[Chairman: Mr. Oldring] [10 a.m.]

MR. CHAIRMAN: Good morning, everyone. We'll call the meeting to order. I want to begin by welcoming Mr. Salmon with us this morning. We've had an interesting series of meetings so far, Mr. Salmon, and we're looking forward to hearing from you this morning. I'm sure there'll be lots of questions from members of the committee.

The process hasn't changed since the last time you visited us here in this Assembly last year. We still extend an opportunity to you, sir, to open with a few comments if you so wish, and then we follow that up with a question-and-answer period. Each of the members, when they're recognized by the Chair, is entitled to ask one question and two supplementary questions. On that note perhaps you might want to introduce the two gentlemen who are with you and then open with a few comments.

MR. SALMON: Thank you, Mr. Chairman, for the opportunity to make a few opening remarks. I have with me Ken Smith, the assistant Auditor General, on my right, and Jim Hug, an audit principal with the office, on my left, who are senior staff members of the office, responsible for the audit of the heritage fund.

I would just like to make one remark. I assume everybody has now received the printed annual report, which I received this morning at a quarter to 9, although I did have the draft, which I did not like working with. But we do have it now.

I would like to just make some comments, Mr. Chairman. The Auditor's report again contains a similar reservation to last year. The status has not changed regarding deemed assets on the balance sheet. I'm not going to make any further comments regarding this matter. I'm going to stop right there.

The financial statements this year are presented in a similar fashion to last year, as you are probably aware if you've reviewed the report. They do clearly indicate the changes in the fund for the 1987-88 year. I believe they're presented in such a way that most people can follow them quite readily. I would like to comment just briefly, though, on some of the highlights of the changes that took place in the '87-88 year. You're all aware that all of the net income of the heritage fund was transferred to the General Revenue Fund. There was approximately $1.149 billion received during the year in repayments. Those repayments came through the Canadian investment division of about $389 million; various provincial corporations, through the Alberta investment division, contributed $750 million; there was Luscar corporation, through the energy investment division, about $7 million; and then there was IPSCO Inc., through the Alberta investment division, about $3 million; making up the $1.149 billion.

The investments made during the year, of course, were Millar Western, which was in the Alberta investment division, of $51 million; Nova Corporation, in the Alberta investment division, of $150 million; and the net change in the Syncrude investment was about $25 million.

Expenditures of the fund this year, of course, are listed in the capital projects division as capital projects of $129 million. There were some changes in the commercial division, about another $30 million in investment.

Their funding of the Small Business Term Assistance Fund took place by having the Alberta investment division pick up $200 million through the promissory notes that were put out by the province. Also, there was an increase overall in the cash and marketable securities of about $545 million. If you look at the balance sheet, the decrease in the financial assets equals the capital projects division expenditures of $129 million, and really the change in the financial assets is exactly that amount.

In the notes to the financial statements there's an indication that there was $30 million invested in shares of the Alberta Energy Company in April 1988, just the month after the year end. This was explained in the Alberta investment division, schedule 3, note (f), page 44 of the annual report.

On the whole, this year's audit went smoothly. We had good co-operation from Treasury staff and management and had no difficulty completing the audit. As you can tell from the financial statements, we had everything done in June, signed off the financial statements in July. We're happy to be here today if we can answer any questions the committee may have.

MR. CHAIRMAN: Thanks very much, Mr. Salmon, for that overview.

I recognize the Member for Athabasca-Lac La Biche.

MR. PIQUETTE: Thank you, Mr. Chairman, and welcome, Mr. Salmon. I'd like to start off today . . . Well, I guess we'll have a number of questions that we'd like to ask the Auditor General in terms of the performance of the heritage trust fund. One which I'm interested in that I've been looking at quite closely and I'd like to have your opinion on is the Millar Western investment out of the heritage trust fund, whereby we are entering into a loan agreement with Millar Western with, I believe, questionable type of return for the province. Has the Auditor looked at that agreement, and would he have an opinion about that arrangement between the province and the heritage trust fund as an investment in particular?

MR. SALMON: With respect to Millar, Mr. Chairman, it's on page 43, schedule 3. The explanation of the financing aspect is in note (c) to that schedule. We have examined that agreement and have been ensured — we've looked at the authorities for the investment and have looked at the terms and have agreed with the explanation given in this note.

As far as determining whether or not this is a wise or prudent investment, that's certainly up to the investment committee to make that decision. The Auditor usually doesn't comment in that regard. But certainly it does follow the processes, and there is authority for all that they've done.

MR. PIQUETTE: Has the Auditor General taken a look, for example, at the proposed OSLO investment, which the Premier indicated would be coming out of the heritage trust fund? Has there been any information flowing to the Auditor General how that's going to be guaranteed in terms of an investment?

MR. SALMON: No, I'm sorry; we have no information on that one. The only thing I know is what I've read in the newspaper. That would be something that when anything was finalized, we would be privilege to the actual agreement and then would be ensured that the presentation of that particular investment was in accordance with the authorities that are there.

MR. PIQUETTE: My last supplementary relates to the $182.6 million reduction in the assets of the Alberta heritage trust fund. Is this figure accurate, as reported by a few of the news media here, in terms of a reduction of our capital base of the heritage trust fund? What comments would you have to make about that?

MR. SALMON: Yes, Mr. Chairman. If you look at page 34 ... Or we can go to the balance sheet; just stick to the balance sheet. We look at the fund equity line, which is $12,553,209,000 and $12,682,285,000. The difference between those two columns in the current year, which is '87-88, is the $129 million which was expended on the capital projects in the year, and that's really the only change. The only reason for the difference, to make it $182.6 million, is the $129 million and the difference in the amount of the payables in the year. Because if you take last year's payables, which were $62 million, and this year's — they're $8.6 million — the difference between those and the $129 million comes out to $183 million.

MR. R. SPEAKER: Mr. Chairman, I welcome the Auditor General and his staff here this morning. Back a few years ago there was a discussion in the Legislature with regards to the tracking of investments under the commercial investment division. At that time there was great difficulty in tracking the loss of one bond that was sold. There was a loss of $50 million at that time. A policy was instituted of tracking following that period of time, which was a good change in procedure for auditing and for accountability. I was wondering if Mr. Salmon could comment on how that is functioning at the present time. Is it functioning to his satisfaction?

MR. SALMON: Yes, Mr. Chairman, we are satisfied with the tracking. It's a regular process for our staff who are doing the audit of heritage as well as the other investment areas that are handled by the Treasury Department, because there's a large portfolio of other investments from other corporations like WCB and so forth that have investments there as well as Treasury itself. We are satisfied. We do a considerable amount of work. We can measure the movements, and we do it through a computer system that we've developed. We're satisfied that we've got the controls built in to ensure that everything is working properly.

MR. R. SPEAKER: Mr. Chairman, in terms of the investment houses themselves, do they co-operate fully in providing material? I guess they would provide the base of material.

MR. SALMON: Yes, the transactional materials, the information we're able to obtain from them — they're most co-operative in letting us have full access to anything.

MR. R. SPEAKER: So in terms of anybody doing a quick flip or something, in terms of an investment house, that it couldn't be tracked, we have a foolproof ...

MR. SALMON: We believe so. You know, there's always the gut feeling that things could happen, but we certainly don't think so as we're so close to it. So we're feeling quite comfortable with it. It's a constant concern. If there was collusion or something that was hidden — along that line — hopefully it would have to turn up in some way. Certainly you can't do everything, but you do do enough to satisfy yourself, and we've certainly done that.

MR. CHAIRMAN: Member for Lethbridge-West.

MR. GOGO: Thank you, Mr. Chairman. Welcome, Mr. Salmon. Page 28 of the annual report: I was going to ask you for an opinion, and that was the rate of return. Using that time-weighted method, the bottom line, could you offer a judgment as to if, with prevailing conditions in '87-88, in your judgment, as an investment this was a good return, 11.4 percent, on the fund?

MR. SALMON: We've certainly checked out the reasonableness of the rate of return based on all of the figures they've taken into account. We do feel they have followed the process they've outlined, and this is the figure, at 11.4. Is that the one you're looking at?

MR. GOGO: Yeah.

MR. SALMON: For the current year. We feel it's reasonable, under the circumstances anyway.

MR. GOGO: Mr. Salmon, if I could draw your attention to page 34, the balance sheet, the fund equity at year-end. As you know, for many years, starting in '76, we would transfer 30 percent of the nonrenewable resource revenue into the fund, subsequently changed to 15, subsequently changed to zero. There are some who think that in order for the corpus to retain its value, you would have to at least contribute to the fund the annual rate of inflation expressed in dollars if you wanted to maintain the purchasing power of the fund. I don't know whether inflation was 4 percent or what it was. Could you tell me how much would've had to have been contributed to the fund from nonrenewable resource revenue in '87-88 to have maintained the purchasing power of the fund at its 1987 level?

MR. SALMON: I guess you'd have to determine the inflation rate that you'd want to use. But if you had $129 million, which is the amount expended on the capital projects, which had to draw out of the dollars that were there in '87, plus your inflation, you'd have your figure, to have the same amount as was there in '87.

MR. GOGO: Do you know if the Edmonton-Calgary CPI was 4 or 4.5 percent last year?

MR. SALMON: I believe it's around the 4, yes.

MR. GOGO: So then it would be fair to say about ...

MR. SALMON: So if you add that plus $129 million, I would say you'd probably be equal to what you were in '87. That's off the top of my head.

MR. GOGO: I'm asking you now as an official scorekeeper. If 4 percent of $12 billion is $450 million, plus $129 million, would $550 million to $600 million be reasonable to have maintained ...

MR. SALMON: That would be reasonable.

MR. GOGO: Okay; thank you very much.

MR. CHAIRMAN: Member for Calgary-Forest Lawn, followed by the members for Stony Plain, Ponoka-Rimbey, and Little Bow again.

MR. PASHAK: Thank you very much, Mr. Chairman. I'd just like to ask some questions of a general nature about the Alberta investment division. I suppose that in broad terms this estimation of the value of these financial assets contributes to the overall estimate of the value of the heritage trust fund, but in some respects it's Albertans still owing other Albertans money, in many cases. For example, the Alberta Agricultural Development Corporation: there is a debt out, I guess, that is owed to the Alberta heritage trust fund of $1.017 billion, but that's money owed by Albertans to the heritage trust fund. So in a sense if you look at this in terms of where we're at as a province, is that an asset for the province?

MR. SALMON: Well, that's an asset of heritage.

MR. PASHAK: But it's just an accounting thing. There's a debt out here owed by some Albertans, but there's . . .

MR. SALMON: The repayments of the capital portion of those debentures are paid to heritage by ADC. As well, the interest owing on those is paid by ADC.

MR. PASHAK: Do you make any attempt to determine the true value of that purported investment of $1.017 billion? Is that just the money that's loaned out, or is some calculation made as to whether those loans that have been made on the basis of property — whether that property has that value?

MR. SALMON: Well, Mr. Chairman, I believe that if we talk about the heritage, we talk about the value of having an investment of $1 billion in ADC. Now, the value of heritage being on a cost basis — because this investment is held for a long term and to maturity, it's at the value that heritage can present it at, because they have always gotten their payments and they'll probably always get their payments. Now, as soon as you talk about the value, you're talking about value as it stands in the Agricultural Development Corporation. Then, of course, that puts on my auditor's hat as I audit the corporation over there and determine whether or not the loans they have are reasonably valued, and that's when we come into the terms of provisions for losses and so forth, which we do do in the development corporation.

Now, as far as the value of this as a debt by the corporation, we know that they are making the payments. We also know that the General Revenue Fund has made certain expenditures to ADC, not only maybe to expand their loan portfolio but even to provide for some of the money necessary to pay off heritage. That whole scenario takes place, and we look at them on all three angles, do financial statements on all three sets. The only time you eliminate the debt between ADC and the heritage is when we do the consolidated financial statements, and at that time those intercompany debts are eliminated.

MR. PASHAK: Would that be the same situation with respect to the Alberta Mortgage and Housing Corporation and the investment there? Do you make any determination as to whether or not that investment is really equal in value to the $3.279 billion that's recorded there?

MR. SALMON: This is the investment value of heritage in housing, and they're receiving all of their payments from the Housing Corporation. It's the same story. We do an extensive amount of work on the housing financial statements. You've seen those statements, and you know the large provision that we have audited and encouraged management to have. Sometimes there are debates as to what the value is, and sometimes the auditors think it should be higher and so forth; that takes place in any audit where we have valuations. We feel very comfortable with the opinion we issue on housing because those values are based on taking into consideration provision for losses, whereas because this is an investment which in the case of housing is guaranteed payment by the General Revenue Fund, this can stay at full value, at cost, which is what the long-term cost is, without thinking of the value in housing.

You must get the housing thing to look at the value of their assets and their portfolio. The General Revenue Fund does pay for their cash deficit each year if they don't have the funds to make that up, and under the provisions of legislation the Housing Corporation is accumulating a deficit which is not a cash deficit, so there's a loss sitting in housing as well as in some of these other corporations.

MR. CHAIRMAN: The Member for Stony Plain.

MR. HERON: Thank you, Mr. Chairman. Financial experts throughout the world spend a great deal of time to analyze the underlying strength of a balance sheet, and that's not different for provinces, states, or governments. My question to you is: to what extent does the underlying market value of the securities shown in the Heritage Savings Trust Fund affect the very good credit rating of this province?

MR. SALMON: Mr. Chairman, I read the other day in a newspaper that the credit rating of the province was not changing. It's a double A plus, I believe. My involvement as the Auditor of the various aspects of the province: we get involved with respect to all of the individual entities, but as I have signed the prospectuses for the loans the province has gone for in Europe as well as in the United States, they primarily are looking at the consolidated financial statements, and thereby they are very much aware on an individual basis of the status of what, say, the Alberta division has in relationship to that consolidation of those interplay areas. I don't think any of the investment companies are not familiar with the accounting, which is fully explained in the consolidated financial statements. Although they have taken the heritage statements and they've taken the general revenue statements, they always want the consolidated statements, and I think that helps to maintain the credit rating of the province, understanding that as a whole.

MR. HERON: Then with emphasis on the consolidated picture, would it not be useful to show, firstly, the deemed assets in this statement and, secondly, the underlying market value of some of those deemed assets? Specifically, to narrow down my question, we are told that the Alberta Heritage Scholarship Fund is shown at lower of cost or book at $100 million, and we are told that the market value on those assets is now somewhere around $170 million. The same type of argument can be made for the medical research funds, that they're worth substantially more than what they're shown. Would it not be useful to show the market value of these assets in the financial statements so that you could assist outsiders in assessing the creditworthiness of the province?

MR. SALMON: I believe that's a good question. I think one needs to recognize that in the consolidation the heritage fund and the scholarship fund are taken into the consolidation and are included there at their full value. Now, maybe not at the market value because of the tendency to record on the lower of cost or market, but the full market value is disclosed in the investments aspect of the notes, and so that is taken into account. I believe these investment organizations are much aware of those values. Those particular things are pointed out in the prospectus as being investments that are readily available, and certainly increase the value in a very liquid way as to the value of the province balance sheet.

MR. HERON: Thank you, Mr. Chairman. I'm glad to hear that the market value which was shown two years ago is still benefiting in the calculation of our credit rating.

The Member for Calgary-Forest Lawn asked some questions pertaining to the involvement in such Crown corporations as ADC and Alberta Mortgage and Housing Corporation. I'm assuming that the debentures held in the Heritage Savings Trust Fund, an arm's-length corporation, bear the guarantee of the province of Alberta. Therefore, a fair question to you would be: should we as members of this committee be any more concerned with the losses in a specific Crown corporation, given the provincial guarantee, than what we would with an investment in, say, Nova Scotia Power or Newfoundland and Labrador Hydro, shown under the Canada investment division, given that the latter two investments also bear the guarantee of the province? Should we not in assessing these be concerned with the underlying strength of the guarantee as opposed to the individual day-to-day operations of the companies in which we've invested?

MR. SALMON: Yes, I think that would be a fair assessment. Yes. I think one has to look at both sides of it, but certainly the overall guarantee would have to be looked at very carefully on the individual line.

MR. CHAIRMAN: The Member for Lacombe, followed by the Member for Ponoka-Rimbey.

MR. R. MOORE: Thanks, Mr. Chairman. I was just getting some words of wisdom from my colleagues alongside. However, I had some questions to ask, but there's one thing I'd like to put to rest once and for all. It seems to sneak in; every time we have a minister, it comes up. They try to work the minister in questioning to give an opinion on some of the auditing practices. So I'd like to ask the Auditor General some questions on deemed assets. It comes up and comes up. I thought it'd been run into the ground, but it seems like it comes back.

Now, I look at the financial report here. On page 19 it's clearly headed, up in big letters at the top, deemed assets. It goes through and lists them all very, very well — an excellent report on the deemed assets. No misunderstanding in anybody's mind. I can't figure how the average Albertan can't see that.

Then we go to schedule 7. If you go to schedule 7 at the back, at the last page, there it breaks it down — the deemed assets on schedule 7. Very clearly it shows the '87 value and the 1988 value. I cannot understand, Mr. Chairman, why the misunderstanding in this area.

Now, to the Auditor General. I would like to ask him why he feels it's still not appropriate to have deemed assets reported in the balance sheet. I know the Provincial Treasurer says it's appropriate. He's an accountant. Our Auditor General's an accountant. We have two financial reporting styles here. Both can justify their position; I know that. However, that's the first question: why he feels it's inappropriate. The other one is: in his answer, does he think that it misleads Albertans, when it's so clear in this statement, so very clear and in so much detail? How would that mislead Albertans?

MR. SALMON: Mr. Chairman, I didn't really want to talk about this. This is an old subject. Yes, I can justify the reasons for the reservation. Mine, in the simple terms, is to eliminate the two lines that are on the balance sheet, the presentation of schedule 7. All of the comments with respect to segregating things out so that you can clearly see what the financial assets are are good, and I accept them as being very clearly distinguishing them from the deemed assets. Without going into big explanations as to my reasoning, it is, I guess, basically an auditor's prerogative to ensure that there is no way in which they can be misunderstood. This has been going on for so many years that I get tired of talking about it, but it is that difference.

It's interesting, I believe, that the majority of people now do understand the difference. I think I will accept that. It's interesting how the media and sometimes others still, though, want to say that there are no changes in the fund and that it's still sitting at the full value. I have no problems with the general presentation; it's a professional reason why the reservation is there. As an auditor I do not want to be called upon to the discipline committee of my profession for not wisely indicating in a report that it's not appropriate. And that's the only reason. So there really is no debate as to the explanation of what the deemed assets are or the fact that they're assets of other organizations, that the scholarship fund is sitting in a scholarship fund and that it's not part of the heritage, and so forth. For the publicity of the individual member or resident of Alberta to understand, I think it's clear, but there's a professional reason why I feel they shouldn't be there, and I guess between the two of us we'll have that difference, unless he decides to drop the two lines.

MR. R. MOORE: Oh, Mr. Chairman, I accept that fully. Professionals have their professional way of looking at things, and both are correct in their own reasoning.

However, I am concerned about Albertans, and I'm glad to hear the Auditor say that in his mind he doesn't feel that Albertans now have any misunderstanding on this. So hopefully this will put this to rest once and for all and we won't hear it coming back to each minister that appears before us, to ask him what his opinion is on it. So it clarifies it in my mind, and hopefully for all the committee members and the public of Alberta it is now clearly stated and there before us for everybody to see.

MR. JONSON: Mr. Chairman, I have a question which relates to the Canada investment division investments on page 42. I note that we have a maturity date coming up on December 1, 1988. Could the Auditor General inform us as to which item on the list that is and what the rate of interest is?

MR. SALMON: The maturity date? If you're making reference to note (a) . . .

MR. JONSON: Yes.

MR. SALMON: Yeah, there are some every year, and they go all the way to 2005. We haven't got the details in front of us; we do have it on our files. All of the repayments that have been made in the Canada division have been made on the due date. That's really where a lot of the dollars came back this year, as I indicated in my opening remarks. I believe it was $375 million.

I just don't have the specific one today. If you'd like it, I can get it for you.

MR. JONSON: I had two or three other questions on that, Mr. Chairman, but perhaps we could be provided with that information.

Perhaps just one other question, then. In terms of those that have matured, am I correct in assuming that all have come back into the fund? There have been no rollovers or further agreements with the provinces or agencies involved?

MR. SALMON: It's all come back to the fund in the Canada division.

MR. JONSON: Okay.

MR. SALMON: I mean, if you take the 10-year period, there may have been some case where there were some additional loans; I'm not sure. But there haven't been any rollovers specifically, I don't believe. In fact, I'm pretty sure of that.

MR. CHAIRMAN: Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I'd like to turn to schedule 1 with the Auditor General and ask a number of questions related to that schedule if I could, please. Looking at that, let's start with the bankers' acceptances. There is an increase of about — what? — a little over $300 million in that line between last year and this year. I'm just wondering if the Auditor General would give us a more extensive description of what's entailed there. Who are the banks that have issued these acceptances? What are the rates of return?

MR. SALMON: Mr. Chairman, all of these are regular financial institutions, and they're investing these moneys on normal market situation. I don't have the detailed listing in front of me, but it's any banks in Canada that have these types of investments. All of the things in here are regular commercial stuff. They're not really anything unusual, other than maybe in promissory notes of Alberta; that's a different explanation. So I can't name the banks, because I haven't got the working papers. But certainly all of these investments are regular types of things that anyone could buy, if you have the dollars. Short-term money market is what it is.

MR. HAWKESWORTH: Okay. So it's like going out and buying a guaranteed investment certificate. Well, those are found on a separate line on this sheet. Can the Auditor General give us any indication of the rates of return the province is getting for these certificates, acceptances, deposit notes?

MR. SALMON: Most of the items in here would be 90-day to 180-day term. So it's all current rates that are existing with the banks within those periods of investment. And of course, as you know, those have been fluctuating periodically, mostly up in recent months but certainly the other way. In the CCITF itself the average rate was just under 9 on a whole for the whole year. But all of these are individual transactions, short-term money paper at the going rate of the banks.

MR. HAWKESWORTH: Well, Mr. Chairman, the government has increased its holdings in short-term money rates and certificates and so on by half a billion dollars, even despite the fact that promissory notes from the province of Alberta have decreased by close to $600 million. I'd like to ask the Auditor General what rate the province of Alberta is paying to the Heritage Savings Trust Fund for the $353 million that it's . . .

MR. SALMON: The promissory notes that Alberta issues are at — it's a going rate percentage. And this is the portion that the heritage fund investment group have picked up to include within the marketable securities as at the end of the year. Now, that varies of course. This is the amount they were holding at the end of March of '88. As they issue their promissory notes, it's all based on the regular bank rates that exist at the time. There aren't any unusual or different rates than they would put on the market. These are market items rather than — it's not a direct note to heritage; it's a purchased item. Anybody could buy a promissory note of Alberta as well.

MR. R. SPEAKER: Mr. Chairman, I'd like to raise my questions from page 43 of the report, schedule 3, under the Alberta investment division investments. The questions and answers from the members for Calgary-Forest Lawn and Stony Plain explained to me very clearly the process. So I understand that. We had a number of discussions with your predecessor, Mr. Rogers, so I understand the mechanics.

My interest has been with the Alberta Mortgage and Housing Corporation over the last number of years. As a Heritage Savings Trust Fund committee, I would see as our responsibility here . . . We would have to determine whether more debentures could be issued from the committee, or we would make a recommendation towards the Mortgage and Housing Corporation or not — that would be our specific responsibility — and whether we endorse such a concept. One of the criteria or pieces of information necessary in determining that is the reporting system as to the value of that $3.3 billion that is currently in debentures, owing to the Heritage Savings Trust Fund, by the Mortgage and Housing Corporation. In my discussions with Mr. Rogers back over two years ago, he indicated to me that he could determine losses, as he was calculating the Mortgage and Housing Corporation's annual report, of somewhere in $200 million. They were clearly losses. But he said it would take him approximately another two years before he could really see what happened to their real estate and their commitments in the marketplace. Well, we're at that point in time now.

My question would be: when will their latest report be ready for us? Have you as Auditor General, at this point, any indication of what their real position is? My political estimation, which really has no validity to it, would be that that $3.3 billion is worth about 50 percent at the present time.

MR. SALMON: Mr. Chairman, I have signed the Auditor's report on the financial statements of housing. It's in their hands to get printed. I assume that's probably where it is. I'm not sure what their timing is on it. Certainly the provision has been established at a value that we feel comfortable with or we would not have given them a clean opinion, and it is a clean opinion. And when that's public, of course, it will be fully disclosed.

I believe we're also nearing but haven't signed off yet on the General Revenue Fund, which gives you the other side of things, and the consolidation. We're at the exit conference stage and are just about ready to sign.

So I would not want to comment on the dollars, but certainly we are satisfied with what they've done this year in the way of valuing the properties and the loans on their side of their balance sheet.

MR. R. SPEAKER: Within the next six weeks or so we should be presented with a report.

MR. SALMON: Yes.

MR. R. SPEAKER. The other question I had on that page was at the bottom, under note (c) with regard to Millar Western Pulp Ltd. and their debentures. You made a note there: "No interest is due until the full principal amount has been repaid." And the report that will be coming to us states in the last sentence: "Income from the debenture will be recognized to the extent that interest is received." In other words, if I take those two statements together, as a committee we will note no interest income until the maturity of these debentures. Have I missed something in my interpretation? Is that correct or not?

MR. SALMON: This is all in accordance with this agreement they've entered into. The principal comes first, and then the interest will come. That's when you'd recognize it — to the extent that there is any. I don't know.

MR. R. SPEAKER: We won't show any income in this report until July 31, 2004.

MR. SALMON: That's what the agreement says.

MR. R. SPEAKER: Could the Auditor General confirm, then, that in an investigation of that agreement the effective interest rate on the debentures we are participating in is in the 6 percent range?

MR. SALMON: Yeah, that's in the agreement: 6.25.

MR. R. SPEAKER: We have provided debenture loans to this company at — and we have an agreement here of some . . .

MR. SALMON: Sorry; that's the wrong one. I don't think the interest rate was quoted in this one. Sorry, Mr. Speaker.

MR. R. SPEAKER: Have you that information, as to what that interest rate would be?

MR. SALMON: I'm just seeing if we had it. It's the Nova one that's 6.25, which is in (d). I guess I understand that it talks about participation based on cash flow, and there is no interest rate quoted, so we'll just have to wait and see for awhile. This is the first year, of course, that it's gone out. We'll be looking at it again and see what transpires in the next year, but we don't have a rate. We'll look at that and see if there's something else. It's not sure at this stage.

MR. R. SPEAKER: A supplementary, Mr. Chairman. Is it possible that in responding back to the committee with regards to that interest rate, a copy of this agreement can be made available to the committee?

MR. SALMON: I'm aware that the Provincial Treasurer is coming tomorrow. We don't have a copy of the agreement. We would have seen it in Treasury, so it's possible that you could ask him that question. You know, it's something we've examined as part of the audit.

MR. R. SPEAKER: I wasn't aware whether you saw the agreement or not. I haven't done that kind of research.

MR. SALMON: I don't think it's been public.

MR. CHAIRMAN: Member for Athabasca-Lac La Biche.

MR. PIQUETTE: Thank you, Mr. Chairman. I guess the Member for Little Bow asked a lot of the same questions I had in mind relating to Millar Western. In other words, you're saying that the interest rate is 6.25 percent. Is this — or do we still . . .

MR. SALMON: That's on the Nova $150 million, not on — we're not sure what the interest . . . I don't think there's an interest rate quoted on Millar Western because of the process in which the repayment will take place.

MR. PIQUETTE: Amazing that we don't have exact information on this.

Now, going along to Nova Corporation, where I guess we have to some extent the same kind of arrangement, would the Auditor General indicate that the ability to convert rather than making a payment — that the province is able to take a conversion price of $10.70 per share "subject to adjustment on the occurrence of certain events as defined in the debentures" — puts the heritage trust fund at risk, with the fluctuating rates of shares that very often can go from $10.70 to a lower level of investment as opposed to a set rate of return to the heritage trust fund?

MR. SALMON: Going through those certain events would certainly have some bearing on what the amounts would be. Whether or not that's risk, I don't know that I'm in a position to comment, because it's something in the future and therefore it's hard to judge whether or not that would have a specific risk or it's just a case that certain events have to take place before they get their return.

MR. PIQUETTE: Would you not agree, though, that we are taking some certain degree of risk by allowing this kind of debenture payment to be converted to a certain value per share as opposed to having a straight interest rate and repayment schedule?

MR. SALMON: I think in any case like that it's a lot easier when you can see exactly what you're going to get versus where there are other things that have got to occur to make sure that you get the other thing. It does put itself in a different light than the straightforward one. I'm sure the investment committee have their reasons why they went for this investment. It certainly is not something that I'm fully familiar with, as to the reasons behind the investment. I'm looking strictly from the aspect of a proper way of reporting based on the agreement and the particulars included in the agreement.

MR. CHAIRMAN: Member for . . . Another supplementary?

MR. PIQUETTE: Yes. Isn't the Auditor making comments particularly on these arrangements between the committee investing the Alberta heritage money on particular transactions, where you make direct comments on whether, in your opinion, we are using proper business criteria in order to guarantee the integrity of the trust fund? I don't note any comments on any of these notes here, (c) or (d). Why would you not make those kinds of comments?

MR. SALMON: All of these notes, in the strict sense of accounting, are the Provincial Treasurer's notes, not the Auditor's. What we do as an audit is examine the documentation surrounding the particulars in here to ensure that this is fairly presented, with no comment as to the reasons why — which would become a policy decision of the committee — they want to invest in Nova or why they want to invest in Millar. The Auditor General never moves that far. He has to ensure, though, that there isn't anything that's misleading in this report or is not conveying exactly what the agreement says, and there's nothing in here that is not supported by the authority of a committee or the authority of the Act to do it, or explaining the thing in an improper way. We would pick up any of those things and insist on a change. If it's telling the facts, if it's telling it the way it is, then we can sign our opinion. So these are their notes. Sometimes we question how they've written them and we suggest changes. But they are their notes.

MR. CHAIRMAN: The Member for Calgary-Forest Lawn.

MR. PASHAK: Thank you very much, Mr. Chairman. I'd like to turn back to schedule 7, the section that deals with capital projects division investments and deemed assets. I really don't think this discussion is going to go away as long as we use terms like "investments" and "deemed assets" when we're talking about expenditures of public funds. It would seem to me, for example — and I'll have some specific questions in a moment — that if we're talking about an asset, an asset would have to be something, at least for accounting purposes, that has some measurable value that could be expressed in dollars or some other form of currency at a specific point in time, and investments would be some type of expenditure that has associated with it some expectation of making a measurable financial return on those dollars that are expended. So I have some real problems with the language that's again used for this type of public expenditure.

I'd just like to draw attention to a couple of lines: economic development and trade; underneath that it says: rail hopper cars, $54 million. That line has appeared the same in report after report, and it would seem to me that rail hopper cars deteriorate through use. They need painting, upgrading, that kind of thing. The same thing would be true of library development. How can that be considered an asset, valued at that amount of money, and not reflect the deterioration or whatever — the depreciation that has taken place?

MR. SALMON: Mr. Chairman, the member is asking the question on the basis of looking at schedule 7. If you look at note 2(i)(b), we have the full explanation of what it means when you list the capital projects division investments — deemed assets. The last sentence of this particular note, which we are happy is here, states:

> Amounts expended [by heritage], not recoverable by the Fund, are included in the determination of Fund equity and are shown as deemed assets on the balance sheet.

So if you talk about the hopper cars, the heritage doesn't own any hopper cars. I mean, the Provincial Treasurer might say that differently, but I say the heritage doesn't own any hopper cars. What the heritage has done is invested $53 million in hopper cars.

MR. PASHAK: That's expended.

MR. SALMON: They've expended $53 million to buy hopper cars; sorry. And the government owns them. The General Revenue Fund owns the hopper cars, in a sense, because it's economic development, and those hopper cars, because the assets in the General Revenue Fund are written off to a dollar, are not shown anywhere. That's the way it is.

MR. PASHAK: But that's where I think the problem arises in the public mind. On the one hand we're claiming that we've invested $54 million in hopper cars, we show that as an investment, it looks like we have that kind of wealth tucked away someplace, and yet the money has been loaned over someplace else to the General Revenue Fund and we own the hopper cars through some other branch of government. But in any event . . .

MR. SALMON: It's an expenditure of this fund. The hopper cars are running down the line; you see the blue cars running around. And I assume that if someone were to value those cars, they wouldn't be full value, but they certainly are out there. So . . .

MR. PASHAK: But again, just to . . . [interjection] This is not a question; it's the point. We really don't have $54 million worth of realizable assets in the heritage trust fund as a result of that expenditure.

MR. SALMON: The people of Alberta understand, but there's a few others . . . [interjection]

MR. PASHAK: In a similar vein, Mr. Chairman, I'd like to ask a question about the $6 million that was spent this year on occupational health and safety. Clearly, here's money that has been spent on research projects. Now, I made the point yesterday, when the minister was here, that that's a valuable expenditure of money, because we need studies and research that would make working conditions better and safer for Alberta's labour force. But how anybody using standard accounting terminology can consider that to be an investment is beyond me. I wonder if the Auditor General would care to comment on that.

MR. SALMON: I guess I just commented that the difference between $6.155 million and $5.338 million is that portion of the $129 million expended this year on capital projects. So there's only the difference in the current year. But that's the full amount since the fund started that has been put into grants to research areas, yeah. And that's explained in the front part of the annual report.

MR. PASHAK: I can understand the skating here, but again . . . Maybe just by way of concluding this series of questions on my part, how would matters like this be dealt with in other provincial jurisdictions in Canada? Supposing the government of Manitoba or the government of Ontario or Quebec spent $2 million on research into occupational health and safety, where would they normally show that expenditure? Have you done any kinds of comparisons with other provinces on how they handle, you know . . .

MR. SALMON: As far as I know, no other province has deemed assets. As far as I know, these types of expenditures would be in the nature of grants to research organizations.

MR. PASHAK: Expenditures out of general revenues.

MR. SALMON: Expenditures out of their general revenue funds.

MR. PASHAK: Thank you very much.

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

MR. HERON: Thank you, Mr. Chairman. I would like, just for a moment, to focus in on the underlying value of the heritage fund. We hear so much in the popular media, as we do right here today, about the underlying value of the fund. I'd like to ask you, Mr. Salmon: if the province, with hindsight, had borrowed money for its Crown corporations on the New York market and had invested money in, say, those types of securities which make up the Canada investment division, do you think today there would be less criticism about the underlying value of the assets, bearing in mind that it would have cost this transaction costs in and out of those markets?

MR. SALMON: No. I think you have to consider that these were real dollars at one time. They could have been borrowed, but they weren't borrowed; they were actually dollars within Alberta. I don't know that there's a lot of concern over the Canada investment division, because I think that's outside the province. Most of the concern is because of the interrelationship between the Alberta division corporations and the rest. That's really the only area where I would think there's any real concern about the heritage fund.

MR. HERON: But, Mr. Chairman, as I look down the Alberta investment division, by far the largest percentage of assets carries the province of Alberta's guarantee. If it carries the province of Alberta's guarantee, which is double A plus, which is substantially better than many of the securities in the Canada investment division, should it not be assumed that it was a wiser move to save transaction fees and move more money into companies which help Alberta?

MR. SALMON: The heritage fund has been used within Alberta rather than going to the market. I think that was a decision of the investment committee, and that's what has been decided. I think it's more of an accounting problem rather than the value. I don't think it's the value so much; it's the accounting problem that sometimes tends to confuse. I know that because of that concern last year we felt there may be some value in explaining the public accounts a little bit clearer. We put two or three pages in our annual report, pages 108, 109, and 110 of the annual report of the Auditor General, to try to explain some of these things, because there are a lot of entities within Alberta that are not clearly understood by some as to their interrelationship. As far as the heritage is concerned, we're satisfied with the values as they're presented, and we just have to keep explaining that interrelationship that isn't always clearly understood by some.

MR. HERON: Thank you.

Mr. Chairman, all too often we focus on the wrong figures, just as I believe that the media focused on a decrease in asset value based on the lower of cost or book. Let me be very specific and fairly technical for a moment. When we look at the Canada investment division and add to that the Alberta investment division, we have 60 percent of the total, which includes the deemed assets. Or if you eliminate the deemed assets, we have 65 percent of the investment total, give or take. In looking at the Canada investment division, you have at the longest maturity 17 years, and you have at the highest interest rate 16.375. If you move over to the Alberta investment division, you have the highest maturity of 27 years and the highest interest rate of 18 percent. Now, if you were given the task tomorrow of liquidating a portfolio that carries with it the guarantees of most of the provinces of Canada and if you used the general rule of thumb used in the investment committee, that a 1 percent fluctuation in interest rates on a 20-year bond makes up a 10 percent capital decrease or increase — in this case it would be a 10 percent increase — would it not be safe to assume that these assets are, say, in the order of 20 to 40 percent greater, just to create a scenario, than what they're shown at as an asset of the Heritage Savings Trust Fund?

MR. SALMON: I would say that I wouldn't know what they're worth until they're sold, but I can understand what your scenario is. There may be some merit to that. I wouldn't want to say for sure, but I do know that because you talk about the guarantees, that gives a lot more assurance than if the guarantees were not there, of course. I think the fact that the Canada investment division areas are all guaranteed by various provinces: there's that backup as well.

MR. HERON: Mr. Chairman, the question wasn't totally answered. May I come at it in a little different way then? My question wasn't answered in terms of how this is presented to the Alberta public. Could we not do a better job of even qualitatively stating that the assets are worth a lot more?

MR. SALMON: If the Provincial Treasurer or the management of Treasury would choose to come up with a way in which they could value Canada investment division based on a market value, then I think you'd have something to support what you're referring to. We would try to audit that figure, of course, but it's something that they feel is very difficult to come up with. Although the scenario may seem reasonable, the value may not be as easy to come by.

MR. CHAIRMAN: Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. The previous member asked about long-term investments; I'd like to come back to these short-term investments. In answering my previous question, the Auditor General indicated that these investments, as found in schedule 1, were made in regular financial institutions. I'd like to specifically look at the lines on schedule 1 called bankers' acceptances, $683 million; deposit receipts, $25 million; bearer deposit notes, $256 million; certificates of deposit and guaranteed investment certificates, $30 million. Together that adds up to about a billion dollars. It's a wee bit short, but it's basically a billion dollars in short-term investments.

Now, the term "regular financial institutions" doesn't mean a lot to me, because there are all kinds of financial institutions. There are chartered banks, for example, and there is more than one schedule of chartered banks. So I'd like to ask the Auditor General if he could indicate to the committee today which chartered banks and which amounts we can find close to a billion dollars on March 31, 1988.

MR. SALMON: I don't want to come into any controversial situations on this, but that would have to be information coming from our working papers, which we don't have in front of us. Most of this would be chartered banks. There may be some other trust companies and so forth; I'm just not sure. But we can get the information.

MR. HAWKESWORTH: Say again?

MR. SALMON: I say we could get the information.

MR. HAWKESWORTH: I would be satisfied with that response, Mr. Chairman. I recognize that there is a fair amount of detail in that, and if the Auditor General would agree to pass that on to me, then that's quite fine. If these investments are held in anything other than chartered banks, I would be interested in knowing which trust companies, as well, the province might have these funds invested in. Would the Auditor General be able to make a commitment to pass that on as well?

MR. SALMON: Yeah, we'll try to do that.

MR. HAWKESWORTH: Thank you, Mr. Chairman. Perhaps I could pass, then, for the third question and put my name back on the list and come back with some questions later on.

MR. CHAIRMAN: Before I recognize the Member for Lethbridge-West, I'd just like to welcome the students and teachers and parents we have with us this morning. We're presently sitting as the Alberta Heritage Savings Trust Fund select standing committee. With us this morning we have the Auditor General of Alberta, Mr. Salmon, and we're presently reviewing the 1987-88 Alberta Heritage Savings Trust Fund annual report.

The Chair would now recognize the Member for Lethbridge-West.

MR. GOGO: Thank you, Mr. Chairman. Mr. Salmon, I fully recognize that the document before us, the annual report, is prepared by Alberta Treasury and not the Auditor General. The Auditor General certifies, clarifies on his statement as to the validity of the report. I understand that. I guess where my confusion comes in – you know, schedule 1 I understand in terms of investments. They're all varied. How could you possibly put the interest rates, because they're changing constantly?

Schedule 2 , however, is a little different, as with schedule 3. I guess I'm curious whether you, sir, discussed with Treasury the advisability in their report of listing, for example, the Canada investment division, those investments in the provinces which are long term in nature and have a fixed interest rate. In other words, for the province of Manitoba should not that interest rate be stated with its maturity date on schedule 2? We get to schedule 3; we see Nova, for example, which did not have an interest rate expressed, but you shared with the committee that it's 6.25 percent.

Now, my first question would be – and I'm not asking you to divulge things that you don't want to divulge – do you feel as Auditor General that you should make representation to Alberta Treasury to list those very things in the report so that the Alberta public will be aware in reading the annual report of what those rates are?

MR. SALMON: Mr. Chairman, I believe that's a good question, and I think another member asked about which ones were due December 1, '88, which we can give from our working papers as well.

Part of the reason – and certainly this would have been discussed by us and Treasury in one year or another – is the cumbersome way in which the statement is presented. Looking for a little more neat financial statement, they have just put the summary at the bottom and just indicated the ups and the downs of the interest rates and the length of the terms. Certainly the details could easily be presented, yes. Whether it's a little cumbersome because of the number of different maturity dates, I don't think there's anything being hidden here. I think it's just strictly that it was a little more neat; that's why.

So it could be done. It could be a much more detailed schedule, if Treasury will agree to do it. This is a little more common in presentations of these kinds of summaries, rather than all the individual detail.

MR. GOGO: Well, the reason I raise it is that over the years the most common criticism has been lending money to other parts of Canada. When I try to explain that it's a major source of revenue for this province, I have great difficulty without a talk to the Treasurer to find out, you know, the individual rates and so on. It would seem to me that if this document is intended to inform Albertans, it certainly wouldn't be difficult in schedule 2 to include it.

My reason for the question was, because I don't know the workings between Auditor and Alberta Treasury, if representation has been made by your department to have that very thing included. That's why I asked the question.

MR. SALMON: Mr. Chairman, we wouldn't have made direct representation to include it. What we would do is we would ensure that we were aware of all of that detail, and then the presentation itself was considered as to whether or not we can live with the way they want to present it. I think that if the information is desirable, then certainly we would have no problem with it from an audit point of view. It would be a great question to ask the Provincial Treasurer and get him to agree to it tomorrow, and then that makes management easy in the way of their presentation.

MR. GOGO: Thank you.

MR. CHAIRMAN: Member for Athabasca-Lac La Biche.

MR. PIQUETTE: Yes. In terms of the short-term investment bonds, bond coupons, and short-term deposits or short-term money market, what gives the highest return on those investments or loans? Is it the long-term loans to various – or money invested into banks or in trust companies that provide more return, or the short-term investments? You're indicating around 9 percent return in 1988. If there had been a longer investment portfolio, what type of investments would have accrued back to the province?

MR. SALMON: Yes, I really couldn't tell you specifically which one was – there'd be so many throughout the year. What happens, of course, is that the investment division of Treasury have these dollars to which they are not directly required for some other division and are trying to maximize the return on their investments as 90-day, 180-day paper. Certainly that will vary all over the place on a regular daily basis. So what they're trying to do — and these are what's held at the end of the year. Certainly throughout the year, if you could see the list of transactions, there'd be many, many, many. Of course, those interest rates fluctuate on a daily basis, and therefore you'd have to say, "Well, today it's this; tomorrow it's this." So they would change when the stuff comes mature. I mean, you make the decision, and you're on for 90 days, you might say, just like you would be with your surplus dollars; you're on for 90 days or 180 days or 360 days, depending on what you wanted to do with your dollars. So it's a regular money market investment to maximize your return with it, depending on the dollars you've got available each day, and then holding them till they're mature — then you've got so many each day coming mature — and then reinvesting if they're not being utilized. It's a big thing, too, because this is just heritage. I mean, they're doing a lot of other investing as well.

MR. PIQUETTE: But would you not recommend to the Treasurer that when money does come back to the heritage trust fund in terms of liquid assets, it be invested on more long-term types of investments or notes as opposed to short-term notes that we're using at the present time, which bear probably less interest than the longer term investments?

MR. SALMON: Well, your policy has to be taken into account, because you have to determine how liquid you want to be and how much cash you want to have available. If you invest in a 90-day note, you don't want to be cashing it in in 30 days. You have to really decide how you want to have your cash flow take place. That's a policy decision of Treasury and their own investment area.

MR. PIQUETTE: Okay. The question I asked you was: what is your opinion on this practice of using short-term investments?

MR. SALMON: Well, personally, I find sometimes I make mistakes. I put the wrong time in, and you get caught at the lower rate. It's such a big question to answer. It's not something that you can just . . .

MR. PIQUETTE: But there's no doubt short-term notes give back less interest than the longer type of investment. I mean, if you're looking at the spreads, they are usually between the range of 1 or 2 percent.

MR. SALMON: You can get burned on both ends, though. You can get burned on short term; you can get burned on long term, you know. These are done by the market group; these are done by investment group, and they have a set policy as to how they'd maximize their dollars. The rest is improved by investment group, and of course they're then put in for long term.

MR. CHAIRMAN: The Member for Calgary-Forest Lawn.

MR. PASHAK: Thank you, Mr. Chairman. I'd like to ask some questions about the extent to which the audit looks at financial practices that go on within companies that are at an arm's-length distance yet financed through the heritage trust fund, such as the Alberta Development Corporation. Does the Auditor, for example, look at where a corporation like that might invest the heritage trust funds that are turned over to them?

MR. SALMON: Are you talking about trailing the dollar?

MR. PASHAK: Well, apparently there is $200 million worth of equity that was provided to the Alberta Development Corporation, and they loaned some of that money out to businesses to help them get established or whatever. But they take the remaining funds, and they invest that according to decisions, I guess, that that company itself makes. My question, really, is first of all a general question. It's the extent to which the Auditor's department looks at where the Alberta Development Corporation might place those funds for investment purposes.

MR. SALMON: Yes. We're very interested in that, if we're the auditor of the organization, that is. If we're not the auditor, we don't have access. But where we're the auditor of the corporations that are provincially owned, we definitely are interested in what they're doing with excess funds and how they're handling them and where they're investing them. This is all involved in our regular audit of those organizations in the presentation of their cash and marketable securities, their return on their investments, and why their interest money is kept by them, if that's the policy, and what they're doing with the surplus dollars. You bet.

MR. PASHAK: Well, Mr. Chairman, my next question, then, to the Auditor General is: to his knowledge, were there ever any funds that were held by the Alberta Development Corporation that were invested in any of the Principal Group companies?

MR. SALMON: Not to my knowledge. No; and I'm telling you that because . . . No, I don't have any knowledge of them being involved in the Principal Group. We went through and examined at the time to see whether we had any of those things. We did this a few years ago with the CCB; we went through and picked up all of the ones that were involved in those banks. But we have nothing in that corporation that we know of that was in the Principal Group — that my mind has got anyway.

MR. PASHAK: Pardon?

MR. SALMON: Not that I've been told or that I have seen.

MR. PASHAK: My final supplementary, then, Mr. Chairman. Would the Auditor General's examination, then, of the Alberta Development Corporation's statements for that year have picked up any investments by Alberta Development Corporation that may have been placed in the Principal Group or any of its companies?

MR. SALMON: Yeah; we would have confirmed all of that on our audit. Certainly they don't have a lot of surplus, but the surplus moneys we would examine and get confirmation of all of the things that they're holding.

MR. CHAIRMAN: Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. As I recall, in the Auditor General's and the Provincial Treasurer's appearances before the committee last year, there was some discussion: how much did the trust fund lose in the stock market crash of a year ago tomorrow? So being sort of the first anniversary, it might be worth us examining a little bit the commercial investment division investments to try and determine whether the figures that the Auditor General gave immediately after that a year ago or the Provincial Treasurer's estimates were the more accurate, at least over both the short run and the long run.

The quarterly figures — as Mr. Chairman knows and the members of the committee know, we get these quarterly reports unaudited, and I'd just perhaps ask the Auditor General to go over those with me. As I understand this, on September 30, 1987, the market value of these investments was about $496 million and cost $247 million. On December 31, 1987, the market value had dropped by $77 million to $419 million and the book value had increased to $260 million from $247 million, a change of approximately $100 million dollars, as I read those figures. Now, perhaps the Auditor General could confirm that those figures are correct and then perhaps make some comment. What do they indicate? What is the analysis that he would make of those figures?

MR. SALMON: Mr. Chairman, I wouldn't confirm that they're correct, seeing they're unaudited. You'll have to accept the fact that those are within the year rather than at the end of the year, when we can actually give our opinion. I recall the problem we had last year with respect to that. The media picked it up, and there was a little bit of difference between myself and the Provincial Treasurer. I was asked at one time to supply to him how I had calculated my amount. I did, and also, not from him but through the management of Treasury, I was aware of the approach they had taken. They were different, and I think that it was understandable, because of that difference, as to why they were different amounts. But neither one of us backed off on our approach. We weren't really concerned about that. It was a case of you have to consider a commercial investment division as one in which the change is ongoing.

The difference at December, as you quoted there, is probably reasonable on the basis on which Treasury would calculate their market value. I believe the significance of the whole thing is to recognize that the commercial investment division has always been at a value higher than cost. Irrespective of the fluctuation, the fact is that it's always been ahead. Now that means, of course, that with the drops that occurred possibly at that time, if you're not selling the stock, you're not losing the dollars. If you sell the stock, of course you must take the loss and move into something else.

So it's a scenario that I think is now past. I really don't want to get into it. Possibly he may have some comments to make tomorrow, when he comes before the committee.

MR. HAWKESWORTH: Thank you, Mr. Chairman, and thank you to the Auditor General for that comment.

Perhaps, then, we could look at the year- to year-end figures which are audited. The Auditor General mentioned that they use different approaches to calculate these values. I suppose one question would be: whose values were used in calculating and approving the annual financial statement? Because I read from this that the market value in the commercial investment division declined by a little over $60 million between March 31, 1987, and March 31, 1988, and the increase in the cost of the investment went up by another $4 million — so a net change of about $64 million or $65 million on a $469 million investment. Can one reasonably conclude that a bit longer view of the results of the crash a year ago is that the investment in this division has decreased in value by approximately $64 million or $65 million?

MR. SALMON: You're looking at the equities themselves?

MR. HAWKESWORTH: The Canadian equities.

MR. SALMON: Yes. These are figures as at the year-end. Of course, throughout the year there's the purchases, sales, and the profits and the losses on all of those. This is the position of the investment division investments at a particular time, which is March. Overall, if you go to the bottom where the surplus dollars are, in the short term you find a change in the cost of about $30 million, and I believe in the explanation, if you look at page 15 in the annual report, you start to see the types of changes that took place in the division, which might give you some indication of the magnitude of them, where they've had purchases of $193 million and disposals and redemptions of $164 million in overall total. So there's the magnitude of the change, with the net results being about $30 million change and the value, of course, being indicated as at the end of the year.

So that doesn't really give you your answer, but it's a big question of ongoingness, you know. So at any one time the management comes along and makes this determination of market value. We don't differ in the way we do this; this is not a difference. The difference I meant was that the way the Provincial Treasurer came out with his figure at that time in October and what we did were somewhat different in the approach. But in the financial statement they were both along the same way. There was not a problem. I wouldn't want to leave an impression that there's a difference between us, because there isn't.

MR. HAWKESWORTH: But I still come back, Mr. Chairman, to this question, and it is because, as the Auditor General said, the quarterly reports are unaudited, so we as a committee have only the audited statements, and therefore the snapshots that occur on March 31 each year. So we're limited somewhat to that. But looking at these two snapshots, comparing the value of this portfolio on March 31, 1987, and that same schedule a year later — the portfolio might change — can one reasonably conclude that the change in position means a net loss of somewhere in the order of $65 million?

MR. SALMON: Well, I suppose that if you take it in that way, it's a book loss. I mean, if you don't sell the stocks at that point in time, that's about the difference, yes.

MR. PIQUETTE: I just wanted to get back to the Millar Western investment and Nova Corporation. The interest rates, which are amortized, or not amortized in the case of Millar Western at this time, are, okay, way below market value in terms of return on other investments that we have. I guess the only one that would be comparable would be the small business loan of $200 million for small business expansion, which is at 9 percent. In the $200 million small business loan is there a net return to the Alberta heritage trust fund which is indicated here by the Treasurer or in your report, which will soon be coming out? We just have that $200 million but no indication of what will be paid back to the heritage trust fund.

MR. SALMON: You're talking about the $200 million, aren't you? Is that what we're talking about?

MR. PIQUETTE: The small business portion.

MR. SALMON: Well, those are promissory notes that bear those various interests that are quoted. Some of them were due in the current year; some won't be due till 1990. So it's basically over a one- to two-year period. Those will be repaid by the small business term fund on their due dates. How the province will then readjust if the small business term fund needs the dollars is something that will have to be decided by the . . .

MR. PIQUETTE: So at this time there's no fixed interest coming back to the heritage trust fund?

MR. SALMON: Yeah, on the $200 million there is, the 9.3 to 9.9. Depending on the note it is, there's a fixed interest rate that will be returned. Now, of course, on the other side, the small business term loans, they're loaning money at various terms and interests as well, so they do have some recovery. Of course that's how there'll be a repayment to heritage.

MR. PIQUETTE: Is that $200 million guaranteed by the province of Alberta, or is it dependent on the small business repaying on the one- or three-year term?

MR. SALMON: No, it's guaranteed.

MR. PIQUETTE: It's guaranteed by the General Revenue Fund?

MR. SALMON: Similar to the farm credit one, yes.

MR. PIQUETTE: My last supplementary. Just going through all the various schedules, I have difficulty in terms of balancing the books between what we get from the heritage trust fund in terms of money inserted into general revenue and, as well, the total amount of money which the general revenue pays out to the Alberta heritage trust fund in terms of subsidizing, for example, ADC and Alberta Housing Corporation, et cetera. What is the net figure between money actually accruing to general revenue when you discount those two?

MR. SALMON: I suppose if you wanted to take all the dollars that have been transferred between heritage and the provincial corporations in the Alberta division and the dollars that have been transferred from the General Revenue Fund to those Alberta corporations and could work out specifically what went to those corporations that was directly related to heritage, I think that's what you're after. It's not quite as simple as that, though, because the dollars that go from the General Revenue Fund to, say, Alberta Housing may be going there not only for payment of the deficit they've incurred but to help pay for some of the projects they are involved in. When they get the dollars or they have the dollars from other things that are repayments on other investments, then those dollars are paid to heritage. So it's not the same dollars, but it's all within the same thing. It would be an arbitrary figure. It wouldn't necessarily mean anything, because so many other factors are involved in each of those corporations as to what they're doing with their dollars.

MR. PIQUETTE: Do you have at least a figure we could put our teeth into? I mean, that's the thing here. I think you . . .

MR. SALMON: I suppose if the General Revenue Fund were released and the housing were all released, yes, then I could point something to you. But because those aren't out yet, I probably should hold off and let the Provincial Treasurer answer anything he wants to. He can tell anything in advance; I have to be careful because I'm the Auditor and would not want to release some of that information before it's public. But certainly we're getting close in all of those things. When you can see them all together, there are ways of seeing the transfers that are taking place between them. You could pick up the figures.

MR. CHAIRMAN: Since there are no further questions, Mr. Salmon, again our thanks to you for appearing before the committee this morning. I think there was some helpful information provided once again.

I recognize the Member for Wainwright.

MR. FISCHER: I want to adjourn this meeting.

MR. CHAIRMAN: Motion to adjourn. We stand adjourned, then, until tomorrow morning at 10. Thanks very much, everyone.

[The committee adjourned at 11:37 a.m.]