

**Title:** Wednesday, October 10, 2007, Heritage Savings Trust Fund Committee

Date: 07/10/10

Time: 7:05 p.m.

[Mr. Johnston in the chair]

**Mr. Doerksen:** Ladies and gentlemen, let me welcome you here tonight. My name is Vic Doerksen. I'm the MLA for Red Deer-South. You're sitting in the Red-Deer South constituency, so welcome. It's the greatest place on earth to live.

You need to know that this is probably a record attendance for this meeting, so congratulations to central Alberta, Red Deer, for coming out to actually hear this meeting. I am going way off script already.

My history on the heritage savings trust fund goes back to 1995, when we sent this pamphlet around to all Albertans. It's called Can We Interest You in an \$11 Billion Decision? At that time we were looking at making some significant changes to the operation of the heritage savings trust fund. I tell you that we went around the province, and if we got more than 10 people at a meeting, that was huge, if you can believe it. Now, 50,000 people responded to the survey, but to try to get people out to actually talk about \$11 billion was like pulling teeth.

I want to thank you for coming because one of the reasons that we are going around to Albertans every year now to report about the heritage savings trust fund actually came out of the recommendations we made back in 1995, which said that we needed to hold public meetings across Alberta to make sure that the citizens were informed as to what was happening in this fund.

We're going to make a presentation to you, and we look forward to your questions afterward. I'm not going to introduce everybody, but we have people that sit on the actual committee. This is a Legislature committee, so there are members of both the government and opposition who sit on this committee to overview the fund. All the members aren't here tonight, but the members that are here I will introduce. To my right here is Art Johnston. He's the chair of the committee. He's the MLA for Calgary-Hays. Immediately to my right, George Rogers, who is the deputy chair. He's the MLA for Leduc-Beaumont-Devon. Hugh MacDonald, to my left, is the MLA for Edmonton-Gold Bar, and beside him is Weslyn Mather, who's the MLA for Edmonton-Mill Woods. These are the members of the Legislature who sit on this Legislature committee.

I'm going to turn the meeting over to our chair, Art Johnston, who will introduce the rest of the staff that are with us and the people who have technical answers to some of the questions you might have. Art, welcome to Red Deer. We always bring out a good crowd.

**The Chair:** Thank you, Victor.

I want to thank you for coming out tonight. I was in Vermilion for my first annual public meeting last year. It's encouraging to see the numbers. I think we've pretty well doubled Vermilion, so that's great.

I know it's a very busy evening for a lot of folks in your personal lives. I understand the Rebels are playing the Tigers here, so you've got that going on. Then Calgary is beating Detroit, I hear on television, the NHL, so I understand you have a lot going on.

**Mr. Doerksen:** And don't forget, Edmonton is playing Minnesota.

**The Chair:** Oh, yeah. Okay.

Welcome to the 2007 annual public meeting. There are a few people I would like to introduce just before we get going here. I'll introduce the staff from the Ministry of Finance. To my right, Lowell Epp. He's the director of capital markets, treasury manage-

ment division. To his right, Doug Stratton. Doug is the director of fund management, Alberta investment management. On the far right is Mike Berezowsky. He's the communications officer.

We have staff from the Legislative Assembly here. We have Jody Rempel, the committee clerk. Where's Jody?

**Mr. Doerksen:** She's in the back.

**The Chair:** She's in the back. Okay. Tracey Sales, I believe, is probably in the back there too, and Janet Schwegel and Joyce Powell from Alberta *Hansard* are over to my left.

We have two members of security here for your safety, so you don't have to worry later on when we let you stand up and speak. You can speak your mind, and no one will come in from outside and interfere with you. That's why security's here, right? It's not for us.

Okay. This meeting is being recorded by *Alberta Hansard*, so copies of the transcript are available online at the Assembly website or by calling the committee number that's listed on the brochures that you were given when you came in. That number is on there.

Our presentation this evening will be in two parts. We'll have members of the committee review the history, mission, and future of the heritage fund. Then members from the Ministry of Finance will discuss the management and performance of the fund. Then we'll have a question-and-answer session that will follow. Our microphones are set up by *Hansard*, so you won't have to adjust or turn the volume on or anything on the mike right here in the middle. As I say, that's going to be recorded.

I'd like to start our presentation. You can follow along here on the screen. It shows the heritage fund growth with some background.

The heritage fund was started in 1976 and has been a unique aspect of Alberta finances for 30 years. No other province has such a fund. From 1976 to 1983 the fund grew as 30 per cent of the province's oil and gas revenues went into the fund. From 1984 to '86 the amount saved into the fund was reduced to 15 per cent of oil and gas revenues due to the increasingly difficult fiscal situation at that time facing Alberta.

From 1982 to 2004 all income from the fund was transferred to the general revenue fund to meet the priorities of the province except for some ad hoc inflation-proofing in 1997, 1998, and 2000 totalling \$431 million. As you can see on the slide, the government has started to put money into the heritage fund again. In 2005-2006 \$1.75 billion was put into the fund, and in the last fiscal year, ended March 31, 2007, \$1.25 billion was transferred into the fund. The value of the heritage fund depends on, of course, the amounts deposited into the fund, the amounts taken out of the fund, and the investment earnings of the fund each year.

The heritage fund grew rapidly from its start in 1986 because we were putting resource revenue into it and keeping income within the fund. Until recently the value of the heritage fund stayed fairly flat since we stopped putting money into it in 1986 and started to use its income to meet spending priorities. However, the heritage fund is now at its highest-ever value due to the \$3 billion in deposits made over the past two years. Also, an additional \$665 million of investment earnings have been retained in the fund since 2005 for inflation-proofing.

I'll let Victor continue at this point.

**Mr. Doerksen:** Part of the reason for the recent growth in the heritage fund is the creation of the access to the future endowment, which was established in 2005. The access to the future endowment was established to provide sustained funding for initiatives designed to enhance advanced education. The investment earnings of this

portion – and I reiterate, this portion – of the heritage fund provide this funding.

One example of how this money is being used is the development of the Lois Hole Campus Alberta digital library. The digital library will allow postsecondary students and faculty across the province to access the digitized resources and knowledge currently held in the individual libraries of postsecondary institutions.

The access to the future endowment was created as part of the heritage fund rather than as a distinct endowment. One billion dollars of the deposits made to the fund in the last two years have been directed toward this new endowment. It is expected that this endowment will grow to \$3 billion.

**Mr. Rogers:** Thank you, Victor.

On average the heritage fund has earned almost \$1 billion per year since it was set up in 1976. Investment income from the fund has been used to help pay for health care, education, social programs, infrastructure, and capital expenditures. When Alberta's economy has struggled, income from the fund has allowed the government to avoid deep cuts to important social programs and raising taxes any more than necessary. Also, the heritage fund played a large role in helping our province become debt free. Income from the fund is for the present generation of Albertans, and the capital of the fund is for future generations.

7:15

The heritage fund has helped put the province in the enviable position it's in, and Albertans will continue to benefit from the fund's contributions. All those billions shown on the last slide add up. During the fund's 30-year history almost \$30 billion in investment income has been used for Albertans' priorities, including debt reduction, health care, education, social programs, and infrastructure and various capital expenditures. In addition to the \$30 billion I mentioned, the Alberta endowment fund makes social and economic contributions in Alberta.

Two important endowment funds, the medical research fund and the scholarship fund, were funded from the heritage fund. The Alberta Heritage Foundation for Medical Research endowment fund was started in 1980 with a \$300-million contribution from the heritage fund. The medical fund has been instrumental in funding research and advances in medical science and has also provided a competitive edge in the biotech industry. The Alberta heritage scholarship fund was established with a \$100 million transfer from the heritage fund in 1981. Each year millions of dollars of income earned from the scholarship fund help to pay for Albertans' postsecondary education.

In a typical year the fund generates about \$1 billion in investment income, or 3 to 4 per cent of government revenues, but when government first began to draw on this income, it brought in closer to 13 per cent of government revenues.

The relative importance of the heritage fund in paying for Albertans' social programs grew from 1976 to 1982 as we were growing the fund. The relative importance declined during the years we were spending all the income. The decline shows more the growth of Alberta than a reduction in investment income. The percentage contribution will grow if we save money in the heritage fund faster than the overall size of government increases.

At this point I'll turn it over to my colleague Weslyn Mather.

**Mrs. Mather:** Thank you, George. In the early 1990s Albertans were concerned about the sustainability of investment income. Many Albertans were wondering whether the fund should be sold off to pay down the debt of the province. In 1995 questionnaires were

sent to Alberta households asking what to do with the heritage fund, as Victor was mentioning a little earlier. After extensive consultation the government decided that the mission of the fund should be to focus on maximizing financial return to allow current and future generations of Albertans to gain maximum benefit from the fund.

The Alberta Heritage Savings Trust Fund Act states that 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 . . . for current and future generations of Albertans." Extensive changes were made to focus on this mission. These changes included new legislation for the heritage fund, an improved governance structure, and selling investments that had been made for other than financial reasons. Essentially, the fund is now managed on the same basis as an institutional endowment fund.

I'll turn it over to Hugh MacDonald.

**Mr. MacDonald:** Thank you very much, Weslyn. Good evening. I'll discuss the governance in place to achieve this mission. One of the principles of governance for the heritage fund is transparency. A detailed business plan is developed every year and approved by this standing committee. The plan sets out specific investment objectives, goals, and strategies to achieve the heritage fund's objectives as expressed in this legislation.

The heritage fund annual report is prepared and published within three months of the end of the province's fiscal year, which is March 31. The annual report provides a comprehensive review of the activities and results of the fund for the year. Every quarter an investment report is prepared for the heritage fund. The quarterly report provides information about the investments held by the fund, the performance of every investment sector, and an overall review of the fund. These documents are available on the website, which is [www.albertaheritagefund.com](http://www.albertaheritagefund.com).

The documents that are not on the website are the minutes and the investment advisory decisions that are provided by another committee, which reports directly to the Minister of Finance, and that's the Endowment Fund Policy Committee, which has two government members on it. We have requested in the past information regarding the investment advice that's provided by this committee to the minister. That information has not been provided to date.

Now, another fundamental principle of the governance structure is accountability. The performance of the fund is reviewed by a standing committee of the Legislative Assembly and by the public in its annual meetings, like the one we're having tonight. This standing committee is required by law to review and approve the business plan, receive and review quarterly reports, approve the annual report, review the performance of the heritage fund, report to the Legislature as to whether the mission of the heritage fund has been fulfilled, and hold public meetings with Albertans.

The Heritage Savings Trust Fund Act sets out a well-defined standard of care in the management of investments, that of a reasonable and prudent person. Clearly defined benchmarks are established to evaluate the performance of the fund's investments. For example, we use the return on the Standard & Poor's/TSX composite index to measure the performance of the fund's Canadian stocks.

I would like now to thank you and turn this over to our chairman, Mr. Art Johnston.

**The Chair:** Thank you, Hugh. At this point I'll turn to the representative of the Ministry of Finance to discuss the management and performance of the fund.

Lowell, please continue.

**Mr. Epp:** Thank you, Art. The legislation governing the heritage fund is the responsibility of the Minister of Finance. The Minister of Finance is responsible for setting investment policies and for actually investing the money.

The components of managing money are not as simple as simply putting the money in a bank account or in the stock market or whatever. We have three key components establishing investment objectives and policies under which the fund will be managed. This includes setting out the target asset allocation, which I'll talk about in a few minutes. The second part is implementing the investment policy through day-to-day investment management. Finally, the evaluation of investment performance: is the policy or the target allocation doing what it's supposed to do? Is the investment management performing as it's supposed to perform or is expected to perform?

The day-to-day management of the fund is the responsibility of the investment division, known as Alberta investment management, which operates at this point within the Department of Finance. Soon after the beginning of the new year it is hoped that this division will become a Crown corporation. The responsibility for setting objectives and evaluating performance belongs to the Minister of Finance and will remain the Minister of Finance's responsibility after Alberta investment management becomes a Crown corporation.

The investment objective of the fund is to maximize long-term financial returns subject to an acceptable level of risk. We consider ourselves to be disciplined investors. We take a long-term view and do not try to anticipate every hiccup in the market. We look for strategies that can generate return on a consistent, repeatable basis. We look for opportunities to add value at the margin where it makes sense. When we don't see the opportunity to add value through active management, we index.

7:25

Meeting our investment objectives requires a global outlook. Accordingly, the heritage fund's assets are invested around the world in a diversified portfolio of investments, which includes stocks, bonds, and real estate. The widely diversified portfolio helps reduce risk but also enables the fund to earn higher returns than it otherwise would.

We believe that cost matters. As a result of having over \$70 billion under management, which includes many of Alberta's public-sector pension plans, Alberta investment management has a clear competitive advantage, resulting in lower investment management costs and higher net investment returns for taxpayers.

The pie chart on the screen illustrates the policy asset mix of the fund. This is the asset mix shown in the heritage fund's annual business plan, and it guides the investment of the fund. Ranges are established for each asset class. What you see there are targets. We establish ranges to give the manager discretion to take advantage of investment opportunities. At the same time, we establish bands, or ranges, to maintain exposure to each major market class and limit the discretion of the manager. If market action results in the breach of any of these limits, then a rebalancing procedure is initiated to bring actual weights more in line with the long-term target policy mix.

You can see that the fund has significant investments in equities, a target of 45 per cent, which is split between Canadian, U.S., and the rest of the world evenly. We are broadly diversified by country. We are broadly diversified by industry sector and company. A significant component of this is managed externally, by external managers. The fund also has an important allocation to real estate as well as allocations to absolute return strategies and private investments.

I'll hand it over to Doug Stratton now to talk about the fund's performance.

**Mr. Stratton:** Thank you, Lowell. The Canadian stock market posted more moderate returns this year. Overall the S&P/TSX composite index increased by 11.4 per cent for the period ended March 31, '07, compared to an increase of 28.4 per cent in the previous year.

The Canadian dollar had continued strength against world currencies such as the yen and the U.S. dollar. The federal government surpluses, rising oil prices, robust growth forecasts, and expectations of higher interest rates helped fuel the increase in the value of the Canadian dollar.

The S&P 1500 index, which tracks the performance of the top 1,500 American companies, increased 11.3 per cent over the year in U.S. dollars compared to 13 per cent in the previous year. In Canadian dollars the index increased 9.9 per cent versus 9.1 per cent in the previous fiscal year.

Currency movements had a negative impact, pulling the returns from U.S. investments down when translated into Canadian dollars.

Overall, non-North American markets had strong returns in 2006-2007. The Morgan Stanley capital international index for Europe, Australasia, and the Far East, the MSCI EAFE index, measures the performance of approximately 1,200 companies on 25 stock exchanges around the world. The index increased by 18.7 per cent in Canadian dollars compared to 20 per cent in the previous year. Growth in demand from China continues to be strong, keeping commodity prices firm.

At March 31, 2007, the fair value of the fund's net assets increased to \$16.6 billion, up \$1.8 billion from the beginning of the year. Transfers into the fund of \$1.25 billion, unrealized capital gains of \$228 million, and \$283 million retained in the fund for inflation-proofing accounted for the overall increase in net assets of \$1.8 billion.

The performance of the heritage fund is measured over the long term. This chart illustrates the historical annual performance of the fund over the last five years. During this period the fund generated an annualized return of 8.8 per cent. The heritage fund is expected to generate a rate of return of 4.5 per cent above inflation at an acceptable level of risk over a moving five-year period. Over the last five years inflation averaged 2.3 per cent. Therefore, the fund was expected to generate a nominal annualized rate of return of 6.8 per cent.

In summary, over the period the heritage fund returns of 8.8 per cent were better than the long-term target of 6.8 per cent. The chart also highlights the fact that investment returns are volatile. For example, the losses in 2002-03 were followed by an extremely strong year of gains in 2003-04.

For your interest here is a list of the heritage fund's top 10 Canadian investments. As you can see, the heritage fund has invested in some of the biggest and most successful companies in Canada. Also, about 23 per cent of the fund's Canadian equity holdings and 26 per cent of private investments, including real estate, are Alberta based. In total Alberta-based investments represented approximately 9 per cent of the fund's holdings at March 31, 2007.

I'll ask Victor Doerksen to continue from here.

**Mr. Doerksen:** It's critical that the fund grow with inflation to retain its ability to be a sustainable source of revenue. Starting in 2005, the fund kept enough investment income to offset inflation. Only investment income in excess of inflation was transferred to the province's main operating fund, the general revenue fund. In the

past two years we have retained \$382 million and \$283 million respectively to protect the fund against inflation. Inflation-proofing will continue in the future as it is required by law now that the accumulated debt has been repaid. This year it is estimated that \$346 million will be needed to protect the heritage fund from inflation. In the future income from the heritage fund will depend on capital market returns and the amount of money invested in the heritage fund.

This past August the government appointed an independent commission to ensure that Albertans are receiving the maximum long-term benefits from the fund's savings and investment funds, including the heritage fund. This is an important review, and just so that everybody is aware, not only do we manage the heritage fund, in the neighbourhood of \$16 billion, we also have the endowment funds, which are at 3 and a half billion dollars. That would be your Heritage Foundation for Medical Research, the science and engineering research fund, the scholarship fund, and a few other ones. We also have in the capital account \$6 billion and in the sustainability fund \$7.6 billion. So there's a lot of money that is being invested by the Alberta government; hence, an important reason for this independent commission.

The panel, which is composed of five members, is chaired by Dr. Jack Mintz, who will also ensure that the purposes, management, and governance of Alberta's various funds are clear and that investment policies are consistent with the long-term interests of Albertans. This commission is expected to report back to the Minister of Finance at the end of November. You are invited to make written submissions to the commission. You can find, as is indicated on the slide, information at that website about this particular review, or you can certainly call any of your MLA offices. They can find that information for you as well.

Mr. Chair, back to you.

**The Chair:** Thank you, Victor. This concludes the formal presentation. I just want to take a couple of minutes to thank some people before I open the floor for questions. On behalf of the committee I'd like to thank Victor Doerksen, of course, for hosting us this evening. Thank you, Victor. Also, a thank you to the staff from Alberta Finance for providing all the necessary information regarding the heritage fund and for completing this evening's slide presentation. Thank you. Of course, to the staff from the Legislative Assembly Office who provide administrative support to the committee and our two security members – we can't forget them back there – thanks, guys.

Okay. Just before we open the floor up to questions, just remember that the mike is here, and we'd like you to step up to the mike. It shouldn't have to be adjusted. It's being recorded by *Hansard*, as I previously stated. When you're finished, if you stand up and speak, we'd like you to stop off at the desk there before you leave and just make sure that we have your name spelled properly for the official record of *Hansard*. We'll open it up to the floor. Step up to the mike, anyone. Feel free. Of course, when you approach the mike, if you could identify yourselves, please, for the record.

Thank you. The floor is open.

**Mr. Lachman:** Arnold Lachman. One thing I'm disappointed in: where are the young people tonight? Aren't they interested in what's going to happen in Alberta in the future?

The other thing, the question I've got for the panel: how big is this fund going to grow? Is there any limit, or is it going to keep going and going and going?

7:35

**The Chair:** Thank you, Arnold. The first part: I can't answer your

question on where the young people are. Some are maybe at the hockey game, but I'm not sure, Arnold. If I understand your point, you're thinking that maybe the young people aren't interested. They're leaving it in your capable hands.

The question: how big is the fund going to grow? I'll leave that to our Finance people. They can answer that for you. It's an open-ended question: how big is it going to grow? If we can help with that question.

**Mr. Epp:** Sure. I can attempt to answer that, anyway. There's no legislated limit to how much the fund can grow. Right now the fund is growing because of the inflation protection, so its real value is staying the same in a sense. How much the fund will grow depends on how much the government and Albertans, ultimately, decide that they want the fund to grow.

**The Chair:** Thank you.

Mr. MacDonald has a comment.

**Mr. MacDonald:** Yes. Thank you, Arnold. If the young people who are not present tonight want to see a jurisdiction where there are low taxes and a high standard of living, we're going to have to ensure that this fund grows considerably larger than it is now. It hasn't even been inflation-proofed. Since we've taken so much money out of it for general revenue over the years, it needs to have been at least in value of \$22 billion to \$24 billion to have been inflation-proofed over the years.

I'm pleased to see that now we are adding to the fund to see that it is inflation-proofed on an annual basis. We've also stuck in the last two fiscal years significant money in there, so it's growing again, but when you compare it to the Alaskan permanent fund or the fund that Norway has, two other jurisdictions which have petroleum or energy resources, we have a lot of work to do. As our nonrenewable resources are depleted through the western sedimentary basin, we have to ensure, in my view – and this is my personal view and not reflective of the committee – that that fund reaches at least \$50 billion.

Thank you.

**The Chair:** Thank you, Mr. MacDonald.

**Mr. Doerksen:** I just want to follow up on Mr. MacDonald's comment because the question you asked, the last one, was a very important question. If you look back at the history of the fund, when it started off, 30 per cent of the nonrenewable resource went into the fund. Then it was reduced to 15 per cent of the royalties and then down to zero.

In 1995 – I talked about this question in '95 – we were actually at that point considering eliminating the fund because of the situation of the province, and quite clearly in that review, that I was a member of, Albertans overwhelmingly, over 75 per cent, said: don't do it. So we did restructure the fund, and we said that once the debt was repaid, we would begin the inflation-proofing. We've started that, but the question now is going to become with the situation that we're in: should we now put a different policy in place for adding to it? That's an important question that you guys are going to have to tell us and answer because it is now the question that faces us.

Thank you for the question.

**The Chair:** Thank you, Victor.

George.

**Mr. Rogers:** Thank you, Mr. Chairman. I think, sir, that that was a

very good question, and I think Mr. Doerksen touched on it a bit. The history that we've seen over the last number of years of the fund, I think, reminds us even more of the importance of us building a strong, healthy fund and that we continue to inflation-proof the fund and add to the fund. With the fact that the money that goes into the fund comes from a very volatile source of revenue – and we see what has happened to that source of revenue, nonrenewable resources, mainly oil but other nonrenewable resources as well – it's really important that your government has a strong policy that continues to grow this fund to have a healthy fund to deal with the types of peaks and valleys that we are used to in this province.

I personally would not like to see a limit placed on the fund. As Victor said, there was a time when we even considered eliminating the fund altogether. I certainly hope that with good management and good, strong, healthy growth in our nonrenewable resource sector we will continue to see a growing, strong fund for a long time to come and a fund that is here for the young people that this gentleman asked about. I see some younger faces in the audience, but certainly this is definitely for our future, and I hope it continues to be strong.

**The Chair:** Thank you, George, and thank you for those questions, Arnold.

Next speaker.

**Mr. Smith:** Alan Smith. I'm wondering if we'll achieve anything with the fund or if the federal government will perhaps say: oh, a rich province; we don't have to help you out as much as the other provinces. That's my first thought.

The other concern is that I'm wondering if we're going to pay down the road for the pollution up at the tar sands, and I'm wondering if we're going to pay for the depletion of our natural resources in terms of higher prices. I'm particularly worried about natural gas. We don't have much left, and I was shocked at how much was going to the States. Now so much of it is being wasted on the tar sands, and, of course, it's very dirty. We may find that the Europeans impose sanctions on us. I don't think we have to worry too much. The Europeans can never get organized about anything, but it is something to think about.

Anyway, I'd much rather see our natural gas conserved so that we aren't paying through the nose to heat our homes, and as Victor knows, I'm deadly concerned about people switching to wood and wrecking our health with wood smoke. That is my concern. I'd really like to see those resources conserved for the future.

I think, you know, that the Alberta disadvantage is troubling people. I've just had some work done around the house, and it cost a fortune. I think everyone is being affected by the uncontrolled growth of the oil sands. Why can't we develop it in a controlled manner instead of developing it like a Third World country, where everybody comes in, pollutes the place, and just creates chaos and problems?

Thank you.

**The Chair:** Thank you, Alan.

Would someone like to attempt? Go ahead, George.

**Mr. Rogers:** Thank you, Mr. Chairman. I'll try to take a stab at this.

Alan, I think you raised some very good points. It reminds us that that is why, certainly, at our level as a government we've got to continue the discussion, looking at policies whereby industry pays as they go for cleanup. There's no way that I want my children and grandchildren to be stuck with a bill for any cleanup. I agree with you that our policies have to be such that industry has an obligation

and we as government make sure that they live up to that obligation to – and I use the term “clean as you go” – clean up as they go.

I actually had a tour of Fort McMurray and the oil sands two years ago. There was a government group that toured, and it takes a long time. Certainly, the mining, if you've ever been up there to see what's happening, is massive, but I can tell you that there are steps that are being taken. Actually, Syncrude has an area that's been reclaimed where they have a small bison herd. Now, a small step, I grant you, in that large area that's being developed, but it's a start, and it's moving. As long as we insist as a government and on your behalf as a government that those requirements continue and enhance them where necessary, then I don't think we will have the kind of problem that you worry about in terms of a wasteland in the future.

In terms of the feds and whether they'll reduce the type of support that we may see, first of all, you have to realize that as a have province, we actually provide net support to the rest of the country at this point. You didn't state it, but I suspect that part of your question was a fear that they will come after this fund because, you know, it could be a very big target. I guess that's where your provincial leaders will have to continue to be vigilant. I think you are seeing some agreements right across the country, people like some of the eastern Premiers and so on. The types of agreements that are being signed now make sure that resource revenues are protected for the provinces.

7:45

I think your point is well taken that we as members of the government have that responsibility to make sure that we continue to protect these instruments on your behalf for the long term and be vigilant where it comes to any attack on them from the feds or any other provinces.

**The Chair:** Thank you, George.

**Mr. Doerksen:** Mr. Chair, if you let us all talk to every question, we'll never get out of here tonight.

**The Chair:** Well, there were six questions in there, so hopefully, Alan, we've answered those for you to your satisfaction.

**Mr. Doerksen:** This is a long way off the topic at hand tonight, but I do want to respond, I think, to your question. I'm not running for office in the next election, so maybe I'm a little freer in some of my comments.

There are a couple of issues facing the province, in my view, that we're going to have to get our heads around. One is nuclear versus other kinds of energy. Now, I'm not a fan of nuclear, but there are a lot of people that are. I think we have abundant coal resources. With the technology that we currently know, we can actually gasify that and provide that source of natural gas for production in the oil sands. But I worry less about that, frankly, in the oil sands than I do about the use of fresh water. For me that's a much more important issue facing our province than some of the other ones.

Those are some issues that as a government we have to grapple with, but I'll thank you always for your comments.

**The Chair:** Thank you, Victor. Thank you, again, Alan.

Next speaker.

**Mr. Howell:** Grant Howell from Red Deer. That's north Red Deer, so Victor's not responsible for my behaviour.

First of all, let me say that it's wonderful to be here to talk about

how we're managing a \$15 billion fund. I think that's a very positive thing. I have a couple of questions and one issue. First of all, you mentioned the government putting money aside for secondary education in the access to the future endowment fund. One of my questions is: when does the government expect to complete its commitment of \$3 billion to that fund? I believe it's currently just under a billion. Secondly, you mentioned that you had benchmarks around your investments. My question is: how well has the investment arm of the government managed those investments over the past four years?

Then a concern that I have – and it's been brought up already – is about the lack of capital for future generations. We have incredible economic activity going on here. We have incredible surpluses happening now. They are not going to continue. We know that we have finite resources. The fact that we are using part of that money today while we have these record surpluses I believe is problematic. I'm very concerned that we're using up all of the money, and our kids are going to be left dealing with the residue of what we have done. I just wanted to register a real concern that we do need to grow that fund, and that fund does need to keep this province prosperous in the far-distant future.

Thank you.

**The Chair:** Okay. Thank you, Grant. Weslyn?

**Mrs. Mather:** Thank you very much. I'd really like us to go back to where we were from '76 to '83, when 30 per cent of the province's oil and gas revenues went into the heritage trust fund. We do have a large surplus now, and we need to manage it with good, forward thinking in terms of our future generations. I'd like to see us take 30 per cent of surplus funds and put it into getting rid of the infrastructure debt. Let's not pretend that there isn't one. There's a huge one. We need to get rid of that and invest in, I think, postsecondary education. It's hard to put a value on it. It's so amazing what can happen when we support the education of our young people because that's an investment in the future.

In addition to that, of course, we can build more on the heritage trust fund with the good stewardship that it was intended to have. Now that we've got it inflation-proofed, I would hope that we can see a day where we are easily at that \$50 billion and the interest from it is taking care of taxes and many of the other things that we have concerns about today.

**The Chair:** Thank you, Weslyn. Hugh.

**Mr. MacDonald:** Yes. Mr. Howell, if you go to page 15 of Mr. Hunter's royalty review report, that was given on the 18th of September to the Finance minister, it clearly indicates that regardless of where we go with our royalty structure, how much we put it up, we are going to be getting less money in nonrenewable resources in 2016 than we are getting now. We have seen in the time that I've sat in the Legislative Assembly, 10 years, the provincial budget go from \$14 billion to over \$33 billion.

Weslyn is talking about the infrastructure deficit. It's real in my community. There are potholes bigger than a bathroom basin, and we've got to fix them, but we have to ensure that as our nonrenewable resource revenue is declining, we are saving some for our grandchildren. It has to more than double in size if we are to achieve our goal and everyone, generation after generation, is going to be a beneficiary of this incredible energy resource that we have inherited under our province.

Thank you.

**The Chair:** Thank you, Hugh.

**Mr. Doerksen:** I want to respond to a couple of the specific questions. One, I don't think Grant's question was answered on the benchmarks, and I'm going to let you guys talk about benchmarks.

**The Chair:** I was going to mention that.

**Mr. Doerksen:** Oh, you're going to mention that? Okay.

On the education endowment fund. Bill 1 of not this year but the year before put a legislated requirement to grow that fund to \$3 billion. Now, it didn't set time frames around where that fund would go to \$3 billion, but it's in the legislation. Also in there and not well known is a commitment to grow the science and engineering research fund to a billion dollars, and there was also a commitment to grow the scholarship fund by a similar amount. I don't have the exact number.

So those commitments are in the legislation. There are not timelines around it, so it does become a function of budget planning and fixing Hughie's pothole. Those are all decisions that have to be made, but there is a legislated requirement to have those funds put in place.

**The Chair:** Thank you, Victor.

Lowell, if you can touch on the benchmarking.

**Mr. Epp:** I believe the question, just to remind us all, was on how much value-added we've had from active management. This is all taken right out of the annual report, by the way, pages 8 and 9. Over the past five years – Doug mentioned it before – our target rate of return was 6.8 per cent. That was inflation plus 4 and a half. Well, we've earned 8.8 per cent. Of that extra 2 that we've added or that we've earned above our target, 1.1 per cent came from active management, and .9 per cent came from our policy mix doing better than our target.

As far as specific indexes and performance, I don't want to go through them all, but you can see them on page 9 of the annual report.

**Mr. Howell:** From your management you have added a full 1 per cent, and that's got to be – what? – \$150 million of value from the way you manage the fund.

**Mr. Epp:** Yeah. That is correct. One per cent of \$15 billion would be \$150 million per year.

**The Chair:** Thank you, Grant.

Our next speaker.

**Mr. Makarenko:** My name is Ed Makarenko. I have a question, and then I also have a comment I'd like to make. The question is: we have roughly \$16 billion in the fund, and really there was \$46 billion, I guess, if you consider the \$30 billion that was taken out and spent. How do you calculate that? I probably should get Mr. Hunter's report, too. I might get my answers from that. How do you calculate the \$16 billion? You showed your pie there earlier, but could you turn a portion of that into liquid if you had to, say, within a year? Does some of it include parks and name it? Can somebody just answer that first one for me?

7:55

**Mr. Epp:** That's a good question. All of those investments are liquid investments to varying degrees. Obviously, the bonds and the

stocks are much more liquid than some of the real estate we hold or some of the private equity.

**Mr. Makarenko:** What would real estate be?

**Mr. Epp:** Office towers in Calgary.

**Mr. Makarenko:** Okay. Calgary gets it all.

**Mr. Epp:** I knew I shouldn't have said that. As soon as I said Calgary, I regretted it.

**Mr. Makarenko:** That's right. There's life between Calgary and Edmonton actually.

**Mr. Epp:** Absolutely.

**Mr. Makarenko:** I think we generally refer to this Red Deer area as the valley of content between the two hills of conceit.

**Mr. Epp:** I have nothing to add to that.

**Mr. Makarenko:** So you could turn it into cash, could you, if you had to?

**Mr. Epp:** Yes. When you have such a large amount, turning it into cash quickly would probably cause some of the value to be lost, but theoretically, you know, when you take the value of those assets, you measure them as of March 31, and that's the value you have got. If market conditions held, that's what we could liquidate it for.

**Mr. Makarenko:** Okay. I'm quite disappointed, actually, in the heritage trust fund. Personally, I would have guessed when it was first started that it would be a hundred billion dollars today. I'm certainly really worried about the way the government is spending money, and that's not your issue, I know, right now. The fund should be much, much bigger – I'm thinking of my grandkids and on and on – as a legacy.

My friend Egon Gregersen has connections to Norway. This has more to do more with royalties, but it's still worth repeating. Norway initially had some problems when they raised the royalties and the oil companies left, but they all came back, and they're all happily paying the extra royalties. Norway, which has a population of roughly what Alberta has, I understand, based on Egon's figures has something like \$288 billion salted away.

I would like to see a much more aggressive effort put in by this government. Let's not be spending the trust fund. I know I'm repeating a little bit of what other speakers said, but let's not be spending that money, not putting it away aggressively. I kind of like that 30 per cent.

Thank you.

**Mr. Doerksen:** Just to answer your question on the capital thing, there was money that was invested from the heritage fund into parks like Kananaskis, like our own Waskasoo park. Those are not part of the valuation. They're an important contribution to Alberta, but they're not part of that \$15 billion that's listed here.

**The Chair:** Okay. Thank you, Ed. Thank you, Victor.  
The next speaker.

**Ms Tegtmeyer:** My name is Joan Tegtmeyer. I'm from that conceited hill to the south, and I'm with the Friends of Medicare and

also the Council of Canadians. I would like to emphasize what the previous speaker or questioner asked. I've got those Norway figures, too, and I just can't understand how they can do that in 10 years, and all we've got is Hells Angels in 10 years, you know.

My question. I'm disappointed that Gary Mar and Richard Magnus are not here because they're the fellows that I'm most familiar with as far as the committee goes. I've just been reading Naomi Klein's book, *The Shock Doctrine: The Rise of Disaster Capitalism*. When I read that book, it just reminds me so much of what's happened in Alberta since 1980. We have a boom in the economy. Then we have a bust in the economy. Then we have public policy exhorted to the benefit of investors, not to the benefit of people that built the province or want to live here in the future, their children. So I would like to have some encouragement. I didn't realize that they were trying to make the Jack Mintz thing – what do you call it? A commission? They're looking at trying to make this a Crown corporation or make the investment side of things a Crown corporation, which would give them a bigger pool of money.

I'm just looking at, you know, the amount of wealth we have in this province, that is attracting all sorts of innovation, like a bullet train, SNC-Lavalin. Ontario Teachers' owns part of that, and we're seeing pension funds used to the detriment of the people in Canada. The teachers' fund helped put Mac Blo into Weyerhaeuser.

I'm very concerned about the massive amount of money that might be put in the hands of a fund manager whose purpose is just to build the shareholder profit in the fund, which is what he's mandated to do, but to the detriment of Canada, to the detriment of Alberta, and to the detriment of future generations.

We've just gone through another boom. What is now being exhorted in the way of public policy if they threaten to pull the money back out? Can you sort of address those issues for me?

**The Chair:** Thank you, Joan.

**Mr. Rogers:** Joan, I think that most of the questions you raised are policy. You know, we're taking notes here tonight, and when we go back and discuss a lot of this as a group, we do have guidelines, and I'm sure our staff can talk about some of the guidelines for investment. The whole idea of going to a Crown corporation – and I think you mentioned it in your preamble – is to maximize the return on behalf of Albertans, and certainly we're not going to do that at all costs.

**Ms Tegtmeyer:** But that's what the heritage fund was supposed to do, too, and Norway has got \$300 billion, and we've got \$16 billion.

**Mr. Rogers:** Well, again, we could debate different funds in different countries all night, Joan, but that's really not why we're here. The reality is that we made some decisions on the use of our fund that we have based on our economy. We've learned a lot in terms of what has happened, what has transpired over the years since the fund has started till today. We've got a fairly healthy economy right now. As you can see, we've started to make some significant investment into the fund again. Not only are we inflation-proofing it once we paid the debt off.

Now, again, these are policy decisions. We made a decision in this province to focus on paying off our debt to give us more flexibility to do other things. Whether you agreed with that or not, again that's a matter for a lot of debate. But that's the direction that this government took. Once we finish that desire to pay off our debt, then we have this other flexibility. Part of what we started to do

initially was to inflation-proof the fund. We've gone beyond that, and we've added another net \$1.8 billion to the fund.

Maybe we're not going as fast as you might like, Joan, but I certainly think that we're headed in the right direction, and that's something that I certainly as one member of the government will continue to speak in favour of.

**Mrs. Tegtmeyer:** I'd just make an observation that the fund went into general revenues in 1988, when the free trade agreement was signed, which gives the Americans equal access to our wealth. They can apply for evangelical missions with public money if they want to, too.

**Mr. Rogers:** Not these funds, Joan.

**Mrs. Tegtmeyer:** Not these, but I've seen it with CIDA funds.

**Mr. Rogers:** Again, we'll certainly take your thoughts into account, Joan, as we have more discussions about this. Again, mostly your points are around policy, and they'll aid us in our discussions as we move forward.

Thank you.

**The Chair:** Thank you, George.

Mr. MacDonald.

**Mr. MacDonald:** Yes. Thank you, Joan. We had quite a discussion in the Legislative Assembly this spring when AIM, or the Alberta investment management corporation, was first enacted through statute. When everything is added up – Victor did a very good job with the numbers earlier – there is going to be in the range of between \$50 billion and \$70 billion in that investment pool.

8:05

I was told during the course of the debate that British Columbia already has a similar Crown corporation. Included in this is not only the heritage savings trust fund. Also, the local authorities pension plan money and other pension plan monies within Alberta will be pooled. How that money is invested is a very good question. If you look at the Ontario Teachers' Federation, they have a 50 per cent interest in the strip mining of coal that's being promoted by Sherritt over by Tofield, that very shallow coal, and it's going to be converted to hydrogen for use in the upgraders north and east of Edmonton. Big investment pools can have a significant interest in one economic enterprise or another, so that has to be watched.

Certainly, this spring there was one discussion paper put forward by consultants to guide us during the debate, one that I saw, on whether or not we should go towards this AIM, or this Alberta investment management corporation. As far as I'm concerned, we will proceed with caution on that. It seems to be working in British Columbia, as I know it, and hopefully it will work very well for the investments that we have in this province.

**The Chair:** Thank you, Mr. MacDonald.

The next speaker.

**Mr. Coulombe:** My name is Henry Coulombe. I'm from Red Deer-South. I have one concern. The Alaska people this year, from my recollection, have gotten a cheque – every citizen: man, woman, and child – of \$1,700. I want my \$1,700 because I don't trust any government – federal, municipal, or otherwise – to spend it wisely. What you guys are saying: you're taking the money out, and you're putting it in general revenue. That's no damn good to me. I can

spend it better than you guys, and I'll spend it on a fridge or on a trip or whatever the case may be. I can spend it better. Why is it that Alaska can do it and we can't? What's the difference between the two systems? What does the Alaska government do? Do they take all the money, or are they more generous than us Canadians?

**The Chair:** Okay. Thank you.

**Mr. Coulombe:** I have another question, too.

**The Chair:** Henry, do you want us to answer the first?

**Mr. Coulombe:** No. I can ask the second one. The second one I got alarmed at was when I believe it was Douglas came up with this Crown corporation. Scary. You don't want a Crown corporation. We've got enough government. If you're going to do that, give it to private enterprise to run and manage the money. If you give it to somebody to manage it and they say that it's going to cost you X percentage, I know what it is, but if you give it to a Crown corporation, it's a guess and it's a poke at best throughout the year. With a Crown corporation, who elects the Crown corporation? Who puts them in place if it's not the government and the government's friends? That is too scary for my liking.

**The Chair:** Okay, Henry. We'll answer the first part of your question.

**Mr. Rogers:** Thank you, Henry. I appreciate your point. We did have a similar payment, not to the same amount, some time ago that the government decided. The only caution I would say to you: when you compare Alaska to this province and a payment of \$1,700 a year, they have a lot of user fees in Alaska, a lot of the things that your government provides, health care and so on. I would just caution you to sometimes be careful what you ask for because a lot of the things that people pay user fees and so on for in Alaska are provided by your government here. So I would just say: be careful what you wish for.

**The Chair:** Thank you.

Mr. MacDonald first and then Mr. Doerksen.

**Mr. MacDonald:** Yes. Henry, regarding Alaska, I would certainly encourage you to look on the state of Alaska's website, and you will see a completely different way in which they govern themselves with the permanent fund and how they collect royalties. In fact, in the last year, in April of 2006, the Republican majority in the Alaska State Legislature introduced a petroleum profit tax of 22 and a half per cent, which in the last year has generated close to a billion dollars in extra revenue for the state. Whenever oil is over \$50 a barrel, this tax kicks in. The energy industry was very upset at the time, but they've seemed to learn to live with it. As the state officials there told me over the telephone, a year ago I could get a room in Prudhoe Bay, but whenever I go there now, I have to book weeks in advance because it is quite busy. So they have increased the government take, or the government share. They're sharing a portion of that with the citizens, and they're putting a portion of it into an investment of the permanent fund.

Now, as far as Crown corporations go, the second part of your question, we should be very, very careful. I think Mr. Stratton and the people at the Department of Finance – I'll put it to you this way: I wish they were investing my meagre savings because they are doing a lot better job than I with mine. A Crown corporation: we've got to be very, very careful. In America we're looking at a subprime

loan crisis that is not generated by a Crown corporation or a government agency. It's a lack of regulatory authority that's causing this crisis in savings and loans and in mortgages in America. Also, Enron: we have to be very careful. Government has a role to play in all of this. It has a regulatory role. Not only does it have to make the rules; it has to be willing to enforce them when it's necessary.

Thank you.

**The Chair:** Thank you, Mr. MacDonald.

**Mr. Doerksen:** Just so you know, I heard your request to have the money directly into your pocket. We tried that one year and sent out \$400 to every man, woman, and child. It was not received with overwhelming enthusiasm, and the majority of people in Alberta do not support you on that particular notion.

**Mr. Coulombe:** Yet did they give you the money back, those people that didn't want it?

**Mr. Doerksen:** No. They all spent it.

**Mr. Coulombe:** So what you hear is that people didn't like it because of the cost. Those people all spent their money.

**Mr. Doerksen:** Well, you've got to ask them because overwhelmingly they were not supportive.

**The Chair:** Okay. Thank you, Henry.

I'll just get a comment from our Finance people. Any comments on the Alaska \$1,700 rebate or on AIM, the Crown corporation?

**Mr. Epp:** The Alberta investment management corporation will continue to do what the investment management division within the Department of Finance does right now. It's important to note that we use a combination of internal management and external management. For example, U.S. funds, U.S. equities, or global equities are not managed directly by Alberta investment management, nor will they be after they become a Crown corporation. We hire local managers, local experts, to do that to maximize returns for taxpayers' dollars.

Essentially, the analysis is that if we can do it better in-house and save money by doing that, we will do it in-house. If we cannot do as well internally, we will use external, private-sector managers, the same managers that other endowments and other pension funds across the world would be using. So we are using a combination of both internal and external, and that will continue.

**The Chair:** Thank you, Lowell.

**Mr. Allan:** My name is Doug Allan. I'm from Red Deer. Pretty much everything I've heard tonight all kind of makes sense. I like the way everything is presented and everything, but the purpose of this money, I guess, is for Albertans in the long run. That is the plan. I guess that with the basic building block, we're using an incorrect assumption, which is basically that the inflation rate is 2 per cent in Alberta. It's not 2 per cent in Alberta. It's 2 per cent in Canada. In Alberta the official rate that the government of Canada stats have published is 6.2, and that's a big difference. You can see it in your own statistics in your charts there, that difference of 4 per cent. We know that the rule of 72 says that money will double in 17, 18 years, using a 4 per cent difference in the reality versus what you're using.

We showed in that one chart or even in Mr. MacDonald's comment that he had made that the province's expenditure budget went from \$16 billion to \$33 billion in the time period that he has been involved, basically that 16-year time frame we're talking about. We can take the same chart that you guys used that said that the amount of money we used to get was 13 per cent, and today it's more like 4. That's over 30 years. Basically, two doubles is four times. That's basically what's happened.

So the reality is that the inflation rate is running 4, 5, 6 per cent, and we're using 2. I can guarantee you that at the same rate we're going, 30 years from now instead of being 4, it'll be 1, and 30 years from that, it'll be a quarter of 1 per cent. It'll basically be negligible in 50 or 60 years if we don't start using the right assumptions. It's a big difference.

**The Chair:** Okay. Lowell or someone from Finance, can we touch on that?

**Mr. Stratton:** The question relates to the use of CPI figures for inflation-proofing the heritage fund, and the question relates to whether it should be Alberta CPI or Canadian CPI, if I have the comments correct. Under the heritage fund act we use the Canadian CPI figure for inflation-proofing the fund. It's a very good point in terms of that Alberta inflation is running higher than Canadian inflation at this time. However, Canadian inflation, of course, includes a component of Alberta inflation, so there will be that portion of the flow through to increase Canadian inflation. There have been times in the past, certainly not now but in the past, when Alberta inflation was running below the Canadian average. But as far as the heritage fund act, as I say, it uses the CPI as the inflation-proofing number.

8:15

**The Chair:** Thank you, Doug.

Anyone else?

**Ms Gray:** My name is Alice Gray, and I came up from Didsbury for this meeting. My understanding was that somebody wanted to know how we wanted some of the heritage money to be spent. We've mentioned education, we've mentioned students, but I haven't heard anyone mention seniors and their health plans if you're over 65. I notice that none of you have reached that point, so you really probably don't know what is covered and what isn't covered. We're not, I don't think, looking at prevention of hospital use. You know, we're short of everything, but there are many things in the seniors' health plans that are just not there: some medications, many things.

Now, you started the heritage fund in – what? – '76. I would guess that many of our seniors in Alberta were part of getting this money in the heritage fund. I would hope that they are deserving of a better health plan than is now available. I would suggest that you all get a copy and read it and see what is covered and what isn't. I think it needs to be looked at very seriously as a prevention to hospital beds. You know, we have hospital bed shortages, doctor shortages, but I think there are a lot of things that could be covered that may prevent people from needing doctors and hospital beds.

I would hope that someone would take a look at this very seriously. I think seniors are deserving of more than what they're getting in this province, especially when you look at \$16 billion, not million but billion, heritage. I think some of it could be spread around to some of these people who helped put this money there.

Thank you.

**The Chair:** Thank you, Alice.

**Mr. Rogers:** Thank you for those comments, Alice. I think that some of the speakers earlier tonight touched on this. One of the reasons that the fund hasn't grown as much as maybe we all would have liked is the fact that we have used income from the fund over the last number of years for a lot of programs, all the way from education and children's services to seniors. As we go to the future, we talk about this fund being for the future of young people, but it's also going to be there for the needs of seniors, people that are seniors today and some of us not so senior folks that will be seniors in the very near future. I think you raised a good point, Alice, but the reality is that part of what we've been using the income from the fund for over the last number of years and why the fund hasn't grown as much as a lot of us would like is partly the spending on seniors' programs as well.

**Ms Gray:** I was also a child welfare worker. I'm a social worker. There were many resources that we just didn't have. I have a hard time hearing you say: well, we've done this and this and this. You know, the people who make these decisions are not on the front line, and they don't know what is needed both in health care – I've also worked in the hospital – and in children's services.

**Mr. Rogers:** Points taken, Alice. Thank you.

**Mrs. Mather:** Thank you, Alice. I really appreciate your comments and a little bit of education there for us.

I do believe that, like AISH recipients, seniors' benefits should be indexed. The situation is that we have tried for that in the House. We have not been successful. At least they should be covered for inflation because your income is eroded just as this fund has been eroded by inflation. I really support what you're saying, and I thank you for the message tonight.

**The Chair:** Thank you, Weslyn.

I'll just remind folks. When you're at the mike, if you think you might have further comments, stay there because they can't pick up your comments if you're here. Alice, we want to hear what you have to say, so if you want to go back to the mike, that's fine. They can't pick them up if you're not at the mike. We don't have to repeat everything, just what you said when you were sitting here.

**Ms Gray:** Okay. You stated that you spent a lot of money on services. I was a child welfare worker for 10 years. We were very short of resources, as the seniors are today, too, very short of resources. So I find it hard to sit and hear this because I was on the front line. Most people who make these decisions have never been on the front line and really don't have a clue about what the front line is all about.

**The Chair:** Okay. Thank you, Alice.  
Next.

**Mr. Teghtmeyer:** My name is Mel Teghtmeyer. I'm also from Calgary. I have just a quick comment and a couple of questions. The comment is on the Crown corporation. I was actually going to ask a question on it, but I thought I should issue my concern about a Crown corporation. With a free-market government such as we've experienced here in Alberta, what would stop the government from selling the Crown corporation and becoming unaccountable to the public? That's my concern about a Crown corporation.

I must compliment you on the fine performance of managing the fund, the elements of the fund, because it looks pretty impressive as I look through it in the annual report, so I can't quite understand the motivation for going to a Crown corporation.

A couple of questions. One of the speakers mentioned income for the present and capital for the future. I don't see that in the goals and mission of the fund. I think that most Albertans would think that it was income and capital for the future. So that's a question: where did this income and capital breakdown come from? I don't read it in the annual report, and I don't see it in your mission.

Second question is with regard to Norway. I'd like to know if the board or committee has had a presentation from Norway as to the goals and legislation behind their fund, where all of the royalties go into the fund and the fund grows based upon the royalties and then 4 per cent of the gross amount of the fund goes back to general revenues. It seems like a much better way to operate and a way that we would have \$100 billion or something in our fund today rather than what we have.

**The Chair:** Thank you, Mel. On question 1, Finance people, can you help on that? That would be: what would stop the sale of the Crown corporation?

8:25

**Mr. Epp:** That would be a policy decision similar to Alberta Treasury Branches or any other Crown corporation. What would stop it? The same thing that stops selling Alberta Treasury Branches or whatever.

As far as the comment about income is for the present and capital is for the future, my colleague Doug points out that that is clearly stated in the preamble to the Alberta Heritage Savings Trust Fund Act, which is not included in the annual report.

**Mr. Doerksen:** I'm going to test my memory of history here a little bit. Going back to 1995, when we decided to keep the fund and change the investment objectives, here's how it worked. At that time the fund was set up primarily for short-term investments that could generate cash for the general revenue fund. As we moved over a number of years, we moved more and more of that into an endowment portfolio, which actually looked at growth as opposed to income. Just like if you hold mutual funds, you're going to have some in income securities, and you're going to have some in growth funds. Over that period of time we've moved more and more of the investments actually into a growth portfolio, or capital portfolio, as opposed to income. I hope that I'm semicorrect on that.

**The Chair:** Thank you.

Any further comment?

**Mr. Teghtmeyer:** Except your years are obviously wrong. Like, in 1995 you blew up the General Hospital too. Thank God you didn't blow up the fund. The fund has only grown in the last three or four years. We can read a report too.

**Mr. Doerksen:** Yes, that's true, but the principle that was established there was that we would first take our surplus and apply it against the debt to eliminate the debt before we grew the fund. If you wanted to add that instead to the endowment, you could have done that, but then you'd still have a debt. So it's still a return.

**Mr. Teghtmeyer:** Okay. What about the Norway question?

**The Chair:** Yeah. The Norway question. Have we spoken to anyone from Norway or had a presentation from them about their fund?

Mr. MacDonald.

**Mr. MacDonald:** No. Thank you, Mr. Chairman. I have not. I would certainly love to sit down and discuss with them how they have been so successful in such a short period of time. The oil that is produced, mostly offshore, in Norway is different from our heavy oil. We have some light oil here, but it's totally different. They are an independent country, and we are a province with our own control, fortunately, of our resources. It's like comparing apples and oranges.

At the same time, you are absolutely right. They have done an incredible job in a short period of time. I think it would be prudent of us, wise of us to seek direction from them.

**Mr. Teghtmeyer:** I'm thinking about the investment strategy more so than how the royalties are derived. I agree with you. It's a different source.

**The Chair:** Thank you, Mel. I've just been informed by our Finance people that there is actually a meeting tomorrow with our financial investment planning committee and representatives from Norway.

**Mr. Teghtmeyer:** Give me a call if you need a phone number because I know some people.

**The Chair:** Thank you, Mel.  
One more comment from Mr. Rogers.

**Mr. Rogers:** Mr. Chairman, just to respond to Mel's concern about the Crown corporation and whether we would sell it. Mel, you have to realize that this is just a vehicle that we're using. It's a tool that we've created to try to do a better job of managing our investments. There's much more flexibility in a Crown corporation to gain the kind of returns that we want to gain to grow the investment rather than an in-house arm of the Finance department. We found that there are other successful agencies like this, for example the one in B.C. All we're doing here is creating a tool that will help us do a better job of managing our investment. There's no intention to sell this. Frankly, I'm not sure who it would have any value to. It's a vehicle that's intended to do a better job, just a better tool for maximizing returns on the investment.

**Mr. Teghtmeyer:** You'd have to sell me on accountability. I should phone my MLA and make him accountable.

**The Chair:** Thank you, Mel. Thank you, Mr. Rogers.  
Next, please.

**Ms Stewart:** Sandi Stewart from Lacombe. First of all, I congratulate for all the insight in creating the heritage fund to begin with when the province was going through the oil boom back in the '70s. With most of this fund, of course, coming from nonrenewable resources, the increase in this fund over the years and hopefully in the future is great. What I'm wondering is: no matter how much we save and create this large fund, what is going to happen when we don't have any more nonrenewable resources? So my question is: are we using any of this fund to develop more renewable resources so that once the money is spent, maybe next generation, we are going to have, I guess, sustainable resources? The money sooner or later could run out just as the nonrenewable resources run out.

**The Chair:** Thank you, Sandi.  
Any of the panel want to take a stab at that? Mr. MacDonald.

**Mr. MacDonald:** Yes. That's a very good comment and question. In the past you as owners of the heritage savings trust fund invested close to \$600 million in research and development into oil sands development and technology. At the same time that this was set up, half of that pool of cash came from the heritage savings trust fund; half came from general revenue. That has paid off significantly. That research and development was primarily done by the Alberta Research Council. It wasn't done by oil and gas free-enterprise corporations. It was done on behalf of the province with money that was funded by the citizens. It worked then to develop the tar sands, or the oil sands.

Now, what Victor said earlier about coal gasification. I'm puzzled as to why some of our money couldn't be used to further develop technology that would gasify coal under the earth and bring it up for electricity generation, for instance. There are a number of things that I think we could be using this fund for that we're not.

Thank you.

**Ms Stewart:** Sorry. Maybe somebody else will answer it, but to my recollection coal and the oil tar sands are nonrenewable resources. They are renewable?

**Mr. Doerksen:** No. You're right.

**Ms Stewart:** Okay.

**Mr. Doerksen:** I want to respond basically to Hughie's thing. There are two different questions, really, as a policy that you have to make. One is what you do with the money in the heritage fund. Clearly, right now in the heritage fund we have said that the primary objective is to grow that fund through financial investments, not through R and D. If you wanted to change the purpose of the fund to actually put money now into research and development or parks or anything, you people would have to tell us to do that, right? You'd have to actually change the purpose of the fund. To date we haven't done that.

Through another budgeting process – and this now goes back to a previous minister of innovation and science – there was a budget that we used for development of energy technology, including coal gasification, as one of the elements. So there is another budget process that we use to invest money into research and development. It doesn't come out of the heritage fund, but it does come out of the budgeting process. Now, we can argue whether it's enough or not, but there's a different arm, so you've got to keep those two questions separate. If you're telling us that you want to spend a lot more money from the heritage savings trust fund for that, then you're not going to get financial returns immediately, right? That's a policy question, and right now that's not the direction that we've taken.

I hope that answers the question.

**Ms Stewart:** Yeah. Am I missing something? Did you allude to this coal thing with the gas being renewable?

**Mr. Doerksen:** Oh. No, I didn't. Coal and gas are nonrenewable resources.

**Ms Stewart:** Yeah. Okay.

**Mr. Doerksen:** The reason I alluded earlier to coal with respect to using that resource in Alberta is that we have about a 700-year supply of coal in this province.

**Ms Stewart:** Province? Or for all of the States and everybody else?

**Mr. Doerksen:** For the province. Well, if you developed it. It's a resource that we have available. If you apply technology to it, you could direct some benefit out of it. But it is nonrenewable. Eventually it does go away.

**The Chair:** Thank you, Sandi. Thank you very much.  
One comment from Mrs. Mather.

**Mrs. Mather:** Yeah. Thank you. I just wanted to say that along with investing in postsecondary education, which I think is probably the most valuable investment we can make because it leads to research and development, with good stewardship and aggressive investment in this heritage trust fund we can get to a point in the not-too-distant future where the interest alone can eventually be far greater than the nonrenewable resource revenue we're depending on now.

8:35

**The Chair:** Okay. We've got one final question here. Sir, if you'd like to come up to the mike.

**Mr. Estabrooks:** Yes. Manny Estabrooks. Just a comment. I am, as well, quite disappointed in the return rate on that investment. I think it should be around 18 per cent.

My question was perhaps answered in part by Victor. To what extent are the heritage savings trust funds being used to diversify the economy? We've talked about resource-based economy. What about diversifying it to other sectors of the economy?

**Mr. Doerksen:** Specifically out of the heritage savings trust fund: that is not the objective. They are primarily financial assets to grow the value of it. It's not used for diversification. Again, if you were to change the purpose of the fund, which Albertans could tell us to do, you could do that, but currently that's not what it's used for.

**The Chair:** Thank you, Manny.

Do we have one last one? Would you like to make a comment or question, please? Then we'll have to conclude.

**Miss Jackson:** My name is Karen Jackson. I'm from Red Deer. I just got this little card, and it says that you invested \$30 billion since 1976 and that we have presently \$16.6 billion. I heard that the investment of EnCana this year made \$36 billion. I don't think that we're really doing very well at all.

**The Chair:** Okay. Would anyone like to comment? I'm sorry; I missed the question because I had another question.

**An Hon. Member:** It was a comment.

**The Chair:** It's obviously recorded for *Hansard*. But it was just a comment, I understand, not a question. Okay. Thank you very much.

To conclude, we'll start on my extreme left from our MLAs with Weslyn Mather.

**Mrs. Mather:** Thank you for the opportunity to be here this evening and to get an understanding of what you see we should be doing with the heritage trust fund. I'm going away with some information that I will make sure that, whenever I have the opportunity, I will speak to in the House or in this committee meeting.

**The Chair:** Thank you, Mrs. Mather.

**Mr. MacDonald:** I would like to thank you. I've sat on the committee since 2004, and I'm really impressed that you took the time to come out and check up on this process. It's refreshing. We have been across the province. I've been at meetings like this in Edmonton, at Grant MacEwan, where there were seven interested citizens, only seven. I just would like to express my gratitude to you for coming out this evening.

In my community of Edmonton-Gold Bar the heritage savings trust fund was used to construct a 306-unit affordable, accessible housing complex for seniors back when Mr. Lougheed was Premier. Would you like to see that money in this fund now be used for similar enterprises – I have a question for you – yes or no?

**Miss Jackson:** I would like you to go through the nursing homes that are in the province at the moment and see what's happening to these older people that are laying there not being fed and not having anything, and there's nobody there. They're calling out, "I need help. I need help," and there's nobody there to help.

**The Chair:** Thank you Karen. You'll have the chance to speak to us when we conclude the meeting.

George, your comments, please.

**Mr. Rogers:** Well, thank you, Mr. Chairman. Ladies and gentlemen, I sincerely want to thank you for coming out this evening. You're obviously very interested in how we're managing this fund on your behalf. Certainly, we were here as your stewards of the fund, and I guess we tried to do our best to explain and defend to you what we've done, how we've managed the fund on your behalf over the last year. This is the meeting referring to the last year's activities.

Even more importantly, it was good for us to hear some of your thoughts, and it allows us to take something back. We will be having discussions as a larger group over the next year. We're currently going through our budget process. So thank you for coming out this evening and sharing your thoughts with us. It's really irrelevant whether we agreed with you or not. These are your thoughts, and it's important that we hear them and that we take them back and they become part of the mix as we discuss and plan and continue to be the stewards of your fund for the future.

Thank you.

**The Chair:** Thank you, George. Any comments from our financial? No?

Seeing none, I just want to remind the 11 people that came up and asked the questions at the mike just to make sure you check in when you leave so we have your names spelled correctly. Just a reminder.

I'm sorry. Victor, our host. I forgot about Victor.

**Mr. Doerksen:** I begged the chairman to let me speak last because I made some comments earlier and I want to repeat them, actually, now. Hughie just related to it. In all my years of serving on some of these committees, we have never had this kind of attendance and this kind of interest in the heritage fund. I want to commend you for coming and making us really proud in central Alberta. You guys have done it again. Thanks so much for coming. Have a great evening.

**The Chair:** I want to thank you for coming out. This concludes our meeting.

Thank you.

[The committee adjourned at 8:41 p.m.]