

Standing Committee on Public Accounts

Wednesday, May 25, 1983

Chairman: Mr. Martin

10 a.m.

MR. CHAIRMAN: Maybe we could come to order. We have a lot of business to go through today. I take it that the minutes have been circulated. Are there any errors or omissions? Your name was spelled right, Greg? Good. All those in favor of adopting the minutes say aye; opposed say nay.

MR. PAHL: Just a comment, Mr. Chairman. I note we have a transcript from the hearing. Is that really in effect the minutes? Because I for one find the minutes useful for an overview, but I think the transcript would in fact be the official record of the committee. Is that not correct?

MR. CHAIRMAN: What has been the practice?

MR. BLAIN: The official record of the committee is the minutes. The transcript is a verbatim report of the proceedings, which is a reference document, which serves as a back-up to the minutes.

MR. PAHL: If they're in conflict, which prevails?

MR. BLAIN: If they're in conflict -- obviously what is said in the transcript is not necessarily repeated, but the minutes should reflect the contents of the transcript. It would be perfectly in order to raise a discrepancy as a point in the minutes.

MR. PAHL: Thank you. Mr. Chairman, the reason is that I have to admit that I haven't studied the minutes carefully enough. I thought that once we had a transcript, we really had the record of the proceedings.

MR. CHAIRMAN: Okay. Thank you. First of all, just a couple of things came up from last meeting from the Auditor General, Mr. Rogers. He will present those written answers, and then a couple of comments about what we're going to do today.

MR. ROGERS: Thank you, Mr. Chairman. I have a written response to questions relating to the overexpenditure of funds provided for three programs. We were asked for an explanation of these, and I think the written response deals with the matter fully. I don't think it's worth going into detail verbally, because the matter distributed is self-explanatory.

The other thing I'd like to do is point to the pages where the Alberta Opportunity Company financial statements for March 31, 1982, can be located. That is volume I, section 5, 126 through to 132. The audit report is a clean report. There is no reservation of opinion. I think that is all at the moment.

MR. CHAIRMAN: Thank you, Mr. Rogers. Before I call on the minister, I've been told there is a swearing-in ceremony. So I'd ask if we could do that right now, please.

Messrs. Adair, Parker, and McDonald were sworn in

MR. CHAIRMAN: I'll call on Mr. Adair now, if he has some preliminary remarks and wouldn't mind introducing his special guests at the same time.

MR. ADAIR: Mr. Chairman, thank you very much. On my immediate left is Roy Parker, the managing director of the Alberta Opportunity Company; on his left, the deputy minister of the Department of Tourism and Small Business, Al McDonald. Of course, I'm the Minister of Tourism and Small Business and the MLA for Peace River. Rather than getting into any opening statement, we're here at your service.

MR. NOTLEY: Mr. Chairman, I'd like to direct my first question to Mr. Parker, if I can, having had an opportunity to chat from time to time with the minister, both as colleagues in the Peace River country and in the House. It's with respect to the process by which the Alberta Opportunity Company deals with those loans of \$1 million or more which must go to cabinet.

MR. PARKER: Um . . .

MR. NOTLEY: I have a number of supplementaries, but you sort of beat me to the punch. I was going to roll several questions into one, but I'll just let you start right there.

MR. PARKER: We have the applicant approach whatever is the closest branch to their place of business. They provide to our loans officer whatever information is required in order to do a loan investigation. They proceed to investigate the proposal from a variety of aspects. If it's an area where we don't feel we have sufficient in-house expertise, we will on occasion obtain advice from an outside consultant. A report is completed, forwarded to head office in Ponoka, and reviewed by a loans committee. It is then sent to our board of directors, which in turn reviews it, and it is sent to the Lieutenant Governor in Council for either approval or decline.

MR. NOTLEY: Mr. Parker, when we're dealing with loans over \$1 million, I presume there are probably different factors which Executive Council would take into consideration. Perhaps the government has argued, in the case of one well-known loan, diversification as a principal reason for that loan proceeding. Mr. Chairman, to you, Mr. Parker, in your years in your position, I wonder whether there have been any cases where there has been a significant difference between the evaluation of the board and the process by which Alberta Opportunity Company would render a recommendation, whether there's been any difference between the AOC's position and Executive Council.

MR. PARKER: The only things I can think of are the occasional cases where a loan application that we have recommended is declined. That does happen; not frequently, but it does happen from time to time.

MR. NOTLEY: Would it be correct to say, Mr. Parker, so there's no misunderstanding, that all the loans that have been accepted by Executive Council, including the most recent example of \$8 million -- that that particular loan would have had the active support of the AOC board and that in fact the recommendation was from the bottom up? Would that be a correct evaluation of what happened in that particular event and in all events with respect to \$1 million or more loans? You know of no single case where there may be some variance between the assessment of the AOC and Executive Council decision?

MR. PARKER: Certainly in the case of Ram Steel, it was recommended by the board of directors. The only ones where there has been a difference of opinion has been, as I said before, where individual recommendations have been turned down. Certainly the board and various levels within the company will turn loans down. If these are declined, then they don't go forward.

MR. GOGO: Mr. Chairman, first of all, I'm very pleased to see the minister with his people here this morning. I've long had a concern, Mr. Chairman, with regard to the emphasis we in this province either put on or fail to put on small business. I'm looking at Mr. McDonald now. My recollection tells me we have some 1,400 or 1,500 staff people in Alberta Agriculture dealing with agricultural matters, primarily farmers. Yet looking at the minister's estimates, the number involved in the Department of Tourism and Small Business -- I don't know how many there are, maybe 180 for the two. Mr. McDonald or Mr. Adair, could you first of all tell me how many are related to small business?

MR. McDONALD: Mr. Chairman, I believe the present listing is about 177 for the divisions of tourism and small business, plus 125 for the small business interest assistance program. The 177 is broken up to approximately 75 to the small business division.

MR. GOGO: Mr. Chairman, a supplementary, if I could. Mr. McDonald or the minister, do you get many requests from the chambers of commerce throughout Alberta, which consist primarily of small business, for increasing the number of staff you have to assist small business directly?

MR. ADAIR: Actually, Mr. Chairman, I think the requests come more from the business community, but they do come from some of the chambers. We've had discussions with the Alberta chamber relative to the staff.

It's a two-edged sword, I guess you could say, because at the same time we also have discussions with the chambers of commerce relative to the size of government. In this particular case, where we have roughly 177 including the tourism division, the small business division, and the northern development branch, you have basically a very small, very dedicated group of people working many, many hours on behalf of the small business community. I would be less than honest if I didn't say that we could certainly use some additional business analysts in the field right now.

MR. GOGO: A final supplementary, if I might. It ties a bit into Alberta Opportunity Company, Mr. Chairman. As a member from the Lethbridge area, I've been very impressed with the attitude of your staff in the Lethbridge area. They seem to work very closely with the small business element, along with the Alberta Opportunity. It's been my observation that the federal authorities that are in the lending business, the federal development bank I think it is, are more prone to lend money. Yet Alberta Opportunity Company, who would do a market analysis or a variety of things would say: in your best interest, we don't recommend you proceed with this, and therefore we'll decline the loan. My question would be, is there much co-operation between Alberta Opportunity Company at that level and the federal development bank for small business?

MR. PARKER: Yes, we deal with all lenders, whether it be the Federal Business Development Bank, RoyNat, the chartered banks, treasury branches, and so on. Where there's a joint interest in a particular business, we share information and co-operate with them in an attempt to try to resolve whatever problems a business has or to provide it with the financing or advice required. A great

many of our people worked at one time with FBDB, and we have close connections with them.

MR. STROMBERG: Mr. Chairman, through the minister to Mr. Parker. Representation has been made to your board by the city of Camrose, their MLA, and a number of groups in Camrose to set up an office of AOC similar to the regional offices you have at Vermilion and scattered -- quite a number in the Peace River, for some reason or another. Their shopping area extends to the Saskatchewan border, Provost, and the concern the business community of Camrose has is that the people on that line have not a tendency -- the traffic flow is not over to Vermilion, and it's a long distance to Ponoka. Their shopping centre is Camrose. The number of loans that have been granted in the Camrose area is fairly low compared to other parts of Alberta. That was a couple of years ago; it might have picked up now. But they feel that with an office there, business could pick up. Has the board given consideration lately to establishing an office in the city of Camrose?

MR. PARKER: At the present time, we don't have any new offices under active consideration, because we're attempting to restrict the size of our staff and to minimize expenses. However, it is the policy of AOC to review a branch office in any community the size of Camrose or larger when we reach a point that it is economically viable to have staff residing there permanently and the expenses related to office and so on are realistic.

What we do for Camrose and the kind of line out to the Saskatchewan border, and other areas of the province where we don't have a direct office, is to conduct what we call advertised visits. For instance, we go to Camrose at least once a month. We advertise in the local newspapers, and we have our man in attendance to take interviews of local people. The same thing holds true, but not quite as often, for the smaller communities east of Camrose. We would probably visit them two or three times a year on the same basis. We find that that, while not as good as having an office, certainly is of great assistance to small businesses because, as you say, it's a long way to go to Ponoka, especially from some distance east of Camrose, and many people who might be interested won't go to the effort of going that far on speculation. However, with our people attending on a regular basis, advertising in the newspaper beforehand, we do get a reasonable response from those areas.

MR. ADAIR: Mr. Chairman, if I can supplement the comment made about the Peace River office. The original office was in Grande Prairie. From Grande Prairie to the Northwest Territories border is roughly 550 miles -- a little further than Camrose to Ponoka. The kind of business that was being generated on the north side of the Peace was sufficient that AOC saw fit to put an office in Peace River.

MR. GOGO: Good judgment.

MR. STROMBERG: A supplementary. I realize the great distances without any population in the north.

My supplementary is, how much business has the office created in, say, Vermilion? No doubt when it was established there, it created business.

MR. PARKER: I can't give you exact figures, because I don't have them at hand. At last count, my recollection is that we have approximately 75 active accounts under administration by the manager and the loans officer in that branch, and that has probably grown from about 50 to 55 when we were established. Of all the branches we've established, I think that has had the

slowest growth of any, due to a number of factors including, I suppose, the difficult economic times in the Lloydminster area.

MR. STROMBERG: Mr. Chairman, do I have a third supplementary?

MR. CHAIRMAN: Yes.

MR. STROMBERG: Fine, thank you. Do you have a rough figure on how many accounts you have within the Camrose area, the county of Camrose and the city of Camrose?

MR. PARKER: This would be from our meeting last September, when you were in attendance. I think it's between 30 and 40, in that general trading area. But that's just a guess. I haven't looked it up lately.

MR. NOTLEY: Mr. Chairman, back to Mr. Parker again. On this question of \$1 million or more loans, what process does the AOC go through in evaluating applicants, especially with respect to information that appears to be withheld? Let me use Ram as an example: when the initial application was made, that company's negotiations with Stelco were, if I read *Hansard*, not divulged. It wasn't until October, I think the minister indicated, that AOC was made aware of Stelco's interest. Does the withholding of something as significant as an outside-the-province interest buying heavily into a project have an impact on the evaluation process by AOC?

MR. PARKER: First, I'm not convinced that that information was withheld from us. It's my understanding that they did not approach Stelco, or anyone else for that matter, with regard to providing financing or an equity investment in them until after the loan of October 5, 7, or whatever the date was that it was authorized, was made known to them. Subsequent to that time, it's my understanding that they then began putting out feelers to see if there was an interest in it. I can't categorically say that they didn't talk to them beforehand, but I'm not aware of it. The information I have was that it took place subsequent to the loan approval.

MR. NOTLEY: So basically you're suggesting, Mr. Parker, that the authorization of the \$8 million made it possible for the proponents to go out and try to market their proposal to other people in the private sector?

MR. PARKER: No, I'm not saying that at all. I'm saying that they obtained the offer from AOC and subsequent to that decided, for whatever their reason was, that they should possibly obtain another investor in the business.

MR. NOTLEY: You have reviewed the file in such a way that you can assure the committee that this in fact occurred, that the negotiations on a preliminary basis with Stelco had not taken place before the loan was approved by Executive Council?

MR. PARKER: As far as our records are concerned; I don't know what Ram's records show. We don't go into our clients' records to that extent. As far as our information is concerned, it was made known to us after the loan approval that they were talking to Stelco to become a possible investor.

MR. NOTLEY: It was made known to you . . .

MR. CHAIRMAN: Mr. Notley, that's three questions. If you want to get back, fine.

MR. NOTLEY: All right.

MR. STEVENS: Mr. Parker, you said in the preliminary comments you made that there are loan applications that are declined by AOC and others that are recommended to cabinet and may be declined by AOC. I'm sorry, I don't have the annual report; I meant to have it today. Are the applications that are recommended and subsequently declined reported on each year by the company?

MR. PARKER: We don't say who declined whom, but we show within our statistical information -- I might be able to give you the total number of applications, for instance, for fiscal 1982. In fiscal '82, we received 965 applications. Of those, 354 were authorized, 456 declined, and 155 withdrawn. It indicates in our financial statement the number and dollar value of these particular applications. Subsequent to that, for whatever the reason is, some are not accepted after authorization. So the figure we show for loan approvals is always a net figure of gross authorizations, less not accepted after authorization.

MR. STEVENS: Mr. Chairman, if the applicants contacted your company or an MLA and indicated that they had received a decline, is there an appeal mechanism? Is there an opportunity for the board to re-evaluate a decline?

MR. PARKER: There are two ways in which a loan can be appealed, either through the applicant himself or through the loans officer who prepared the loan report. What happens is that the applicant is advised that if he has concern, he can either speak to me or one of the senior management people to review his file for either an amended proposal or for approval. From time to time, these result in a change in decision. In addition to this, if the loans officer feels very strongly on a loan that he has recommended and his supervisor or the loans committee declines it, then they are actively encouraged to get in touch with me to have the loan proposal reviewed. Again, from time to time these are approved. If it was an individual authorization, I would be able to approve it if I felt the decision had been wrong. If it was a loans committee size loan that had been declined, then I would present it to our board with my recommendation for their decision. From time to time, this happens. As a percentage of total declines it's very small, because we are a lender of last resort and we can only go so far. But this is the way in which the appeal system is set up.

MR. R. SPEAKER: Mr. Parker, on page 10 of the report, you outline three purposes of authorizations: establishing a new business, expanding an existing business, or to purchase an existing business. I'm not sure which one of those categories includes refinancing where there may be some type of economic difficulty.

Secondly, in terms of the economic times, is AOC receiving more applications for refinancing?

Thirdly, does AOC see more applications for loans greater than this \$1 million in terms of refinancing various operations? Is there a greater demand for that at the present time?

MR. CHAIRMAN: We'll just ask you to repeat one question at a time and get the answer. It seems to be an easier procedure. We'll get an answer to the first question, and let you go on to the second one.

MR. PARKER: Could you tell me the first question again, please?

MR. R. SPEAKER: The first question was with regard to the three categories. Which one of those includes refinancing?

MR. PARKER: That would be in the "to expand an existing business". This is a report that we developed four or five years ago, before we were involved in refinancing. Quite frankly, we haven't adjusted it. But we do refinancing now. We have for about three years. It has played a larger part until just the past few months, I think. With interest rates going down, that has eased the problem in some areas.

MR. R. SPEAKER: In terms of applications in 1983, are we going to receive a greater number than the 965 due to more people requesting refinancing of their operations?

MR. PARKER: I think it will be modestly ahead in numbers of applications, probably between 1,000 and 1,200. The refinancing loans -- we've had quite a number of applications. I'll give you our refinancing policy: if we are to look at a loan to be refinanced, first of all it has to be evident that it is not able to meet its obligations with its present financing in place and that, certainly in the medium term at least, it is in danger of going under. However, if it is also evident to us that with our refinancing it is still going to go under, maybe a few months later than is presently the situation, then we won't provide that refinancing. It has to be that our financing will allow the business, certainly in the medium term, to break even or better as opposed to going under. From our point of view, our purpose is if we can save a business, then that is of as much value to the province as starting a new one. But it would be foolish of us to knowingly replace another lender whose funds are in jeopardy.

MR. R. SPEAKER: The third question was with regard to the number of requests for loans or refinancing greater than \$1 million similar, say, to the Ram situation we were just talking about.

MR. PARKER: I think in fiscal 1983, the majority of our loans above \$1 million were for refinancing. There were some new expansions. Certainly they played a significant part in the dollars that we approved. But as far as the overall number in the company, refinancing was a very small proportion -- in numbers but not in dollars.

MR. PAPROSKI: Mr. Chairman, as an Edmonton MLA I'd like to look at page 11, that deals with regional distribution of authorizations. When you look at the column under Edmonton and the column under Calgary, only 5 per cent of the total moneys were allocated to those two cities, substantially lower than in 1978 for example. I am just wondering if this trend is probably going to be continuing. Could you comment on that? Is it something that will, in all likelihood, remain at a 5 or 10 per cent level?

MR. PARKER: Historically it's been much lower. The two major metropolitan areas have been much lower in terms of dollars and numbers of loans approved, largely because financing is generally much more readily available on reasonable terms and conditions in the cities than it is outside the cities. For example, it would be much more difficult to obtain financing for a motel in Ponoka, where I come from, than in Edmonton or Calgary. That may be a bad example, because it's hard to get financing for them at the present time in any place. But the lenders view security on a different basis than we do. They look at it from the point of view of: what is my chance of selling it and getting my money back in the event of disaster? In Edmonton or Calgary, you

have much larger markets and many more businesses which would be likely to take the premises and use them for their own purpose than in a small centre where there aren't a lot of people from outside coming in. Most of the growth in smaller centres is from within the local business community. You might wait quite a few years before you could sell your asset. Obviously if you're holding it, you're not getting any return on your investment and you're losing money. So they are much more loath to do that, and that is where we fill the gap or at least partially fill it the best we can.

MR. PAPROSKI: I have two quick supplementaries, and they deal with the same area. How many applications, if you can recall, Mr. Parker, would you have had from Edmonton, and approximately what percentage of the total applications would that be?

MR. PARKER: I would venture to say -- again, there are two parts to it. There are inquiries and there are applications. We have thousands of inquiries, and I think the largest proportion of our inquiries come from Edmonton and Calgary, where people will come in. But we check with their banks and so on, and they can get the financing.

The ones that we look at are winnowed out quite a bit because of the availability of financing or the non-viability of the business. I would venture to say that less than 20 per cent of applications that we look at are from Calgary and Edmonton.

MR. STROMBERG: Mr. Chairman, to the minister, with regard to the regional development associations that are under the aspects of your department. I am speaking now purposely of the Buffalo Lake regional development association mainly situated on Highway 21, which takes in quite a number of villages: Elnora, Delburne, Big Valley, Ferintosh, Edberg, Donalds, Bashaw, and the thriving community of New Norway. However, the question is the problem of financing these regional development groups and the length in time of grants coming. Is the department purposely trying to kill our Buffalo Lake regional development association by starving it financially?

MR. ADAIR: Good question. Mr. Chairman, the seven projects that are in rural Alberta receive some base funding from the Department of Tourism and Small Business. That base funding is provided annually, after receipt of their financial statements and the likes of that. If they haven't responded by either providing that financial statement or answered any of the questions or concerns that we may have with it, the funds for the coming year would not be provided to them until that information is in place.

I say quite unequivocally that there is no direction to squeeze out, strangle, or close any of the projects. However, I should point out that we are doing an assessment of all the projects at the present time, and that assessment also involved the one project that is under the Department of Municipal Affairs, with the co-operation of the Minister of Municipal Affairs, as to whether they are in fact, after a number of years, meeting the terms that were initially set out for the projects themselves and the directions they were given at that time.

It should be pointed out that the base funding they get from the Department of Tourism and Small Business is only a part of the funding process. Other funds would be secured or obtained by the regional project, generally through their executive director or managing director, from businesses or communities in the areas that it serves. So there is a twofold funding aspect to those projects, and they do in fact have some funds that come from the businesses and communities they represent as well as the base funding that they get from the Department of Tourism and Small Business.

MR. STROMBERG: Yes, two of the villages have dropped out because the amount of funds that they are to contribute has been increased due to lack of funding from the department. I am speaking of Ferintosh and Big Valley. May I have the scope to explain the problem, Mr. Chairman? There is a possibility of two or three other villages dropping out. Some of these villages, such as Big Valley, have a population of maybe 175 people made up of retired people on fixed incomes. In some instances, the councils of some villages are made up of retired people. It is hard for councils to vote an increase on their mill rate for something that they can't see immediately. The development association is a long-term thing. They have done a tremendous amount of good there.

The question I would like to specifically ask is, why have you placed more and more of the onus for the funding in these small communities on the backs of the ratepayers?

MR. ADAIR: Mr. Chairman, first of all you made a comment initially relative to lack of funding. I should point out again that the amount of funding they have received annually on an ongoing basis has slightly increased each year. It's a base funding, so it isn't a case -- it may in fact be that. But I think the indication is that the project itself will only be successful with the commitment of the businesses in the communities that are involved in the project. We were putting in initially what you might call start-up funds or the seed moneys to in fact see that it goes.

What may be happening -- and I use the word "may" reasonably loosely -- is that the projects are in fact using the base funding they get as the main source of funds and not seeking any others. The government of Alberta would not direct the project to seek more money. That would be a decision of that board, to seek additional funds from whoever they may be seeking them from in their project area. We have provided base funding -- and it's very clearly base funding -- as an incentive, or seed moneys, to assist the projects in doing the role they are doing on behalf of the region they serve and the communities involved.

MR. STROMBERG: A last supplementary and an explanation of what's happening in the small villages of rural Alberta. They've taken quite a financial setback with the economic times. There aren't any extra dollars with those businessmen. My question is, do you foresee the role development associations continuing and growing in rural Alberta in the future? Or do you foresee that in five years down the road, we will not have any development associations?

MR. ADAIR: I could see that the projects themselves, the regional development projects, may well reach a point where they have served their purpose and in fact would not be necessary. As I understand it, the purpose is to assist in attracting additional businesses to their regions and individual communities. Of course, that's difficult when you have three or four communities vying for the same particular business, but that's something they work out very well at a co-operative level between the communities involved.

I would not see an expansion of the program, in light of the fact that it is serving in those seven regions the areas that appear to be not well served by other agencies, government or private. If anything, that's one of the reasons we're doing an assessment right now as to the value of the projects, whether they're meeting the intent they were originally set up for. If they are not, then I would like to look at that particular one in light of the economic conditions and in light of the fact we have said we would like to be possibly a little more cognizant of the fact that the private sector has an opportunity to play that role without the assistance of government. Thus, we may be terminating the odd project. That's not to say that we will; it's may, m-a-y.

MR. GOGO: Mr. Chairman, there's a great temptation for me to talk about constituency matters, such as the travel and convention association of southern Alberta, but I'll resist that and restrict my comments to those of provincial implications.

Back to Alberta Opportunity Company, Mr. Adair, my understanding at the present time is that the Heritage Savings Trust Fund lends given sums of money to Alberta Opportunity Company at prevailing interest rates. Alberta Opportunity, then, in accordance with policy established by your department, lends that out at various interest rates depending on the geography, the nature of the business, and so on. The shortfall between the two, in your estimates some \$5 million this year, is picked up by general revenue of the province of Alberta. Looking at the Agricultural Development Corporation, some \$65 million with an increase of 12 per cent, I see no increase at all in yours with regard to that shortfall, which then raises the question in my mind: why not? Is AOC not being as aggressive as it should be in terms of its lending policies? Or is it in fact -- maybe Mr. Parker alluded to this -- the decrease in interest rates that have occurred that require such a minimum amount as \$5 million for a shortfall. That would be the first question.

MR. ADAIR: If I might start to respond, Mr. Parker may want to add to that. As far as the aggressiveness of the AOC, it should be pointed out fairly clearly that we're not in competition with the banks or the lending institutions, whoever they may be, but are attempting to fill a gap -- if that's the right term -- or a void, in the lending capacity to the communities that are served. Promotional advertising has been done by the Alberta Opportunity Company on occasion which indicates what their role is and who in fact they are there to serve. Beyond that, the amounts of money that we have borrowed from the Heritage Savings Trust Fund to this point in time have been sufficient, along with the sums of money that have been paid back, to provide the kinds of revenues we need to cover the loan applications we get.

MR. PARKER: One thing, though, that I think should be noted is that in the current year and in our forecasts for the years ahead, the \$4.9 million will not be sufficient to cover our expenses. We will in fact encounter a series of losses, which will likely become larger as the years go by. I think that is something we will have to address in the near future, as to how this is going to be handled.

MR. GOGO: A supplementary, Mr. Chairman. The answer causes me to ask another question. I have been of the view for some time that AOC, even though it's a lender of last resort, should be more aggressive in its nature. To think that we have \$100 million out in student loans from Advanced Education, where the province guarantees payment, and yet our students are paying 15 to 16 per cent interest, frankly is not very comforting to me. I think we should do that within house and use treasury branches.

But back to Mr. Parker's response, your loss ratio -- I recall attending a meeting several years ago where the loss ratio was some 4 to 5 per cent. My view has long been that if an applicant has the expertise, enthusiasm, and all those ingredients except capital, that's exactly why AOC exists, as a lender of last resort. It would seem to me loss ratios should have been substantially higher.

My question -- really, there are two, if I can put them both at the same time to either the minister or Mr. Parker. One would be the range of interest rates you charge; and the second is, would you comment on the loss ratio, what it is, and if it's high enough in your view. In other words, are you taking enough chances?

MR. ADAIR: I'll start with the interest rates and leave the loss ratio to you, Roy, if I can.

Our present base rate is 12 per cent, down as low as 10 per cent -- small towns, small business -- or as high as 15 per cent. In other words, down two and up three, a decision that would be made by the management and the board relative to the rate that would be charged on any specific application. That rate fluctuates from time to time as the interest rates in the private sector do. So the present base rate is 12.

One of the difficulties we have had, and one of the reasons for some of the losses we have incurred, is that from time to time the borrowings we have purchased from the Heritage Savings Trust Fund are at a higher rate. We may in fact be borrowing at a rate of, say, 18 per cent and lending at a rate of 15 per cent. As you well know, any business can't go on too long for that point of time. But I think providing that service with the base rate plus the up or down range limit, plus the fact that it is also fixed for a minimum of five years and is negotiable after that -- originally, the loans were fixed for the life of the loans -- there are some major benefits to the applicant.

MR. PARKER: As of March 31, 1983, our percentage of write-offs has been about 6 per cent. Above and beyond that, we have a further allowance for doubtful accounts of 8 per cent of moneys owed to us. It should be noted that chartered banks, for instance, write off between .25 and .5 per cent of what they have outstanding, so we are significantly higher in our write-offs than the private sector. If economic conditions continue in a very difficult manner for the next two or three years, then we would have continuing higher write-offs, but that's something we think we have allowed for and that our level of bad debts is within reason.

MR. GOGO: Do I have another supplementary?

MR. CHAIRMAN: We'll give you one.

MR. GOGO: Mr. Adair, recently in the House a question from Camrose was put to the Minister of Consumer and Corporate Affairs with regard to preferred creditors. In this case, employees had not been paid wages by a credit union in Camrose, and the preferred creditor was the bank; therefore, the bank was getting preference to the employee. I assume that's correct. As a matter of policy, Mr. Parker, if you have a bad loan would you take action, for example, to recover Alberta Opportunity's money as a preferred creditor before the employees of one of those small businesses were paid?

MR. PARKER: If that was our legal option, yes. We lend money, we take security, and we realize on that when the circumstances are appropriate. That is the law of the land, and we feel it is appropriate to follow it.

MR. NOTLEY: Mr. Chairman, Mr. Parker, maybe we can just take up where we left off a few minutes ago. Let me just recount so I have it clear in my mind with respect to this business of Ram and the Stelco option to buy into Ram. As I recollect your comments, you indicated that you felt this information came in afterwards, that the company in fact had not done any negotiating prior to the loan being approved by the cabinet, that it was all done subsequently, and that as far as the files of AOC are concerned, there is no information. I can understand that.

I have a two-part question. Mr. Parker, the chief executive officer of Ram indicated that one of the reasons he didn't bring the Stelco involvement to the attention of the officials of AOC -- this is what he was reported to have said in a local daily paper in central Alberta -- was that it might have

detracted from the sympathy of the Alberta government to the loan application. I don't know whether or not a newspaper report is correct, but I put to you whether as the director of AOC you undertook any discussion or review of what would appear to be important material information which was not made available to you at the time of the application or at the time you sent your recommendation by the board to Executive Council and where the chief executive officer indicated in a public way that he felt such information might have lost the sympathy of the government.

MR. PARKER: Before the recommendation went to Executive Council I wasn't, and AOC wasn't, aware of any discussions or negotiations with Stelco. So knowledge after the fact obviously precludes us from making that a consideration. I'm kind of at a loss to comment on your question in that what you're stating is a report in a newspaper that wasn't made to me. I don't believe I've ever seen that report. But certainly before the recommendation and before the approval, I wasn't aware of a Stelco involvement.

MR. NOTLEY: Mr. Chairman, my first supplementary question really gets down to the process by which AOC would evaluate material new information. I take it that while you have nothing in your files, was there any discussion for example, Mr. Parker, between you or any official of AOC and Mr. Peckham or officials of Ram Steel concerning why this additional information was not made available at the time of the application? It would appear to me material in a very real way if a major out-of-province company was to buy into a project where there is a good deal of Alberta government money involved. I'm asking what process you would have undertaken or initiated as director of the AOC to ensure that in every way the application was proper, that there was no either deliberate or inadvertent misleading of yourself or Executive Council before a major loan was made.

MR. PARKER: First of all, we weren't of the opinion that we had been misled. The information came to us about the possibility of a Stelco involvement in, I think, late October. We had several meetings with Ram officials to discuss that. Ultimately, when the details of it were made available to us, it appeared that if anything the addition of Stelco would strengthen the Ram proposal. It was recommended that the loan terms be amended to take this into account.

MR. NOTLEY: Mr. Chairman, the final supplementary question I have is with respect to the process of evaluation. The minister indicated in the House that AOC, I gather, had commissioned Woods, Gordon to do an evaluation into the operation of Ram, a market analysis of Ram's prospects, and a financial analysis of the viability of the firm. My last supplementary question deals with this issue in particular, but using this issue to look at the broader question. I understand there were a couple of feasibility reports. Did the company that did the initial one also do the report for AOC? Or is it a practice that where you have an initial study done on the feasibility of something, AOC would look to another firm in no way associated with the initial study? Consulting firms have their own reputations to preserve. If they've made recommendations and people have acted upon those recommendations, it seems to me there is a clear bias in favor of maintaining those recommendations. So it strikes me that the process by which AOC should examine something, if they're commissioning a market analysis or a financial analysis of the viability of a firm, would be to deliberately choose another firm to independently analyse the prospects before a loan is made. Was that done in this case?

MR. PARKER: Yes. There was only one Woods, Gordon study and that was the one we commissioned. We paid for it so that it was ours and no one else would have any input into it as far as what the results would be. We wanted a clear, unbiased report. There was a feasibility study prepared by the company a year previously which we saw but which didn't play any part in our assessment of the situation because it was outdated and we didn't feel it was particularly relevant to the situation as was the case when we looked at the Ram proposal. I'm not sure if I've answered your question. If there's any more to it that I've forgotten, tell me.

MR. ZIP: Mr. Chairman, I wish to direct a question to Mr. Parker. I guess it sort of skirts around what you were just discussing. In the area of judging investment feasibility, to what extent does AOC use the services of reputable private-sector analysts to supplement and pass second and third opinions on the feasibility of proposed investments or on the means of restructuring the finances of existing businesses to improve their net cash flows and financial prospects?

MR. PARKER: A very small percentage of our loans -- it's negligible -- we hire outside consultants a la Woods, Gordon, Touche Ross, or whoever, only in the very largest where we feel we don't have available in-house or from other sources the expertise we think is important for us in our decision. What we do on occasion is consult with some of the small business analysts in the Department of Tourism and Small Business. We have individuals within our company and our consulting group who have areas of expertise, and we will call them in to verify certain aspects of a proposal. For instance, construction costs: are what we are given reasonable, is the time frame reasonable, and so on? Our engineering technologists can give us a pretty good handle on that. As far as, say, loans under \$1 million we don't completely exclude them, and of those over \$1 million, the minority, only in special situations.

MR. ZIP: I'm rather surprised at that, because in the course of my previous work I had access to a lot of investment analysis done by different pension funds, developers, and investors who decide on business decisions. The amount of paper they assembled before they made their decision was mind-boggling at times. I think this is one area that you could probably look at carefully and spend a little more money to minimize your losses. How does AOC try to minimize its losses and arrears in that case?

MR. PARKER: Maybe I haven't explained clearly. We have a very highly qualified, trained staff. These people have years of business experience, both in AOC and out, in the lending business. In most cases they are as qualified as many of the private-sector people, and in some cases more qualified. Their years and years of experience in financing, business expansion, and establishment of new business is certainly top drawer. It's only when we get into a specialized area where we don't have the expertise we feel is required that we will go for it. For instance, in a motel proposal we are quite capable of determining whether the costs are realistic, what the revenue per room should be, break-even analysis, and we compile a good bit of paper. However, if we have concerns about the potential level of business, then we will go to Travel Alberta and say, okay, you guys are the experts in the travel business; what are the occupancy rates in that area? Would these new 50 rooms damage the existing one or is there a market for it? They will provide us with that type of information. We rely on that along with our own expertise to make our decision. But we do have a very highly qualified, skilled, and trained staff.

MR. ZIP: I'm glad you brought up the motel example, because this is one area where I find that Alberta is outpriced as far as the actual per room investment you've got to make in a motel business in Alberta compared to Saskatchewan, or Wisconsin, or Atlantic Canada. People like Drivers Jonas, who have a worldwide reputation and knowledge of this type of business, should be consulted with regard to a particular type of investment. I still feel there is an overreliance on in-house talent.

MR. PARKER: All I can say is that I feel quite confident in the qualifications of our staff. If anything, we save more people from causing themselves difficulty by pointing out errors in their projections and so on and pointing them in the right direction than we would lose by making mistakes. One reason, for instance, in the motel business why it costs more in Alberta is that for the past 10 years our land costs have been higher than other places, our labor costs have been very high. This all combines to make for a higher cost per unit that may not be the case in Saskatchewan or wasn't the case in other jurisdictions.

DR. CARTER: Mr. Chairman, a first comment is procedural with respect to some of the questions raised this morning by the Member for Spirit River-Fairview. I also am interested in the matter of Ram Steel, but one thing I found lacking in this is my inability to plug into the exact time line. I assume most of the questions and reference to a newspaper article dealt with the year 1982. Is that correct? If it was October of 1982, I think for purposes of the overall administrative action of this committee, in effect we are supposed to deal up to March 31 of 1982. So what kind of precedent are we setting by going into this today? I think it's good to have the discussion, but I would appreciate some kind of guidance from the Chair as to what precedent we've really established on timing.

MR. CHAIRMAN: You're correct. We're going up to the year ended March 31, 1982. I determined from the questions of the Member for Spirit River-Fairview that he was asking general policies and using Ram as an example. That could occur at any time, and I took that it could have occurred in 1982 when we're dealing with loans over \$1 million.

DR. CARTER: I appreciate that, but for clarification, as the minutes are processed I don't know whether we can insert 1982 behind in the transcript so we all know that it was 1982. As I say, that is just an in-house procedural thing.

To the Minister of Tourism and Small Business, I want to express my appreciation for the assistance and guidance I received from you and your officials with respect to the one occasion I've had to get some learning experience with the Alberta Opportunity Company. I wonder if you yourself, Mr. Minister, or your officials could just take me through the kind of guideline as to how long it normally takes to obtain loan approval, just from a time line process?

MR. ADAIR: If I might, Mr. Chairman, ask Mr. Parker to go into detail on that. The only thing I'll start off with is that if you get into the loans over \$1 million, which involve a process beyond the management or board decision, there is extra time involved in the larger loans, which would then go before the finance and priorities in Executive Council.

MR. PARKER: There isn't a specific time frame. It depends on how prepared the person who is applying is in providing us with the information we require to make our investigation and assessment and write our report. For example, we

can have an applicant come in with an application form filled out today asking for a loan of \$100,000. At that time we say, okay, please provide us with your financial statements for the past three or four years, projections, firm cost estimates, things of this nature. He goes away and with his accountant or in-house, he will begin to prepare these. If we don't get those for a month, then there is a month gone. But from the time we get our information in a form in which our loans officers can then do the investigation and write the report, on average it would take two or two and a half weeks to get this processed. Then of course it comes to the level of authorization. If it's up to \$100,000, then an individual in AOC can approve it, and it would go directly to me or one of my colleagues in management. We would review it and either approve it, defer it, requesting more information or clarification, or decline it.

If it's going to our loans committee, they meet on a weekly basis so you have up to a week further for them to look at it and, if everything was satisfactory, approve it. Beyond that the board meets twice a month, so you could have a two-week period. If it's going to Executive Council, it goes after the board has reviewed and recommended it. So I would say it ranges from two weeks. Occasionally we will do one in less time, if someone comes in and has everything laid out and there's a deadline. Then we put everything else aside and say, okay, this fellow has a property option to purchase that closes, he's only got a week or whatever it is, and that gets priority. But if it's a large loan, it could go on for several months or more if it has to go to Executive Council.

DR. CARTER: A supplemental, Mr. Chairman. What's the process for appealing the decision of AOC in two instances; one, where you haven't given approval for any lending at all and you decline to act on that person's proposal. Has he any kind of right of appeal? I guess I'd better use that as the first question, and then I'll come to the other. Thank you.

MR. PARKER: Yes, we do encourage our loans officers to advise the customers and, as I said before, they themselves to appeal if they feel strongly about it to the next level of authority above the level which declined the application. The declined applicants follow a number of procedures. They will phone the loans officer. They will phone me. They will phone the minister. Ultimately it comes back and is reviewed almost exclusively at my desk. If I'm uncomfortable with the decision one way or the other, I refer it to either the loans committee or the board for its decision.

In most cases it's fairly clear-cut, in that the evidence is that the applicant does not have the ability to repay what he wants to borrow and that his projections are unrealistic. But there are occasions, which we try to look at with an open mind, where we do say no and either it should be approved or why don't we take a look at it in another matter. For example, in a refinancing deal, we may feel we shouldn't lend as much as we're being asked. So we go to the vendor and say, look, you're retiring, you take a second mortgage of X per cent behind us, payable interest only or payable no interest for two years. Once there's a track record of earnings, you can get your payments on a realistic basis. Our main concern is to see that the business will be viable. If it is viable, it will employ people and add to the economy of Alberta.

MR. ADAIR: Mr. Chairman, I should also point out the role I play as the minister responsible for the Alberta Opportunity Company, because I get calls consistently from people who have possibly been turned down and also calls from MLAs, many of whom are sitting here in this room right now. I've said then and will continue to say that the only thing I can or will do is ask for

a report on what has occurred and provide that to you as an MLA. You can take that back, indicating to them that they do have the right to appeal. I even go a little further, suggesting that that appeal may involve new information. Obviously, if there's new information available, for whatever reason it may be, that certainly bears some looking at. If it's just a straight appeal, they have the right to go to whoever it is above the ones that turned down that particular application. If it's in the area of the loans committee, they have the right to talk to Mr. Parker as the managing director. We'll attempt to assist in setting up that meeting without any direction. I usually indicate to both the client or the MLA who has called that I would be prepared to set up the meeting -- set up the meeting only, not direct whether it should be reviewed positively or negatively. I leave that with the management of AOC and the client.

MR. McPHERSON: Mr. Chairman, I guess I have a couple of comments to start with. Then I'd like to lead in with a couple of questions on Ram Steel. On page 11 of the annual report of the Alberta Opportunity Company, I'm interested to note that 34 per cent of the funds allocated in 1982 were allocated in central Alberta, 26 per cent in northern Alberta, and 30 per cent in southern Alberta, which represents a total of 90 per cent of the funds from AOC placed in areas outside of the metropolitan areas. With all deference to my colleagues from southern and northern Alberta, I notice that central Alberta happens to lead in funds allocated. When I see that most of the funds are allocated outside the metropolitan areas, I think it's really an indication that this government is serious about its efforts in decentralization.

Further, I notice that on an accumulative basis to March 31, 1982, which includes funds from the Alberta Opportunity Company and its predecessor the Alberta Commercial Corporation, a total of \$67,364,822 has been funded into the central Alberta region. Just a question to the minister on that point, Mr. Chairman, if I may. Is my assumption that the idea behind it is decentralization causing these funds to go outside of the metropolitan area? In particular, is the fact that central Alberta is emerging as an industrial area the reason for some of the input into the nice looking figures I see in this report?

MR. ADAIR: Mr. Chairman, first of all I'm not prepared to make a judgment on whether central Alberta is becoming the industrial centre, or whether northern Alberta, where I come from, has a chance, or southern Alberta, where some of you come from, has that chance. From the standpoint of the Alberta Opportunity Company and its inception in 1973, there was a gap. There was, in essence, a part to play by a Crown agency such as the Alberta Opportunity Company in providing funds on a loan basis to those areas not normally served by the financial institutions of Alberta, thus the main reason behind using the base rate and the adjustment of down as low as 2 per cent or up as high as 3 per cent, primarily again because in the metropolitan centres of Edmonton and Calgary most of the lending institutions plus the FBDB were playing a fairly significant role in lending of funds to businesses. So the areas outside the metropolitan areas of Edmonton and Calgary were, in fact, the areas we were looking at.

Obviously that has very strongly been one of the directions we as a government have had from the early '70s, to diversify and improve the strength of rural Alberta. AOC, and ADC I should point out as well, I think have done that very well. There's no question that you can't really go beyond the fact that you've got the majority of those loans, and 90 per cent of the loans are outside of Edmonton and Calgary, and of course a little better than a third in central Alberta.

One of the other ones, of course, that ties to that is the make-up or dollar value in the loans and the fact that the greatest percentage of loans are in the \$50,000 or less range. In 1982, 39 per cent of the loans made were of \$50,000 or less. Only 3 per cent of the loans made were over \$.5 million. I'm not sure exactly the percentage of loans over \$1 million, Roy, but it's a very small percentage of the total loan picture for the small business community within this province.

MR. McPHERSON: Mr. Chairman to Mr. Parker, with respect to Ram Steel. In trying to chronicle this thing, my understanding was that the loan was approved in October and finally approved again toward the end of November, and I may be wrong. But in that period of time, Stelco's presence came into the picture. Was the Stelco involvement at Ram's initiative, or was the Stelco involvement requested by the Alberta Opportunity Company to increase the equity base in Ram?

MR. PARKER: No, it was Ram's initiative to seek out Stelco or some other organization to make an arrangement with. We didn't tell them to go to Stelco or anyplace else. That was their initiative. They came back and discussed it with us. Ultimately, the loan terms which had been approved in October were amended at the end of November to recognize that ultimate relationship.

MR. McPHERSON: A final supplementary, unless you beg me another one. Would your opinion be that the presence of Stelco will improve the prospects of the company if the recovery starts to develop over the course of the next year or so?

If I may add a comment to that question, it's pretty much a dog-eat-dog market place out there in the steel business, as I understand it. I know of one major manufacturer in the central Alberta region which is finding itself not doing draw works but competing with fabrication companies. It's a very, very competitive market. Would your opinion be that the Stelco presence in that company improved the prospects of that company for the future?

MR. PARKER: Yes I believe so, from several points of view: source of supply, marketing expertise, and a history of operating a first-class business, which I think can do nothing but add strength to Ram's prospects.

MR. CHAIRMAN: What I would have to do to be fair to other people on the list is put you down on the list to continue.

MR. NELSON: Mr. Parker, I'm just going to come right to a question rather than a bunch of dialogue. Would a person or persons living in an urban centre applying for financial assistance and having a contract to perform a business commitment in a rural community be given a similar positive hearing as someone outside the urban centre when the major financial institutions will not support them, considering that assistance may only be short term and, due to the fact that they have a shortage of cash flow, they require the assistance to complete an obligation?

MR. PARKER: That's a difficult one to answer. I'm not exactly sure what you were saying. First of all, whether the applicant is from a city, small town, or an urban area, they get -- or they're darn well supposed to get -- a positive response from AOC. The fact that there are fewer loans and dollars approved in the cities is more a reflection of the availability of alternative financing from the private sector than any lack of desire by ourselves to be of assistance to them.

If they were going to complete a contract that would put in place a facility in a small town, I would expect that they would be looked at from the interest rate point of view as a city manufacturer or service supplier, because they would be using their own staff and wouldn't be a permanent fixture in the landscape of the small town they're going into. That's my understanding of what you said. But certainly if there were extenuating circumstance, great; let them talk to us. Most of our loans officers are pretty keen to get the best deal they can for their applicants. They should put forward these points in their report so that we can assess them at decision time.

MR. ADAIR: The other part, I assume, related to the possibility of interim financing, because you did mention short term to carry them over a problem area that they had.

MR. PARKER: Interim financing, generally, is supplied by the chartered bank by taking an assignment of the contract. That is an area that we really have not got involved in to any great extent because it is so readily available if there is an appropriate contract to be assigned to the lender.

MR. NELSON: One further question, Mr. Chairman. I want to get into a little bit of the AOC tourism area because I'm a little interested in the economics of the tourist activity in the province. With the economic downturn, what role is being played by AOC with the Department of Tourism and Small Business to attract people to the province. Also, considering the development of Kananaskis Country, our vast northern regions, and especially as spinoffs come regarding the Universiade games, Western Canada Games, the scout jamboree, and other things in the province, has there been any development of facilities through AOC with Tourism and Small Business so that we can maybe keep some of these people and their expertise in the province of Alberta? Especially with the number of visitors attending all these activities, have we been able to expand the activity of AOC and the Department of Tourism and Small Business?

MR. ADAIR: Mr. Chairman, to start with, the number of dollars that have been loaned out to tourist related facilities has certainly increased in the last five years. Fourteen per cent of the dollars loaned out in 1978 were tourist related; 31 per cent in 1982. So roughly a third of the dollars are in fact there.

You raised a good point relative to Kananaskis Country and whether there were any tourist loans there: not to this particular point in time. But that's certainly an example of the relationship between government and an agency like AOC. Some time ago -- and, Mr. Parker, I don't recall exactly when it was -- I suggested to the board of directors that they possibly consider, in their setting of the annual meetings they have around the province, having a meeting down in that region and arrange with the Kananaskis managing director to have a tour of the area so that they were aware of what government policy was, should anybody come forth with a loan application to them for any of the private-sector development that may be considered in that region. I think that's part of the teamwork, hopefully, that we maintain and have between the Department of Tourism and Small Business and the Alberta Opportunity Company.

It should also be pointed out that within the small business sector, the analysts we have work very, very closely with the people in the Alberta Opportunity Company and on occasion, I think it would be fair to say, have differences of opinion as to what might be considered a loan application or otherwise. But that's healthy in the sense that you've got two independent persons looking at a loan application and attempting to help that particular client, whoever that may be.

A lot -- and Mr. Parker may want to respond -- of the tourist related facilities are primarily in the hotel, motel, and food service areas, which is a very important part -- as many of you recall from just about a week ago, when we were hosted by the Alberta restaurant and food association -- and the amount of dollars that are generated for the tourism industry through that particular area. So there is a recognition of the value of that service within the Opportunity Company.

MR. PARKER: One item that I might add to elaborate on what Mr. Adair said, three, four, or five times each year we hold board meetings in centres outside Calgary, Edmonton, and Ponoka. Two weeks ago today we were in Westlock, where we met with the business people of that general area, talked to them, answered questions, and found out about their problems. We're going to be going to Slave Lake. We're going to be doing a two-day tour of southern Alberta in September. We find it very beneficial to give us a bird's-eye view of what's going on in various areas of the province and what people's problems are. We hope to continue to do that on an ongoing basis.

MR. NELSON: One short supplementary, Mr. Chairman. Again, with the large number of people who are going to be attending the various activities in the province this year, is there an opportunity for the AOC and the Department of Tourism and Small Business to hold hands a little bit and be visible at these games, where there will be a number of people attending who may have some dollars of their own and some financial interest to help develop the economy and the diversification of our economy in the province while they are attending these various functions?

MR. ADAIR: I would venture to say, Mr. Chairman, that the Department of Tourism and Small Business will be and has been reasonably high profile in promoting the number of events that are occurring, particularly the level of recognition that the province of Alberta has achieved around the world. The number of events that are going to be hosted in the province of Alberta this year, if I recall, is something like 27 international, national, and western Canada events -- everything from parachute jumping, the world Boy Scouts jamboree, the Universiade, the world junior curling championships, the world men's downhill event, that was held earlier, and the Commonwealth ladies' golf championships. I have to say that one because my deputy minister's wife is the chairman of that committee. If I miss it, she phones me.

MR. CHAIRMAN: You've got your plug in. We've come to 11:30. All three of you have been a hit. There seems to be a fair amount of interest. I have a number more people who would like to ask questions. I would ask, first of all, if we could have you come back for a repeat performance next Wednesday at ten o'clock. Is that possible, Mr. Minister?

MR. ADAIR: At this time, Mr. Chairman, I see no difficulties with it.

MR. CHAIRMAN: Thank you. I'd like to thank Mr. Parker, Mr. McDonald, and you, Mr. Minister, for taking the time.

If somebody would like to move adjournment. It's been moved. All those in favor, say aye. Thank you.

The committee adjourned at 11:30 a.m.