

5:16 p.m.

Thursday, December 4, 1997

[Mr. Pham in the chair]

THE CHAIRMAN: Before we begin, I would like to introduce a few distinguished guests that we have with us today: Mr. Peter Valentine, the Auditor General; and two of his staff, Bill and Rene. From time to time, if you have anything that you want to add and information you want to relate to the members of the committee, you are welcome to do that, sir.

I need a motion to approve the agenda for today's meeting.

MR. DOERKSEN: I so move, Mr. Chairman.

THE CHAIRMAN: Moved by Mr. Doerksen that the agenda of the December 4, 1997, Standing Committee on the Alberta Heritage Savings Trust Fund be approved. Any objection? So moved.

I need a motion to move the approval of the minutes for the August 1997 meeting that we had.

MR. DOERKSEN: I so move.

THE CHAIRMAN: Thank you, Mr. Doerksen. Moved by Mr. Doerksen that the minutes of the August 1997 meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be approved. Any objection? So moved.

At this time I would like to call on the Hon. Stockwell Day, Provincial Treasurer, to present to us the second quarter investment report. If you want, you can also introduce the staff that you have with you today.

MR. DAY: Certainly. First, let me say it's a joy to be here. I want to also acknowledge the presence of our Auditor General and to say to members that as an Alberta citizen I appreciate your availability around the province at the public meetings. They were well advertised, and I understand they were attended by the public. That's certainly a demand on your own schedules, and I appreciate the time that you took to do that.

The actual report itself, that you have before you, is fairly straightforward. I can just touch on the highlights for you. The fund's net assets amounted to \$12 billion at September 30, 1997. During the second quarter of '97-98 the fund itself earned \$130 million net income, and for the six months ended September 30 that income was \$424 million. I know that in doing the comparatives, you will note a decrease of \$13 million there compared to the same period last year as a result of a loan impairment of \$114 million related to a potential, possible, sale related to AI-Pac. Also, I'd like to point out that whether or not there was or is a sale related to that particular item, that \$114 million write-down would in fact be still recorded. When I use the word "write-down," I don't say "write-off." It is "write-down" if it's recorded as such.

On January 1, 1997, as you know, the fund was restructured according to plan and purpose, the assets being divided between two portfolios, one being the endowment portfolio, with an investment objective to optimize the long-term financial returns, and the transition portfolio, with an investment objective of earning income to support the government's fiscal plan. It is, I think, an exciting process - and I'm sure you've shared it with at least the Albertans who attended the meetings - when you consider that a minimum of \$1.2 billion is being annually transferred from the transition portfolio to the endowment portfolio over a maximum transition period of 10 years. Of course, that transfer has been approved.

The endowment portfolio itself as of September 30, 1997, had investments with a fair value of \$2.5 billion. The endowment portfolio earned \$53 million of net income during the quarter. Included in that are capital gains of just over \$14 million realized during the quarter, primarily through the sale of equities.

During the six-month period ended September 30, 1997, investments with a cost of \$601 million were transferred from the transition portfolio to the endowment portfolio in accordance with provisions of the Alberta Heritage Savings Trust Fund Act. And during the six-month period ended September 30, 1997, the endowment portfolio increased its holdings, and that's at cost. Just in terms of the breakdown there, the Canadian dollar public debt pool by \$706 million, the floating rate and note pool by \$112 million, the private mortgage pool by \$63 million, the private equity pool by \$4 million, and of course the various foreign equity pools by \$131 million.

The ongoing amounts as related to the transition portfolio as at September 30: the transition portfolio has had investments with a fair value of \$10.3 billion, and that includes loans totaling \$430 million at cost.

That, Mr. Chairman, is an overall breakdown, the highlights in terms of the fund and its operations, its earnings to the end of September 30, '97. I think we're in an exciting stage and phase when we consider the ongoing movement of these dollars from the transition portfolio to the endowment portfolio. Really, breaking it out at the rate of \$100 million a month, it's no small amount. When we think of the long-term achievements that will be attained in terms of this particular direction, I think we can feel good here in Alberta about the fact that the fund is in place, it is earning this money, and the money is going to good use.

So having given the highlights and the overview, I'd certainly be willing to entertain questions at this point, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Day.

Mr. Doerksen, you have questions for the Provincial Treasurer?

MR. DOERKSEN: Thank you, Mr. Chairman. I'm going to get right to the question that's probably going to come to you anyway, to do with AI-Pac. I might as well be first off the mark on that one. Other than the \$114 million write-down, the net income actually is substantially higher than last year, which is nice to see. But dealing specifically with AI-Pac, maybe you could tell the committee whether the write-down affected only interest that's been accrued and not received, what the basis was for writing down to get to the figure we're now at on the books, and thirdly, why this wasn't recognized in last year's statement.

MR. DAY: With the amount that was owed and coming due, the first opportunity for that to happen certainly was this year, and we saw for a number of months, on the very first month of that, that those dollars did not accrue. The deal as originally written back in '91 reflected that interest payments and other payments, if possible, would happen depending on an aggregate of costs and cash flow and a number of factors there. Under the accounting procedures which we use and under the watchful eye of the Auditor General, it is important to note that when these payments do not happen, we have to acknowledge that. That's why it's done on that basis. There's a reversal recorded there of \$17 million. We had anticipated at one point that those payments would be there. In fact they were not, even though no part of the deal was actually violated. It was simply our anticipation that they would be there, so there has to be a reversal in terms of how those are noted. That's why it's recorded as such, and that reflects the timing.

I think it's important to note that should there not be a negotiated deal in terms of the loan itself, that does not in any way cancel out any of the obligation related to Al-Pac, and Al-Pac is not delinquent in terms of their required and signed payment process. Certainly we'd like to receive that money, but those are just a couple of points that I believe we need to keep in mind related to this particular agreement.

THE CHAIRMAN: Thank you.

Mr. Doerksen, do you have further questions?

MR. DOERKSEN: Well, you didn't quite answer my question as to how we arrived at the \$260 million that we still record as now the asset. This is after the write-down, as I understand it.

MR. DAY: Well, \$260 million is the figure that is out there. In terms of the actual negotiation – and people can certainly feel free to ask what questions they will – I'm not going to get into any discussion on ongoing negotiations. If a negotiated deal is realized, then certainly everything, absolutely everything about that, would be public, but to reflect on it in terms of the minutiae of any possible deal at this point could run a lot of risks. For that reason, until we've got something potentially realized, there's not much more I can say on the detail of that to date. What is public and known and what we've talked about is if the \$260 million that's being looked at in terms of a possible negotiation is fair, and that reflects the original principal of \$250 million.

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Because there's been a change in markets, a considerable change in markets and not just related to the considerable market hit of a few weeks ago worldwide, we've been reflecting on the fact that if we could see a return to Albertans of the principal and some interest and in fact take that amount and immediately invest it into, for instance, the heritage savings trust fund, then obviously interest automatically and categorically would begin to accrue. It would now be invested. It would be starting to earn money.

That's where the whole question is of the mandate of the government, the mandate of the Treasurer: in terms of maximizing return to Albertans and minimizing the risk. I know my honourable friend the opposition critic has often been on record suggesting that we should always be looking at possibilities for reasonable return and minimizing risk. So it's with that particular approach that we certainly do all we can, in terms of analysis, to keep an eye on what the possibilities are, given the fact that prices are highly volatile. Those who were in attendance here a couple of nights ago, when there was a presentation made by the forestry industry, heard talk about significant pressures around the world in terms of other operations coming onstream which could put and will put ongoing competitive pressure on those businesses in Alberta. In fairness and reasonableness, if we can see that there's a possibility of securing certainly the principal and even some interest and investing that in a way guaranteed of getting a return for Albertans, we have to weigh out that possibility against the possibility of a loss.

Again I'm underlining that Al-Pac itself and partners are not saying: we're going to be delinquent. They are, however, reflecting the reality of the risk and the environment that they're in. So the \$260 million – I know that's the figure that's out there and reflected on – that's what it would recognize. It would be a principal amount and some of the interest return, and then that could be invested in a far more secure way than it is right now.

THE CHAIRMAN: Thank you, Mr. Day.

Mr. Zwozdesky.

MR. ZWOZDESKY: Thank you. A pleasure to see you, Mr. Treasurer, Mr. Auditor General, and guests.

MR. DAY: And you, my friend.

MR. ZWOZDESKY: I'd like to just pick up a little bit on the Al-Pac question as well, if I might. I'm hoping that the Treasurer can indicate the date when Treasury management made the determination that it was in fact necessary to make a \$114 million provision for loss impairment on the Al-Pac loan.

MR. DAY: An exact date? I can ask Stan Susinski or Rob Bhatia if there's a date we can fix to that.

MR. BHATIA: I can't give you a precise date, but it was during the preparation of the second quarter financial statements.

MR. ZWOZDESKY: So that would be after June 30 then?

MR. BHATIA: Oh, yes.

MR. ZWOZDESKY: Just in that same vein, when did the government first enter into discussions with Al-Pac and joint venture partners to in fact sell these loans? Was it prior to that or after that?

MR. DAY: I think it's fair to say that with any of the agreements that are on our books, either related to the heritage savings trust fund or the government account, at any one time people from any of those organizations may have either called, talked, sent a letter. The only reason I'm not saying what actual day or date is that I don't want to say, "Well, April 9," and then somebody says, "Well, actually I phoned you on March 4," for instance. Negotiations and discussions on any one of these from time to time come up where in any number of meetings a partner or a principal may talk to me as the Treasurer about possibilities, and I reflect the government position.

So it's hard to put an actual date, and that's not to be evasive. It's just to recognize that any of these are being talked about over months or over years at any given time, and I think it's fair to say that we started to look at some possibilities in June, July in terms of trying to get some definitive amounts on this. If in fact a sale is realized, or if we hit that place where it looks like markets for whatever reason might not sustain a possible deal, as far as I'm concerned, all of my books and papers are open in terms of times there were discussions and negotiations.

MR. ZWOZDESKY: I have the suspicion that perhaps discussions were ongoing as far back as March and April, but you think it's after that.

MR. DAY: Well, in terms of formally, I would say formal discussions would be after that. Then again, when does it become formal? I mean, you name the provincial corporation or name the entity in which we're involved; I couldn't even begin to tell you on any one of those. On Treasury Branch discussions, for instance, Gene, you might ask the question: have you entered into formal discussions as related to the divestiture of Treasury Branches? There's hardly a week goes by that somebody doesn't call me or I meet someone at some function or something and there's discussion like that. So there's no mystery here with any of these. There's discussion. The doors are open all the time from my perspective in seeing what could be the best possible arrangement for Alberta taxpayers.

MR. ZWOZDESKY: Okay. As I understand it, it's sort of been the policy – perhaps it's an existing policy – of the government to have independent assessments and/or fair market evaluations or assessments conducted by outside firms like TD Securities or Coopers & Lybrand and the like whenever an asset of the province is sold or is about to be sold to the private sector, which would sort of tell us what the fair sale value is and let taxpayers know that same information. Can you tell me whether a fairness assessment on the Al-Pac loan has been conducted?

MR. DAY: Gene, I can tell you that we would never embark on a serious or formal discussion without having that kind of a private-sector analysis, and should a deal be consummated, then at the appropriate time that would be made available. No question about that.

MR. ZWOZDESKY: When was that assessment done?

MR. DAY: Again, as far as dates I'm not going to be specific, and I'm not getting into more specific items on this. I can tell you, though, related to this particular situation or others, when it comes to divestiture, there would always be private-sector analysis. We wouldn't deem to be able to do this on our own. It could be seen as biased. We could be seen as not having a full picture. Should a deal be consummated, all that information would be made available to you.

MR. ZWOZDESKY: Did Treasury commence it, or was it done by someone else? Do you know?

THE CHAIRMAN: Gene, to be fair to the other people who have other questions . . .

MR. ZWOZDESKY: Well, to be fair, the last speaker had seven minutes, and I've only had four, if you want to be fair.

THE CHAIRMAN: The number of questions.

MR. ZWOZDESKY: Well, is that okay? This is a short question.

THE CHAIRMAN: I will put you on the list of people who want to ask questions so that we can go back.

MR. DAY: I think I've answered the question, maybe not to Gene's satisfaction, but I feel I've answered the question as far as appraisal goes.

MR. ZWOZDESKY: But did Treasury do the assessment, or did someone else do it?

MR. DAY: We would never do it ourselves.

MR. ZWOZDESKY: Did you commission it, I mean?

MR. DAY: Any deal like this, this or any other, would always be done with a private-sector analysis, and we wouldn't take one just done by the partner we're dealing with. We would always do it from our perspective to have that done for our purposes.

THE CHAIRMAN: Debby.

MS CARLSON: Thank you. Mr. Treasurer, my questions are also with regard to Al-Pac. In the general marketplace when businesses don't make interest payments, they are deemed to be

delinquent. Al-Pac has had the benefit of having an interest reversal of \$17 million as of September 30, 1997, and it looks like interest payments for October, November, and December of 1997 have potentially been deferred at this point in time. Would you define for me "delinquent" in terms of those missed interest payments?

5:36

MR. DAY: Yes. Delinquent means that according to an agreement that's in place you have not made a payment. Whether we like at this point in 1997 all the aspects of the original Al-Pac deal, that debate is relatively academic at this point. The fact is that according to the agreement, an arrangement that was signed then, which stated what sum total, what aggregate of factors would have to be in place before a payment would be made, Al-Pac is not in violation of that particular agreement. We haven't received the payment because certain benchmarks in terms of cash flow and expenses and interest rates and other things have not been realized. Therefore, Al-Pac is not required to make the payment at that point in time, but they are held to account to make it at a point in time, and that stretches well out into the years, depending on which indicators come into place, well out into the 21st century. So that's why I say they are not delinquent.

We can see, as is recorded, in the schedule of transition portfolio investments that there are dates that are indicated there anywhere between the years 2006 and 2010. These are recorded and required. They are not, then, having to make the payment, let's say, April 1, May 1, June 1 if they don't get certain benchmarks, but they do have to make that payment eventually at a point in time.

MS CARLSON: At a point in time, except when the interest has been reversed?

MR. DAY: Interest reversal means that at one point we anticipated we were going to get that and wrote it and recorded it as such. At a point when we saw we weren't going to get it, we can't write it down as if it's coming in. We have to do what's called a reversal. That's accounting language. If someone has a better word, then that would be fine. But that simply is in terms of income which we had anticipated, hoping, obviously, that certain price levels and other things would kick in so that Al-Pac would be able to make it. It didn't happen. We can't continue to record it as income.

Again, it is not a write-down; it is not an excusing of any payment. It is simply reversing what we thought was going to be income. It looked like at that point in time it couldn't be accrued. Quite properly, under generally accepted accounting practices and the Auditor General's watchful eye, we can't record it as such, and we record it as in fact a reversal.

MS CARLSON: But it could in fact be added to the total potential loss.

MR. DAY: I don't understand what you're saying.

MS CARLSON: Well, if we're looking at losing somewhere around \$130 million here, if we're just talking about the last three payments – being October, November, and December – of \$8.5 million that haven't been paid, how do you intend to treat those?

MR. DAY: This is all money owing. Absolutely. If the year 2010 arrives and for some reason Al-Pac has disappeared from the face of the Earth, which we don't anticipate – if a deal doesn't go

through or whether it does go through, we hope it will continue to be a viable operation continuing to pay significant amounts of dollars, in the millions, as it has been doing, to the municipal tax base and also provincial taxes and continuing to provide jobs for hundreds of Albertans. We hope that will continue. Should something happen that it literally evaporated from the face of the Earth, they would still owe that money. All of the money accrues. We keep account of it, we add it up, and that is the bill that must be paid at the end of the day according to the agreement.

MS CARLSON: Except if you write it down.

MR. DAY: Writing it down simply means we are not recording that as income, and it would be improper if at a certain point we record that as income when, in fact, we haven't received it and it doesn't look like we're going to receive it. That's just improper recording. So we write it down; we don't write it off. We literally write it down. We write that down: this is interest owing. We reverse it from an income flow now to a liability that is absolutely owing. I can't make that clearer. Write-down does not mean write-off, and the company is certainly aware of that.

MS CARLSON: Ultimately, at the end of the day, when it is not collected, it's written off.

MR. DAY: If in fact they became at a point in time delinquent and disappeared as an entity, different accounting provisions would have to be taken. But they know clearly and understand accounting practices, and we have made it abundantly clear to them that this is not being excused. If the present deal in place is the one that we're living with, there's nothing excused here. This money is owing.

THE CHAIRMAN: Debby, the way I understand it, it is just the way that we keep information on our books. If 2010 arrived tomorrow, for example, then this company still has to pay all of the interest whether we report it or not. Is that correct, Mr. Treasurer?

MR. DAY: I'm sorry; I missed that.

THE CHAIRMAN: You just said now: here is the way that we keep this information on our books; assuming that 2010 arrives tomorrow, this company still has to pay all this money whether we report it or not.

MR. DAY: Absolutely. That's absolutely the point I'm making.

THE CHAIRMAN: So that is the difference between written off and written down. That's how I understand it.

MS CARLSON: Okay.

My second question. You talked earlier about how the markets might not sustain the deal in this regard and painted a somewhat bleak picture. Yet the KPMG report that has recently come out has said that the pulp and paper producers' industry is alive and thriving in Alberta. How do you correlate those two pictures?

MR. DAY: Anytime you're involved in any kind of a commodity, there is risk. Were you able to attend - I can't remember - the industry presentation of, I think, two nights ago? He gave a very significant presentation on some of the pressures of the industry. We live in a world of risk, where people are always evaluating

risks and looking at maximizing returns. You know, I'm not defending or speaking for the industry; I'm simply reflecting what is realized and what is reported. There's no industry in the world that is risk free that I can think of. Some have lower risks than others. This is an industry that has certain risk with it, and it's in that light that we need to make our evaluations and say: what is the best for Albertans? That is my key and primary focus all the time: what is the best? What is the best possible chance of maximizing the return? It's to the people of Alberta I feel responsible under that mandate.

THE CHAIRMAN: Thank you, Mr. Day.

I would like to remind committee members that this meeting is scheduled from 5:15 to 6:15, and some of us here have to catch a flight. So I encourage committee members, when they ask questions, to try to be brief and you, Provincial Treasurer, to please try to be brief when you answer the question as well. You'll have plenty of chance to practise your skills in question period next session.

Mr. Hierath.

MR. HIERATH: Thanks, Mr. Chairman. Stock, the Al-Pac loan is sensitive to changes in future pulp prices, and the Ridley Grain loan is sensitive to grain throughput volumes. Are you getting any sense that reversal or write-down is in the works for Ridley Grain? The other part of my question would be: are we actively pursuing a negotiated buyout with that grain company?

MR. DAY: I wouldn't say that there's an official or formal negotiation going on at this time, though again, Ron, to be fair, there's any number of partners or any number of competitors. Over the last several months I couldn't even tell you how many may have wanted to talk about different possibilities. Everything's on track at this point in time with the Ridley loan. The loan is at a rate of 11 percent with a final realization, if everything stays on track, out to the year 2015. Again, as time moves along, certain things happen which may put pressure or in fact give a greater advantage to one of these entities.

We know that at Roberts Bank, with the possibility of expansion there, that will put competitive pressure on the operation at Prince Rupert. We know that there are certain shipping disadvantages, depending where you are in this province and in BC, and we know that there are discussions going on between that entity and the railways at any time in terms of negotiating better rates. So all of those factors are at play at any given time. There's always discussions in terms of the operation at Prince Rupert itself. Could it be expanded to include other infrastructure which would handle other products and different commodities?

5:46

Again, at any time, just because we're tied in as a government and those partners are involved in looking at their future, it can just be in the form of questions back to the government in terms of our participation, wondering what we think about certain pressures. I may have to check back with the minister of economic development and maybe the minister of agriculture, because there are so many different partners at all times, but I'm not aware of something which I would call highly formalized at this time. Though, again, we say to those participants that if there's a discussion that someone wants to have and I and this government can look at - again, it sounds repetitive - maximizing the return and minimizing the risk, we would be delinquent if we didn't look at possibilities. I hope everything continues, and I hope that they're able to maintain their agreement, which they are at this point, and we'll see what the future holds.

THE CHAIRMAN: Thank you.

MR. DOERKSEN: Changing the topic slightly but still dealing with risk, if I look at the endowment portfolio breakdown on this second-quarter report, I will note that 50 percent of the investments are in equities. There are Canadian equities and 16 percent in foreign equities. The question came up at our public meeting as well, particularly with respect to the market fluctuations on the various stock exchanges around the world, and they would like some comments or assurances that we're not hung out to dry on our investments.

MR. DAY: Well, I think that the record speaks for itself in terms of security there and in terms of a mix of conservative, if I can use that word, investments on the foreign equity side. As you know, the parameters that are laid out for the endowment portfolio are anywhere from 10 to 24 percent. It's at about 16 percent right now. Whether we're talking about this fund or any other investment funds, we also know that there's only a certain capacity that the domestic market can in fact maintain and contain, and with the guidance that's been given now through the management team and with the clearly laid out parameters for the investment side in which they can invest, we think it's conservative, yet its interest-earning potential is pretty well maximized out without moving into a high-risk area.

You've correctly noted that there's always risk involved, of course, but we think that the fact that this committee is in place, the fact of the management oversight that's being given, and the fact that our portfolio limits are clearly indicated - as far as possible all the protective elements are there so that we are not unnecessarily placing at risk the investments of this particular portfolio. We feel pretty good about it. I feel good about the people around this table who are keeping an eye on things, and that includes all members. Certainly that will be maintained.

The question on foreign investment is something - actually, foreign investment rules right across the board are something that's before the federal government even right now in terms of their own areas of jurisdiction, because there is the realization that only so many dollars can chase so much domestic investment and capacity. But that's why the limits are presently sort of in the 10 to 24 range. It's sitting at 16 percent right now. Barring a clear direction from this table and from our management team and from the Legislature, I think those are safe limits that we're presently involved in.

MR. DOERKSEN: I guess more specifically I'm trying to zero in on the markets, the Asian stock market in particular, and what impact that has had on our endowment portfolio.

MR. DAY: Not in a significant way. All markets are somewhat at risk when you consider the degree of deflation that's happening in the Asian markets right now. That means lower priced commodities. That affects, obviously, manufacturing operations in North America. That will have an effect on price increases. There's good news and bad news there. So we are cautious, obviously, watching carefully what's happening on the Asian side. Ironically, if anything, one thing that that's leading to is putting some restraint on inflation, the fact that there is some deflation in fact happening in the Asian markets. We watch it as closely in a daily way as any other investment group around the world.

The fundamentals of the North American market obviously appear to be stronger than the Asian market at times and certainly right now, but these are the very types of reasons that we have good people in place watching literally in an hourly way what's

happening in these various markets. So it comes back, I think, to your original reflection, which is a good one, that there is always risk, which is why you put together diversified portfolios, staying away from the higher risk elements in terms of percentages. We definitely have a keen eye on what's happening on the Asian markets and will continue to do so.

I think it's worth noting that about 3 percent of the total funds are actually invested right now in the Asian markets. Certainly 3 percent is not a small number when you look at the aggregate dollars, but I think it's a relatively safe percentage related to the overall fund.

THE CHAIRMAN: Thank you.

Ms Carlson.

MS CARLSON: Thanks. Can you tell me what amount of income the Al-Pac joint venture has to earn on a monthly basis in order to pay the \$2.8 million in interest that's accruing and what the triggers are in order to generate that payment?

MR. DAY: Not having the full deal here - I have actually released that material before. I don't know if any of my officials have it in their briefcases, but I can get that to you as a member and to you, Mr. Chairman. There are a number of factors that have to kick in there.

MS CARLSON: Good. Thank you. Can you tell us what the schedule of debentures is for the AOC, AFSC, and ASHC that will be retired in the next three years and whether there are any penalty provisions there for early retirement of those debentures?

MR. DAY: For the specifics on that I'll ask Robert if we've got anything here so that we can address that or if there are some detailed items we can get to the committee.

MR. BHATIA: I don't have the specific numbers with me. In general, as you could foresee from the orders in council that were moved, we are expecting that a significant amount of the Alberta Social Housing Corporation debentures will be refinanced and repaid this fiscal year. With respect to penalties, no penalties, but we anticipate that they will be repaid at their market value. The debentures have interest redetermination dates, and other than the Social Housing Corporation debentures to be repaid this year, in general we're anticipating they'll be repaid on their interest redetermination dates.

MR. DAY: Also, I'll get the specifics of those dates to you, Mr. Chairman.

THE CHAIRMAN: Thank you.

Mr. Zwozdesky.

MR. ZWOZDESKY: Thanks, Mr. Chairman. I'm sure the Treasurer and others will recall that back in April of this year I had pointed out to the government that the \$29 million in capitalized interest surrounding the Al-Pac loan, which reflected the period April 1, '96, to September 30, '96, had not actually been added to the loan principal as of March 31, as was apparently required under the agreements. I think at the time it was acknowledged as an oversight or something to that effect. Then in reviewing the third-quarter statements of the fund, Treasury management reversed-out the \$29 million in capitalized interest that had been added during the first and second quarters of '96-'97. So we had a situation where the capitalized interest was

added to the loan principal during the first and second quarters of '96-97 and then it was reversed-out in the third quarter and then it was added back during the Budget '97 Update, what was termed the errata. I just wonder if we could get a comment from the Treasurer as to the rationale or perhaps on what basis Treasury reversed-out the \$29 million in December of '96 and then on what basis it was determined to add that \$29 million in capitalized interest to the loan principal later. Can you clarify that?

5:56

MR. DAY: Well, I'll rely on my technician's response to that, because some of these accounting terms and technicalities need to be accurately and precisely stated. So if I could get you to reflect on that, Bob.

MR. BHATIA: The judgment during the winter and spring was that it was premature to not record the interest on the Al-Pac loan. Now, the judgment is that given the possibility of a transaction, of a sale of the loan, it's no longer appropriate to add to the value of the loan on the books, even though, as the Treasurer indicated earlier, with every month that goes by, Al-Pac owes more money. We're not going to show that as an asset any further. There are a number of factors that would go into the judgment about when it's appropriate to stop recognizing income, and the judgment is that clearly now we should no longer be showing it as income.

MR. ZWOZDESKY: So that judgment, then, was made in April. That's when the errata was issued.

MR. BHATIA: In April the judgment was that we should continue to show the income, and that was consistent in the June 30 quarter. As was pointed out, we continued to show the income. Now, as I indicated, based on the potential for a transaction and the continued low pulp prices certainly relative to their historical levels, the judgment is that we should no longer record the interest.

MR. ZWOZDESKY: See, this whole business of interest reversal is something that tends to perplex the public, and the more light we can shed on it the better. I'm sure the Provincial Treasurer would agree. In the second-quarter statements, Mr. Chairman, of the '97-98 heritage fund presentation we see an interest reversal of the \$17 million in interest accrued on the Al-Pac loans for the six months ended September 30. We've had a comment on that, but I'd like to just come to a clearer understanding on the implications or the significance of that \$17 million interest reversal on the Al-Pac loan. Is there a possibility that there will be a judgment, for example, taken later in the same way that it was taken with the \$29 million? What are the implications of that to the average taxpayer?

MR. DAY: I think what taxpayers need to be aware of is that we are responsible to do all we can to maximize the return but also to indicate if we're getting that return at a particular point in time or if in fact we're not. If we anticipate and have it written in such a way that the income is going to be flowing in and then in fact it doesn't, as in this particular situation, in terms of being open and accountable with our books, we have to indicate that in fact we're not receiving it. You hit a point in time when you can't record it as if you were. You know, if you can come up with an accounting language that is more accurate or somehow depicts the situation better, I'm certainly one willing to use that language. But at a point in time, as with the \$17 million, when you have presumed that the income is going to be coming in and

then it's not, then it's a reversal in terms of you reversing your anticipation of that. At that point it is still accrued. It is still noted. It is still required to be paid. But the anticipation of receiving it immediately begins to dissipate, and the risk and liability ultimately enters in.

MR. ZWOZDESKY: I understand that it's still required to be paid, but the way it's presented I guess would lower the level of expectation that it ever will be paid, and those are some of the questions I'm being asked.

MR. DAY: Certainly we do not in any case indicate to any of these entities that we have lowered our expectation that they're going to pay up, but for accounting purposes, if it's not coming in, we write it as such, as a reversal. We always make it clear with these various corporate entities that this is not in any way going to suggest that we will ever back off on fully collecting and doing everything we can to collect according to the terms of the agreement.

MR. ZWOZDESKY: Just a short supplemental, if I might. The fair market assessment or evaluation that was done – and perhaps there was more than one done. I'm curious as to whether or not the \$260 million evaluation for sale was in fact what was reflected in the fair market assessment that you had done.

MR. DAY: All I can say, Gene, is anything that we're doing with negotiations at any time would obviously be guided by whatever assessment was done. We would not make an impetuous or improper, inappropriate negotiation. We would look seriously. I mean, that's why you get these evaluations or assessments done. That's why you do them: to be guided by them. I can assure you that with any of these particular deals if a private-sector evaluation is done, we will be guided by that.

MR. ZWOZDESKY: Well, I understood that a fair market assessment came down to sort of a fixed dollar amount at the end of the page that says: this is what we think it's worth.

MR. DAY: Correct.

MR. ZWOZDESKY: But you can't confirm here and now whether or not it was \$260 million.

MR. DAY: No, and only because there's discussion going on. It just would not be proper to do that.

MR. ZWOZDESKY: I'll give someone else a chance.

THE CHAIRMAN: Okay.
Ms Carlson.

MS CARLSON: Thanks. In arriving at the \$114 million write-down on Al-Pac, you must have done some sensitivity analysis or cash flow analysis or something of that nature. Have you released that?

MR. DAY: Released the analysis?

MS CARLSON: Yeah.

MR. DAY: I have released – and I'm trying to remember times or dates. There has been something that I've put out related to a variety of the factors that come into play in terms of when a

payment is required, and I said I'll get that information to you. Is that along the lines of what you're asking?

MS CARLSON: I think so. I'm looking for something that would be as specific as what you released for Ridley Grain. It was quite a detailed analysis.

MR. DAY: I will get all the details I can on that, as I've indicated to the chairman.

MS CARLSON: Okay.

THE CHAIRMAN: Thank you.

We have about seven more minutes, and we have quite a long agenda, so, Mr. Zwozdesky, in your fourth round try to be very brief, please.

MR. ZWOZDESKY: I promise this will be less than a minute. I want to know whether or not the Treasurer would in fact tell us who the firm is that did the independent assessment – and if not now, when? – and whether or not he would release a full copy of their report so the taxpayers could properly assess this proposed transaction.

MR. DAY: Well, I've indicated that I'm not at all trying to be evasive. I'm sure the member can understand that when you're involved in any kind of negotiation, you need to press hard in those negotiations, and that will always be the case. In terms of a final case scenario, all details will be released that can possibly be released. Again, whether you're involved in a sale of assets, whether you're involved in salary negotiations or whatever it might be, advice that you're getting, whether it's formal or informal, it could be inappropriate and could possibly lessen your opportunity for full return were you to disclose certain elements before they should properly be disclosed. I'm sure the member can understand the sensitivities that go with that, and that's all I can say.

MR. ZWOZDESKY: Can we submit the rest of our questions for the Treasurer's response at a later date?

THE CHAIRMAN: Certainly.

MR. ZWOZDESKY: Thank you.

6:06

MR. DAY: I'd be pleased to receive those.

THE CHAIRMAN: Thank you, Mr. Treasurer.

MR. DAY: Thank you, Mr. Chairman. Thanks for the good questions, and we'll get that information out to you.

THE CHAIRMAN: If any other members of the committee have questions for the Treasurer, you can submit them to him, and he will get back to us in writing. Thanks a lot.

Before moving to the next item, we have to have a motion from the floor to accept the second-quarter investment report of the fund. Mr. Shariff. Any objections? The report is moved and accepted.

The next item on the agenda. If you look at the mandate of the committee as spelled out in the heritage act, under the functions of the standing committee, item 4(d), we have to review after each fiscal year end the performance of the

Heritage Fund and report to the Legislature as to whether the mission of the Heritage Fund is being fulfilled.

It is under the heritage act tab, and it is on page 4 of the act, item 4(d).

If you look at the annual report, that we are so used to by now, on page 2 of the summary you can see the mission of the fund is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans.

Taking that mandate into account and taking in the performance of the fund as reflected in the annual report summary, do you think that the mission of the fund has been fulfilled? I need a motion.

MR. ZWOZDESKY: Could I be permitted a quick question? As you know, I'm only serving my first term on this committee, and as interesting as it is, I just wanted clarification on how we interpret section 4 of the act, which talks about the functions of the standing committee. Just in a nutshell and in respect of the time, I want to know what our policy is with regard to this committee reviewing the reports of the heritage savings trust fund on a quarterly basis, on an annual basis, and whether or not it's perhaps not appropriate that we see them before they go to the public or are released by the Treasurer.

THE CHAIRMAN: That is a very good question. If you look at the function of the committee in detail . . .

MR. ZWOZDESKY: Yes, I have.

THE CHAIRMAN: Section 4(a): we have to "review and approve annually the business plan for the Heritage Fund." That means we have to see the business plan and approve it before it is made available to the public. Item 4(b): we "receive and review quarterly reports on the operation and results of the operation of the Heritage Fund." We only have to receive and review it, as we are doing today. We don't have to approve it. So in fact it can be released to the public before we can get together as a committee to look at it. We try to have the meeting before the information is made available to the public whenever we can, but as a committee our role is to review the report. So we can do it after the fact, and the Treasurer still has to be accountable to us. At least he has to answer all the questions that you have.

MR. ZWOZDESKY: I wonder how other members feel, respecting that everyone else, except Debby and I, is on the government side. Don't you think it would be appropriate if we had it under perhaps some embargoed basis or whatever before it went out there? Wouldn't that be an important part . . .

THE CHAIRMAN: If that were the case, then the wording of the function would have been "to review and approve." I think that the wording of this is deliberately said in such a way that you can receive and review it.

MR. SHARIFF: Plus, if I can say, both of us received the information at the same time. So, quite frankly, I don't see a problem with that. I think the chairman is indicating that he tries to arrange meetings, if possible, before it's made public, and as long as he does it conscientiously, then I'm satisfied with that process.

MR. DOERKSEN: I know where Gene is coming from, and I agree. On the other hand, because this is a public meeting, as

soon as we review it, it's public. If we were to do that – and we certainly could review the quarterly statement – then you'd have to co-ordinate it with the date that it would be released, because we can't hold these meetings in private. So in one sense we couldn't do it beforehand, but we can certainly request the Treasurer to have us review it on the day of or as soon as possible to the release of the report. Does that make any sense? Do you follow my thinking on that?

MS CARLSON: I follow that thinking, but I would say that it doesn't speak to the original intent of this committee. I, too, think that the quarterly reports should come to the committee for review prior to them being released to the public. Otherwise what we're really performing here, then, is no more than a Public Accounts function on these quarterly reports. There's no chance for any input as a committee. It's merely on a for information basis only, and I think that is contrary to the intent of the provision here.

THE CHAIRMAN: Actually, at the end of the year we do have to approve the annual report, you know, for the whole year. We have to approve it before the information can be released to the public, and the reason that I think the act is worded this way is because every year we meet about four times to review the quarterly reports. It is a fairly big committee, and with the time commitments of the Provincial Treasurer and the different members of the committee it may be difficult to try to co-ordinate a meeting in such a way that we can get together in a timely fashion to review the quarterly report. This quarterly report is just information. It just reflects the facts. It just tells us exactly how the fund is doing. From our perspective I do not see much information in there that we can say should be done this way or should be done that way. Whether we see the information two or three days before the public sees it or two or three days after the public sees it doesn't make a lot of difference to me, as to how the fund is being managed, but that is a good point. I already had a discussion with the Treasurer and said that we certainly want to see this information as soon as possible, and he has no quarrel over that. In fact, we did try to have a meeting scheduled two weeks ago.

MS CARLSON: Yes, which would have been satisfactory from our perspective. Could we table this to discuss it again another day in view of the time constraints?

MR. DOERKSEN: I agree with that. I think it's a fair request, something that we should have the Treasurer address us on for future reports, and maybe he can address that next time he comes to us.

THE CHAIRMAN: That would have been a very good question for the Provincial Treasurer when he was here.

MR. ZWOZDESKY: Well, I was trying to follow the agenda. I had it written down. I would just say that it places us at a small disadvantage. I think that if we did have the ability to meet in advance, we'd all understand it a little bit better. In my particular case I have the responsibility on behalf of Her Majesty's Loyal Opposition to critique the Treasurer, and I would be much more in the know on it, and that would be very helpful and very useful.

THE CHAIRMAN: Gene, I do try to treat every member of this standing committee on the same basis. I don't want to think of you as opposition members.

MR. DOERKSEN: I also have a duty to the constituents of Red Deer-South to ask questions, too, on behalf of all Albertans and not necessarily as a member of the opposition but as a member of government.

6:16

MS CARLSON: And as a member of the committee they expect you to have that knowledge, so you're at a disadvantage.

MR. ZWOZDESKY: Yeah. I was wanting to finish that sentence, but okay. Carry on. It's okay.

THE CHAIRMAN: From my perspective I think that the fund has met – if you look at item 4(d), "the performance . . . the mission of the Heritage Fund is being fulfilled," as reflected in the annual report. Any objections to that?

MS CARLSON: Well, I think I'd like to abstain from ascertaining whether or not the mandate is being met until we have this further discussion, just from my perspective.

THE CHAIRMAN: No. This one is pertaining to last year's performance.

MS CARLSON: But I want to just voice that objection in terms of item 5.

THE CHAIRMAN: Because?

MS CARLSON: That's the mandate under 4(d) and with specific regard to the quarterly reports.

THE CHAIRMAN: This one doesn't deal with the quarterly reports. This one deals with the annual report of last year.

MS CARLSON: Then where can we raise that concern?

THE CHAIRMAN: We can put it on the agenda for the next meeting that we have. Okay?

MS CARLSON: Yeah.

MR. ZWOZDESKY: So you're asking us to approve – what? The second?

THE CHAIRMAN: Item 4(d). If you look at the function of the standing committee . . .

MR. DOERKSEN: Mr. Chairman, I think you need a motion, and I'll make one that I think will meet that. I would move that this committee approve the heritage savings trust fund annual report for . . .

THE CHAIRMAN: No. We already approved it at the last meeting. Okay? If you look at item 4(d), we have to review after each fiscal year end the performance of the Heritage Fund and report to the Legislature as to whether the mission of the Heritage Fund is being fulfilled.

MR. DOERKSEN: Yeah. You didn't wait until I finished my motion; I was getting to that point, because I was tying it to this particular statement that this is the one that we're approving. So I forget where I left off:

. . . the year ended March 31, 1997, and that we submit that report to the Legislature as fulfilling the mission of the heritage fund for that year then ended.

MS CARLSON: But we did that – didn't we? – last time.

THE CHAIRMAN: No. What we did last time was 4(c). We approved the annual report of the heritage trust fund.

MS CARLSON: Yes. Okay; I'm with you.

THE CHAIRMAN: Okay? Having that motion from Mr. Doerksen, any objections?

HON. MEMBERS: No.

THE CHAIRMAN: Carried. Thank you.

The next item on the agenda is the format of the committee report to be tabled in the Legislative Assembly. We will try to have the report very brief, and we will try to cover some of the year-end performance information.

MS CARLSON: Is this the committee report?

THE CHAIRMAN: Yeah. But for this year . . .

MRS. SHUMYLA: That's the old one.

THE CHAIRMAN: Yeah. You can look at the old one that they submitted last year to the Legislature. For this year how would you like to see the format of the report to be done? Any input? Any ideas?

MS CARLSON: What we had was good, I thought.

MR. ZWOZDESKY: I thought that the previous one that I looked at seemed fairly clearly laid out. Does the chairman have any suggestions he's received?

MRS. SHUMYLA: This was done under the old mandate format.

THE CHAIRMAN: With a new mandate we have to – I think that a good idea is to include in the report some of the year-end performance information that you have in the annual report. Also, we should include in there some of the feedback information we received in the public meetings that we had across the province.

MR. ZWOZDESKY: Mr. Chairman, when is that report due to be tabled? Before what date?

THE CHAIRMAN: That date is in the next session.

MR. SHARIFF: Within several days of the opening of the House I think it was.

THE CHAIRMAN: You can look at the Order Paper.

MR. ZWOZDESKY: But we won't have a chance to meet again before that.

THE CHAIRMAN: Yes, we do.

MR. ZWOZDESKY: We do?

THE CHAIRMAN: Yeah, we do.

MR. ZWOZDESKY: Okay.

MS CARLSON: So can we review that at that time?

THE CHAIRMAN: We could try to have a meeting between the committee members to review the report before we release it.

MS CARLSON: Good.

MR. SHARIFF: So in that case, Mr. Chairman, you will be preparing this report and bringing it to the next meeting?

THE CHAIRMAN: We will have a meeting to review it. Whether it's the next meeting or not is questionable because under Other Business we will go into future meetings.

MR. SHARIFF: Okay.

THE CHAIRMAN: Item 7 on the agenda. We have just finished a series of four public meetings, and I would like to thank the members of the committee for their participation. The meetings went really well, and we had excellent co-operation by all the members of the committee from both sides of the Legislature.

I would also like to thank the staff, especially Diane, for doing an excellent job putting together all those meetings for us.

MRS. SHUMYLA: Thank you.

THE CHAIRMAN: In light of the time if you have any ideas about how we can improve those public meetings in the future, please forward them to us in writing so we can do a better job next year.

MS CARLSON: Will we have any opportunity to discuss them here? Not all members were at all meetings. I think that to do some sort of a postmortem in terms of trying to get the attendance up in the next year would be valuable, even if it's only five or 10 minutes at the next meeting.

THE CHAIRMAN: Maybe what you should do is put that in the next meeting's agenda, tie that one in with the committee report to the Legislature, because a portion of that report will deal with the public meetings.

MS CARLSON: Good.

THE CHAIRMAN: Okay. Under Other Business we'll try to move very quickly. I have been informed that the budget for our committee has been approved by the Members' Services Committee in November, and the 1997-98 budget estimate for \$39,346 has been increased to \$68,377 for '98-99 to allow for the cost of holding public meetings with the associated travel, advertising, and other costs necessary. So that's good news for us. We need to set a meeting to approve the business plan, and this meeting right now I would like to set for Monday, December 15, from 1 to 3 p.m.

MR. DOERKSEN: What's that date?

THE CHAIRMAN: December 15. That's a Monday. That is a week from next Monday.

MR. DOERKSEN: Mr. Chairman, it would work better for me if that was in the morning.

THE CHAIRMAN: In the morning we have an SPC meeting.

MR. DOERKSEN: I have the same in the afternoon.

THE CHAIRMAN: Jobs and the economy?

MR. DOERKSEN: No. Health.

MRS. SHUMYLA: I can phone members.

THE CHAIRMAN: If we want to, we can try to do it next week. I just want to ask the people from Alberta Treasury.

MS CARLSON: Next week?

THE CHAIRMAN: On Thursday. Do you have those things ready, the business plan?

MR. BHATIA: The business plan has to be approved by Treasury Board prior to it coming to this committee, and that approval hasn't occurred yet.

THE CHAIRMAN: Oh, I see.

MR. BHATIA: It's scheduled at the moment for next week. So the 15th would be a feasible date, if that's all right with the Treasurer's office, or after that.

THE CHAIRMAN: December 15 is a good date? If it is not possible for many members, then we would have to move it to probably January 19 or after that. Is that too late?

MR. BHATIA: That's very late, yes.

MRS. SHUMYLA: I could phone and see what time of day might work on the 15th.

MR. ZWOZDESKY: Yeah. Why don't we do that?

MS CARLSON: Sure.

MR. ZWOZDESKY: She's pulled it together nicely for us in the past. You can help again, please.

MRS. SHUMYLA: Even if it's, like, later in the day?

MR. DOERKSEN: If I'm the only problem, Mr. Chairman, then I'll just have to make arrangements.

MS CARLSON: I think I have a conflict at that time, too.

MR. DOERKSEN: Okay; but I'm willing to work out whatever we can.

THE CHAIRMAN: Is that document confidential?

MR. BHATIA: It is at this point.

THE CHAIRMAN: After it has been approved by Treasury Board, is it still confidential?

MR. BHATIA: Well, it has to come to the committee, and then once the committee has approved it, it gets included with the budget documents. So it becomes part of the budget, and it's obviously fully public at that time.

THE CHAIRMAN: Yeah. So we'll try to do it on the 15th, then. We cannot do it later than that. The 16th is cutting into Christmas shopping time for many people.

Okay. That's all I have, so I would entertain an adjournment motion.

MR. SHARIFF: I so move.

THE CHAIRMAN: Thank you very much.

[The committee adjourned at 6:26 p.m.]