

[Chairman: Mr. Oldring]

[2 p.m.]

MR. CHAIRMAN: Good afternoon, everyone. We'll call the meeting to order. This time I want to begin by welcoming the Solicitor General, the Hon. Ken Rostad, to his first meeting and first appearance in front of the Alberta Heritage Savings Trust Fund select committee. Attending with the minister is the president of Alberta Mortgage and Housing Corporation, Joe Engelman, and vice-president of finance, Lorne Kublik. Welcome, gentlemen. We appreciate you being with us this afternoon as well.

I would like to extend an invitation, Mr. Minister, for you to perhaps open with a few comments, and perhaps Mr. Engelman will want to supplement that; I'm not sure. Certainly feel welcome. We'll then turn the afternoon over to a question-and-answer period following your comments. So on that note, Mr. Minister, the floor is all yours.

MR. ROSTAD: Thank you, Mr. Chairman. It's a privilege to appear before the heritage savings committee on behalf of the corporation. I believe the meeting provides a useful opportunity for the committee to gain a better understanding of heritage fund investments in the corporation. The mandate of the corporation is to help low- and moderate-income Albertans find affordable housing, and assistance is provided in the form of development, financing, management, and maintenance of housing and land programs and the provision of loan insurance on mobile homes. Our land development and loan insurance programs are not funded by the heritage fund, but I feel it's important to include them in this overview of the corporation.

The corporation's role as a Crown corporation in the Alberta housing market can be described as something of a balancing act. The corporation does not set trends but can respond to market conditions, and where possible it attempts to facilitate responsibility for housing through the private sector, volunteers, and local levels of government. For example, it works with volunteer management agencies such as service clubs, church organizations, and the like in the provision and management of housing for seniors and low-income families, and with private-sector lenders to make mobile-home loan insurance available. It uses private-sector contractors and leasing agents for a large portion of the repair and rental of its own properties, especially in Edmonton and Calgary. At the same time, it provides direct administration of its lending and land management functions.

There is a need within the province to have a corporation able to respond quickly to a variety of housing situations. Consider, for example, the response by the corporation to the tornado victims whose homes were devastated last July. Two families were moved into town house units two days after the tornado, with 30 more families the following Tuesday. A total of 66 families received housing free of charge for a month and a half, after which occupants were able to lease the units at either a subsidized or market rate, depending on their income.

Alberta Mortgage and Housing Corporation is Alberta's social housing corporation. It's an accepted responsibility of this government to provide housing for those in need, such as senior citizens, native people, low-income families, and people with special needs. It's always been the policy of this government to target our social housing dollars under federal/provincial cost-shared programs to the segment of the population which most needs this assistance. In doing so, they receive the maximum benefit and we are able to minimize distortions to the housing market.

The focus of the corporation is the efficient management of the land, housing, and loan portfolios put in place during the '70s and early '80s by its predecessors, Alberta Housing Corporation and Alberta Home Mortgage Corporation. These portfolios were developed under radically different marketing conditions, based on forecasts for the '80s which did not materialize. The amalgamation enabled the corporation to develop innovative solutions to housing needs by utilizing the land and housing units of both former organizations, and as a result the corporation's program meets the shelter needs of thousands of Albertans.

I'd like to spend some time talking about the intent and current direction of our major programs. I'd like to explain the financial impacts of the new federal/provincial operating agreement on social housing and then talk generally about the finances of the corporation. That should still leave us lots of time for individual questions. You'll note that the corporation operates on a fiscal year basis ending March 31, and unless otherwise stated, the information I'm discussing will pertain to the '86-87 fiscal year.

There are over 13,500 seniors' self-contained units in Alberta which have been developed under the senior citizens' self-contained program. They represent a capital investment of over \$600 million. It's been our policy to locate these 440 projects in smaller as well as larger communities. As a result, our senior citizens, the pioneers of the province, can retire actively and meaningfully in their own community, close to family and friends. The self-contained program is intended for low- and middle-income seniors, who pay 25 percent of their income as rent. Units are well designed and about 500 square feet in size, and there is a good supply of this housing available. We also see a healthy balance of privately developed seniors' accommodation for higher income seniors and seniors who want housing alternatives other than what we're providing.

There are 136 senior citizens' lodges throughout Alberta. Sixty of these lodges were constructed by the corporation, representing an investment of over \$124 million. Lodges are operated by municipal foundations and receive their funding from the corporation to offset their operating deficits, which in '86-87 amounted to about \$5 million. An increase in the level of home care services provided in lodges over the past few years has resulted in seniors being able to reside in lodges for longer periods. This not only improves the quality of life of our seniors but also reduces the cost of keeping them in higher levels of care. The evolution of home care over the next few years will play an important role in the future of our lodge program.

The corporation has constructed or acquired about 7,800 of the 10,000 units of community housing in Alberta. This represents an investment of over \$338 million by the province in housing for low- to middle-income families. Community housing projects are managed by volunteer housing authorities. The same arrangement exists with the sponsor groups responsible for managing self-contained projects. Our volunteer management agencies bring an in-depth understanding of their community, personal interest in the social well-being of their tenants, and a variety of administrative and interpersonal abilities to the boards on which they serve. The shared commitment of the government through the corporation and its volunteer management agencies results in a direct sensitivity to local and tenant concerns and a high standard of quality housing at affordable costs.

The goal of the corporation's assisted mortgage programs for homeowners has been to enable low- to modest-income families to afford home ownership and to prepare these families to even-

tually move to unassisted home ownership through the private sector. These programs have stimulated the construction or purchase of over 43,000 home ownership units over the 16-year period through the provision of affordable mortgages and, in many cases, subsidies.

With stable interest rates and a good supply of affordable housing available, we are currently realizing the second part of our goal, in that approximately 17,000 of our mortgagors have successfully paid out their mortgages or refinanced with private-sector lenders. In the past year alone payouts and transfers to other lenders represented a portfolio decrease of about \$89 million. Alberta Mortgage and Housing Corporation continues to work with some other 19,000 mortgagors who are still paying for their homes.

The core housing incentive program stimulated the supply of rental housing in larger centres. It was instrumental in involving the private sector in making affordable housing available through subsidized suites for lower income renters. The modest apartment program stimulated the supply of affordable rental housing in smaller areas where conventional financing is difficult to obtain. As a result of the decline in market conditions in the past three to four years, many of these projects have been unable to cover operating and debt servicing costs. The corporation has finalized an individual workout proposal for these mortgagors. Though not supported by the heritage fund financing, the mobile-home loan insurance program increases the availability of financing for mobile homes from private-sector lenders. This program has been successful in facilitating over 5,200 loans since the program's inception in 1984. The corporation has also made over \$23 million in financing available through the mobile-home park development program for the development of attractive mobile-home communities.

Over the past few years the delivery and cost sharing of social housing with Canada Mortgage and Housing Corporation has changed as a result of the new operating agreement. The corporation has been quite successful in the past two years in getting CMHC to cost share its otherwise unused budget allocations for housing for low- and middle-income families by using existing stock from its owned portfolio. Federal cost sharing for 767 community housing units in '86-87 amounted to \$3.2 million per year for up to 35 years. Further, it cost the taxpayer about \$22,000 less to use an existing unit than it would to construct new units at today's building costs. The corporation has been able to keep pace with the need for community housing through this system.

In addition, a less extensive but more flexible type of cost sharing is available through the rent supplement program, whereby the corporation and CMHC share the difference between subsidized and market rents of tenants. This type of subsidy has an advantage in that it can be transferred to other units as market conditions change. In '86-87, 527 home ownership units were allocated under the rent supplement program in Calgary, Edmonton, Airdrie, and Fort McMurray. The value of the federal subsidies for the first six months is estimated to be in the area of about \$740,000.

Alberta has also become the active party in providing special-purpose housing for Albertans through private, nonprofit groups. Special-purpose housing makes subsidized mortgage financing available for the development of long-term residential shelter projects for people with physical, mental, or social requirements. This program was formerly administered through CMHC's own private, nonprofit housing program. A total of 70 beds and 10 units were approved in the '86-87 year for physi-

cally and mentally disabled Albertans, the homeless, and victims of family violence. It was particularly appropriate that in the International Year of Shelter for the Homeless many of the units approved provided housing as opposed to an institutional setting to people who lacked permanent homes.

Finally, I do want to make some general comments about the corporation's financial statements. Alberta Mortgage and Housing Corporation's total borrowings to date from the Alberta investment division of the Heritage Savings Trust Fund amounted to \$4.7 billion. As of September 30, 1987, the corporation has repaid the fund \$1.3 billion in principal and has made \$3 billion in interest payments, for a total of \$4.3 billion. The corporation's outstanding balance owing is \$3.4 billion, and of this, \$1 billion relates to social housing and \$2.4 billion relates to mortgage lending. Alberta Mortgage and Housing Corporation's loan loss provision increased by \$78.3 million to \$476.3 million in '86-87. This represents the losses the corporation would incur if it were required to sell off in today's market all the properties it has acquired or may acquire through foreclosure. The corporation's total provision includes \$116.3 million for owned properties and \$360 million as a contingent provision for properties it may have to foreclose on in the future. Alberta Mortgage and Housing Corporation's policy to sell foreclosed properties in areas where there will be a minimum effect on the real estate market and to rent the majority of properties until the market shows further recovery could result in the corporation not incurring the total amount provided for on properties it has acquired.

During the past year the corporation has changed its accounting policy of making a provision for declines in value of an enduring nature in the investment in land programs to writing down the value of land programs to net realizable value to recognize such losses. This change has been applied retroactively and resulted in a write-down of \$180 million on investment in land programs as opposed to a previous loss provision of \$100 million. The '86-87 contribution by the province of Alberta to the corporation to fund its deficit from the provincial General Revenue Fund amounts to \$193.7 million. It's important to recognize that 44.2 percent, or \$85.7 million, of the corporation's funded deficit involved social housing subsidies. This includes interest amortization and operating deficits for seniors, community and transitional housing, operating deficits for municipal foundations, some rural and native housing units, and mobile-home parks in Fort McMurray.

Alberta Mortgage and Housing Corporation mortgage subsidies for home ownership and multi-unit projects amounted to \$105.2 million, or 54.3 percent of the deficit. When you subtract a \$68.9 million profit, the net mortgage subsidies amount to \$36.3 million, or 18.3 percent of the deficit. These subsidies include interest renegotiation subsidies, interest rate subsidies, and direct subsidies. Alberta Mortgage and Housing Corporation's mortgage arrears and real estate holding costs amounted to \$46.2 million, or 23.9 percent of its deficit, and administration costs amounted to \$25.5 million, or 13.2 percent of the deficit.

AN HON. MEMBER: Could you just repeat the last figures?

MR. ROSTAD: The administration costs?

AN HON. MEMBER: Yes.

MR. ROSTAD: Twenty-five point five million, or 13.2 of the

deficit.

By far the largest portion of the deficit relates to subsidies, totaling \$190.9 million for '86-87. The corporation would be required to pay these subsidies even in good times to fund social housing and assisted lending programs. These deficits in part reflect the fact that government was taking a higher risk than the private-sector lenders in providing assisted mortgages to families at the lower end of the market.

Fiscal year-end figures indicate a 36 percent decrease in foreclosures over the two previous years. A further decrease is indicated for the first six months of '87-88 in that there were 34 percent fewer foreclosures than at the same time last year. The overall effect is a decline in foreclosures over the past year and a half, which has to be beneficial for the province and the public. We're also seeing improvements in property sales by the corporation. The corporation's sales criteria prescribe the active marketing of all owned home ownership units in areas or projects where the sale of such properties is not projected to have a significant impact on the housing market or the corporation's outstanding loan portfolio. A total of 2,028 units have been sold to date.

In addition to improved property sales, the corporation has changed its sales policy, which makes it easier for its renters to buy the Alberta Mortgage and Housing Corporation properties in which they reside. Rental units in good standing are being given the option of entering into a one- or two-year rent-to-purchase agreement with AMHC. This plan has now been offered to 521 tenants provincewide who reside in single-family, detached properties eligible for sale, and there's been a 23 percent take-up to date. This month the corporation will extend the option to an additional 1,150 tenants in qualifying semidetached and condominium units. As the market improves and as more units qualify for sale, they will be offered to other corporation tenants under the program. All properties not sold through this plan and all other vacant properties meeting the sales criteria will be listed for sale in due course.

These are the major issues of the corporation. I hope I've enlightened you to the complex and diverse activities of the organization and have provided some background to any questions you may have. I welcome your questions.

MR. CHAIRMAN: Good. Thank you very much, Mr. Minister, for a very informative overview. The list of questioners is at 11 right now, but I'm sure after all that good information you've just provided, it'll be cut at least in half. I think they're also extremely pleased, Mr. Minister, at receiving the annual report as early as we did this year. If some of you neglected to bring your report with you, there are extra copies here, and we'll certainly be happy to provide them to you. On that note, I would recognize the Member for Calgary-Buffalo, followed by the Member for Edmonton-Kingsway.

MR. CHUMIR: Thank you, and I'd like to echo your sentiments of welcome to the minister and his staff.

There's no doubt that the corporation carries on some very valuable programs. On the other hand, it's also equally clear that in a sense these programs have been an economic disaster. It's hard to tell how significant the disaster has been economically because of an almost incomprehensible accounting mélange, with different types of accounts and policies, with inflated interest rates being paid to the heritage fund, and with the payments made by the province to make up deficits. Last year, if we look at the financial statements at face value, over-

looking this mélange, the corporation lost in respect of both of its accounts, the corporate account and the mortgage insurance account, approximately \$355 million. In 1986 the loss was \$294 million.

I've been attempting to obtain, Mr. Minister, estimates of what the value of assets would be in the corporation to back up the \$3.396 billion of loans from the heritage fund. We've heard estimates that up to \$1 billion has been lost and that if the provincial government had not injected contributions on an annual basis to make up part of the operating deficit, up to that amount of \$1 billion might be lost. I'm wondering whether the minister would be able to tell the members of this committee how much of the \$3.396 billion of loans from the heritage fund to the corporation has been lost, absent that annual provincial contribution.

MR. ROSTAD: Well, the value of the property is as stated, with the provision that there will be \$474 million, or whatever the figure was, which we've provided for losses in the event that things didn't turn out in terms of the lending, which would leave it then at approximately \$3.3 billion, \$3.4 billion. I'm not working out the precise math, but the value is as stated.

MR. CHUMIR: The value would be the face value of the loans, less the \$476.3 million.

MR. ROSTAD: It's very difficult to put a precise . . .

MR. CHUMIR: That's the amount that has been booked so far. Can the minister give any kind of estimate of what he and his officials are seeing in terms of what we might anticipate in terms of further losses, based on current experience with loan payment?

MR. ROSTAD: Well, as I mentioned, foreclosures are going down. Our economy is improving. We find increased value in housing sales, condominium sales, in the value of the units in most centres. I think it augurs well for the future. I think the system you alluded to at being a loss of \$400 million and some is not a loss; that's a provision for a loss. That loss is not effected until those properties are actually sold or whatever. I think that over a period of time, with the improving economy that we're going through, we won't realize those losses.

MR. CHUMIR: That sounds ominously similar to arguments I've heard with respect to problems relating to a financial institution now under investigation, Mr. Minister. However, we'll pass over that.

I'd like to bring to the minister's attention a matter which no doubt he has had brought to his attention many times: the fact that the heritage trust fund receives, primarily from the corporation, approximately \$418 million of interest income. That interest income comes from debentures, some of which bear interest in the 14, 15, 16 percent range. At the same time as we're receiving that \$418 million of interest income in the heritage trust fund, there is a requirement for the provincial government to pay to the mortgage corporation \$193 million in order to enable it to make those payments. So we see money going in a circle or, in fact, from one pocket to another, and this has been a source of discomfort for many members of this committee. It represents an element of unreality in terms of assessing the true financial situation of the corporation and of the heritage trust fund.

It has been pointed out that the corporation, I understand, has the capacity to redeem some of these high interest debentures from the heritage trust fund -- say, the 15, 16 percent ones -- and to refinance at current interest rates of 9 or 10 or whatever percent. I'm just wondering why the corporation does not take advantage of this opportunity to redeem these high interest rate debentures and bring some element of reality to what is really going on in terms of the financial dealings between it and the heritage trust fund.

MR. ROSTAD: Well, my initial comments set out the objectives of the corporation. We have a social objective in delivering housing to low- to middle-income people. I also, I thought, spelled out quite clearly that the \$193 million funded deficit that we got from the General Revenue Fund related \$190.9 million, I believe, to subsidized housing, which, whether we're in the euphoria market or in a bad market, is a cost that's going to be incurred. So I'd like to clear that up. That is not money that's being pumped in to prop up something. It was to pay for a program that was specifically designed for the benefit of Albertans.

In terms of your debentures, the debentures are tied to the mortgages we give out, and we do redeem high mortgages when high mortgages are paid out or redeemed by the mortgagor. That's happening on an ongoing basis, and we are continuing to do that.

MR. CHAIRMAN: Member for Edmonton-Kingsway, followed by the Member for Pincher Creek-Crowsnest.

MR. McEACHERN: Thank you, Mr. Chairman. I, too, would like to welcome the minister here and say that I was quite impressed with your opening statements. You have inherited a heck of a mess, to put it mildly, and have at least made a start on trying to sort some of it out. I wish you luck. I think my questions will point out that there's a long way to go yet.

Picking up on some of the questions raised by the Member for Calgary-Buffalo, you can justify the losses as being incurred by socially useful programs. That we would accept on this side of the House. But that doesn't change the fundamental question that he was asking. That's why I'm going to ask it again. Why do you maintain the fiction that a socially useful program which is losing money -- and that's for a moment setting aside the fact that there's also the boom and bust of the real estate market that is also costing us a heck of a pile of money in that portfolio, and I'll get back to that in a minute. Even if you justify the losses, it does not make sense for a corporation that is losing money to claim to be paying 14 or 15 percent to the heritage trust fund -- or to be paying it, because we are in fact paying it -- and then for the heritage trust fund to be bragging to the people all over Alberta that it's making 14 or 15 percent when that money is merely going out of our left pocket, through the corporation, into the heritage trust fund and back into our right pocket. I mean that is just silly, and it is time that the government took a serious look at straightening out that little triangle. So are you going to address that problem and suggest some changes to the financial arrangements or not?

MR. ROSTAD: I think the financial arrangements that were changed, I think at section 14, which allows to not recognize a particular loss or devaluation of property -- we've been going through tough times -- until that property is actually sold is a very responsible way. I don't see the argument of saying that because somebody and we, as a corporation, made particular

investments, whether it happens to be in land that has devalued or we've mortgaged properties and they're devalued -- why recognize that particular loss, as you're calling it, until we actually experience the loss? We can, through an accelerating market, which I see coming, recognize profits. I think it's all in paperwork that you're seeing, and I don't agree at all that . . .

MR. McEACHERN: No, but you're misunderstanding my question, sir. You're only speaking to the writing down of properties, and I was not talking about that. I'm talking about the fact that this corporation was set up with the basic intent that it would spend money, not make money. And so therefore to have the arrangement whereby we have a third party involved, the heritage trust fund, is nothing more than a silly arrangement whereby we try to convince the people of Alberta that somehow they're getting 14 or 15 percent return on this particular portfolio. It doesn't make any sense whatsoever.

Now, if you want to go back to the question that you did address, there are some other problems besides just the social cost programs, and I recognize and accept the idea that government might provide help for low- and moderate-income people in a number of different ways, for seniors and so on. But there's also the fact that besides the \$193 million put in last year and the \$206 million the year before put in directly, over the last four years \$1 billion was advanced to this corporation, advances so they could carry on business at no interest charge. And so again you've got another huge cost that you haven't allowed for.

Besides that, then there is the write-down in values of properties that we also have raised but you have maintained is not a major part of it. Half a billion dollars is not a big enough write-down on a \$3.5 billion portfolio over the last five years in this province, and anybody in the real estate business will tell you that. So you have not yet dealt with the problem.

MR. ROSTAD: If I could answer that, that is not a write-down; that is a provision for a loss which will be recognized at the time the loss is recognized. If we have taken something in and can recoup it at a higher price because we've still got it, why should we write it off? It's valued at -- we've made the provision. We are very realistic at what value that property is at, and in terms of the operation of owning property, you say that there's a billion. I don't understand your explanation of where this billion that we've given to the corporation without any accounting for . . .

MR. McEACHERN: It's in the annual statement.

MR. ROSTAD: When you billed a particular -- I don't know what you're referring to. Maybe, instead of putting words in your mouth, I should let you tell me.

MR. McEACHERN: Where I got that \$1 billion -- \$208 million in 1987, \$242 million in 1986, \$343 million in 1985, \$318 million in 1984 -- was from the annual statements. Those are advances to the corporation, interest-free loans to the corporation, which would cost at least \$1 billion dollars.

MR. ROSTAD: He just whispered to me, if you didn't hear it, that that's to subsidize the social programs. That's the point I was getting at before. Where do you think the \$193 million from this year was going?

MR. CHAIRMAN: A final supplementary,

MR. McEACHERN: Well, that doesn't answer the question about the triangle that both Mr. Chumir and myself replied to. But you can try that on the next question.

MR. ROSTAD: I'll answer that one on this one. To operate any business, you borrow money. Why should we go out and borrow from -- for the sake of another name, call it any chartered bank; I won't name any -- and pay a particular rate and have that money leave the province and go down to someplace else, while we can borrow from money that Albertans have at the same going rate and Albertans recoup the dollars?

MR. McEACHERN: I guess all I'm suggesting is that if the money is going to come out of the pocket of the general revenue account, it may as well have come out of the general revenue account in the first place. Therefore, the obligations of the Alberta Mortgage and Housing Corporation should not be to the heritage trust fund but should be directly with the general revenue account, and then we would get a much more accurate and much more straightforward accounting of where we stand. By putting the heritage trust fund in between, you build a false picture that somehow we're making 14 or 15 percent on this portfolio.

MR. ROSTAD: It's an arm's-length, third-party investment. The money that's coming out of general revenue -- \$190.9 million of the \$193 million that came out of general revenue was direct subsidies.

MR. McEACHERN: I guess all I'm suggesting is that the \$3.4 billion out of the heritage trust fund might just as well have been out of the general revenue account and not have had this little triangle which creates, as I said, a fiction that a portfolio that's losing money is making money. That was my objection.

My final question, then, and I guess I'd like an opinion from Mr. Engelman on this. Do you really think, when all is said and done -- and you can talk about the social programs part of it all you like -- that a \$3.4 billion property portfolio, and it's been constant over the last few years that it's been that big, is properly written down and reflected in the annual statement when you say a \$0.5 billion provision for future losses which have not yet been incurred, when every other institution that had real estate properties of a similar type has written down or gone bankrupt or had to face up to losses of 40 or 50 percent of their portfolio? Most of the businesses in the financial and real estate business in the last few years, since 1981 when the real estate markets crashed, have faced write-downs over time -- over four, five, or six years now -- of 40 and 50 percent, and this corporation has not. It's had some injections of money each year from the general revenue account, but I still can't believe that this annual statement clearly reflects the resources in that portfolio.

MR. ROSTAD: The value is \$3.4 billion, of which \$1 billion is social. You take that out of there. Those aren't moneys we've lent to somebody else; those are projects we own, whether it's a self-contained. So you're down to \$2.4 billion. We've made a provision of almost \$5 billion. We're over 20 percent that we've made provision for mortgage lending.

MR. McEACHERN: Five hundred million?

MR. ROSTAD: Five hundred billion? I'm sorry; \$500 million, half a billion.

So we have in excess of 20 percent provision for bad. I don't find that unusual at all.

MR. McEACHERN: I wonder if Mr. Engelman would comment, because he put the books together.

MR. ENGELMAN: Well, the provision is for that portion which we feel is not recoverable, and we feel that it's quite adequate.

MR. BRADLEY: I wonder if the minister might advise with regard to the outstanding loans from the Alberta Home Mortgage Corporation in the past year. What has been the foreclosure rate in terms of your outstanding loans?

MR. ROSTAD: In percentage, I would have to defer to . . . As I mentioned earlier, the foreclosures are dropping significantly, about a 34 percent drop from this year we're talking about in this report from the year before, and the trend toward this year is a drop of another 34 percent. In terms of the number of loans outstanding and how many foreclosed, do either of you have that figure?

MR. ENGELMAN: It's somewhere in the order of 15 percent of the loans have been foreclosed on.

MR. BRADLEY: In the past year?

MR. ENGELMAN: No. In the past year it's 2 percent, 2.5 percent.

MR. BRADLEY: So of the total number of loans we have out, 15 percent have been foreclosed on in the period since these loans have been put forward.

The other question I had was with regard to the inventory the Alberta Home Mortgage Corporation has had to take back. How many of those have been converted into community housing projects?

MR. ROSTAD: Seven hundred and some in the past year. Five hundred went to rent supplement, and I believe in my opening remarks, 757 units were converted to community housing.

MR. CHAIRMAN: Member for Lethbridge-West, followed by the Member for Little Bow.

MR. GOGO: Thank you, Mr. Chairman. Mr. Minister, I agree entirely with you that the sole role initially of this department was to provide low-cost and affordable housing to Albertans who, perhaps through no fault of their own, simply couldn't cope with the rising prices we experienced in the late '70s and early '80s. I would think that one of the most successful programs we've had really started back in Mr. Speaker's day, in the early '60s, with what is now the lodge program in Alberta, a very successful program where seniors who are not able to cook their own food are able to occupy what is essentially their home. Lethbridge has been amply rewarded in terms of these homes.

However, I sense, Mr. Minister, that there is still a need and kind of a unique need, and I would like to pose one or two questions along that line. People change, and with those changes I think facilities such as lodges should change with them. For example, no longer do people find it appropriate to share rooms with other people unless they have a relationship with those

people, so double rooms, for example, are the first ones to experience vacancies in these lodge programs. People want to have their own private rooms. So one would think that if the corporation were going to continue to be active in the lodge program, they would hope to accommodate those types of changes. A recent phenomenon: as you know, the average age in our lodge program is well into the 70s, slightly less than the nursing home programs, and yet many spouses of people in these lodges require nursing home care. So one would think it would be logical to construct lodges with attached nursing homes so that the spouses of long-term marriages could perhaps be together. So my first question would be, Mr. Minister, assuming that we're going to continue the lodge program -- and I know of no other reason why we're not -- would you give consideration to having single units within the nursing home as opposed to double units, and consideration for attaching nursing home units to them?

MR. ROSTAD: I agree that the lodge program is very important. There's an extensive renovation program going on because some of these lodges have been built from the early to middle '60s and are in need of it. The trend is to make the rooms a little larger than they were, and in some of the renovations those that were double are being accommodated into a little larger single. New lodges are not being constructed with the double. Dianne Mirosh, the MLA from Calgary-Glenmore, chaired a long-term care committee, and although the report has been passed to the minister of hospitals, it hasn't been made public -- although it has been made public; I believe Mr. Roberts even held a press conference on it so that it's out there.

I think one of the answers to caring for the seniors is a single-point-of-entry system for bringing the elderly into any modicum of care we have, be it auxiliary, nursing home, or lodges. And although we're under two ministries, with lodges being the responsibility of the corporation and the auxiliary hospitals and nursing homes being under Hospitals and Medical Care, I do think we need to co-ordinate how we enter and exit and handle people within the continuum, on a single-entry basis. I think by doing that you do perhaps avoid building nursing homes contiguous to lodges, although I'm sure that there are certain locations where they could be put together and facilitated; if not a nursing home, an auxiliary perhaps. Also, with the infusion of home care into the lodges and because of home care being used out in the public or community at large, people are entering the lodge at a much higher age than they used to enter the lodge, which is also presenting a few more of our problems.

There may be a point where you avoid the nursing home completely, because you'll have an older person in the lodge that will leap right over into the auxiliary, and I find her report extremely interesting that way. We in the corporation have just done a study almost at the same time which related totally. The lodge is not just a long-term care, and in conjunction with hers, I think there's some innovative things that can be done. But one of the recommendations in her report is that we not build any more lodges until this whole continuum of long-term care is looked at. I can be frank that we have no proposed money in this year's estimates for lodges. Because of that, we are continuing to renovate but not continuing to build. I think there is also a move afoot for the private sector to build lodges, or maybe not specifically as we know lodges, but looking at this whole continuum -- perhaps that's a better way -- and maybe help them with operating or subsidy or whatever.

MR. GOGO: Perhaps we may see, Mr. Minister, some of that unfold in the estimates at the next session. I agree with you about the age. I was recently in a home with 68 people, a lodge of 68 people, that had 11 people over the age of 92, so they certainly are getting older.

I want to ask Mr. Engelman with regard to the self-contained program. The Lethbridge Housing Authority, with which I am very familiar, is doing just an excellent job. They're up now to about 600 units, including the community housing units, which has a cap, I understand, of 25 percent, in terms of income, for rent. I wonder, Mr. Engelman, if you -- this may sound administrative, but it's important to me -- could point out that ... I understand the corporation lays down the guidelines for occupants in terms of a point system. In other words, all housing authorities use either the same or a similar point system for people to be eligible to move into the self-contained housing. If that's accurate, could you indicate to the committee generally how the point system works? For example, is it based on income? Is it based on other factors? Is a person, once they are on a waiting list, assured within a reasonable time of six to 12 months of getting into a self-contained suite? Is there a residence requirement in the province? Those kinds of things.

MR. ENGELMAN: The primary base is income, but it's also based on where the people are living now, what kind of accommodation they've got, and what they're paying on the priority basis. Sometimes it's a matter, as I said, of where they're living now. Sometimes they just want to move from one to the other; they're not going to get a very high priority. When we have vacancies, it just reverts to basically an income kind of thing, and if your income fits, you're in. But there have to be other things established in order to get the worst first situation addressed.

MR. GOGO: Well, is it possible that if someone applies, they could wait 10 years until they get in? What I'm wondering is if once you are accepted as an applicant -- presumably you meet the criteria -- is there any danger of you being continually jumped over in terms of priority and you never receiving a place in a self-contained suite?

MR. ENGELMAN: That factor is there as well, relative to how long you've been on the waiting list.

MR. GOGO: Mr. Chairman, I believe the minister mentioned that they had a \$4 million deficit in the last year. I'm a little puzzled by that. I understand the way the program works is that the cost over and above what the residents pay is shared by both the province and the federal authorities, unless there's some new arrangement in terms of paying off the operating cost of these facilities. Could you indicate how this \$4 million deficit is arrived at? Is it because of vacancy rate, nonpayment of rent? Could you indicate to the committee where the \$4 million comes from in terms of self-contained suites losing \$4 million a year? I believe the minister made that statement in his opening comment.

MR. ROSTAD: I think it was to lodges that I was relating the deficit.

MR. GOGO: Not self-contained suites? Thank you, Mr. Chairman.



MR. R. SPEAKER: Mr. Chairman, my questions are from the annual report, pages 6 and 8. It refers to the statement -- and the minister also made it in his opening comments -- that there's a "number of properties for sale without adversely affecting the real estate market." This is page 8; that's under a picture on page 8 of the report. Also, on page 6 in the report of the president the statement is made that "there will be a minimum effect on the real estate market." Could the minister or the president indicate how that statement is assessed and on what criteria houses that the corporation owns are put out for sale to be able to maintain that integrity in the marketplace? It seems like it's a fine statement, but I wonder on the other end whether it's really happening that way.

MR. ROSTAD: I can let Joe perhaps address the specifics as to how each place is handled. What the statement means is that we will not go out and list those homes at a value lower than what the market for a similar type home is. As an example, we may have something that we could sell at \$30,000 because that's the outstanding mortgage. If the market for that kind of a house in that particular location is \$38,000, it would be unfair to the rest of the community for us to go in and blow out all our real estate at a substantially lower value than what the market value for that house is. So we try and keep it at a market value. If we had 500 properties and all at once put the 500 properties on -- in Calgary you'd maybe have 500 properties to go, but take the community of Airdrie, where we have in excess of 500. If we put all 500 at one time and then also put them lower than the market, we'd just ruin the market and also probably affect our portfolio.

That was the second part of my statement, and the fact that if we are taking them down at lower value, what's the problem with the guy who is in his house and wants to continue to pay even though today's market might be at or lower than his outstanding mortgage amount from then saying, "I'll walk away"? We then have all of a sudden acquired another property. But how we do it on a specific basis, I'd ask Joe to answer.

MR. ENGELMAN: The properties that get listed first are the properties that have a value in excess of the normal mortgage on those properties. In other words, those are not going to affect the homeowner that's sitting next door because we're selling for more than what his mortgage is. That's the criterion in trying to respect the homeowners in the area, so that we don't undercut their properties.

The other thing that we use: we go down from that, where we think we can feed them back onto the market to get the home ownership flavour back into the community. So we use a percentage. We do go below the original mortgage amount, but we never list for less than market. We always try to maintain the market prices so that we're not adversely affecting markets.

MR. R. SPEAKER: For example, you've raised the Airdrie one. What happened there? Did you do a survey of the community first of all? Did you take a real estate value? Who gave you the benchmark from which to work in that community?

MR. ENGELMAN: We used the original loan amounts that we put on those loans on a general basis, because in Airdrie, as an example, the bulk of it was done within a year and a half, two years. So there's sort of an average loan amount that you can go by and say that if we sell for much less than this and put a lot of units on the market, we're going to adversely affect the market. Those are the kinds of criteria that we're using.

MR. R. SPEAKER: Is all of the real estate that goes out multiple listing, or do certain real estate agencies have exclusive rights?

MR. ENGELMAN: Wherever there are multiple listing services, we use multiple listing. There are some areas that are on the periphery of MLS areas or it wouldn't be effective to use MLS, because it may be that Edmonton MLS covers it but it's 30 miles out. If there's a local realtor, we go directly to exclusive listings in those cases.

MR. R. SPEAKER: In terms of costs of care of these units that we have across the province -- and Airdrie, I guess, is a good example, and that was one of the earlier discussions we had a couple of years ago -- is that calculated in this number? For example, if you were going to keep a house for the next two years, this is going to deteriorate and the cost to government or the corporation is more. Is that a factor that is taken into consideration when you put that piece of property out on the marketplace?

MR. ENGELMAN: No. We'd go strictly by the market value when we put it out. Those costs are picked up as a program cost, and they are in as part of our deficit, as a matter of fact.

MR. ROSTAD: I might supplement that, if I may, Mr. Chairman, just for information. For a rented condominium it's about \$4,200 to keep it on an annual basis. A rented single-detached dwelling is \$3,400. For a vacant condominium it would cost about \$10,277; for a vacant single-detached, \$10,654. Those are the kinds of costs if we keep them empty. We'd like to sell them. You can see the difference between renting and leaving it empty as well.

MR. R. SPEAKER: That's why I was asking the question of whether that was calculated into the -- you know, it's better to get it out in the marketplace somewhere and get rid of it than to continue to pay through the back door.

MR. ENGELMAN: [Inaudible] the economics, you were saying?

MR. ROSTAD: We actively market it, but we just want to also try and preserve the market for the rest of the people in that community, because we could ruin it for most communities.

MR. CHAIRMAN: Member for Lloydminster, followed by the Member for Calgary-Mountain View.

MR. CHERRY: Thanks, Mr. Chairman.

Mr. Minister, I wondered if you've given any consideration to placing a freeze on any further Alberta Mortgage and Housing developments in the urban centres until such time as the oversupply of accommodation has been taken up.

MR. ROSTAD: We virtually have no developments, certainly, in the larger centres of Calgary and Edmonton, specifically for that reason. I think there's a self-contained project in Edmonton that the Freemasons, the Chinese, have, and I think there's one being completed in Calgary. But there are no others on stream right now with the odd exception of some of the smaller communities around. We're definitely taking that into consideration. We do not have any active lending in terms of housing at all, other than to accommodate a sale of a property that we own

through foreclosure, and if our lending on the basis of our subsidy programs, et cetera, will help to close that deal, we lend. Otherwise, there are no lending programs.

MR. CHERRY: You mentioned earlier about Dianne Mirosh of the long-term committee recommending a freeze on any more lodges. I wonder: did they have talks with you? I mean, to me, if it's going to be throughout the province, in some locations I would probably think that there wasn't an oversupply. I was just wondering if the freeze is going to be throughout the whole province.

MR. ROSTAD: Well, as I mentioned, we haven't consciously frozen it, other than the fact that there's no budget money for it. I'm not saying that won't mean that next year or the year after the government wouldn't be back in the lodge program. I think the thrust of her report is just to hold off until an assessment of the total long-term care continuum is analyzed and studied.

Certainly there's a need for some lodges. I think also the thrust is to see if there are private groups that would be interested in building. I can use Bethany as an example. Bethany operates in various locations. I have a Bethany in my riding in Camrose. Now, they don't have a lodge, but they have a nursing and auxiliary. But Bethany just outside of Airdrie I think has all three and is also going into housing in their overall plan, right contiguous to this multilevel development, and that's done on a private basis. I think the thrust of her committee's report is that we hold off until we assess this before we strike off. And maybe we don't need lodges as we know them now. So I wouldn't say that we're finished with them, but I think that for this year there is no money being budgeted for them.

MR. CHERRY: I guess my last question would be: would you be open to offers if, say, a town wanted to put up a complex? Would you entertain that as one of the, you might say, priorities you would look at?

MR. ROSTAD: I'm always willing to sit down and discuss, but I would have to know more where you're coming from, in the sense of a community wanting something. Because if the private person was going to build one, they're going to build it; we aren't, and we aren't financing it. But you may have some innovative idea that we're certainly willing to discuss.

MR. CHERRY: Not right now.

MR. CHAIRMAN: Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I'd like to kind of share a story I got over the telephone several months ago from a woman in Calgary which I think kind of brings together a lot of the questions some of us are asking this afternoon about the policies of AMHC. It had to do with a listing AMHC had of the other half of the duplex she was living in in Calgary.

It came up for sale in January of 1986, I think it was. She put an offer in of \$62,000 for this other half of the duplex on the other side of her, and AMHC said that they would not accept anything less than \$67,000, I presume because that reflected the original loan amount that was outstanding on that duplex. Then in February of 1987 -- that's 13 months later -- AMHC finally moved tenants into that other half. In the meantime they did extensive renovations. Her offer to purchase for \$62,000 was for as is; she would have undertaken the renovations at \$62,000.

So AMHC had those holding costs for 13 months. There were property taxes, renovations, heating, maintenance, and all. Between the two of us we figured it must have been about \$11,000, which fits with some of the information you gave just a few minutes ago, in terms of the cost of keeping that unit vacant. On the other hand, if they had sold it for \$62,000 as is, there would have been a loss on this original loan amount, I guess, of somewhere around \$5,000. So to save \$5,000 it cost \$11,000. I think that summarizes to some extent the policy dilemma we're talking about here.

I guess my question would be: can you make an estimate of how many hundreds or thousand of units might be out there in Alberta that would fit into this kind of a scenario or this kind of a situation that have sat vacant for some period of time? Perhaps there was an offer put on it, but because of this policy of not assuming a loss in a sale, they have continued to go vacant. Is that policy changing, or are there several hundreds of houses, of similar units, out there in the marketplace in Alberta in a situation such as the one I describe?

MR. ROSTAD: Well, I can't relate to your specific incident. If you happen to give me the name or the property, I could pursue it. Because I can't be sure that perhaps the lady's information to you was full in detail. Perhaps it wasn't. But the policy is not fixed. There is always some flexibility, and the corporation has always sat down with anybody to talk about it. But we do have a policy of not going below the market because . . . This particular instance: yes, in the end result, after 13 months, there might have been a difference of \$4,000 or \$5,000 that we could have not lost. But hindsight is great. We have a policy of not trying to disrupt the real estate market, be it even the neighbour. She wouldn't have been happy if we had booted out something at half price to what she had if she were carrying a mortgage with us or with some other lenders as well. There is that flexibility.

I'm sure that in this particular instance, taking it beyond the specific figures, we thought that by fixing it up . . . And we have implemented -- Joe could correct me, but I don't think our rental program was in effect at the time you were initially talking, but we brought that up to help take care of situations like this where we can get people in and not leave an item vacant. The bottom line of the answer is that there is flexibility. We work with an awful lot of people. But we also have to have a broad policy that we aren't going to disrupt the real estate market to accommodate one or two or whatever, because those ones and twos all of a sudden grow into very large things, and we end up having a far larger loss.

Do you have a supplement to it or . . .

MR. ENGELMAN: I think that covers it. What you're referring to was the rental purchase program.

MR. ROSTAD: That's what I was referring to.

MR. ENGELMAN: It was not in effect until July this year, which did change the guidelines somewhat.

MR. CHAIRMAN: Supplementary?

MR. HAWKESWORTH: Thank you, Mr. Chairman. CMHC was some years back in a similar situation to AMHC. They adopted a process whereby gradually their inventory was allowed onto the market so that within a matter of I think 18



months they pretty well had all their foreclosure backlog resold onto the market, and they weren't carrying that very expensive inventory.

And speaking of carrying very expensive inventory, I'd like to ask the minister to comment if he could on a situation. I believe it was Stony Plain that some time back got into some difficulty over the financing of an industrial land bank. It was in the late 1970s, and when the boom collapsed in the early '80s, they were left with very expensive land, and the cost of carrying that was quite high indeed. I'm not clear on all of the details other than that the debt on that loan was reamortized. There may even have been some sort of a payment holiday; I'm not sure about that. But in any event, in about a year or so this is going to be coming to a head, where Stony Plain will be required to make the payments on this outstanding debt. So really the problem they were facing a couple of years ago has been postponed but not solved, because the debt was not forgiven. It's only been deferred, and those bills will have to be paid back.

I'd like to know how many municipalities in Alberta are in a situation similar to this and if any kind of policy has evolved over the entire province as to how municipalities facing these kinds of debts to AMHC might be assisted or if there are any options at all open to them other than the option of when the debt comes due, they're expected to pay for it, even if it's very, very difficult for them to do that.

MR. ROSTAD: Well, we have a number of agreements with municipalities where in March of '83 the interest was suspended and there hasn't been interest charged to these municipalities. We've also just extended the agreement. The agreement has said, similar to Stony Plain's, that at the end of five years you have to buy this outright, whatever's left of the project. The one in Stony Plain, I'll have to have Joe -- I don't know the history of it or whatever. I think we've worked with a lot of municipalities. We will also work with them if they come to us with proposals on how to develop these. We'll work with them to work out of it. I alluded in my opening remarks that unfortunately in the euphoria of the late '70s and early '80s a number of decisions were made by private and government investors that probably shouldn't have been made, but we're also hoping that we can work without losing a great deal of that value, work our way out of the problem. But Joe might have some supplementary on it.

MR. ENGELMAN: No, I think that basically covers it. I can't speak for Stony Plain, and I don't know whether we're talking about a Stony Plain issue that relates to the corporation or to somebody else, to another agency for that matter, so . . .

MR. ROSTAD: It may not be our land, in other words. Some land is financed through the Alberta Municipal Financing Corporation, which is not in my purview, and I don't know if that's where Stony Plain's is or not.

MR. HAWKESWORTH: Okay. The last question, Mr. Chairman, has to do with page 15 of the annual report for AMHC. Note 10 has to do with contingent liabilities. It makes reference to a number of legal proceedings amounting to about \$5.7 million, and I'd like to ask the minister if he would share with the committee what might be included in that note, in those legal proceedings.

MR. ROSTAD: I don't have a list. Do you have a list of what

they might relate to?

There's a number of things that could arise: actions against the corporation, whether it happens to be a dispute on a mortgage, whether it happens to be a dispute in a land development. There are many. I can get you a list of that with no problem. I'll provide it to the chairman and have it dispersed to . . .

MR. CHAIRMAN: The Member for Calgary-Buffalo, followed by the Member for Edmonton-Kingsway, followed by the Member for Lethbridge-West.

MR. CHUMIR: Thank you. I'd like to get back and pursue the issue of the magnitude of the losses realized by the corporation. The minister has pointed out that the figure he has used of \$476.3 million in accumulated losses approximates 20 percent of the approximately \$2.5 million of nonsocial housing loans. I think it's fair to say that he's dreaming in technicolour if he thinks that 20 percent loss figure is adequate in the 1980s, particularly when you keep in mind that the types of loans that have been made are in respect of housing which has a social aspect and when you also keep in mind that the loans to multiunit housing are in desperate shape and the corporation has been working like mad to find a way of keeping these things in the hands of the investors.

But what I would like to do is ask the minister whether or not there is any independent outside appraisal or assessment with respect to the amounts of losses which have accrued in the investment portfolios of the corporation. I note there's a statement in footnote 2, paragraph C, that net realizable value with respect to real estate, for example, is the market value as appraised by the corporation. Is there any outside appraisal, any outside mind, brought to bear on this matter, minister?

MR. ROSTAD: We have . . . Madam Minister?

MR. CHUMIR: I was emulating the form of address of Mr. Gogo there, that I find quite appealing and [inaudible].

MR. ROSTAD: The corporation has a number of substantially qualified appraisers, and I don't think there's a need for an outside appraisal of the properties. We feel on the assessment of each individual loan, where it's going and the potential of it decreasing or being lost, and think that the provision for loan losses is extremely accurate.

MR. CHUMIR: With due respect, I would say that having internal appraisers is like asking Colonel Sanders to babysit your chickens. I'm wondering whether or not the minister might perhaps undertake to obtain an independent accounting review. Perhaps I might suggest Price Waterhouse, who have had some experience in appraising the values of real estate recently. And I'll bet the minister my beard to his beard that the accrued losses will be far closer to a billion dollars than they are to half a billion. Would the minister undertake such an outside appraisal?

MR. ROSTAD: I'd like to clarify your terminology again, because these are not accrued losses. They're provision for a loss in the worst scenario. They aren't losses that we've experienced. They're an accurate appraisal.

MR. CHUMIR: That's what we have heard another financial institution has been saying again, minister. I guess we're not

going to have the bet on that one.

I'd like to ask one other issue, shifting directions totally. That relates to the issues of lodges and accommodation for senior citizens. I've been concerned for some period of time about the need to approach the concerns of senior citizens in the manner which has been described by the minister and which I think is the proper direction. The thing that has concerned me and continues to concern me, however, is an absence of an overall plan with respect to where we're going, the co-ordination of differing ministries, differing institutional groups which are responsible for accommodating the needs of seniors. A classic example in Calgary now is that the Colonel Belcher hospital has made a proposal for a geriatric centre. The reality is that that is the Colonel Belcher's proposal; it's not a co-ordinated proposal either of all of the concerned groups in the city of Calgary or the Calgary area, which one would have thought sensible, nor is it part of the comprehensive plan being orchestrated by the provincial government, which would make even more sense.

I'm wondering whether the minister can give his estimation and opinion to this committee with respect to the degree of co-ordination that is taking place and his undertaking that he will do his best to ensure that we do have such a comprehensive overall co-ordinated plan so that the pieces fit together. We've seen some evidence that that is at least a part of the direction, in the placing of the units on hold, but I would like to seek comfort that that is not a mere aberration in respect of his organization but it's a reflection of a move for overall sensible planning in our plans for accommodating the needs of seniors.

MR. ROSTAD: I agree that there is a substantial amount of co-ordination needed, and I think the Mirosh report addresses that. You take your specifics. Each of the units in Calgary . . . [interjection] The issues in Calgary that you raise: each of those facilities is an independent facility run by an independent board of governors or directors that has no direct affiliation to a government ministry. I think it behooves each of them to come forward with any ideas they've got in terms of new projects, new directions. Then the ministry that's given the responsibility of administering that particular program must look at coordinating it with other ministries. I agree that that's needed, and as far as I'm concerned, that's the direction we're taking: to work with Community and Occupational Health, Hospitals and Medical Care. I don't think things have to necessarily be under one ministry, but you have to have some sort of mechanism where you don't make a step until it's all co-ordinated.

MR. CHUMIR: Just by way of concluding, a comment on that, not by way of question, but I am sincere in my observation that I have noted a disturbing absence of co-ordination. I've seen some serious problems in the hospital system over the last 10 or 15 years from that very problem. We have a lot of these independent entities running off on their own, and I would urge the minister to use every good office that he can through his responsibility for this portfolio to push for co-ordination and planning in that area, because failing that, we can make some very serious mistakes, and it's too important not to do properly.

MR. CHAIRMAN: Member for Edmonton-Kingsway.

MR. McEACHERN: Thank you, Mr. Chairman. I'd like to go back to this question about the assessed value of the Alberta Mortgage and Housing Corporation. In the absence of an outside appraiser, we're still left arguing with whether or not ade-

quate provisions have been made for a write-down over the last five or six years. I would maintain that there's been a pressure on the corporation to keep the value up over the last five or six years, because otherwise how do you claim that it's making 14 or 15 percent for the heritage trust fund on the debentures? Remember, it gets almost all of its money from the debentures; only a very little bit of the portfolio comes from other sources.

I would remind the minister that there is another source besides the one we talked about, money coming from the general revenue account, both in terms of advances and in terms of just straight outright gifts to help them maintain the cash flow and help to keep up a false sense of how much this corporation is worth: there is also the fact that Alberta Mortgage and Housing continues to write new debentures on a regular basis to help keep up the cash flow so that the corporation can afford to pay out the ones that it owes. If it wasn't for that -- actually, all that achieves, and this is part of the concern, is that it mortgages the future even further, because a corporation which is losing money and has a smaller and smaller base is expected to maintain a so-called capital value close to the value of the debentures it gets from the heritage trust fund. So this writing new debentures so you can pay off old debentures and circulating money around and around in that little circle by itself helps to create the fiction that the corporation in fact is not going under and is not taking quite as much money out of the general revenue account as it might have to otherwise.

Do you agree with me that that just mortgages the future even further, in terms of paying the debts of the Alberta Mortgage and Housing Corporation?

MR. ROSTAD: No, I don't, because you have a very simplistic view of redebenturing or remortgaging. It's a whole process. You have scheduled repayments. You have new projects which you're borrowing. Of course, you're going to keep borrowing and . . .

MR. McEACHERN: I'm not talking about house owners paying the Alberta Mortgage and Housing Corporation. I'm talking about the Alberta Mortgage and Housing Corporation paying the heritage trust fund.

MR. ROSTAD: So am I. That's what I'm talking about. But there's a cash requirement. There's a statement that's done up on cash requirements that we need, which include debenture payments, which include investments in other projects, et cetera. To pay that, we get revenue from various sources.

MR. McEACHERN: The heritage trust fund.

MR. ROSTAD: Not necessarily, but repayment of other mortgages -- where do you think the money goes?

MR. McEACHERN: Well, \$3.4 million of it comes from the heritage trust fund.

MR. ROSTAD: We have received that. We didn't receive it in one year.

MR. McEACHERN: I know.

MR. ROSTAD: Well, get your head out of the clouds for a moment. There's a continuum, and of course you have to refinance, because if you didn't refinance, that means you've

paid everything off.

MR. McEACHERN: Okay. [interjection] The point is -- the second question, yes -- that the asset base of the Alberta Mortgage and Housing Corporation has been shrinking for the last five years, since the real estate bust, in effect, and that you have not made adequate provisions to account for that in your yearly accounting, year by year: 1981 report, '82 report, et cetera, through the years. Yet you still maintain that we've got the same size or an even, if you like, bigger portfolio to match the debentures you're getting from the heritage trust fund. All I'm seeing that you're doing is building a bigger and bigger debt for the future, because in fact your asset base is getting smaller and smaller.

MR. ROSTAD: Well, that's your view. We don't think our asset base is getting smaller and smaller other than the fact that if we pay off mortgages, we don't have those as assets, so of course it gets smaller. If we aren't making more investments, it's shrinking. But so is our debt to the heritage trust fund. And out of the debt to the heritage trust fund, which is \$3.4 billion, \$1 billion is social housing.

MR. CHAIRMAN: Final supplementary.

MR. McEACHERN: That was true last year too, so that hasn't changed. [interjection] I know, but the \$1 billion and the \$2.4 billion are irrelevant. The fact is that you're getting \$3.4 billion from the heritage trust fund, and that's what it was last year. So that hasn't changed, but the asset base since 1981 must have gone down by at least 40 percent, by the reckoning of anybody else in the real estate and financial business.

I guess I want to make it clear that I'm not against social housing being provided with taxpayers' dollars, okay? But what I do object to, and it just sort of summarizes this debate, are three things. One is the largesse of the Alberta Mortgage and Housing Corporation during the years of boom and for three or four years after the boom was over. It took this government at least three or four years to wake up to the fact that their cash flow was not positive in the early '80s in many fields, not just this particular one in terms of Alberta Mortgage and Housing.

I also object to the sloppiness with which they have handled some of their larger corporate accounts, and if you don't know about that yet, you'd better start doing some digging into how Alberta Mortgage and Housing is handling its portfolio. There are a lot of serious problems there in some of the really major, major commercial accounts.

Finally, I guess I object mostly to the fictional arrangement that you have set up. Well, it's real in some ways. But any other private corporation that tried to set up the kind of arrangement we have between the corporation, the heritage trust fund, and the general revenue account of this province would be the laughingstock of the private enterprise of the world. The board of directors would probably go to jail for trying to mislead people. We have been trying to convince people that the Alberta Mortgage and Housing Corporation is bringing into the heritage trust fund full repayments plus 14 percent or 15 percent and that somehow that money comes into the Alberta taxpayers' pockets, into the general revenue account, as if it's new money -- look how wonderful this investment in the heritage trust fund was -- when in fact a fair amount of the money has come out of our own pocket anyway to go into the Alberta Mortgage and Housing Corporation in the first place. In fact, it's been losing

money for five or six years, yet we're still bragging about a 14 percent or 15 percent return on our money out of the heritage trust fund -- or 12.6 percent this year.

So this last point: I'm wondering if you aren't ever going to deal with that and talk to your cabinet colleagues and say, "Why don't we change this arrangement?"

MR. ROSTAD: Well, I think you still seem to miss the point that the borrowing from the heritage trust fund is just like an arm's length third party. That's what those debentures are. They're borrowings. You also seem to think that we meet somebody behind doors and somebody's telling us, "Oh yeah, you've got to borrow more," or "You've got to prop it up." There are no such meetings as that. I chair the board of directors' meetings of Alberta Mortgage and Housing, and we don't talk to the Provincial Treasurer. We come to Treasury Board on our votes, which you get the chance to debate. There's no subterfuge. You're pie in the sky. I mean, I don't know why you're trying to bamboozle the Albertans that they can't have a right to make money with their money as against somebody else making money.

MR. McEACHERN: They're not making money; they're losing.

MR. ROSTAD: Where?

MR. McEACHERN: Out of the left pocket of the general revenue account.

MR. ROSTAD: We got \$193 million and \$190.9 went to social housing. So that was an inadequacy of two point something million now.

MR. McEACHERN: You're still not accounting for the dollars there.

MR. CHAIRMAN: Member for Lethbridge-West.

MR. GOGO: Mr. Chairman, I realize all these questions are important. I want to come back to the 440 projects under the senior citizens self-contained housing program, and Mr. Engelman may be the one in the best position to answer these questions. As I understand it, Mr. Engelman, the maximum rent charged to these people is 25 percent of income, and to my knowledge, except for some small ancillary items such as parking, which a tenant may choose to have, that is the total charge to the tenant. Is that correct?

MR. ENGELMAN: Plus electricity.

MR. GOGO: On the basis then of electricity, in the city of Lethbridge where Lethbridge buys wholesale and sells retail so the source of power is centralized in the city of Lethbridge, are you saying that if the city were to increase their electrical rates then each tenant could be required to pay additional rate for electricity or electrical increases? Is that what you're saying?

MR. ENGELMAN: They could, yes, just for that item.

MR. GOGO: So what you're saying then is that the rent is 25 percent of income not inclusive of rent. What about heat?

MR. ENGELMAN: All of the other utilities are included.

MR. GOGO: Would this be as close as possible to a normal commercial transaction; i.e., electricity, telephone, cable TV would be so-called extras over and above the 25 percent rent? Is that accurate?

MR. ENGELMAN: Cable TV, telephone, yes.

MR. GOGO: A final supplementary, Mr. Chairman, then. Would you think it reasonable, Mr. Engelman, that of all the self-contained houses in a particular community, we'd charge the same electrical rates? I just had a phone call before this committee from a tenant in one of the projects. None of the other projects administered by the housing authority has had a demand for increase in electrical rates in one project only. Does that sound unusual to you?

MR. ENGELMAN: I would have to check it out.

MR. GOGO: I'm agreed with that, and then I'll send you a memo.

MR. CHAIRMAN: Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. On page 6 -- I guess this is the president's message of the annual report -- I take it that AMHC has provided \$476.3 million as reserves for possible losses, which includes both potential losses on property which the corporation holds in title as well as some future foreclosures which may occur. In addition, to recognize a permanent decline in the value of land holdings, there's now a \$180 million provision for that. Do I take it then that the corporation has made provision of \$656.3 million for real losses and provision for future losses? Is that a fair statement to make?

MR. ENGELMAN: Yes, that's basically correct.

MR. HAWKESWORTH: That doesn't even incorporate some of the difficulties related to municipalities, although we can presume that that's not of a major nature. So in terms of trying to determine what the write-downs have been, \$656.3 million equates to what proportion of the corporation's portfolio? What would be the dollar amount of the corporation's portfolio that those provisions for losses would be applied to? Would it be the mobile homes, rural and native housing? Would it include senior citizens or not? What would be that portion of the portfolio to which \$656 million would apply?

MR. ENGELMAN: Those provisions relate to the mortgage loan portfolio, which was \$2.4 billion, and \$310 million worth of landholdings or thereabouts. So it relates to about \$2.7 billion.

MR. HAWKESWORTH: Okay. Now, when the minister made his opening comments, he gave a list of figures, and I was able to note some of them but I didn't get all of them. I wonder if the minister would go back over that list. It had to do with a \$193.7 million contribution from the province and, as I made a note here, something to the effect of 44.2 percent related to social housing subsidies. Then some other figures I had: \$46.2 million in holding costs, \$25.5 million in administration costs. I wonder if you could go through that list for me again, please.

MR. ROSTAD: Okay. The \$193.7 million is the funded deficit that we got from general revenue. Of that, 44.2 percent or \$85.7 million was social housing subsidies. These are interest amortization operating deficits for seniors' community and transitional housing, operating deficits for municipal foundations, some rural and native housing units, and mobile home park. Then mortgage subsidies for home ownership amounted to \$105.2 million or 54.3 percent of the deficit. However, there was in the mortgage lending a profit of \$68.9 million. If you deduct that, then the net mortgage subsidy is \$36.3 million or 18.7 percent of the deficit. Those are interest renegotiation subsidies, interest rate subsidies, and direct subsidies. Then the mortgage arrears and real estate holding costs amounted to \$46.2 million or 23.9 percent of the deficit, and administration costs amounted to \$25.5 million or 13.2 percent of the deficit. Now, if you add the \$85.7 million which is the social housing subsidy and the \$105.2 million of the mortgage subsidies, you come to the \$190.9 million I have referred to before that relates to subsidies. The others add up because, of course, there's a profit that was also made on the mortgages, and so we netted out. Those were the figures. Have you got them all now?

MR. CHAIRMAN: Member for Cypress-Redcliff, followed by the Member for Little Bow.

MR. HYLAND: Thank you, Mr. Chairman. My question to the minister is if he could give us a guess at how many dollars would flow out of this province either into Ontario or into the Toronto or Montreal or New York money markets if all the Alberta Home Mortgage Corporation loans were not funded by the trust fund. How much would be going out in total dollars yearly out of this province to other parts of the country or the world, and what effect would that have on our economy and our budget?

MR. ROSTAD: Approximately -- well, in excess of \$400 million.

MR. HYLAND: Approximately one twentieth of our present budget, in rough terms.

MR. ROSTAD: That's our interest expense, and our interest expense is to the heritage trust fund. I think in my opening remarks I gave the fact that we've paid over \$3 billion in interest to the Heritage Savings Trust Fund.

MR. HYLAND: So the trust fund in reality would be worth \$3 billion less then if we were borrowing on the New York money market.

MR. ROSTAD: There would have been \$3 billion less paid into the Heritage Savings Trust Fund, because... Now, I guess to take it one step further, if the investment was not in Alberta Mortgage and Housing and was in something else, the interest would come from something else. But the member opposite seems to think there's some subterfuge in between, that this isn't directly going. The payments have come, and the payments that have come from general revenue have been payments to pay for subsidy and not to prop up the payments. Again, from the opening remarks, if you divorce that social housing out of the other part, there's two aspects to the operations of the corporation.

MR. HYLAND: Is there any aspect, then, or any estimate that if

the money was not borrowed from the trust fund, what the transaction fees for that amount of money -- some \$3 billion that's been borrowed out -- what the transaction fees on these markets would have been on that amount of money?

MR. ROSTAD: I'd have to defer to the finance man, if he has some idea what it would . . .

MR. KUBLIK: I would suggest that we'd probably be paying .25 percent higher than what we're paying right now to the heritage fund if we went directly to the market, because the heritage fund is charging us the rate a province would be getting for borrowing from the heritage fund, and as a Crown corporation we'd probably pay .25 percent higher.

MR. HYLAND: But how much in transaction funds would you be paying, the brokerage fees that they charge you to float the bonds, et cetera?

MR. KUBLIK: I would suggest that would probably be .50 percent of the \$3 billion we'd have to go out to the market for, and in dollar terms that would be \$3 million.

MR. CHAIRMAN: The Member for Little Bow.

MR. R. SPEAKER: Mr. Chairman, my questions relate to my earlier questions, but I have just a comment in terms of the whole Mortgage and Housing Corporation. I want to say that I was on record in 1975 saying that this kind of corporation would have a terrible effect on the marketplace of Alberta. Today we're living with some of the consequences of government getting into the mortgage and housing business, which is a very unfortunate situation. I hope the intent of government is to wind us out of the marketplace and put social housing back in its proper category, and that should be funded through the General Revenue Fund of the province so that we deliberately each year plan the program and allot general revenue dollars for those policy objectives. It should be done through the total Legislature of the province rather than through a secondary organization such as the corporation we're looking at here. I make those comments, and they relate to my question, Mr. Chairman.

As I look at the cost of keeping apartments, I don't know whether I got the figures correct: \$4,200 per year -- I think it was apartments that the minister referred to -- and condominiums at some \$10,000 a year when they're empty. I didn't get the cost of keeping a mobile home per year, but I'm sure it's most likely significant as well when you have a manager plus the upkeep costs of yard, fence, the interior of the building. They depreciate faster than these other two items I've mentioned.

The question I ask the minister -- I guess he could even comment on my general comments in terms of the direction of the corporation as the government sees it; but secondly, there is somewhere a point where we just have to put some of this property out on the marketplace, take our lumps, and let it go, because the cost of keeping it is going to eat up its value, whereas that accumulated care cost is increasing and continues. I know you're trying to do something in terms of rental purchase. I'm sure that's the reason for that program. But market value at the present time is maybe holding static, increasing a little bit, but the accumulated care cost is going to cross that line somewhere or reach a point where the value . . . We've lost a lot of money anyway as a government, and we might as well take our lumps

and put it out on the marketplace. Maybe we should take some lessons from our Prime Minister over in England, who just got rid of a lot of the housing units, put them out in the private sector. Maybe a giant auction in this province is called for soon. I know the government is trying to be sensible about it in their approach and more moderate. But somewhere we still continue to lose money under that approach, and maybe there's a place where we just let it go, get it out to the public, and get it over with.

So my question to the minister is: when you look at what it's costing you per individual unit and you look at market value and note that you're going to have a significant loss because you keep pumping these government dollars in, is there a point where you just say, "Let's sell"? Now, from my earlier questions and the answers, it doesn't seem that way. To me, it would be sensible somewhere to do that. If you were a private investor, you'd just have to let it go because you couldn't carry it any longer. As government, we get the taxpayer to keep funding a loss, which is unfortunate. I'm sure the minister doesn't agree with that, but that's what's happening in this case.

MR. ROSTAD: Philosophically I don't have much problem with what you're saying. I do think that as the corporation there are certain programs we can deliver and certain things we should wind down. I also agree philosophically that we should dump them, but I do think we as a government have a responsibility to not ruin a market for a particular community. That's addressing Mr. Hawkesworth's question.

There is some flexibility. It isn't hard and fast. We as a board of the corporation are attempting to formulate new programs, of which this rental purchase one was one. At least we can get you in there renting and, with a little help and prodding, perhaps get you to buy that in a one- or two-year program so that we can cut down these costs. Where there's a situation that we aren't ruining the market, we are saying: "Hey, let's get rid of it. Let's get it out and get it off our hands." And our portfolio is shrinking significantly.

The difference between Mrs. Thatcher's experience and ours is that we have one of the best housing infrastructures in North America in Alberta, and that isn't the case in Great Britain. Great Britain had a great, great housing shortage. I'd like to do what she did and just say wish, but right now we have an oversupply. They had an undersupply, and there was no problem in take-up, let alone the value here. We'd have to chop the price so badly to get the take-up that we'd ruin everybody else's market. So we are very conscientiously working toward getting rid of it as fast as possible in a responsible manner without upsetting the applecart for the other people. I'd love to do it so I could come here next year and say, "Hey, we don't have any."

MR. R. SPEAKER: Thanks, Mr. Chairman.

MR. CHAIRMAN: Member for Stony Plain.

MR. HERON: Thank you, Mr. Chairman. I'll direct my question to Mr. Engelman through the minister, if I could. We're talking about the supply of houses or foreclosed properties. I'm hoping we're talking about them in a historical sense, because the popular literature just the other day reported that urban housing starts would be up by some 30 percent next year, which equates to some 10,000 units. I'm wondering what impact that will have on your existing portfolio. Do you view that as dramatically reducing your existing portfolio, stabilizing the

market values of those people who are in mortgages? Because you've already mentioned that the foreclosure rates are trending down. Are we looking at old data that could be drastically affected by the market forces now in place?

MR. ENGELMAN: I don't quite understand the question.

MR. HERON: Well, if you're building 10,000 units -- they're up 30 percent -- shouldn't this be an indication that there's a market there for these units and that next year we may be looking at this portfolio being reduced very sharply?

MR. ENGELMAN: Yes, I agree that that should be the case. That in part has been the reason for an uptrend in values in the past year or so, a slight uptrend. The new units coming on are costing a little bit more than the existing and it's dragging them up valuewise, so there should be a firming of the whole market.

MR. ROSTAD: And the rate of foreclosure is down substantially, so our portfolio of foreclosed properties is not growing. We're selling more than we're receiving, so it's shrinking. As long as our market continues as it is or better, we hope to be out of that problem quickly.

MR. HERON: Well, just as a note, we've seen where, let's say, lending activity in Alberta Agricultural Development Corporation is down some 70 percent and your own activities are way down. I'm just wondering if the market forces aren't already in place to put some of the bad historical experiences we've had behind us and move on in a new direction.

MR. ROSTAD: Well, I think that's happening. Our lending is way down because we just don't have a lending program anymore, other than to facilitate a sale. If you come to us, we'll finance you at 90 percent of the loan as we used to, and if you qualify you'll get a subsidy to sell that house, whereas if we didn't have that type of program, we might have to wait for the conventional institution who says that it's 75/25 or 60/40 or 50/50 depending on where the location is. That's the only lending activity we're in right now.

MR. HERON: Well, Mr. Chairman, I find myself philosophically in step with Mr. Speaker and his comments of 1975, and perhaps as we look forward and create policy for the future, we should look to some of our historical experiences in the farm community. We saw where the banks would no longer lend to the farmers and the government stepped in with large funding agencies. We did the same in the housing market, and perhaps we could learn something from that as we move into the decades ahead in terms of when the private lender won't go into it and doesn't think there's enough equity in it and it's overvalued, maybe we should stand back and let the market forces correct sooner. Because we've certainly had a very painful experience with government housing in terms of aggregate losses.

MR. CHAIRMAN: Member for Edmonton-Kingsway.

MR. McEACHERN: Thank you, Mr. Chairman. The last two speakers sort of helped me, I think, establish part of my case. I'm really talking about the fact that we've got a fairly big boondoggle here and we need to try to sort it out. I think Mr. Speaker's comments about getting control of the social housing back under the department of housing rather than ... One of

the steps in that process might be to rethink this business of getting debentures through the heritage trust fund. It gets in the way, if you like, of the relationship between the Crown corporation and the general revenue account. I guess that's basically what I was suggesting, that somehow that heritage trust fund step in that relationship should be eliminated.

We put a resolution forward last year -- it was not accepted by the committee, so you perhaps haven't seen it -- that the obligations of the Alberta Mortgage and Housing Corporation to the heritage trust fund just be transferred to the general revenue account; then that would allow us to get those things sorted out and the relationship and the problems of running Alberta Mortgage and Housing would then become that of the Assembly of the province of Alberta rather than the heritage trust fund and the cabinet, a triangle that's not necessary and not very helpful, in my view.

I think for a minute, and this is sort of my question ...

MR. ROSTAD: [Inaudible] correct. I don't know if you made a misnomer or whatever, but you said between "the heritage trust fund and the cabinet." I can assure you, having had the pleasure of sitting there for the last year and a half, that the cabinet doesn't run the corporation.

MR. McEACHERN: It did.

MR. ROSTAD: No. In fact, there's no cabinet input.

AN HON. MEMBER: They run the heritage trust fund.

MR. ROSTAD: Well, that's the committee.

MR. McEACHERN: Which puts them between the Assembly and the Crown corporation.

MR. ROSTAD: That's merely to borrow a debenture.

MR. McEACHERN: As a preamble to my question, think for a minute. If you were to consider yourself a private enterprise organization for a short time doing exactly what you're doing and with the portfolio you've got, surely you would not be happy with a situation where some individual -- and we'll say it's the Treasurer in this particular case -- was loaning you money at 14 or 15 percent over a period of five or six years when the going rate's 11 or 12 percent and you could have gotten your money cheaper. To me that illustrates the distortion of the procedure you've set up, because while you were talking about wasn't it nice that the heritage trust fund can make money for the people of Alberta, don't forget that the people of Alberta are also paying 14 or 15 percent when in fact the interest rates are around 10 or 11 percent. I never intended, from some previous questions that were made in this committee a minute ago, suggesting that we might borrow the money abroad or somewhere else. It's just a matter of sorting out our own in-house arrangements.

MR. ROSTAD: Well, when we borrow, we borrow from the Heritage Savings Trust Fund at the going rate. I mean, if we have a 14 or 15 percent debenture, that was because at the time rates were usually 16 percent and we got it at a lower rate because that was the going. So I still fail to understand ... And we're paying those off. But if we borrow a debenture today, we don't pay 15 or 16 percent, or 14 percent.

MR. McEACHERN: All I'm suggesting is that you might have been able to make some provisions whereby you could borrow current money at current rates and get your interest rates down a little faster. I mean, last year, according the annual report, we got a 14 or 15 percent return on the investments out of the heritage trust fund into Alberta Mortgage and Housing. The interest rates were only 9 or 10 percent.

MR. ROSTAD: Because we had a debenture that we were paying off, or paying on, at 14 or 15 . . . [interjection] I don't know if you're one of the unfortunates that has to have a house mortgage like I have. If you took a five-year term and took it at 13 percent, you're paying 13 percent, whether the mortgage rate is at 8 percent.

MR. McEACHERN: But you are borrowing \$3.5 billion. You should have a lot more market clout than that.

MR. ROSTAD: I don't borrow \$3 billion at one time. I borrowed in \$200 million segments, and we borrow over a long period of time.

MR. CHAIRMAN: In light of the time, Mr. Minister, I want to thank you and the representatives from AMHC for appearing before the committee this afternoon. In particular, we appreciated your opening remarks. They were most informative and most helpful and certainly brought us right up to date.

There is just one quick matter for the committee to deal with before we do adjourn. There was a request put forward to me by the Member for Edmonton-Kingsway to change the January 27 meeting where we were going to be voting on recommendations. I don't anticipate that being a problem. I can't give you

an alternative date right at this time, but the Chair will take it upon himself to co-ordinate it with the members of the committee, and we'll come up with a date that hopefully we can have full attendance at.

MR. McEACHERN: Are we involved with the minister [inaudible] finance corporation?

MR. CHAIRMAN: I'll look into that as well.

MR. McEACHERN: If you do, make it just a part-time one tagged onto somebody else, eh? I don't think we'd need him for a full two hours, unless you want to put it on one of the days when we are going to do some work on resolutions anyway.

MR. CHAIRMAN: The other thing to note is that on January 19 there could be some conflict with the Assembly in that there is also a Members' Services meeting that day. So I might have to make some changes or adjustments there as well. But I'll get back to the members on both of those by Thursday.

MR. GOGO: Is that 18 as well?

MR. CHAIRMAN: We weren't scheduled for 18. We were scheduled for 19. But the Chair will take it upon himself to evaluate the number of days we've set aside for recommendations and make sure we have the right number slotted in.

Good. Thank you. We stand adjourned, then, until tomorrow morning at 10.

[The committee adjourned at 4 p.m.]



