studies that relate to what the international visitor wants and wishes to see, but to my knowledge we have not done any studies that would clearly determine and identify the lakeland as a place. I might add that in our program structure within the department we continue to do what we call detailed inventory and assessments of the various zones. What that does is provide us, through the consultants we hire to do that, the present inventory of tourism resources, the potential tourism resources, and they — the consultants not the government — then provide us with some suggestions that could be considered in discussions between the industry private-sector people and government departments, because they're all affected at some stage or another.

When we've completed sort of an overall inventory of tourism potential in the province of Alberta — I believe we had five to be completed; one is under way right now. That's been going on for a number of years. It's proven to be very useful to industry in the sense that someone wanting to go into an area will take the study, look at some of the information in it, assist them in trying to find some leads as to who they go to, then come back and say, "I think we can maybe make a project go." I don't know of too many that have actually occurred on that basis yet, but the information is available to the private sector as we release these studies. If you notice, I've tabled them as quickly as I can get them out, so the private sector and the tourism industry itself can have them as quickly as possible. That was the intent behind it.

MR. GURNETT: Mr. Chairman, I won't take time to get involved in discussing good park locations just yet. It's obviously an interesting subject that we'll spend much time on.

I'd like to go back to another aspect of a couple of questions we had earlier about the

relationship and some of the tie-ins between AOC and the Canadian Commercial Bank. There have been questions related to the Ram Steel buying of the debt and to the possibility of a lot of applications coming in. My question is: have you any idea of how many situations now exist where AOC clients also have some kind of support or involvement with CCB as either a line of credit or other loans with CCB? Have we any idea of how many firms and how much AOC money is involved?

A little more generally than that, and I realize it's very early to be asking this question, has there been any analysis yet of whether an action on the part of the liquidators, for example, to call a demand loan with somebody who also had an AOC loan would have a spin-off effect and hurt the stability of that company? I'm not asking about firms that now have loans with CCB and who may come to AOC, but whether or not there are cases where people or firms are presently involved with both organizations.

MR. ADAIR: If I follow the question, you're asking if there are other similar situations where the partnership arrangement was AOC/CCB, without naming the companies, in the interest of confidentiality for them. I guess I have to divert to . . .

MR. PARKER: I can't tell you specifically. We have had a few, but they have been very few. As a percentage of our portfolio we would have less than 1 percent that had a joint CCB/AOC connection. We haven't done a study on it. I know in our current number of accounts that we're looking at which are in difficulty there are none that have a CCB connection.

MR. GURNETT: Okay. The other question I want to finish with is pursuing a comment that appeared in some of the news stories about the Alberta Wildlife Park, and it was attributed to Jim Anderson with AOC. What was quoted there was a statement that perhaps AOC had been overly optimistic in looking at the prospects of Alberta Wildlife Park and becoming involved as a lender to them. I know there's a thin line when you're a lender of last resort between giving encouragement that results in difficulties later or withholding support that would have given the chance for success. I wonder how the company goes about

treating that line and assuring, as much as possible, that the appraisal in a very difficult decision is realistic rather than optimistic. Maybe that's a very subjective thing to talk about, but I'd appreciate some sense of it.

MR. PARKER: I would be more than happy to respond to that. First, I would say that any loan that goes bad, whether it be AOC or a chartered bank or whoever — obviously the assessment of the prospects was overly optimistic at the time it was done. All of us obtain forecasts and we then individually question ourselves as far as earning ability, as far as the market goes, what the future prospects are, as well as the ability of the individuals. That is a very difficult judgment to make unless someone has had a long track record of success in a specific business or industry. So that part of it, the optimism, I don't think is unusual. We certainly try to go in with our eyes open, but when you find out that your assessment was wrong, then obviously you were optimistic.

There was a second part to your question that's escaped me for the moment. Could you repeat it, please?

MR. GURNETT: It was just a more general part of what you've already responded to, Mr. Parker, and that was whether there's an assessment, in a sense, of how often or how easy it is to slip onto that side of optimism as opposed to realism — the process that goes on to assure that that doesn't happen.

MR. PARKER: Let me fill you in on that. We're set up with loans officers, who are the frontline people and who do the assessment, write the reports, and provide the ultimate recommendation for a decision to be made. Beyond that, if it's a small loan of up to \$50,000, then that can be approved by the local branch manager. If he feels uncomfortable, he will send it on to the next level of authority. Beyond that, when he approves a loan, it then comes up, and those of us in intermediate and senior management see this and go over it. Even though the loan is approved, if there appears to be something that we feel uncomfortable about, then we question that and go over it with him and are satisfied. At least we hope we're satisfied. If we find that there are certain areas where an individual may be a

little too generous on two or three occasions, then we take action and that is corrected.

One of the problems that we and all lenders have faced was that when loans were made four, five, six years ago, the outlook of the economy and the best judgment as to prospects and values of security were considerably different than they turned out to be three and four years later. So not only do you as a lender have the punishment of the economy that is not as strong as you anticipated, and therefore the ability to repay either is not as high or isn't there, but you're faced with a surplus of assets, which drives the price of those down, and your outlook for a loss on a property may be twice or three times as great last year as it was four years earlier.

You have to make your best judgment on current information, and if things change after you've made the decision, tough luck. That's what you've got to be faced with and live with.

MR. ADAIR: One thing that needs to be added is that the decisions are obviously made on the best information provided at the time. I think it's important we state that it's at the time the loan was approved, not with the discussion that occurs two years or three months or four years later, when we have the advantage of having the hindsight to look back and say, "Well, maybe we shouldn't have done that." Whether it's a small or large loan, the best information and the best sources of information are utilized in putting together that approval process.

But what has occurred in the last couple of years has certainly provided us all with a lesson on how we determine what appears to be the future. I can go back to a number of years ago, when we made decisions relative to natural gas on prices that had really not moved for centuries. Within months or early years after we made the decisions, they were moving like this, and everybody said, "Now, why did you do that?" So there is a bearing on it.

But to sort of provide an assurance to those who are seeking approvals, the best information available at the time is used to make the decision, and then there may be a blend of optimism. I certainly don't hope that stops. It relates to the expression made by one of my colleagues that maybe we don't have enough losses. I don't want us to be so concerned that we won't make loans. Every one we make, in the sense of the Alberta Opportunity Company,

is a risk loan of some degree, and we recognized that right from the start.

MR. GURNETT: As I listen to the answers, though, it sounds like the process of what's happened in the last few years has probably been good for the company in the sense of learning on the job and that the ability, out of some of the situations that have arisen, to make a very good analysis is much higher now than it was three or four years ago.

MR. PARKER: I think the same could be said of virtually every lender.

MR. ZIP: Coming down to the basic point, Mr. Chairman, behind one of the current difficulties with the Alberta economy is Albertans' overall debt obligation. Creating debt is a form of initially stimulating the economy, but it has to be repaid, and then it has a depressant effect on the economy. It's almost like the effect of alcohol on an individual; it stimulates you when you first take it and then depresses you the rest of the time.

MRS. CRIPPS: Good analogy.

MR. GOGO: I didn't say anything.

MR. ZIP: We're now at the point where we're suffering the consequences of this hangover, binge of debt spending, that is now saddling us with very heavy, not only interest repayments but debt repayments as well.

The other point hitting our economy is the level of taxation that is taking away from people their ability to generate equity capital, that does not burden us with the necessity to repay, sometimes when we are least able to repay. Mr. Speaker alluded to people cutting back on grocery spending now, and this is part of the effect. People have to repay their debts, and where are they going to find the money to repay? It comes from expenditures that appear to be very necessary, but the money has to be found somewhere. As a result, it gives a double whammy of a depressing effect on the economy: the fact that people have to cut down on spending that appears to be very essential, yet it disappears. We see difficulties right across the board generated within the economy by this heavy preoccupation with debt financing. I'm making this as an observation

and invite the comments of our minister on this point.

MR. ADAIR: I think, number one, that that was one of the main reasons we were very much involved in the creation of the small business equity corporations program, because we were concerned with the level of debt ratio and the imbalance, I guess you could say, of the debt/equity position. There isn't any question that that's a responsibility each and every one of us has. It lends me the opportunity to say that my dad once said to me when I was about 16 years of age, "Don't forget, my friend, that you have every right to succeed, but you also have the right to fail." That's the toughest part of what it is.

Of course, in experiencing our own adjustments in our own lives and our ability to keep within our spending limits, what may be occurring — for example, I think the mention was that people weren't buying bread. Maybe people are buying flour and making bread. There are some balances. I'm not trying to defend one or the other, but what I'm saying is that there is a greater consciousness of the decisions that must be made individually and collectively in our homes, in our businesses and, I hope, within government as well.

MR. ZIP: But the problem still is with taxation, because if we overtax the businesses, overtax the consumers, it takes away from their ability to save. That's the first thing that's hit. The next thing hit after that is essential spending. We're at that point not only in Alberta but in Canada as a whole. We are taxing away so much of peoples' earnings that their ability to save and to generate equity is being eliminated, just as it has been eliminated in the Iron Curtain countries, the government simply becoming the source of all new capital that's created.

MR. CHAIRMAN: Would there be additional questions forthcoming from committee members? Mr. Adair, thank you very much for your annual appearance before the committee. Mr. McDonald and Mr. Parker, thank you. We understand you are currently experiencing a heavy family burden. I'd like you to know that all committee members want me to extend a speedy recovery to your daughter in the process she's now undergoing in Montreal, I

understand. Thank you very much.

Ladies and gentlemen, the committee will take a break for about two minutes and then reconvene for discussion of recommendations.

[The committee adjourned from 11:15 a.m. to 11:17 a.m.]

MR. CHAIRMAN: Ladies and gentlemen, I believe our two minutes have expired. Members of the committee received this morning a document from our committee's secretary which outlines the 42 recommendations for the 1985 report of the Standing Committee on the Alberta Heritage Savings Trust Fund Act. Committee members will recall that on several occasions yesterday I indicated that perhaps our best usage of time today would be that at the conclusion of the discussions with the two witnesses before us, we would use the remaining time, going through to 12 o'clock this morning and to 4 o'clock this afternoon, to have a committee stage type review of the 42 recommendations that have now been read into the record.

First of all, there is need for me to rule on a subject raised before the committee yesterday, and that deals with recommendation 42 put forward by Mr. Gurnett. I would like to provide the following information for the benefit of all committee members.

Beauchesne, citation 621(1), states:

A committee can only consider those matters which have been committed to it by the House.

This committee differs from most of our standing committees in that the reference of matters to it is deemed by statute rather than being contained in an instruction from the Assembly. The committee's jurisdiction is governed by section 14(3) of the Alberta Heritage Savings Trust Fund Act, which says, in part:

the annual report shall be deemed to be referred to the Select Standing Committee for review and a report . . . which may contain any recommendations of the Committee concerning those investments or any alternative investments.

The investment in the Canadian Commercial Bank was an investment of the fund during the time covered by the annual report, and therefore it is something in respect of which

the committee may make any recommendations. Although clauses (a) and (b) of proposed recommendation 42 relate to the investment in the Canadian Commercial Bank, I am of the opinion that clauses (c) and (d) go beyond the scope of the committee and that they relate to the general economy of the province and the control of banks and not to the Alberta Heritage Savings Trust Fund investments. It is therefore my ruling that the recommendation is in order, provided that it is amended by striking out clauses (c) and (d).

On the assumption that the hon. Member for Spirit River-Fairview still wishes to present the recommendation with these last two clauses removed, it has been prepared without them for distribution to members of the committee.

MR. GURNETT: Mr. Chairman, I'm happy to accept it. I raised the issue for exactly the reasons you've outlined, because in my opinion it did in fact relate to the business of the committee. I assume that if this recommendation went forward and were acted on, the mandate of that committee could be broadened at the time a decision was made by the Assembly to strike such a committee. So this certainly permits us as a committee, within our mandate, to begin the process and take it as far as we can.

MR. CHAIRMAN: Committee members, what we're now doing is looking at these recommendations, starting from 1 and going to 42, for basically a committee stage review of them, similar to a Committee of the Whole type study in the Legislative Assembly. There will be no voting today. I think it will be agreed that generally the time frame today might be a rush, and I'd like to recommend that hopefully by 4 o'clock this afternoon we will have completed this committee review type approach and that we might come back at a date the committee might want to consider a little later. We'll have a recommendation for a date when we come back, perhaps two weeks hence, and then vote on these recommendations.

MR. HYLAND: I know the chairman said no voting. Would it be this stage or the next stage where we can put the similar ones together? Probably at the next stage?

MR. CHAIRMAN: Basically, that kind of item,

as I've now identified about three or four times, is up to the individual initiative of the members. We certainly discussed it last week and we discussed it yesterday. There have been a number of hours since we adjourned at 4 o'clock yesterday to the time we recommenced this morning at 10 o'clock, to allow for that individual initiative and consultation among members. If it's the wish of committee members to basically do some of that today, we can do that, but I think the process is that we have 42 written recommendations here and the only way we can really deal with them in a committee of this type is to deal with each recommendation as we go through them. If one or two committee members say, "Well, I think 2 and 17 should be amalgamated," then they can do that outside the confines of this committee. Surely, in terms of efficiency of time, that might have been followed through by the individual initiative of members. But that's the wish of the committee.

So we have before you recommendation 1, presented by Mr. Moore:

That there be a section in the Alberta Heritage Savings Trust Fund annual report, separate from the balance sheet, that lists all assets acquired with fund moneys but shown as assets on other government agencies' balance sheets, e.g., hospitals.

Is there any discussion, questions, or debate with respect to this particular recommendation?

MR. GOGO: Mr. Moore, is that consistent with the Provincial Auditor's recommendation?

MR. R. MOORE: I would think it is. He pointed out that there were a lot of assets on other government balance sheets, which in the original context were paid for out of heritage trust fund money and ended up on other government balance sheets. I feel that the ordinary taxpayer has a right to know just what heritage trust fund money acquired on behalf of him as a citizen of Alberta, and putting in a separate sheet would indicate that. There's also the fact that the majority of our citizens don't understand balance sheets. To them, a balance sheet is another language as far as understanding what it says. In this way, they could go through and say, "Our heritage trust fund acquired this on behalf of me as a citizen."



MR. CHAIRMAN: Are there other questions or concerns?

MR. MUSGREAVE: I'm sorry, Mr. Chairman, I wasn't listening to Mr. Moore. I didn't hear it all. What I want to know is: what examples can he give of this actually happening, other than the Mackenzie health centre? I thought hospitals were funded out of capital funds of the general budget.

MR. R. MOORE: That was directly the one I was referring to as an example.

MR. MUSGREAVE: It's shown in our report.

MR. R. MOORE: What was the question? I lost it somewhere along the way.

MR. MUSGREAVE: I guess I was trying to make the point that the Mackenzie health centre is already shown. If we adopted Mr. Thompson's suggestion that those kinds of assets be separated, it would answer Mr. Moore's concern that if it were buried in a balance sheet most people couldn't find it anyway, whereas if it were shown on a separate list they'd be aware of it.

MR. R. MOORE: There's a lot of heritage trust fund money going into parks, and they're shown on other assets. Cancer research and the whole of Kananaskis park -- let's look at it. It should be set out that all the things that any heritage trust fund money went into in that area should be shown separately so that people can see that that is what their money has gone towards. It's just to make it so that they can understand their balance sheet a little better. As I said before, the average citizen doesn't understand a balance sheet, and it would indicate clearly that their heritage trust fund money is working on their behalf in many areas.

MR. CHAIRMAN: Would there be additional comments or questions with respect to recommendation 1?

Recommendation 2, presented by Mr. Thompson:

That the deemed assets of the heritage savings fund not be included in the financial statement but be listed separately.

MR. COOK: I'd like to suggest that the members who are not here have their motions deferred, with the exception of Mr. Martin's. I gather his colleague will be standing in for him.

MR. CHAIRMAN: Mr. Cook, I think the general tradition of the House is that even though a member is not there, other members may participate when the item is called. I would like to suggest that in terms of efficiency of time, we perhaps have the chairman read the recommendation into the record. If committee members have questions, they might want to raise them, notwithstanding the fact that in this case Mr. Thompson is not here. He will certainly be able to obtain a copy of the Hansard of this meeting, and when we reconvene several weeks hence, he would be in a good position and be able to answer these questions. That would certainly provide for greater efficiency of time. That's a thought I'd like you to consider.

MR. HYLAND: Mr. Chairman, Mr. Thompson is fully aware that we will be discussing these and agrees with our going ahead with them.

MRS. CRIPPS: I want to speak to the motion when you read it in.

MR. CHAIRMAN: Well, we're on recommendation 2, and you're next on my list.

MRS. CRIPPS: I support this motion. As I indicated earlier in the discussion with the Provincial Auditor, I believe that if these are not liquid assets but capital projects, they should be listed separately. I totally agree with it and want to support it.

MR. NELSON: Chairman, I also agree with the motion, basically for the reason Mrs. Cripps has indicated to some extent, that these deemed assets are not controlled by the fund. As I understand it, in most cases they are turned over to a society of some nature that is actually running or working with these particular activities and are not really an asset to the fund as far as an income situation is concerned. In fact, in some respects you might even call them a liability. But at the same time, and as the Auditor General has often said, the fund doesn't need these deemed assets as part of the portfolio because they're really not part of the

portfolio.

I'd like to see the portfolio basically remain the revenue generating activities we have available out there, albeit Alberta Housing where there are mortgages or loans to other provinces or other activities. But certainly those are the assets, and they're real assets because they have a return to an investment or something we can actually claim as an investment for resale. So I think the deemed assets should be taken out of there so we can tell the people of Alberta that these are the actual assets of the fund.

MR. GOGO: Chairman, I'm confused. Is Mr. Nelson saying that the capital projects division shouldn't be there? If we're talking about Capital City Park, Edmonton, or Fish Creek Park, which is in that portfolio, I don't think Mr. Nelson is saying that the city of Calgary or the city of Edmonton own it. I think they administer it. I'm a little confused. Following his line of reasoning, would we then have zero under the capital projects division of the fund, which now has about \$2 billion. I support the idea of listing it but listing it separately. I'm just confused.

MR. COOK: Mr. Chairman, on a point of information. The Capital City Park in the city of Edmonton is owned by the city of Edmonton. They're lands owned by the city and always have been. The province spent money to upgrade them and in doing that got recognition.

MR. GOGO: I guess I'm confused. My recollection is that under the urban parks policy the government of Alberta, through the heritage fund, gave Lethbridge \$20-odd million, with which they purchased land. It seems to me that the people of Alberta, who own the heritage fund, should still have an evident interest that's shown somewhere that they've put \$20 million or \$25 million into the Lethbridge urban park. I guess I have difficulty understanding why it would be different for Capital City Park or Fish Creek Park. It seems to me that wherever the Heritage Savings Trust Fund puts those dollars should be noted for the public so they're aware. I can't think of a better place than in the annual report. So my confusion comes: are we going to have a capital projects division cut in half or zero in terms of the annual report? Frankly, that just

doesn't seem logical to me.

MR. NELSON: Mr. Chairman, I don't disagree with what Mr. Gogo is saying, to the extent that if there's some aspect of identifying the fact that it's there. But the motion reads, "in the financial statement but be listed separately." It needs to be removed from the area of the financial statement that shows that we have \$14 billion in assets and replaced to another situation. I have no difficulty identifying dollars spent to the public of Alberta, because I think it's incumbent upon us to do that. However, I don't think we should tell the people of Alberta we have an asset of \$14 billion when it may only be \$12 billion in real dollars that we're receiving some investment income from.

MR. MUSGREAVE: Mr. Nelson has made my point. I think our difficulty is that we're dealing with auditors who think of assets in terms of cash in the bank, inventory, buildings, equipment: all kinds of things that if the business were to be dissolved you could sell and get some return for. I think it would be pretty hard for the province of Alberta and/or the city of Edmonton to sell Capital City Park or for the city of Calgary to try to sell Fish Creek Park. Who wants it? It's going to cost you money to have it. [interjection] Yes, or bicycle tracks along the river. When I was a kid we made our own.

I think what Mr. Thompson is getting at here and what the Auditor is getting at is that we are confusing the public when we say these are assets of the fund that in effect we could realize money from if we were in a pinch. If you look back through the other things, there are bonds and cash and investments in various housing developments and commercial investments.

I think it should be part of the financial statement, but it should be a separate sheet. This is more or less following along what Mr. Moore was saying, that he wanted the assets of other government agencies that were financed by the heritage fund to be identified in the report. I don't have any quarrel with that.

MR. CHAIRMAN: Committee members, would you mind if I as the chairman made the odd comment if I thought it was appropriate?

AN HON. MEMBER: Please do.

MR. CHAIRMAN: Thank you very much. Recommendation 2 basically says:

That the deemed assets ... not be included in the financial statement but be listed separately.

In the annual report of the Alberta Heritage Savings Trust Fund, the financial statements are the gray-covered sheets. The last of the gray-covered sheets, page 43, lists the capital projects division investments. In addition to that, in the centre of the report there are two clear reportings, one which seems to dominate about 80 percent of the page, and then at the bottom there is an item called "deemed assets, capital projects division." There is a cumulative total for those items which are not viewed as deemed assets. There's a cumulative total for those expenditures or projects which are viewed as deemed assets.

If the intent of Mr. Thompson's motion is simply to change the colour so that it's a separate identification, I think the motion should say that. But the motion does not say that. It would seem to me that everything Mr. Thompson is addressing in the motion is already included.

MRS. CRIPPS: Mr. Chairman, you're absolutely right. I know that my intention and, I believe, Mr. Thompson's intention is in the total assets of the fund being calculated including the deemed assets of the capital projects division. I think that is our concern and the Auditor's as well.

MR. GOGO: Chairman, no one is ever absolutely right; however, you make a good point. I agree with your first comment, that members who are not here who have made recommendations will look at Hansard and be prepared to come back at the next meeting and respond to the points that have been made. With respect, I don't think we should be wasting the time of the committee getting into the fine detail. I think we should register our questions and our observations. I think the sponsor then has that responsibility, and I suggest that to the committee.

MR. CHAIRMAN: Additional comments with respect to recommendations?

MR. ZIP: Mr. Chairman, I think there's a great deal of confusion as to the definition of assets

and how they are broken down. First of all, we have liquid assets that can be disposed of in very short order. Then we have nonliquid assets that fall into two categories, basically, those that are marketable after a period of time and after an effort is made to market them, and nonliquid and nonmarketable assets that are assets in the real sense but can't be disposed of, cannot in any way be marketed.

The problem would basically be solved by having an appraisal done of all the assets. The question of what you can realize out of them would be settled that way.

MR. CHAIRMAN: With respect, Mr. Zip, that's not what recommendation 2 is talking about.

MR. ZIP: No, but that's the problem behind recommendation 2.

MR. CHAIRMAN: I appreciate that, but all recommendation 2 is saying is that they be listed separately. The sole intent of recommendation 2 is that they be listed separately. If that's the thought of the recommendation, then the recommendation should read that so committee members could deal with that. All recommendation 2 is is that they be listed separately, and that's the only decision committee members ...

MR. ZIP: That still isn't going to solve the problem.

MR. CHAIRMAN: No discussion; no debate on that. I'm trying to bring it to your attention, for a focus on what you're going to have to vote on. Additional comments with respect to recommendation 2?

Recommendation 3, also put forward by Mr. Thompson, reads:

That the Alberta Heritage Foundation for Medical Research be encouraged to investigate the upcoming increase in industrial disease with the object of doing research in that area.

MR. GURNETT: The one comment I would make on it relates back to some comments made when we had the people from the foundation here and were talking to them. I asked at that time, in connection with the northern Alberta children's hospital, whether there was a potential tie-in. The answer given I

think was a reasonable one; that is, that it's important for the foundation to have its independence and to make its own decisions, based on the opinions of their international board of research people, about whether a project is reasonable to pursue or not and that it shouldn't be tied to anybody else's agenda of what priorities are at a given time, or in a sense it becomes a servant rather than an independent body that can make sure we're moving in the best possible direction.

So while I can see the concern behind recommendation 3, I personally would be opposed to our making recommendations that restrict or put too many conditions on how this foundation can operate.

MR. CHAIRMAN: Recommendation 4:

That the standing committee on the Alberta Heritage Savings Trust Fund Act consider funding a research foundation modelled on the medical research foundation to promote pure and applied research in engineering, agriculture, and base sciences.

MR. NELSON: Mr. Chairman, Mr. Cook had to leave, and he'd like that tabled until this afternoon, if he could, to be discussed then.

MR. MUSGREAVE: I had my hand up before.

MR. CHAIRMAN: Yes. Mr. Musgreave did have his hand up before Mr. Nelson.

MR. MUSGREAVE: I want to make a comment on this. I have supported this kind of foundation before. One of the difficulties I have with it is that our funds are not in unlimited quantities, and I think we should be looking at foundations that are addressing particular problems. That's why I support the hon. Member for Grande Prairie's suggestion of an agricultural foundation, which, if it were tied to the Department of Agriculture, with specific concerns of the agricultural community, I think would be more effective than an independent institution such as suggested in number 4.

If it's modelled after the medical foundation, it becomes a separate body. It doesn't report to a ministry as such. It's an independent body doing its own thing, and whether or not it's doing what the community wants, there's nothing we can do about it for a period, I think,

of up to 10 years.

So I have some concerns with our establishing more of those kind of institutes unless they're directing their activities toward solving our problems within our community.

MR. NELSON: Mr. Chairman, I indicated to Mr. Cook that I would ask that his item be tabled to this afternoon so that when he's here, he can hear the discussion. I'm disappointed that you didn't allow that to happen.

MR. CHAIRMAN: It's just been a matter of the recognition. Mr. Musgreave was correct. He did have his hand up first, but you proceeded to speak into the mike. So it was only in that clarification that I went back to reverse it, in fairness to everybody. If you would like to suggest a motion to the committee that recommendation 4 be tabled until this afternoon, we'll hear it.

MR. NELSON: I'll certainly recommend that it be tabled until this afternoon, but in all due respect to Mr. Cook, I think we're wasting a lot of time and may have to have some repetitive discussion this afternoon so that he understands.

MR. CHAIRMAN: We're now into the debate on the motion for tabling.

MR. MUSGREAVE: I just want to point out, Mr. Chairman, that I have to attend the funeral of a colleague who used to sit in this House, and I won't be here this afternoon. That's why I wanted to make the comment.

MR. CHAIRMAN: We have a motion for tabling. Members who wish to participate in the debate, kindly proceed.

MR. GOGO: Mr. Chairman, I'm getting confused. We've been here a long time this morning. Are we really achieving anything? We're fifteen minutes to the hour. Perhaps it wouldn't be a bad idea if we listened to those who cannot be here this afternoon and wound this thing up this morning and came back fresh this afternoon.

MR. MUSGREAVE: I have no problem with tabling it, Mr. Chairman. I just wanted to have my comments on the record because I won't be here.

MR. CHAIRMAN: All those in favour of tabling?

SOME HON. MEMBERS: Agreed.

MR. CHAIRMAN: It's tabled.

Recommendation 5, Mr. Musgreave:

That hearings throughout the province be held to determine the support by the people of the concept and the direction that legislators should take with regard to the management of the fund.

MRS. CRIPPS: Good idea.

MR. MUSGREAVE: If you're agreed, I won't quarrel. I just want to make the comment that the surface rights committee, that you chaired, did an excellent job, in my opinion, of getting a feel of what was happening in the province, both rural and urban. I think a similar type of hearing, covering a broad part of the province, would be very beneficial to all of us.

MR. CHAIRMAN: Are additional comments forthcoming? Then we'll go on to recommendation 6, Mr. Musgreave:

That the capital funding of the Alberta Heritage Foundation for Medical Research be reimbursed for the capital construction projects costing approximately \$60 million being planned for Calgary and Edmonton.

MR. MUSGREAVE: Mr. Chairman, the main purpose behind this motion is that I am really concerned about the amount of money available to the heritage fund in the first place. Secondly, I am concerned that we are getting into a position of using all the revenue from it and are not addressing the problem that it's not an inexhaustible fund. I think those people who are running these various foundations should be warned that they have to live within their means. The case of the Alberta Heritage Foundation for Medical Research, which was given \$300 million, which is probably one of the largest blocks of money ever given to medical research, with the idea in mind that it stays there — it's not subject to future changes by government — is very considerable.

However, I appreciate the fact that they are locked into an approximately \$60 million expenditure which was not anticipated, and I

think they should be reimbursed for that. My message to them is: yes, you should have the \$60 million now in your fund, but, no, the idea of you getting more money in three or four years is unacceptable to us until after we've had the international audit. At that time we'll be able to review whether or not we should increase the major funding toward the foundation.

MR. NELSON: Mr. Chairman, as Mr. Musgreave said so correctly, there isn't an empty well there that you could just draw money from forever. I guess I'm having a couple of difficulties with the motion in the respect that the medical research people have committed themselves to a very large capital expenditure. Whether they did that with the approval of anybody other than their own board to use those moneys that were there for research or for the intention of research, I don't know. However, we are going to request that the endowment fund be increased to an extent that they can increase and improve their operating, research, and development of medical circumstances. I have no problem with increasing that endowment fund so they can do more research in the area of medicine. However, the capital will still remain intact.

What we're doing here is removing capital or, in essence, removing moneys accumulated from the investment of that initial capital for a project that may not be the original intent of the endowment fund. I'm having some real difficulty with that. If these people are willing to spend their money on buildings and capital projects of that nature rather than using it for the development of research for medical science, be that in equipment that's necessary for that development or otherwise, I think that's on their hook. I question whether we should support that particular project in that nature rather than increasing the endowment fund for future expenditures for the pure science of medical research.

MRS. CRIPPS: Mr. Chairman, just a couple of points I'd like to make. I'm not sure that we can make this recommendation on the Alberta heritage fund, because I believe the recommendation would come out of general revenue. I'm not sure we have the mandate to make it. Are you talking about taking it out of deemed assets instead of general revenue, Eric?

MR. MUSGREAVE: No, I'm talking about putting money out of the capital projects division into this.

MRS. CRIPPS: I beg your pardon. I misunderstood.

The only other point I want to make is that I believe the message you would give by doing this would be the opposite to your intent, which would be to say that if somebody spends money outside their mandate, and if we reimburse them, we'd have to be absolutely sure that it was clear this was once only and that if you spend money outside your own original intention and mandate in the first place, we wouldn't be picking up the tab again.

MR. GURNETT: I think it's a difficult problem, because in a sense there are two questions. One is their decision as a foundation to go outside their mandate and become involved in capital construction projects, and that should be dealt with. On the other hand, as was pointed out when they were here, I think we have to accept that their ability to successfully carry out their mandate of encouraging research isn't possible without the kind of facilities that they now identify are needed. I tend to support the motion here on the basis that, as Mrs. Cripps just said, it be made very clear that they had been a little more than bold in going as far as they have with the capital projects but we also recognize that to be able to continue to encourage research adequately, they need the facilities. It will be done, but it shouldn't been seen as something that will normally be reimbursed.

MR. GOGO: Chairman, I have some difficulty with number 6, to spend \$60 million. Then we look at recommendation 8 by Mr. Cook where they can increase their spending roughly 80 or 90 percent per annum. I have some great difficulty with that. I'm sympathetic, I guess, if they've already done it. I frankly don't know the mandate of the foundation. I have difficulty understanding why the government of Alberta, through public works, builds everything else and not this, if they need an additional facility. I have trouble supporting it.

MR. MUSGREAVE: Mr. Chairman, Mr. Gurnett made the point I was going to make, except I would add that my understanding of the

foundation is that they were within their mandate. They had the authority to spend this money. They were in a very difficult position, though, in that their programs could not carry on unless the facilities were provided.

In the initial debate by the Premier on this foundation, I think he stated there would not be any capital funding required, because he and, I think, most of us assumed that with the huge expenditures on hospitals there would have been research facilities contained within those buildings. The fact of the matter is that that's not the situation. In order for them to carry on their programs with the universities, they required these extra facilities. These are in place in other areas of the United States, for example, where they have similar foundations that are working.

In fairness to the Alberta heritage foundation, I think they were locked into a position from which they couldn't extricate themselves. That's why I feel the money is well spent. I should point out, too, that in the spending of this money, the universities have agreed, as I understand it, to pick up the operating costs in their budgets. They are locking themselves into future expenditures which would not hurt the foundation. It is a very complex problem, but the essence is that they are short \$60 million that they should have kept in their fund for future research. That's why I suggest that the \$60 million brings them back to where we originally started them, and I don't think we should give them anything more.

MR. NELSON: Mr. Chairman, in general, I think we all support the foundation and its endeavours in the area of research into medicine. However, I get a little concerned when we start developing large projects more or less because they've got their foot in the door, and they're going to make themselves permanent. That may be the case. They may be there forever, and I hope they are. I don't know that we'd like them coming and telling us they're going to be there forever by using some of that capital money for a project that I question is in their mandate.

I guess a question that should be answered before we vote on this particular offering by the hon. Member for Calgary McKnight is whether it is in their mandate at all. If it isn't, we had better get the rules out there real quick to identify where their mandate is, what they

have a mandate to do, and where in heck they got the authority to go and spend \$60 million on a project that wasn't within that mandate. If it is within their mandate, of course, that's fair game; they've spent that money. However, they shouldn't be here crying on our shoulders to suggest: "Hey, we blew \$60 million on a building. Now we haven't got that money for research. What do we do?" As Mr. Musgreave has already indicated, the fund is not inexhaustible. Certainly, we have to give those kinds of things consideration.

I would firstly like to ask the chairman if we could have that information as far as if this is within that mandate, before we vote on this in a couple weeks or whenever we do. At that time I think we can make a more intelligible decision. At the same time, if it's not within that mandate, we have to get out to those people, "Hey, guys and gals, just don't operate outside that mandate, because we won't support it."

MR. CHAIRMAN: Mr. Nelson, as most things in life tend to be subjective, particularly in the parliamentary process, I would like to advise that the Alberta Heritage Foundation for Medical Research is governed by a statute passed by this Legislative Assembly. That statute is contained in one of those eight volumes that are located in the corner of the room, and while it would be no difficulty at all for the chairman to extricate a copy of the statute and read it, perhaps individual members might take exception to the thoughts that this individual might make with respect to what is contained in the statute. I would really prefer, perhaps, that the member would take his own initiative in researching the statute and looking at the parameters to see what is contained or not as a result of the direction given by the Legislative Assembly of the province of Alberta in that regard. It's an almost impossible situation to make a ruling on.

MR. NELSON: Mr. Chairman, if you'll make a ruling on my reading of that, that will be fine.

MR. CHAIRMAN: Mr. Musgreave, would you like to conclude this debate with respect to recommendation 6?

MR. MUSGREAVE: If the hon. member reads the statute, I would be quite happy with his research. I think, too, that going with that he should probably read the Premier's speech when he introduced the statute.

MR. CHAIRMAN: Committee members, 12 o'clock is nearly upon us, so we'll now adjourn and reconvene this afternoon. At 2 o'clock we'll have as a witness before us the Hon. Don Sparrow, Associate Minister of Public Lands and Wildlife. At the conclusion of the discussion with Mr. Sparrow, time permitting, we will reconvene with further discussion on item 7.

We are now definitely going to have to come back at a certain time, and the suggestion I will be making this afternoon will be that we might want to designate Tuesday, September 24, as the next day for a meeting of this committee to further the discussion of recommendations. I give that out as a suggestion at this time. It will be discussed this afternoon for final resolution. Thank you.

MR. GOGO: Mr. Chairman, could I just comment on that. Members may consider it, as I believe the plan suggested by Mr. Hyland for looking at irrigation projects, is the 25th and 26th...

MR. HYLAND: Twenty-four and 25.

MR. GOGO: And you're suggesting we meet here on the 24th?

MR. CHAIRMAN: Yes.

MR. GOGO: In view of the fact that the content, I understand, of the 24th meeting would be discussing recommendations as opposed to having witnesses before this committee, in the interests of time could the committee give some thought to having that meeting on the 24th in Lethbridge as opposed to the capital city? I don't think we'll need the extensive services of Hansard and so on, in that we're discussing recommendations and not having witnesses. I'd like members to consider that. Some members of this committee who have never experienced the other half of Alberta would have that opportunity, particularly in view of the fact the next two



days we'll be in that area anyway.

MR. CHAIRMAN: We'll adjourn.

[The committee adjourned at 12:02 p.m.]

