



Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on the
Economy

Department of Finance and Enterprise
Consideration of Main Estimates

Wednesday, April 22, 2009
6:30 p.m.

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The 27th Legislature
Second Session**

Standing Committee on the Economy

Campbell, Robin, West Yellowhead (PC), Chair
Taylor, Dave, Calgary-Currie (AL), Deputy Chair

Allred, Ken, St. Albert (PC)
Amery, Moe, Calgary-East (PC)
Bhullar, Manmeet Singh, Calgary-Montrose (PC)
Marz, Richard, Olds-Didsbury-Three Hills (PC)
McFarland, Barry, Little Bow (PC)
McQueen, Diana, Drayton Valley-Calmar (PC)*
Taft, Dr. Kevin, Edmonton-Riverview (AL)
Weadick, Greg, Lethbridge-West (PC)
Xiao, David H., Edmonton-McClung (PC)
Vacant

* substitution for Ken Allred

Also in Attendance

Fawcett, Kyle, Calgary-North Hill (PC)
Mason, Brian, Edmonton-Highlands-Norwood (ND)

Department of Finance and Enterprise Participant

Hon. Iris Evans Minister

Support Staff

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Wednesday, April 22, 2009

[Mr. Campbell in the chair]

**Department of Finance and Enterprise
Consideration of Main Estimates**

The Chair: Welcome to this meeting of the Standing Committee on the Economy. This evening the committee has under consideration the estimates of the Department of Finance and Enterprise for the fiscal year ending March 31, 2010. I'd ask that the members introduce themselves for the record. I'd also ask the minister to introduce her officials. I'll start on my right.

Mr. Marz: Richard Marz, MLA, Olds-Didsbury-Three Hills.

Mr. Amery: Moe Amery, Calgary-East.

Mr. Taylor: Dave Taylor, Calgary-Currie, normally the deputy chair and, I guess, titularly the deputy chair of this committee but also the critic for the Official Opposition on Finance and Enterprise tonight.

The Chair: Minister, if you'd like to introduce your people that you have in the room.

Ms Evans: Well, would you like to introduce all the elected officials? I've got a number.

The Chair: Well, we'll let you go last.

Ms Evans: Sure.

Dr. Taft: Kevin Taft, Edmonton-Riverview.

Mr. Weadick: Greg Weadick, Lethbridge-West.

Mr. Mason: Brian Mason, Edmonton-Highlands-Norwood.

Mrs. McQueen: Good evening. Diana McQueen, Drayton Valley-Calmar.

The Chair: Robin Campbell, West Yellowhead, and chair of the committee.

Mr. Fawcett, do you want to introduce yourself for the record?

Mr. Fawcett: Kyle Fawcett, MLA for Calgary-North Hill.

The Chair: Thanks, Kyle.

Minister.

Ms Evans: Sure. To my immediate right, Robert Bhatia, deputy minister, and Stephen LeClair, assistant deputy minister in charge of budget and fiscal planning. Over on the wall there, not a wallflower, Bart Johnson, my communications director; Troy Holinski, who is my executive assistant; Rick Sloan, assistant deputy minister of enterprise; to my immediate left, Darwin Bozek, ADM and senior financial officer for the ministry; Richard Isaak, executive director of financial services; Frank Potter, director of financial planning and budgets; Jane Clerk, assistant deputy minister, taxation; Rod Matheson, hiding over on the other side there, who is assistant deputy minister of treasury management. We've got a number of other people. Dennis Gartner is on our list, ADM of financial sector

regulation and policy. Let me think. We've got Bola Jegede from my office, who is looking after many of the things MLAs know and take care of. There are others here in the room from ATB, not part of my staff, obviously, but from ATB, Bob Ascah. I think I've covered it all. I hope I've covered it all.

The Chair: Thank you, Minister.

For the record, pursuant to Standing Order 56(2.1) to (2.4) Mrs. McQueen is substituting for Mr. Allred tonight. Also, Kyle Fawcett is attending in the place of David Xiao; however, he's not an official substitute. While Mr. Fawcett can ask questions, he's not part of quorum and can't be involved if we have any votes on any matters that happen tonight.

Thank you, everyone. Before I proceed, I'd like to take a minute to briefly review the new process for consideration of estimates. First, I'd like to remind members that the vote on the estimates will be deferred until we're in Committee of Supply and that any amendments moved during committee consideration of the estimates will also be deferred until we're in Committee of Supply. Also, members wishing to propose amendments are reminded to consult with Parliamentary Counsel no later than 6 p.m. on the day the amendment is to be moved.

The standing orders of the Assembly governing who can speak apply during consideration of the main estimates. Members of the committee, the minister, and other members present may be recognized to speak. Department officials and members of staff are permitted to be present during the presentation of the estimates but are not allowed to speak. Members may speak more than once; however, speaking time is limited to 10 minutes at a time. A member and the minister may combine their speaking time, for a total of 20 minutes. I would ask that members so advise the chair at the beginning of their speech if they wish to combine their speaking time.

This evening we have three hours to consider the estimates of the Department of Finance and Enterprise. However, if prior to this time we should reach a point where members have exhausted their list of questions, the department's estimates shall be deemed to be considered for the time allotted in the schedule, and we will adjourn.

Points of order will be dealt with as they arise, and the clock will continue to run while these points are dealt with.

As in the past meetings, after we've had our 10 minutes from the minister and the hour and 20 minutes, we've taken a quick five-minute washroom break, and if I have concurrence of the committee, we'll do that again tonight.

With that, I'll invite the Minister of Finance and Enterprise to begin her remarks.

Ms Evans: Thank you very much. My understanding, just to quickly clarify: 10 minutes?

The Chair: Ten minutes.

Ms Evans: Very good.

You know that we're responsible for budget and fiscal planning, that we have treasury management, risk management, tax, financial sector regulation and policy regulatory review, corporate support, and enterprise. Now, regulatory review I'm flagging for you because that previously existed over in Treasury, and it is with us. It has been since I received this ministry. Obviously, that's an important group. Besides those activities we have Crown corporations: Alberta Capital Finance Authority, the Local Authorities Pension Plan Corporation, Alberta Pensions Administration Corporation, the Securities Commission, ATB Financial, the credit unions, Alberta Insurance Council, AIMCo, of course.

There are several things that I'm charged with the responsibility of doing. So that I can talk it in as quickly as possible and cover as much as possible, I'm going to speak rather quickly so I can get in as much as I can.

First of all, I work with the minister of advanced education on the value-added activity. This is certainly important for increasing innovation, for our skilled workforce plan, and for overall sustainability of Alberta's economy. If you look at the way we've co-ordinated our mandate, we work on economic and fiscal policies. A good example would be the tax credit that is to foster innovation. Then it becomes part of the advanced education menu that is administered in our particular department.

One of the most exciting parts of this budget is our supplemental pension plan. Our Premier had announced that we would start addressing opportunities for people to save more for their retirement. This has been a project that we've undertaken with British Columbia. Saskatchewan has expressed interest. Most recently Ted Menzies of the federal government, doing the standards review for Minister Flaherty, has complimented the efforts that we've made to try to come up with a supplementary pension plan. We are anticipating in this budget year to become more active. We've done some focus testing, and it's very well received.

We're working on productivity and global competitiveness. This is in co-operation with other governments and, certainly, with other departments. I think, particularly in this economic time, that it is important to note that a lot of the people in my ministry are engaged in things like the minister's working group on energy and environment, making sure that we remain competitive, looking over projects like the carbon capture and storage, how we manage the dollars in that regard, co-operating with other ministries in making the proper assumptions for the kind of activities they will be undertaking when it comes to financial management.

Our priorities, of course, are sound economic and fiscal policy, support for savings for Albertans, economic and regional development, adding value to our resources, strengthening our fiscal framework, and an efficient regulatory system.

Our goals for the department, five goals: to provide fiscal planning; to maintain a positive economic environment; to administer and manage tax revenue; to ensure that investments, treasury, and risks are managed effectively; and to regulate insurance, private-sector pensions, and provincially registered financial institutions.

I'm going to just flag that last one. Provincially registered financial institutions: credit unions and ATB. Obviously, these are very well-respected financial institutions. We try not to fetter their day-to-day operations. They are managed well by their boards. We set the regulatory framework in the context of how proper financial management is undertaken. I've taken some time recently to inaugurate a financial cluster discussion and dialogue between our investors.

We have a number of goals in the administration of our budget that are concurrent with the other goals of the government of Alberta: our Fiscal Responsibility Act, our lowest personal taxes in Canada, working to make sure that we improve the diversity opportunities for our businesses, providing leadership, and working with partners to make sure that on the global stage, which was the fourth initiative in the budget, we are providing strong support to the province in marketing ourselves to the world.

We know that 1 of 14 jobs in Alberta is directly related to energy. Almost 146,000 Albertans are employed in Alberta's mining and gas extraction sectors. The work done by enterprise works strongly to ameliorate concerns that might happen either because of providers or the people that are engaged in that.

Our department, for Energy and for this government, developed

the bitumen royalty in kind policy. We're currently in the midst of that, not quite ready for prime time. That kind of activity is engaged in, with enterprise taking a lead role but also supported by financial management. We have a lot of areas of expertise in being able to do financial planning.

6:40

In terms of enterprise it would surprise some people to know that we are really fostering a new aerospace industry in Alberta. Our folks are involved in co-operation with Agriculture, Advanced Ed, and others to make sure that we work in a co-operative fashion to improve knowledge-intensive enterprises.

I've already mentioned the pensions. I'm trying to be very quick to go over this.

Our auto insurance system. Of course, we have not yet received the ruling relative to the soft tissue injury, but we have known that the court has struck the minor injury regulation, so we've done a lot to prepare and be engaged in responding where necessary. We're waiting for that decision to go forward further and respond given the outcomes of that. Hopefully, we'll have good news, but if not, we'll be prepared for whatever we have to follow through with.

You know about AIMCo. Certainly, over the last couple of days we've had discussions. They have been managing our investments. Roughly half of the investments are managed on behalf of pension funds. They are arm's length to the government.

The Treasury Branches have been, I think, remarkably capable in getting us and investors across Canada, frankly, the very best deal on the asset-backed commercial paper thanks to the due diligence of their efforts. We work with an eye on our capital markets in Canada to make sure that we don't see any erosion of the health of these markets.

You know about our Securities Commission, no doubt, our support for the passport system. That part of our ministry is involved with our banking, our Securities Commission, as a direct interface, and the policies therein we deal with on a day-to-day basis.

The Insurance Council as well. Sometimes there are questions. We provide a lot of information for Albertans just about the normal processes and what they can expect in their insurance.

I'll just make a brief comment about personal income tax. It's expected to decline by \$55 million and corporate income tax by \$1.33 billion as a result of the economy performing perhaps at a lower pace than what we have been accustomed to. Certainly, the challenges are there for all of our departments, but the decrease in revenue is also related to a decrease in net income from commercial operations.

I don't know how many minutes I have left. I'm nervous about that.

The Chair: A minute and a half.

Ms Evans: A minute and a half. All right.

While there are budgetary expenditure increases, which account for about \$113 million, it's predominantly the pre-1992 teachers' pension and the \$16.6 million increase in AIMCo costs that are the bulk of our budget increases. In other words, because we're administering the teacher pension fund, that has come to our department. Also, the AIMCo costs are to give it an opportunity to locate out of the Terrace Building in a stand-alone facility, with staffing that is appropriate to managing a separate operation – separate IT, separate payroll – much as the Auditor General has asked us to do.

With that, I will conclude, just being prepared to answer your questions or, as my hon. critic standing in for the Leader of the

Opposition tonight has suggested, if we don't have the answer this evening, we can provide those written responses later if there are some things. So if we can't do that this evening, we'll follow through.

The Chair: Thank you, Minister.

Just before we get to Mr. Taylor, there are a couple who walked in. If they'd introduce themselves for the record.

Mr. Bhullar: Manmeet Bhullar, MLA, Calgary-Montrose.

The Chair: Did you already?

Mr. Fawcett: Yeah, I did.

The Chair: I've got the attention span of a gnat tonight. Sorry. Mr. Taylor, the floor is yours.

Mr. Taylor: Thank you, Mr. Chair. The minister and I had a very, very brief meeting in – what's it called? – Coco's Café, I believe, the cafeteria, before we started here and agreed that we would take this in 20-minute chunks back and forth in sort of question-and-answer format. I undertook to keep my questions short, which, as you all know, is not always easy for me, and the minister undertook to keep her answers short, which, as you all know, is not always easy for her either.

Minister, I'd like to start out, if we could, and talk a little bit about – and this is in broader terms, not exclusive to your ministry but, in fact, to the main responsibility of your ministry, I think, or the main responsibility at least as far as the people of Alberta are concerned, which is the creation and the execution and the maintenance of the budget. So I'd like to start out in fairly broad terms, if we could, talking about some of the economic assumptions that informed this budget this year, a budget that was somewhat delayed because you were dealing with a set of moving targets. Of course, we knew that whatever day you brought in the budget, those targets were going to continue to move, and in fact that's what they've done.

You are looking at a shrinkage in the Alberta economy that you're projecting to be 2 per cent in 2009 and that the province's economy will start to recover in 2010 with a growth of 1.8 per cent. Then in the medium term you expect the economy of this province to rebound to an annual growth rate of about 3 per cent. You have predicted a net loss this year of 15,000 jobs. I'd like to ask you about some of those figures and, I guess, in the weeks that have intervened since you brought down your budget, how you're feeling about those projections.

The Bank of Canada just this week got somewhat more pessimistic, some would say significantly more pessimistic, about the nation's economic outlook than it was a few months ago. The central bank is now saying that the national economy won't stop shrinking until the fourth quarter of 2009 at least, maybe later than that, that the economy of Canada will contract 3 per cent this year, and they're still predicting a rebound next year of 2 and a half per cent. As you know, they have now committed to a rock-bottom interest rate that they are going to stick with through essentially, I think, summer of next year – correct me if I'm wrong about that part – for several successive quarters. The idea there is to bring some certainty back into the credit markets. Given the change in the Bank of Canada's outlook, what are your thoughts about our own?

Ms Evans: Thank you very much. This is a ministry that challenges, much like Mark Carney is challenged, to maintain the investor confidence while you're delivering essentially bad news.

The shrinkage has not been something that we have looked forward to. But looking at the bright side without being a Pollyanna, I think the very fact that we don't have to have 15 people out on a daily basis looking for money for Albertans because we have that emergency savings in the sustainability fund is the first way I feel somewhat shielded from some of the difficulties that we have. We've got revenue forecasting, and you're aware that our assumptions there are built on 12 private-sector forecasters that work with us to develop this framework.

The one that I've been challenged on most since the budget is the gas prices because there's still been a lot of concern about that. In fact, if we end up with sadder news or any other indicators, which I have not had yet, then that would come forward at the first quarter. If we have to make adjustments, that would be where that would come forward. That would be a very big concern for me because of the dependency we have on the royalties from gas.

But everybody keeps asking me about the job predictions because of a 15,000 average one year over the next, so last year 15,000 jobs on average over the full period of the year higher than we expect this year. We still predict that. We still see signals that we are going to meet those job figures. I think that recently I gave an indication of some softening of my own thought on that in that we are certainly prepared to amend them if we get legitimate indicators that we won't meet those, but we are still believing that we will have that increase not only because of things like Suncor and Petro-Canada but because of some of the other things, the activities of CN rail and so on. I had one of the industries from the oil sands in today, absolutely bullish about the fact that things are going ahead, and they're planning for their next phase. I'm hopeful, Dave, if that changes first or second quarter.

In terms of the corporate tax and some of the other predictions this budget was based on, Mr. Chairman, I think they're really conservative. We've protected ourselves, I think, with significant predictions of loss in income relative to both corporate and personal income tax. Any change, Dave, I would certainly tell you, but I think that . . .

6:50

Mr. Taylor: The big worry is whether you're right on gas prices because that could hammer some of your projections in terms of nonrenewable resource income.

Ms Evans: Today I would say that that's true.

Mr. Taylor: You called it at \$5.50. Well, I shouldn't blame you.

Ms Evans: Oh, no, blame me. I'm accountable.

Mr. Taylor: Okay. I'll blame you, then. You called it at \$5.50 a gigajoule. An awful lot of people in the industry are saying that it could be \$3.50. It was \$3.62 today, I believe, or \$3.69. You called \$55 a barrel for oil. That was about \$48 and change today. You're still reasonably confident that \$55 a barrel is a good projection going forward?

Ms Evans: I am, mainly because last year people were laughing at us for our \$78 a barrel oil. When it went up to \$147, they were still kind of laughing, but at the year end, figure over figure for predicting the budget, we feel that we're on solid ground. We don't just trust ourselves. About 20 years ago, 15 years ago they did an average of the previous five years to come at that number. We do it quite differently. We take the cautious end of these predictions that are given by the private sector. We're still maintaining those.

Mr. Taylor: And the Canadian dollar. I don't know that I have the page open right now.

Ms Evans: It's page 3 of revenue forecasting. It's 83.50 cents. It changed 1 cent.

Mr. Taylor: There are those who say that that's low, that before this year is out, we may be up around 89, 90 cents. That would have an impact, wouldn't it?

Ms Evans: All of these variables would have an impact, absolutely. But overall, on the revenue forecasting we're going to stick by our guns for this budget.

Mr. Taylor: Okay. Let me bring you to the job forecast. This is actually quoting from the executive summary of a report put together by Diana Gibson and Greg Flanagan for the Parkland Institute this month.

The province projects 15,000 jobs will be lost in 2009. But net jobs lost figures hide important details. Job losses have been significant in construction and manufacturing. In the fall of 2008, 35,000 jobs were lost in construction. Seasonally adjusted, that is 16,900 jobs. Manufacturing lost 24,500 between 2007 and early 2009, also seasonally adjusted. Also, there has been a large shift from full-time to part-time jobs. The province lost 158,700 full-time jobs and gained 104,200 part-time jobs between August 2008 and February 2009.

Now, I sourced those numbers for you. I can't sit here and vouch for the accuracy of those numbers necessarily, but those numbers do certainly suggest that the net 15,000 job loss is at least a bit off. I think, Minister, you'll agree with me that a part-time job is not equivalent to a full-time job, that if you lose your full-time job and the best you can find to replace it is a part-time job, that's a serious economic punch in the kisser.

Ms Evans: We believe, though, that with our funding on the infrastructure side of \$7.2 billion this year – that would be our projection for the variety of public-sector facilities that we'll build; \$1 billion invested creates roughly 11,600 jobs – we will be better placed than what some of those predictions might show.

There is also the matter of some billion and a half dollars of projects that health has been funded for that haven't been built that might actually – those monies have already gone out, Dave, so they would be, to some degree. . .

Mr. Taylor: Excuse me. They've gone out from your department to health or from health to. . .

Ms Evans: Two years ago, for example – I'm using sort of an anecdotal example – health received X number of dollars for a particular project. If that project wasn't built, they still retain those dollars. Roughly speaking, there are roughly \$1.5 billion that is possible to be spent by health, dollars that are already out there, not part of this year's budget, that might create extra job activity. So there's a possibility of other public-sector activity that doesn't necessarily show up even in the figures that we provide in this budget.

I know I've been challenged many times, Mr. Chairman, on these figures, but at some point, when we receive adequate indication from the sources that we're most comfortable in using to amend those figures – we will stick with that prediction – we may have to alter them; I won't deny that. But at this point we feel quite confident, especially in the last quarter of this year, that we'll receive them. Don't forget that many groups like the International Monetary Fund

and several other global forecasters have given Alberta the best chance of recovery. Like the oilman said to me today: "You know, oil was at \$147; oil today might be at \$44. We haven't found anything to replace fossil fuels." While that's a reality, Alberta with its largesse of resources will continue to be developed.

Mr. Taylor: Okay. You made the point earlier that the tightrope in your job is to deliver the bad news while offering – I forget exactly how you put it, but you were essentially trying to offer a ray of sunshine, a dollop of hope, that sort of thing. My job, of course, as your critic is . . .

Ms Evans: To agree with me.

Mr. Taylor: No.

Ms Evans: Oh, darn.

Mr. Taylor: You've been reading from the wrong playbook.

No. My job as critic is to point out some of the stuff that looks like it's in the darker corners, nor am I as negative as I might sound if I dwell on that exclusively over the next hour. We are well positioned in this province in some respects. We are blessed that we have fossil fuels underfoot.

However, on that note, 55 per cent of the source of our nonrenewable resource revenues in fossil fuels, natural gas, is under considerably more competitive pressure than it used to be with the bringing on stream of the various shale gas deposits in the United States and in British Columbia, I guess, to a certain extent. I'm not the energy critic, so I'm not an expert on this, but LNG may or may not be playing a role in that. Nevertheless, the inventory of natural gas world-wide and in North America especially is considerably higher than it was, and that has the effect of keeping the price down. So that's something to watch and be concerned about going forward, correct?

Ms Evans: Absolutely. I would agree with that. The one point I think is that, again, although people have taken advantage of other places, inevitably because of other services like the education service, the health care services many of these same people that go and drill elsewhere find that their biggest tax advantage pound for pound, dollar for dollar is in coming back to Alberta, so they do that.

I'm not denying that there may be some that have outlocated elsewhere, but I think that with our drilling incentive this year, a billion and a half dollars anticipated to help promote the additional drilling, you may see other activities that we will be engaged in over the next year and a half that will hopefully start to have an offset. I don't deny the global picture on gas or even the discoveries south of the border, but I simply say that we feel quite optimistic on a number of fronts that we'll be able to start recouping.

Mr. Taylor: Okay. Not to bite the hand that feeds us all, which is the energy industry, but I think there's fairly broad consensus – and kudos to your ministry for pushing infrastructure as stimulus – that publicly funded public infrastructure projects, while they generate maybe a similar level of economic activity as drilling incentives for oil and gas, pound for pound or dollar for dollar create a lot more jobs. I mean, the drilling business, the oil and gas business, is a pretty capital-intensive business.

Ms Evans: One well is 120 jobs. Yeah. Absolutely.

Mr. Taylor: One billion dollars of infrastructure, as you say, is

11,700 jobs, so cumulatively we're looking at – what? – close to 80,000 jobs there. How many of those jobs are full-time jobs? How many of those jobs are part-time jobs? That covers the spectrum – right? – from the person swinging the hammer to the person feeding them out of the lunch truck.

Ms Evans: Yeah. Right from construction, manufacturing, finance, retail, and all the supportive jobs. I can get you a breakdown on that, how that job profile looks.

Mr. Taylor: Thank you.

Ms Evans: We know that on the wells it's roughly 120 jobs, so we'll try and give you that breakdown, how that looks.

7:00

Mr. Taylor: You have been criticized by some, not just by me although also by me, for having put into this budget a pretty optimistic forecast of a fairly quick and fairly robust recovery, although you have written yourself in a get out of jail free card, which is the \$2 billion fiscal correction if your recovery projections turn out to be wrong. I want to talk a little bit more about that because I'm not sure what that's all about. I mean, that seems to suggest that you and your officials have some very real concerns about your own recovery projections.

Ms Evans: I wouldn't admit to that. I would just simply say that it acknowledges that if we are going to keep within the predicted constraints of the sustainability fund and the expenditure that we've anticipated over the next three years, to do that and to keep that at a relatively modest level, if I can be forgiven for calling roughly \$8 billion over three years relatively modest, from our emergency savings, then the other challenge, of course, is to make some significant adjustments or else have additional revenue. I don't think it indicates pessimism.

I really believe one thing, and it's almost the psychology of preparing for budgets. Last July and August many of my colleagues in other ministries had been out looking at all manner and means of plans, everything from affordable housing to all the kinds of things that we could do because there was an anticipated largesse of the fortunes of this government. There's no question. You know, it became very clear right in the middle of the budget planning, when we were starting to do more intensive work on the business planning. September it's beginning to get chilly in the air, and October it's downright depressing to start watching some of the things that are happening with financial institutions. So you've been building up for a sort of: "Okay. Now we're going to start. Maybe we can do this; we can build on our programming." Then you have to start looking at the reality. Is this a two-month wonder, or is this going to be a fairly significant recession?

In the midst of all that the federal government came forward with a situation that nobody had anticipated, suspended their discussions until the end of January, and we really did want to see what that budget suggested in terms of the stimulus before we went forward. I would describe it sort of like you think you're going to be able – like any one of us opening an RRSP. We think we've got this much saved for retirement; suddenly we don't have.

To turn on a dime in your budget planning, especially if you're in health or social services or Education, and say, "Okay; we thought we were going to have this, but, oops, now we're not going to have quite so much," rather than make any draconian moves without a really good, solid plan for how we would reduce that expenditure, that additional \$2 billion – and that's a very significant reduction if

there's no anticipated increase – we knew we had just two choices: raise revenues or reduce. I would anticipate that we're going to look very closely at just whether or not we have to make a balanced adjustment there.

You've heard us speak about the \$700 million of the federal transfer dollars on health. I know you haven't necessarily agreed that we should be looking at that, but we are.

Mr. Taylor: I never said that you shouldn't look at it. I'm just constantly surprised at how whenever we run into a rough patch or a difficulty in Alberta, it ends up being Ottawa's fault. But at least you're an equal opportunity blamer. You blame federal governments regardless of their political stripe.

Ms Evans: Absolutely. I would imagine that as long as I don't get the money, I don't care what stripe they are. I'm going to go after what I think Albertans deserve.

Mr. Taylor: I guess the essential question here is: what is the government's plan if the economy doesn't recover in 2010? And I suppose . . . [Mr. Taylor's speaking time expired]

The Chair: Mr. Taylor, did you want to continue?

Mr. Taylor: Continue? Sure. If that's fine with the minister.

The Chair: Go ahead.

Mr. Taylor: I suppose your quick answer to that could be, "Well, you know, the \$2 billion fiscal correction," but I'd like some more flesh on the bones of the \$2 billion fiscal correction. I know that you have said that could be tax increases or revenue increases, that could be spending cuts, that could be a combination thereof.

Please don't get me wrong. It's nice that we have a \$17 billion cushion in the sustainability fund, but you've created that sustainability cushion, if I can stick with the cushion analogy, by going down between the cushions of the couch and laying your hand on every dime and every penny you can. You've put together the old sustainability fund with the capital account. You've put in the money that was set aside for carbon capture and storage. You've put in the money that was set aside for Green TRIP.

I think there's more plausibility to the argument that you're actually going ahead in a meaningful way as a government with carbon capture and storage than there is when I look at a commitment – the Transportation minister and I sparred about this a little bit a couple of nights ago in this room – of merely \$10 million out of \$2 billion for Green TRIP. I think my hon. colleague from Edmonton-Highlands-Norwood knows that that'll buy you about 10 buses or five LRT cars.

So you've scooped all the money you can lay your hands on together into the sustainability fund, and God willing and the creek don't rise, you've got enough money in there to get us through three or four years of deficits. Then if the economy picks up the way you've projected, you can start putting money back in until the sustainability fund reaches a balance of \$10 billion again. But the new Fiscal Responsibility Act allows you to pretty much dip into that fund, by my understanding, as you need or want to without the requirement to set aside any certain amount of money. You just can't dip into the fund for more than the money that's in there. So you can drain the fund down to zero, but you can't put the fund into deficit.

It doesn't sound to me like there's much of a plan B. It doesn't sound to me like you have thought out a coherent, three-pronged

approach that says: “We are going to rapidly pay down any debt obligations that we take on over the next year, next two years, next three years. We are going to keep paying the bills as they come in on a daily and monthly and annual basis, and we are going to save for the future.” There’s not a dime committed to reinvestment or further investment in the heritage fund or the access to the future fund or any of the other endowment funds that we have, our RRSPs, and our registered education savings plans, those sorts of things. We’re not doing anything to further save for our retirement, and we have less to retire on, several billion dollars less than we did a year ago at this time. We’ve taken all our sort of rainy day current savings funds and put them into this one fund. We have a plan to take that down pretty significantly before we start putting any more in. Where’s the long-term vision?

Ms Evans: First of all, we won’t touch the heritage fund. That’s not for spending on operating expenditures.

Mr. Taylor: Well, but you do touch it as far as the investment income is concerned every year.

Ms Evans: The investment income. Let me just get to that. I think if you examine the Mintz report and the FIPAC report and the subsequent conversation by Jack Mintz, during a period when you’re in a deficit, you pay off your deficit, and you do exactly what we planned to under the Fiscal Responsibility Act. We will not exhaust that account. We will build that account back up. Obviously, if we have spent a critical amount of it, we will be reinvesting into that account. That account with all of that – I think Mr. Taylor’s analogy is probably a good one in that we’ve put all of these accounts together.

The simple truth is that it’s a convenient way of putting all of the accounts that are going to have to be readily available for what you might describe as funding that might be more immediate, short-term investments. All of those things that will be invested on our behalf by AIMCo will be invested in short-term investment vehicles so that we can access that funding when we need it. When we have spent down on that fund, the first time we get extra dollars back, they will go in to replenish the sustainability fund.

Let’s say in year 3 that we start getting surpluses in the oil and gas. We will be topping up those amounts to a minimum of \$10 billion or roughly a third of the amount of money that we’re spending on our operating budget, which could be as high as \$12 billion, to protect, first of all, that emergency savings, if you will, the stuff that we scrounged out from the cushions of the couch.

7:10

In terms of the other kinds of activities, every ministry, first of all, is going to be faced with the value operations over these next few months, finding over \$215 million in savings by their identification of various programming that could change. I have no doubt that in this period of time they will also be doing what we’re doing within our ministry and looking at other ways of making reductions. Our Regulatory Review Secretariat will be critical to that process. Mr. Chairman, you yourself are a member of that group. Looking at those ways that we can have cost savings will be a great part of our activity during this year while we get into this unaccustomed position of trying to make sure that we find those extra revenues if they don’t materially show up because of higher than anticipated resource revenues or other kinds of tax adjustments and so on.

I am just going to take a minute on the health transfers because there has been a lot of information floating around. In 2007, when we had an agreement of what the formula should look like, we never

anticipated that in 2009 Ontario would get their money and Alberta wouldn’t because it’s not built on equalization. You can’t say that a have-not province like Ontario, because they get equalization, should automatically be entitled to the health transfer. That is a totally separate formula related to corporate taxes. That’s the unfortunate part of it. I think the hon. member would probably fault me if I didn’t go after the party of any stripe that didn’t bother to give us their \$1.98 or our \$700 million.

Mr. Taylor: And you would be right on that, by the way.

Ms Evans: Excellent. Thank you.

Mr. Taylor: Okay. You referenced the Mintz report. Mintz has given you some credit for bundling some of the different funds into the new, improved sustainability fund, if I can call it that. And that’s not an endorsement of it by the way; I’m just giving it a name. You know, he has done that because, clearly, as you read his report, he thinks that we have too many eggs in different baskets. It’s rather like your financial planner saying: “You’ve got a quarter million dollars in your RRSP, and \$5,000 of it is in this bond fund, you know, at a bank you don’t even have an account with. Why don’t you collapse that and roll it into something bigger?”

I’m quoting here from an article that Mr. Mintz wrote in response to Budget 2009. He does say that it

avoids a comprehensive strategy . . .
He’s talking about your budget.

. . . to ensure that it can maintain program spending and the Alberta tax advantage that has been critical to its growth.

Overall, it is not clear that the government has figured out a long-term plan in the face of economic uncertainty.

A little further down in the article: “In the past, the government has had difficulty trying to unlock its spending habits from volatile revenues.” Again, a little further down in the article, and I think this is kind of analogous to what you need to do if you’re saving for your retirement:

As the panel on savings reported last year, Alberta’s taxes will need to rise by almost 40% in the next 20 years if the government were to balance the books and maintain program spending in wake of slow-growing resource revenues and demographic pressures.

So the long-term strategy, Minister, is the key element that’s missing from this budget. You know, you’re going to replenish to an extent, not to the full \$17 billion; you’ve only committed to \$10 billion. You’re going to replenish the sustainability fund, once you can, to the point that it reaches \$10 billion. You haven’t really made any commitment of what you’re going to do beyond that, and you’ve made no commitment whatsoever to engage in a kind of savings and investment strategy that continues to add real dollars and real value to the heritage fund or any of our other funds, endowment funds, however they may or may not be bundled.

Ms Evans: Certainly, I think that our Premier in answering this question has consistently said that the first thing we’ll do is rebuild our emergency savings before we add to the heritage savings.

Mr. Taylor: But I’m asking about the second thing and the third thing. We get the first thing.

Ms Evans: Right.

Mr. Taylor: We need to know if there is a second thing, if there is a plan B.

Ms Evans: Well, I think very much there is a plan B. First of all,

talking about the rebuilding, I just want to make it clear that that is certainly part of it on the savings. Mr. Mintz's recognition of the number of accounts that we have been saving in traditionally and why didn't we bundle them in one: it was in part strategic not to have them all together. Right now it's strategic to have them all together, obviously, because they are short-term investment opportunities for us to sustain ourselves over the three to four years. But we never wanted anything to tempt Ottawa to come in and say: you've got far too much money. That account management that he's referencing from the FIPAC report was something that our caucus did talk about and have some concern about.

I think if you look at the way we did our approach this year, part of it was reducing spending. You haven't been able to identify, I'm sure, in the last half-dozen years, at a minimum, when we have had such a little increase, especially since we've had 91,000 additional people in 2008 and over 350,000 since 2005. So we have spent much less. That's exactly the other part of the plan: to continue to spend less and . . .

Mr. Taylor: No. You're spending more less quickly; you're not spending less.

Ms Evans: I'm sorry. Spending increases are less than they've been. They have been up to double digits. They have been 8 and 9 per cent. Now at 3.7 per cent, that's a slower increase and probably, I would suggest, a per capita reduction, ultimately, with the number of people that live in Alberta and the growing population that we still continue to have, a record birth rate this past year. But you will find us still using, I think, a balanced approach of using our savings wisely, not spending too much of that, still building on our infrastructure. We're scheduled over the three years to build over \$23.2 billion worth of infrastructure. That will be part of our plan to keep Albertans working and marketing in the global market, and I think that's the work that we'll do with our value-added.

A good part of what's harder to see today is how the impact of our new royalty framework will shake out with the bitumen royalty in kind and where our province takes that particular policy as well as the upgrading and refining. But we sincerely believe our future in the generation of revenue side will be in the value-added of those activities, which our ministry is directly involved in.

I would say, to answer the hon. member's question, that it will be a balanced approach of absolutely every single thing. I am not going to entertain that there will necessarily be anything that will go into one sector or another. We'll not be punitive in one sector or another or to one group or another. One of the comments I would make is that it's not as simple as to say that you're going to make an adjustment either to staff or salaries or anything else because much of what government spends is levered out to other groups, other boards, other agencies, school boards that actually do that expenditure for a number of staff and have contractual obligations there. I know there have been suggestions of what we might do. I know that caucus hasn't discussed those opportunities. Until ministers are ready to come back with a balanced approach on where we might go in the longer term, we're not going to get there.

One other point I'll just make. I hope it's not a longer term reduction strategy. I hope we're really right that Alberta is going to be more of a sharp V of getting into the recession than a long, elongated process. I really believe that. I believe that the people who are still building buildings in Calgary believe that, that it might not harbour people today, but in three years they'll be full again. That's the cyclical nature of an energy-based economy.

Mr. Taylor: Okay. I'm going to try this one more time, or maybe

I'll try it several more times. I've still got some time on my hands here. You just touched on the cyclical nature of a resource-based economy. We go from boom to bust. It's like a seven-coupon ride at the midway. If your government could bring itself to see the wisdom of embarking on and sticking to a long-term, sustainable, predictable savings strategy, just as if you were saving for your retirement or for the kids' college education or whatever, then we could take some of the peaks and troughs out of this seven-coupon ride and level it out a bit.

7:20

Oh, it wouldn't be as exciting maybe. It'd be, I don't know, more like living in the east or something like that or, really, in any one of the other nine provinces or just about any of the 50 states that don't have oil and gas underfoot in the quantities that we have enjoyed. But it will take, you know, the sharp peaks and valleys out of our economic lives here and provide a sustainable, predictable source of revenue for the government.

The more you save, the more income you will generate, the more you will be able to go back, you know, and – I think Mintz has proposed that you follow a formula that allows you to draw down 4.5 per cent per year annualized over three years from your endowment, your collective endowment, to spend on whatever it is you want to spend on. You've been taking virtually all the income on an annual basis that the heritage fund generates out of the fund and putting it into general revenue to help fund day-to-day operations.

You know, for the purposes of this argument I'm not even going to dwell on what I or Jack Mintz or anybody else thinks is the best approach there. But, simply, the fact remains that the more money you put into your plan, the more investment income that plan is going to generate and the more potential sustainable, predictable revenue you have there so that the next time a barrel of oil drops from \$147 to \$44 dollars, you don't have to run a deficit.

Ms Evans: Well, that's the whole conundrum, isn't it? It wouldn't have mattered if we had a hundred billion dollars in our heritage fund because as long as we're going to spend more than we're going to earn in any one year, we're going to have a deficit. That was the grieving that went on in the Treasury Board as soon as we recognized that if we didn't earn – earn – every penny that we were going to spend in the given year, we were going to run a deficit. That has been the toughest sell of all.

I mean, our government, and you know this, Mr. Chairman, is still very interested in saving. It's just that this year it's not going to be economic to do so when we've got a number of other challenges, not the least of which is spending our emergency savings. We've got to fix that up, and then we get back into, hopefully . . .

Mr. Taylor: With respect, Minister, though, if you're really interested in saving as a government, if you're really committed to saving, then why have you not created a scenario under which you are putting aside the provincial budgetary equivalent of the young family that doesn't have a whole lot of disposable income, that has, you know, maybe a single income, two children, outrageous mortgage, not a lot of money to throw around, yet still they're committed because they're doing what their financial planner told them to do: put \$50 a pay into their RRSP and put it into their RRSP before they take any other money out of the bank to go spend on anything. That's a serious commitment to a savings strategy, and it's a commitment I believe you've got to get.

Ms Evans: Well, I would just simply say this for us because you could make us the equivalent of that family while we're having to go

through a period of incurring a deficit, reducing our expenditure with an increased population. For us to have this year put dollars into savings at the reduced rate of return, with the anticipated thought that we still have to make these expenditures and pay off our emergency savings, would have been harder to manage.

I'm not denying the importance of the savings strategy. Everybody here knows that I was charged with the responsibility of a savings strategy in the budget last year. It's just that at the time that we came to making sure that we had a decision about that and working through the process, the cupboard was rapidly becoming bare and it was becoming obvious that we were going to be spending our emergency savings. But even if we had put extra dollars into the heritage fund this year, we would still have had a deficit. [Ms Evans' speaking time expired] Sorry.

Mr. Taylor: That's okay. We can keep going.

Ms Evans: Oh, can we?

Mr. Taylor: Yeah. If you have a few more seconds left to that, go for it.

Ms Evans: I don't think I'm trying to diminish the importance of savings. We believe that. But I think that this year there wasn't a possibility, and that was the part that was so hard for everybody on Treasury Board when we first had to come back to caucus.

Mr. Taylor: A financial planner will tell you, if you are an average family starting out, that you need to save for your retirement, you need to save for the kids' college education, you need to invest that money long-term, and you need to set aside an emergency fund. I know you're going to say: "We did that. We've got the heritage fund. We've got the sustainability fund." The emergency fund, the sustainability fund, is there for times like these to draw down on. But the financial planner is still saying you're drawing down from the emergency fund not only to cover off your expenses but also to cover off your albeit modest investments in the future. Just because you've hit on hard times, if you've done a good job of putting together an emergency fund to begin with, doesn't mean that the first thing you do is stop saving for the kids' college education. You're still supposed to put that \$50 a pay away.

Ms Evans: I would contend that while the heritage fund is remaining intact, we are still saving for the kids' college education.

Mr. Taylor: That's kind of like putting a thousand dollars in, you know, at the end of your first year of work after college and saying, "There; I've taken care of my retirement," Minister.

Let's shift gears. I'd like to refer you to page 204 of the ministry estimates and ask you a very specific question about a very specific line in there. It's line 4.0.4, treasury management, where last fiscal year you budgeted \$10,123,000, and that's exactly what you spent. This year you have upped that budget by over \$5 million to \$15,504,000, and two fiscal years ago it was merely \$3,120,000. Now, Minister, I believe you made reference to the fact – and I'm sorry I didn't scribble down a note about that – in your introduction that you have taken over in treasury management a little something that used to be the province of Treasury Board, right?

Ms Evans: Are you talking about the AIMCo fund? I made reference to the increases in this being relative to taking over the pre-1992 teachers' pension and the \$16.6 million increase in AIMCo costs. Are you talking about that?

Mr. Taylor: No, I'm actually not. You said that those two factors were primarily responsible for the increase in your department's budget.

Ms Evans: Right. Then on these particular 4.0.4 budget variances the \$5.4 million net increase arises largely as a result of a \$5.9 million increase in AIMCo, again related to service fees stemming from the management of investments in the GRF. That's in the sustainability account, the capital account, and so on. The increase is partially offset by a \$493,000 reduction related to \$291,000 in reductions through the renegotiation of banking contracts, a \$167,000 decrease in the supplies and services budget, and a \$35,000 reallocation transfer made to risk management.

Mr. Taylor: That's an awful lot of an increase in fees over a very short time.

Ms Evans: It may well appear to be that way but, on the other hand, to both the pension funds that they manage as well as to the other funds there will be some increases in those fees as they start to get into a different mode of being evaluated. For example, the hon. member would be aware that the staff are paid in a different fashion, there's an entirely different payroll accounting, there's a new IT system, and everything that the Auditor General had suggested for compliance related to some of the activities they undertake today.

This management body, also under the direction of the board, will be paid like an investment management company would be. They are no longer on the grid of the Alberta Union of Provincial Employees, and there are certainly categories of risk reward that would be paid accordingly. We anticipated these fees would increase this year largely because of the relocation and the different kinds of management in this fund.

Mr. Taylor: So rather than just sitting around individually complaining about the management fees that we're paying on our own mutual funds, now we can all complain about the management fees that the government of Alberta is paying to its fund manager.

7:30

Ms Evans: Except for one thing. The hon. Shirley McClellan, one of my predecessors, in bringing this initiative forward to, if you will, remove AIMCo from its parent company, the finance administration of the government of Alberta, suggested after the Cappelle report that we look very seriously at a more entrepreneurial organization managed off and away, at arm's length, from the government. In that more entrepreneurial fashion every bit of the research will show that greater yields are possible because the incentive for that kind of activity in the investment financial management community is very often a dollar incentive rather than the way it's been currently managed up until January 2008. Moving to that, I expect it will cost me more, yes, on the bottom line, but the net gains will be significantly higher.

At the time that the decision was made at Treasury Board, the estimate was roughly a half a billion dollars higher than we would be able to make in the current financial structure of managing within the department. So, yes, we will see some increases in fees, but we will also see that the board governing the management of that will anticipate greater rewards. AIMCo has also reduced the amount of outsourcing of investments, and that is another big chunk of it. A lot of what was being done on behalf of the government of Alberta was outsourced. They're building that capacity within their organization.

The assumption that was shown to us by the board was that, ultimately, although we're getting greater costs this year, over a

period of time as the investment grows in a more vertical fashion, we sincerely hope, the ratio of cost to the margin of profit will diminish, so that the ratio of cost while growing at the outset, while they're building the capacity to have an internal management corporation – as the investment fund goes, these costs will not only diminish but it's really anticipated that they will become more of a very slow-grade growth if at all, just dependent on the management of those funds. Everything the board is currently doing is anticipating the growth of their capacity to deliver on a greater profitability. I know we see an increase in funds, but it will decline because the external management will be less, and the ratio of growth to profit will decrease.

Mr. Taylor: Well, I think I've stumbled into a meeting of Citibank or Merrill Lynch or Bear Stearns or Lehman Brothers, one of those. That sounds like the kind of argument that got us into this mess in the first place.

Minister, I think we can do better. I think we need to do better. An increase of \$7 million from '07-08 to '08-09 and a further increase of nearly 5 and a half million dollars from '08-09 to '09-10 in management fees that we're paying out to the people that we have tasked with managing our funds: I think that's too rapid an increase.

So, Mr. Chairman, if I could at this time, I'm going to move some amendments. I'm going to move three amendments, as a matter of fact. The first one refers to this particular line. I move that

the estimates for treasury management under reference 4.0.4 at page 204 of the 2009-10 main estimates of the Department of Finance and Enterprise be reduced by \$5 million so that the amount to be voted at page 201 for expense and equipment/inventory purchases is \$474,289,000.

Now, Mr. Chairman, as I read that final number, you'll see that I've actually moved my third amendment first, but I have two other amendments here as well.

The first of those two is this. I would move that the estimates for strategic and business services under reference 1.0.3 at page 204 of the 2009-10 main estimates of the Department of Finance and Enterprise be reduced by \$26,000 so that the amount to be voted at page 201 for expense and equipment/inventory purchases is \$479,263,000.

That refers to a reduction of half the amount that we believe the department has spent on hosting expenses. That's simply an admonition, not only to this department, but we're doing it to all departments, that in times like this the first place to tighten your belts is at home, and we may just have to do with a few less hosting events until the economy turns around.

For my final amendment, Mr. Chair, I move that the estimates for communications under reference 1.0.4 at page 204 of the 2009-2010 main estimates of the Department of Finance and Enterprise be reduced by \$60,000 so that the amount to be voted at page 201 for expense and equipment/inventory purchases is \$479,229,000.

That refers to reducing the communications budget so that the amount for the 2009-10 estimate reflects the 2008-2009 forecast so that the amounts are the same.

Essentially, three amendments aimed at bringing the total amount voted at page 201 for expense and equipment/inventory purchases down to \$479,229,000.

Minister, it would be appropriate for me to give you a chance to respond at this point if you wish to, before I natter on any further.

Ms Evans: Mr. Chairman, I haven't been privileged to sit in one of these sessions. How do you deal with these amendments? One at a time?

The Chair: It's up to you, Madam Minister. You can take them under advisement, and they'll be discussed and debated on May 7 when we go to Committee of Supply in the House and be voted then. They won't be voted on tonight.

Mr. Taylor: Okay. They're now on the Order Paper, Minister.

Ms Evans: I haven't got all three copies, but the first one really deals with the \$5 million adjustment that you have suggested for the budget dealing with AIMCo. The second one deals with the equipment and inventory purchases on page 204 under strategic and business services, right? That is targeting what specifically? Sorry; I missed that.

Mr. Taylor: We're bringing down hosting expenses.

Ms Evans: So you're reducing them by \$26,000.

Mr. Taylor: Yeah, by \$26,000. The third one is bringing down the communications budget by \$60,000, to the point that it was last year.

Ms Evans: Well, maybe just so we give everybody ample time – I'm not sure what the preferred suggestion is here, but I would simply say this: the activities in AIMCo, it was a very deliberate move. If you look at page 226 of your budget and look at how AIMCo has been structured to spend over a number of years, the actual in 2007-08 was \$41 million. Then in 2008-09, \$221 million.

Now, there was a significant amount of that that was built on investments that were purchased from other fund managements. The decision of this board has been that they're going to get better value for money by having that expertise inside. In other words, why build AIMCo as a stand-alone Crown corporation and still hire staff from afar? I would just respectfully note that every 10 basis points, or 0.1 per cent, value added in returns results in \$70 million in earnings.

Although we're still responsible as a government for setting investment policy, the legislation that we have balances operational independence with high standards of transparency and accountability. I think that with the board that we've got, the hirings that have been made for a chief operating officer for the work they've done to make sure they're in compliance on internal management, the portfolio management, I think it's going to be dollars that are going to glean significant variance on our heritage fund. In fact, I'm very enthusiastic about what I hear that they are undertaking to improve themselves. Most of it is around the type of people that they're hiring to manage the fund.

I'd just like to make a couple of brief observations. Seventy per cent of our hosting is done by the enterprise corps of our ministry. That's a very important part on the fourth goal that we iterated in this budget of marketing Alberta to a global community. Many of the individuals that are working there have interfaced with Houston and with other places, trying to not only attract industry but to become more familiar with industry. It would be a pleasure, actually, to share with this member that the favourite bill on my account is usually a Boston Pizza salad. But most of this hosting, actually, even when I've been in attendance at this hosting, is generally speaking targeted to the people that are either investors or that have potential for doing new business in Alberta. So, overall, the account in this ministry addresses that sort of activity, and it's not fine dining and wining at all. It's actually very scrupulously monitored.

7:40

Communications. I think this is where it's extremely important and would certainly speak in exception to that as well. I'm respect-

ing very much that we've got these amendments tonight but would just simply say that we believe that Albertans really need to understand the issues in finance. If I had any druthers, we would have increased it more because I'd like to be able to get more information available for people to understand a little bit of the nuances around finance, not only the impact that they might expect to happen in long-range projections of the jobs and opportunities but to make available to Albertans a little bit more information.

We're going to continue to report quarterly, but I've actually asked that we do what any prudent corporate management would do, and that is make sure that within our organization we become much more attuned to the variances that might happen both in our revenue stream and the kinds of reductions that we should make. That's predominantly it. You would find that my communications director isn't walking arm-in-arm with me through the halls or off to speeches or doing anything else like that. As a matter of fact, quite frequently I'm on my own on that.

So it's not a communications department that's serving the political arm as much as it is a communications department that's serving the needs both within the very complexities of our department and within the complexities of dealing with other silos, if you will, in government that are managing other things and making sure that the communication on financial management is properly addressed. That becomes quite a significant challenge that we're dealing with: taxation and revenue, frequent inquiries from the public. Reduction of \$60,000, or the equivalent of one and a half positions or one and a quarter positions, depending on the level of expertise, would do something that I would find very unworkable. Right now, I can tell you, I could make very salient arguments for adding to the communication budget of this ministry.

Unless we want to go into any more detail on these two things, perhaps I'll leave it at that, and then we can move on with other issues.

Mr. Taylor: I just wanted to advise the minister not to limit herself. From time to time she might want to go to Swiss Chalet for the quarter chicken plate. That's also a good deal.

Ms Evans: I have also done that.

The Chair: You have a minute and a half left, Mr. Taylor.

Mr. Taylor: Thank you.

But, Minister, my point on that was that in times like this we need to find ways to do more with less. Private industry would do that. Private industry would try very hard not to dry up the core areas of business, obviously, but they would look at places where, for lack of a better phrase, the fat could be trimmed a little bit. What gets defined as fat may be a broader definition when times are tough than when times are good. But times are tough, by your own admission. I hope you're right – I'm not sure that you are, but I hope you're right – that we're going to recover quickly and well from this recession. But right now things aren't so good. We need to be looking for ways to make sure that the dollars that you have available to spend, whether in your own department or across the operations of government, are being spent on the right kinds of priorities that are benefiting the people in the province of Alberta and not just because: well, that's the way we've always done it and would like to do more of it.

Ms Evans: I actually agree with the sentiment expressed by the hon. member. I'll tell you one thing that I've learned by coming into Finance and Enterprise.

The Chair: Just very short, Minister.

Ms Evans: Yes. In terms of frills in Finance and Enterprise, there are none. I would often challenge people in other ministries to come through and see just how parsimoniously this group functions. It's utterly amazing.

The Chair: Thank you.

Before we get to Mr. Mason, Mr. McFarland, could you just give your name and where you're from for the record, please?

Mr. McFarland: Yes, I could.

The Chair: Go ahead.

Mr. McFarland: Oh, I'm sorry. You caught me at a bad moment. I'm Barry McFarland, Little Bow, and I've been here quite a while.

The Chair: It could be the fact that Mr. McFarland turned 61 today.

Mr. McFarland: Well, I just forgot where I was supposed to go.

The Chair: Okay. Mr. Mason, the floor is yours. Would you like to go back and forth with the minister?

Mr. Mason: Yes. If the minister can keep her answers concise, I'll keep my questions concise, and hopefully we can cover enough ground.

Thanks very much, Madam Minister, for being available for this. I guess the first question I have is a rather general one. When I first was elected to the Legislature, in 2000, you know, I don't think oil was much above \$15 a barrel. I remember the excitement on the part of government and so on when it hit \$50 a barrel. We were posting very significant surpluses at that time. Certainly, the surpluses got a bit larger once we passed \$50 a barrel. Well, now we're back down in that vicinity. I guess a question that I get I asked by constituents is: if we could post \$2 billion surpluses when oil was \$50 a barrel, why can't we now?

Ms Evans: I would draw their attention to the difference between the price of a welder at a hundred dollars an hour and one at \$25 an hour. I think that it's tempting to look at times past without looking at the graduated scale of everything that's had either deflations or increases corresponding. The wage increases have been significant. The cost of food, the cost of a number of commodities have been different.

When I compare the deficits across the country with the deficit here, one thing that I'm really struck by is that many other places in Canada are not having to build the public infrastructure that we are. To some extent it gives us an advantage because we've got something that we can build, and we've got some dollars that we are doing that building with. But some of the other places, their deficits aren't quite as high in dollar terms. When you look closely, of course they're not as high. They're not having to build any more roads. They're not having to build any more public schools. They have shrinking populations, diminishing numbers. I think that part of the answer is that we can't do it any longer because we're still growing, and there's still an anticipated growth this year.

The costs of labour and construction materials are high. Steel and concrete are lower now, but they have been very high. Inflation on our building has been considerably higher in Alberta. I think we've just now lost the number one position. I believe Saskatchewan leads us on inflationary costs over the last little period of time. It's been because of the many prices that have increased.

Mr. Mason: Okay. Thank you. Normally a budget is the road map for how a government is going to establish its priorities and what it's going to do over the next year. I was actually quite surprised to see that in this budget there were \$215 million in cuts that weren't defined in the budget. I find that quite unusual. Why didn't we nail down the \$215 million in reductions, if those are actually necessary, and include it in the budget instead of leaving it for later?

Ms Evans: Good question. Last year the President of the Treasury Board anticipated that the overall reductions from value audits, if you will, or value reviews during the year equated to roughly \$256 million of savings. We'll note at year-end, when we reconcile our budget, what it actually was at the end of 2008-09. The anticipation of getting another \$215 million this year – and I bet it will be higher than that – was built on the fact that you have to work with the departments that are doing it.

Part of the answer lies in collaboration between departments. Currently we have Children and Youth Services, Seniors and Community Supports, and the Housing ministry – Health is also involved – working on how they can collaborate to make sure that there's no overlap in the service delivery. That's not quite ready for prime time yet, but I know that a lot of their review of the various components of their budgets that may have an overlap is being seriously looked at, especially as it relates to seniors and the soft service delivery. Employment and Immigration is part of that group. There's a leader within each of these ministries that's looking at the manner in which we're spending our dollars to see if there can be other ways of reducing it or one group taking over an activity that's been shared by three, perhaps, if it's more workable.

7:50

I'll give you a prime example. One example would be to have a program that I'll call a program for children with extreme disadvantages. It might be physical and social and emotional and educational. If Health is funding a portion of the expense and Children's Services is funding a portion of the expense and Employment and Immigration is funding a portion of the expense under some sort of support in child benefit, examining whether or not it's better to fund with three expense officers rather than one expense officer, give one the responsibility for it: these are the kinds of things that are going to be done in the value review. As I say, not quite ready for prime time yet. It's that kind of example, Mr. Mason, that I believe will bear the fruit of the \$215 million.

I think there will be other savings, too, as we become technologically more developed. I'm hoping that we can become a little less addicted to paper in the future and a little more fond of e-mail. You know, if we can catch up to the younger generation in being able to handle things in a wireless fashion, that might in itself bear some results over this next period of time. It wasn't in the budget because we weren't ready for that with all the components that have to be there, but it will be part of the ongoing value review that we've expected in net dollars.

Mr. Mason: Thank you very much. I dread the day that we have a provincial budget on Facebook.

You know, a budget is predictive, and it has to be a test of the government's ability to estimate. A lot of it is, in fact, estimates, especially things like revenue as well as expenditures. It seems to me that one of the things in the budget that was probably known with greater certainty than many other things that are included in the budget is last year's deficit from the health boards. That, according to some reports, is as high as \$1.2 billion. The Minister of Health and Wellness recently said that he hoped to get it down to half a

billion dollars. Nevertheless, it's an expenditure that is incurred in this year's budget, and it's my view that in good, sound budgetary practice it should have been included. Probably you know that at this point with more certainty than many other numbers in the budget. So I want to ask why the government has not included that expenditure in the appropriate budget year.

Ms Evans: Because, quite frankly, I really don't know it, Mr. Mason. I have no idea what that figure is. I've heard several estimates of it. We'll have to wait until we see that, and then we'll have to see a three-year plan for managing the deficit coming from Alberta Health Services. We want to know what their plan is to cope with it. When I spoke earlier to my critic from Her Majesty's opposition, I identified that there are some kinds of things that we expect, you know, we will see at a later time. This is one of them. We need Alberta Health Services to identify it, just like they identified the \$1.5 billion that's still available from dollars that we lapsed for capital expenditure, that's still out there being administered by Alberta Health Services for projects that either they haven't begun and weren't shovel ready or that they haven't completed.

In this instance, we'll be asking them for their plan to manage that. I wouldn't suggest that the total would necessarily come from this year's budget. I'd like to see how they plan to cope with it. I don't know exactly what that amount is. I've heard various bits of conjecture. I'm sure that even now health is doing what health often does, and that is looking at their year-end results to see if any of the dollars are available from the department to be lapsed to help offset some of those dollars. When it comes in June, Treasury Board will receive that report, no doubt, and will take a look at it to see what their anticipated activity is to address the deficit, what they intend to do themselves, to see whether we can seek cost adjustments there. Then we will address it accordingly.

Mr. Mason: Okay. Thank you. I would like to address the issue of taxes a little bit. I wouldn't expect that you would make a statement tonight about adding new taxes of various kinds, as much as we might like you to do that, but I do want to ask about the government's tax policy with respect to corporate taxes and the flat income tax. When these changes were brought about, we were quite critical of them. One of the things is that they reduce the burden on people who do have a lot of wealth or a lot of capacity to pay. In changed circumstances economically there are still some corporations, I think, that are doing very well and making good profits as well as individuals paying personal income tax who are not adversely affected like many other people by the recession. To continue with a policy of reducing taxes for the wealthiest individuals and corporations may not be practical in the current circumstances, whatever differences in philosophy there may be, so I'd like to ask if you're considering or prepared to review the flat income tax or Alberta's very low corporate income tax rate.

Ms Evans: I would say that at this time there are no plans to make any adjustments. Obviously, when you look at the capacity of Alberta to receive government support for government's essential programs, you look at not only the income from personal income tax and corporate income tax, but you look at the third leg of the tax stool, which is the royalties. In other provinces that third leg is the provincial sales tax.

I suppose I'd just answer in this way. We still target to keep the most competitive tax regime, whether it's dealing with the fuel tax in the tax plan that's included in this budget. There are various charts that show a number of the ways that we are working to be competitive, and along almost every line, in almost every category

you would find that we are taxing our people less than anywhere else. On some scales we know that if a person moved anywhere else, as an individual they'd pay between \$2,500 and \$5,000 more, depending upon their income. So it depends on what category of income you have.

There's real danger in getting the corporate tax up. As you know, we have had the lowest corporate tax rate. Frequently the government of Canada suggests to Ontario that they lower theirs still further because if you prompt business to invest, then you have the happy circumstance of extra jobs available.

So no plans to increase any of those tax revenues. Mr. Taylor was right. While initially I said that we'd leave no stone unturned to look at what the options would be in the future if there was a prolonged recession, I think our Premier really closed the door on any provincial sales tax. That wouldn't be entirely dissimilar, Mr. Mason, to the situation in a community like Strathcona. If you've got a machine and equipment tax, a heavy industrial tax, you can't have the business tax. So there are certain things that are practicalities, and when you've got the royalties as really such a significant percentage of the revenues of the province, we're not likely to move to a PST and certainly not likely to try to amend our corporate and income taxes.

Mr. Mason: Okay. Thank you. I just want to make a brief comment, and that is that the low royalty rate and the low tax rate do not insulate those businesses from the effects of the recession. There are far greater forces that they must deal with than the tax policy. Regardless of very low royalties, for example, for drilling and the new program that's been put in, we're still losing rigs at a rapid rate because the main thing that affects that is the price of oil and not the royalty rate or the tax.

8:00

I want to ask about federal health transfers, the \$700 million that has been coming up. Now, you're going to have to help me a little bit to understand. This is a different program from the federal transfer program. Is that right? It's a separate program calculated in a different way. Is that correct?

Ms Evans: It's the federal equalization program, equalization which enabled Ontario to get dollars this year. I believe it was some 367 million dollars from the equalization payments. The federal government, it's our belief, identified the have-not status of Ontario now in an equalization program as the rationale for leveraging over \$400 million to transfer dollars on behalf of them for the health program. But equalization has never been the basis for that formula. That formula is based on corporate and income tax.

We took exception to that because under those circumstances Alberta should have qualified, but we didn't get the roughly \$200 per person, or \$700 million, that we believe we are entitled to, so we have raised that objection. It wasn't based on equalization. The health formula for a transfer is structured on taxation. I think our Premier has said: if you're sick in Alberta, you're no different in your needs than somebody who's sick in Ontario. That's why we have been speaking about that.

Mr. Mason: Are you saying that they have applied the formula incorrectly?

Ms Evans: Oh, I'm not quite clear what they've applied. I would put it this way. What we understand is that they have given over \$400 million additionally – I think it's roughly \$450 million – to Ontario for the purposes of amending their health transfer payment. It's our understanding that the equalization of itself doesn't categorically entitle them to that. If it was based on taxation, it isn't exactly

precise given the formula that would have been acknowledged on taxation. If it was given on taxation, Alberta ranks second, I believe, in getting that opportunity for it.

The legislation relative to the federal budget in 2009 has provided an additional amount to Ontario for their budget, obviously, for the Canada health transfer, and I believe they went away from a formula, that was a legislated amount, that we believe we should have been entitled to on a similar basis. So we're letting them know how we feel.

Mr. Mason: Okay. The timing is interesting.

Ms Evans: Well, let's address timing because that really wasn't abundantly clear in January. That wasn't abundantly clear even in February. I was talking to my counterparts in Manitoba about it because they were very concerned about it. There was a lot of confusion around the equalization payments this year because there were people that became haves again as opposed to the have-not status that Ontario had. The first time we saw that formula was at 5 to 12, I believe, December 11 of 2008. Then there was great grinding of teeth on whether or not it was fair and reasonable. I think Ontario complained bitterly that they really deserved more, and I think that that is the larger underpinning of why they ended up getting more dollars on their health transfer.

Mr. Mason: The squeaky wheel.

Ms Evans: And it wouldn't have been clear to us that the government would have gone away from their formula to put something in place that hadn't been there before.

The Chair: You have one minute, Mr. Mason.

Mr. Mason: One minute. Holy smokes. I've got a whole bunch more questions.

AIMCo. Is it, in fact, prudent to have high-risk investments when you're dealing with things like pension funds and workers' compensation funds and so on? Should we not have a policy that is more conservative? I'm sometimes conservative, believe it or not, and I think that when we're dealing with these kinds of things, we should be a little more risk averse than some of those recent transactions would indicate.

Ms Evans: We have a schedule that's printed in the heritage trust fund that shows the asset mix, and it's remarkably similar to many other asset mixes that you find in other funds like Canada pension plan. You'll see some different variances relative to the equities, the foreign shares and so on, but we do err on the cautious side on the risk, if you will. I won't really say err. We deliberately target to make sure that we are risk averse. If you look at it, it depends entirely on how you view the asset mix.

When I talked to Canada pension plan about their losses in their plan – and ours were modest by comparison – they did not change any of their asset mix. It was a very peculiar year. I think you could reference back the one in the heritage fund, see what our asset mix was, that was shared with that all-party committee, and find that it's pretty risk averse.

The Chair: Thank you. We'll take a five-minute break so that people can stretch their legs and use the washroom. We'll be back here at 8:11 p.m. Minister, if you could be back here and seated at 8:11 p.m.

[The committee adjourned from 8:06 p.m. to 8:12 p.m.]

The Chair: We'll call the meeting back to order, please. Minister, are you ready to go?

Ms Evans: Absolutely.

The Chair: Okay. Mr. Bhullar, please.

Mr. Bhullar: Thank you, Chair. Minister, I am going to start with the budget surplus and the role of the sustainability fund for '09-10. Can you please explain to the committee what happened to the government's expected \$1.6 billion budgetary surplus for the 2008-2009 fiscal year and why, instead, the minister is now forecasting a deficit of about \$1.4 billion for the year?

Ms Evans: Thank you very much. Clearly, on the budget surplus we attribute the loss mainly to the investment income loss. The heritage fund and various endowment funds were budgeted to earn \$969 million, but they're now forecast to lose \$3 billion. Overall, the investment income went from a budgeted \$2 billion to a forecast negative \$1.9 billion. The 2008-09 forecast deficit is therefore related to the downturn in financial markets and not to declining energy prices or to any of the schedules of how we predicted our revenue forecast. The expense is forecast at \$37.1 billion in 2008-09, \$122 million lower than budgeted.

Now, the sustainability fund. Did you want to go into it, or do you want me to just follow through with that?

Mr. Bhullar: Well, just a quick thought on this. What you're saying, then, is just as the average Albertan's RRSPs may have declined in value, so too have the province's, which has resulted in reduced revenue from the heritage fund, which we had to top up.

Ms Evans: That's correct.

Mr. Bhullar: Super. Next, the sustainability fund in Budget 2009 and the role of that in our fiscal plan.

Ms Evans: It's really a risk management mechanism. It enables us to look after the carbon capture and storage and the green transit incentive program. The expanded funds, roughly \$17 billion, give us an opportunity to more easily, I think, and readily and transparently manage an operating expense, that will enable us to cover off costs of the operating amounts.

As well, we took the amount that had been budgeted in previous years for a contingency and put it into the sustainability fund. Emergencies, disasters, forest fires, pine beetle in excess: all of those things will come from the sustainability fund. The measured way in which we're approaching the use of it, we hope, over the next three years will consume less than \$9 billion of the anticipated \$17 billion that we have today and be more like roughly 8 and a half billion dollars. I think it is a way of us bridging this troubled water.

Mr. Bhullar: Well, absolutely. Now, to jump back to the heritage fund, given the substantial losses over the past year there seems to be a need to enhance the management of risk on behalf of the taxpayers of Alberta by the Alberta Investment Management Corporation. Can you please describe what kinds of tools AIMCo uses to assess the risks to its investment portfolio?

Ms Evans: Actually, AIMCo uses a number of innovative software packages unique to the investment management industry. There are various analyses of portfolio characteristics, accompanying measures aimed at improving investment results and managing volatility, very

sophisticated, sometimes very complex instruments that look at everything from any financial liability that might be assumed to any investment criteria from taxation right through to the workforce or right through to some of the other projections they make to make sure they've done a thorough analysis and vetting of each fund before they purchase it.

The tools are always being improved. The organization is always looking for new methodologies and risk management strategies. It's an ongoing cycle of watching for better performance. I think that in today's climate dealing with these kinds of tools is much more intense and really more responsive than what we used to have in the past, where we were much more dependent on old ways of doing things. Today there's a much quicker, transparent, technologically perfect process for it.

Mr. Bhullar: Well, good. In comparison to the private sector, maybe, how do their tools match up? Are they using similar tools? Are they on the cutting edge of research with respect to this sort of analysis?

Ms Evans: Actually, AIMCo will be as sophisticated as any private-sector organization. I think it will be almost better than most because, quite frankly, the board of governance, that starts right at the top with Charlie Baillie, with his expertise as the head of TD, right through to the other board members, and the kinds of activities and the kinds of assessment tools they'll have will be every bit as sophisticated as the private sector will have. It will be, for all intents and purposes, a world-class investment functioning group. We were anticipating – and I spoke earlier about it – that the amount of outsourcing would be reduced because the activity will build a staff that will be as capable as any other investment staff, and we hope to get better returns for a cost equivalent or less than they have in any other place.

Mr. Bhullar: Just briefly, Minister, with respect to savings that other jurisdictions may have or funds they may have that are similar to our heritage fund, did other jurisdictions experience the same sort of losses?

Ms Evans: Most had higher losses. I spoke recently about the Norwegian fund losing \$92 million in a year, and that was their largest fund. They have smaller funds. I believe the Ontario teachers' pension fund had a significantly higher loss. Caisse de dépôt and the banks in Quebec had, I think, huge losses, so much so that it was a very significant imposition on that government, especially when as a government we look at things like our ATB and our credit unions, and we guarantee the deposits in each.

8:20

Here we have had a remarkable advantage over many other places. Many others couldn't afford to make that kind of guarantee. In Alberta not only did we do better on our fund management – and you have to look at the mix of it. I would not want to complain about the fund management in other places; it depends entirely on how aggressive they were with their strategies. But I think that if you looked at the detailed comparison dollar for dollar, we were in very good shape.

One thing that we were fortunate about is having that supplementary fund, now the sustainability fund, that had a lot of short-term investments in it, that fared much better than some of the other investment vehicles that brought funds down considerably more. So if we had money in the money market – I think there was roughly 25 per cent of our overall investments that were in short-term savings

notes. That gave us an advantage that meant that there was a loss on the heritage fund of, I believe, roughly 14 and a half per cent and overall on the other funds roughly 16 per cent, dealing with the pensions and the other endowment funds. The overall losses weren't any larger than that. If you look world-wide, there are very few people that would compare with that.

I did hear the complaint about, I believe, the city of New York. Somebody complained in the House one day about their relative capacity to do better with certain funds, but you have to look at what funds they were investing in, for what term they were investing for. I think that's why we've done exceptionally well on our investment strategies.

Mr. Bhullar: Good. So the strategy to have different savings pots, you know, to have the heritage fund for the long term and for the day where perhaps we don't have oil and gas in the province, to have that as one savings account and then having our sustainability fund be a separate instrument of savings: I guess that strategy is something that we can look back at now and say that that was a wise choice.

Ms Evans: I believe it was a wise choice. Also, my observation would be that in the last three years we couldn't afford to build everything that we actually had on the template to be built. That's why we've got a significant amount of money in our capital fund and why health, as I noted earlier, has money that's unspent. Sometimes the prices of various materials were too high, the labour was unavailable. Currently, I think, because we recognize that the investment in infrastructure keeps people working, we're able to get on with that.

I think the advantage of our heritage fund, too, has been that we have been able to use the interest from that in developing a much larger menu in Alberta. When I talk about 350,000 people since 2005 and 54 schools being built this year and \$2.9 billion for health and \$1.7 billion for capital, you need those dollars in those accounts to pay for that. If you looked on a per capita basis to any other place in North America, over the last few years we have grown a lot more rapidly than others.

Now, true, today we expect our economy to shrink by 2 per cent, but we've still had a very significant growth of a young population, who are in many respects a population with significant needs, and we also have the seniors on the other end of the life scale, who have different needs in the long-term care. I look at the expenditures identified for some 15,000 units of housing and emergency shelter, for affordable housing and affordable supportive housing units, over the next few years. The dollars that we've saved in these kinds of accounts will help us build the capital that we want to and, I think, work to our advantage.

Clearly, Mr. Chairman, over the last few years we haven't been able to build quite as rapidly as we might like to have because we were out there competing with the private sector, who were also engaged in construction up in the oil sands, and it inflated the costs. I think that that now having been tempered somewhat lets us use these dollars to greater advantage. The Minister of Infrastructure tells me that on some projects he's getting as much as 33 per cent advantage because of the dollars available today to do that sort of building. I think that's good news.

Mr. Bhullar: A question on the Capital Finance Authority. My understanding is that it's a not-for-profit authority established under the Alberta Capital Finance Authority Act, with its mission being to provide local authorities within the province with flexible funding for capital projects at the lowest possible cost, consistent with the

viability of the Alberta Capital Finance Authority. As well, I understand that the authority issues debt obligations that are guaranteed by the province. Given this obviously important role to our municipalities, can you discuss its business and operations plans for '09-10?

Ms Evans: Since 1956 the Capital Finance Authority has helped Alberta communities access capital at competitive interest rates. They can't do better anywhere else, quite frankly. It gives them an opportunity at a very competitive rate.

In 2008-09 the authority benefited from two business conditions which had an effect on both revenue and expense. The significant drop in interest rates in '08-09 decreased its revenue but decreased its interest expenditures, providing a very strong net operating position.

In 2009-10 ACFA will borrow more long-term debt to meet the needs of its shareholders. We actually also amended the borrowing limit of ACFA because we recognized that there were significant numbers of new projects that municipalities would come forward with. Just last year, roughly in November, we made that amendment.

Due to an accounting policy ACFA will now expense the commission fee costs in the year they have occurred rather than amortizing them over the life of the debt. Because of this change ACFA and its operation will return to profitability in 2011-12.

I think this just helps our communities. There has been quite a bit of pressure brought to bear from nonprofits asking if they can access this fund. We often have conversation about it, but we have currently stuck to the policy of making sure that those municipalities become the first line of adjudication for what should be built so that public funds are spent in the best possible way and so that they're taking ownership for the responsibility of distribution of those funds.

Mr. Bhullar: Now, keeping on this theme of infrastructure-related spending, in comparison to other jurisdictions and perhaps even the federal government we have, I guess, an infrastructure and development plan that has been in place that we've been executing. In comparison to other jurisdictions that are now running around trying to find projects, to get shovels in the ground as quickly as they can – and they're going into deficit spending to pay for these – we are continuing a strategic plan for the province to ensure that we are indeed going to be a world leader 20 years from now and 50 years from now. Your thoughts on that: have I summarized that appropriately?

Ms Evans: Yes. Thank you. Frankly, I think our infrastructure spending has been about double the Canadian average. We have been spending roughly \$2,200 per person on infrastructure. That's a very significant amount to spend on an annual basis. It's part of our 20-year capital plan, that's managed through the efforts of the President of the Treasury Board. Other MLAs have had involvement with it. The Member for Little Bow has done significant work on capital planning and looking at the staging of capital plans so that they're balanced throughout the province where the highest need is, and they're adjusted from time to time as new priorities emerge.

8:30

I think one of the biggest challenges in the capital planning is around the development of highways. The decision this year on the ring road development around Edmonton and Calgary and the decision on the development of highway 63 are notable. The struggles we have in this climate to build our highways, where it can take at the rate we're currently going more than a decade to build

roads to places like Fort McMurray on highway 63, are significantly challenging. So we have to spend this amount of money. I don't want to imply that we've got so much money in our 20-year plan that we're doing everything we should be doing. People who have to travel that road in the winter and think about the safety factor would argue that we should be doing more of that, but sometimes it's just not been physically possible. It's challenging because of the type of terrain they have to cross as well.

It might be interesting for the members here to know, Mr. Chairman, that there are a number of people that have suggested that we look at this in the future, look at this as an opportunity for Albertans to consider different types of endeavours. I know that CN has come forward and talked to us about pipelines on rails, the movement of goods and services through the rails, so as we try and overcome our challenges, we see other innovations coming forward. Mammot have come forward with an all-terrain type of vehicle that could see us cross 150 miles of terrain and connect with the Mackenzie delta. The type of work they do, Mr. Chairman, looking at relative to the development and expansion in the north and some of the challenges there, would benefit from considerably more infrastructure spending, but sometimes the materials and getting the partners in industry and the province and the municipalities lined up is also a challenge. This year with the building Canada fund we have had some federal support on this, and that has been extremely important. We should be getting per capita allocations equal to other parts of the country. That will also help us with the plans that municipal authorities have made relative to expansions for some of their activities.

I know that there have been a number of overtures from different MPs that have come forward with various capital projects they'd like to see done. Sometimes the biggest challenge is aligning the expectations of all three levels of government.

The Chair: Dr. Taft.

Dr. Taft: Great. Thanks. I might as well start with the capital plan in Budget 2009, this document here.

Ms Evans: Okay. All right.

Dr. Taft: Because there are pictures. On page 92 the picture I refer to is the bar chart on the top there. There has been a lot of talk about the job-creation effect of the capital spending of the provincial government: 11,600 jobs per billion dollars spent. When I look at that – and I think that's the only place where I actually see a detailed annualization of the spending as opposed to over three years – in this current year we're actually reducing capital spending from last year, and we're at the same level we were two years ago. I don't find it reassuring that we're spending a lot of money on capital to create jobs when we're actually cutting spending on capital. Can you speak to that very briefly, please? I have a lot of questions.

Ms Evans: Sure. There is the three-plan for \$23.2 billion. One of the remarks I made earlier, Dr. Taft, was relative to the billion and a half that isn't accounted for in our \$7.2 billion that's out there as lapsed dollars from the health regions that are now going to be administered by Alberta Health Services. It is possible that if they spend that billion and a half dollars this year, it can be added to the overall amount of public spending of \$7.2 billion, but those are dollars that were given in previous years. So while it looks like we're spending less this year, potentially we could be spending more because of that billion and a half. You won't see that in this budget because those dollars have already been out to the health regions,

gathered now into Alberta Health Services. Alberta Health Services was forced to gather in those dollars, not to leave them out there in separate accounts but to start spending those dollars on the capital. In actual fact, the activity level in Alberta could well be roughly 9 per cent. It could be less. I mean, they may not spend all of it, but our anticipation is that they're shovel ready.

Dr. Taft: All right. I think you're overly optimistic on your job projections, and when I heard you talk about how much is being spent on capital as a way of reassuring us on losing only 15,000 jobs in the entire year and I looked at that, the two didn't add up for me. It'll be interesting to see how your quarterly updates go on that because I'm not optimistic, not nearly as optimistic as you are.

I'd like to spend a couple of minutes talking about the Mintz report, which I think is an extraordinarily important report. I liken it, frankly, in my mind – over the last few years despite all the glowing economy and so on there have been various symptoms of a fundamental disease in our economy, and the most simple one is what we call the sustainability gap. This has been the highest spending, lowest taxing government for several years, and we've made that up by drawing down the capital. I think those have been symptoms, and I see Jack Mintz's report as a diagnosis. Basically, Jack Mintz is saying bluntly: this province's economy is terminally ill, and if we act now, we can treat it; if we put it off, it's not only unsustainable, but it will be permanently disabled. I think it's a very important report. I must say that I was disappointed in the way you handled the release on a news day on which it was buried. All of that aside, let me start with a simple question. In the spirit of openness and transparency would you provide us with the assumptions that were used by the Mintz group when they did their calculations so that we could see what was behind it? Is there any reason you wouldn't do that?

Ms Evans: I can see what's available. You know that the Mintz report was done and given to my predecessor. I will provide whatever I can. The 17 recommendations had some significant conversation on more than one occasion by our caucus. At the time when we would have been delighted to deliver more on the strategies of saving, we were actually looking at how we were going to measure up and be able to spend on what we needed to spend for this year's budget. I'll see what we can find in any of the working papers.

Dr. Taft: Yeah. The working papers behind it, some of the assumptions. This is for everybody, and this is for the next generation.

Dr. Mintz has identified, basically – I don't have the report in front of me – a long-term 40 per cent gap that has to be closed. In other words, we either raise taxes 40 per cent in the next 20 years or we cut spending by 40 per cent or some combination of the two. His solution, as you know, is to embark on a very aggressive savings plan. He recommends in that report a fund of some hundred billion dollars. Do you accept that goal?

Ms Evans: Well, Mr. Chairman, we're here today to talk to Budget 2009, not to talk about the savings strategy that was implicit in the Mintz report. I can accept that there is some wisdom in adding to our savings, but ultimately we have to define what the savings are for. This year we have defined that the manner in which we will administer our sustainability fund under the new Fiscal Responsibility Act will help us get through a fairly significant trouble spot in our economy while still maintaining untouched the heritage trust fund. Ultimately it would be the hope of this government that we will be

able to quit taking from the interest earnings of the heritage fund, that we would be able to see that heritage fund build.

There have been significant numbers of requests to me in this finance portfolio to define exactly what the heritage fund would be used for in the future for our children and grandchildren because of things like the green technologies and so on. That's a challenge that will come in the future. Whether I agree with the ultimate target of a hundred billion dollars or not, it would be a moot point because it's not something that's going to be achievable, obviously, within this term of office. We need to do some more strategy and planning around that before we can really get to where we're going. We've been looking at savings strategies for Albertans with a supplemental pension plan. We've been looking at the fact that Albertans are already the best savers in the country, albeit they don't do as well at saving as they do at spending.

8:40

I had a bank manager in my office today arguing that the investment of dollars by the consumers is the best way to get this economy moving. He didn't deny the importance of saving, but he felt that the very best way we could do it was to use a vehicle of a supplementary pension plan to start building the capacity of individual Albertans and that Alberta as a government should continue to build the heritage savings trust fund, protecting it for the future.

Dr. Taft: Okay. Thanks. If you would like, I could link the savings strategy to all kinds of aspects of the budget, but we won't dwell too much further on that.

I do need to drive home a couple of points. I was very concerned at your earlier comments when you described the three tax streams. I think it was personal tax, corporate tax, and royalties. I just really, really need you to understand that royalties are not taxes. It's a fundamental principle here. We have been over the years, over the last couple of decades, spending our nonrenewable resource revenues at the rate of 93, 94 per cent. Maybe now 95 per cent of nonrenewable resource revenues are gone. We're draining our capital. This budget continues that trend. This province will be permanently crippled if your government, starting with this budget, doesn't get its act together.

I'll refer you now to page 145 of this document, Ministry Business Plans. Goal 2 for your department is sound tax and economic policy. The performance measures both simply relate to taxes. They don't relate to economic policy. When I read through this, it's primarily just about keeping taxes low, which is, of course, only one part of a comprehensive economic policy. In fact, the suggestion here is that Alberta has the lowest taxes to attract investment and skilled workers, when location research shows that taxes come relatively down the list in decisions for businesses or individuals to choose where they live. Quality of life rates much more highly.

Can you talk briefly, please, about the economic policy versus the tax policy in your business plan. Why are there no performance measures for economic policy?

Ms Evans: Okay. In the first instance, I'm going to go back to my department and try and get another read on a copy of a tax report that I saw in competitiveness of tax in other places. In actual fact, although I recognize that royalties aren't taxes, they're another form of subsidy to government for essential public programs. You may or may not choose to agree with me, but they do . . .

Dr. Taft: I don't, and there isn't a credible economist around who would. Royalties come because we're selling our capital. It's something we get from selling our resource, and when we sell it, it's gone, in this case forever.

Ms Evans: Well, we won't have that discussion today because it's obvious that we're not going to agree.

Relative to our tax competitiveness, we believe that we get a significant tax advantage from the kinds of tax structure that we've had, and that's part of what we're saying here strategically.

On our economic measurements, if you look at the issue and the strategies around a competitive and productive economy, you really get an attitude of how competitive we've been by the relatively low unemployment figures that we've got. Even this year we have a projected 5.8 per cent. Again, the hon. member is disputing what I'm saying for where we're likely to end up in our job figures, but there are several indicators that are not included here but which could be provided and which would be adjacent to the way we measure with our weekly economic update the capacity and performance of our economy.

Dr. Taft: Okay. Well, you know, again, just contrasting tax and economic policy, it would be great if next year in the budget your department had performance measures that related to economic policy. In terms of long-term sustainability I'll reflect on the Mintz report. Professor Mintz has made it clear that businesses are going to begin choosing not to come here or not to stay here because they're going to recognize that the prosperity that we appear to have in Alberta is not sustainable and that there's nowhere to go but down. Anyway, next year maybe some performance measures on economic policy would be great.

To an administrative question on the budget cycle. When the Premier became Premier, he wanted to have the budget earlier. I think that's very important and very useful. Is there any hope at all of—let me be more specific. Is there a specific plan on your part to fulfill the Premier's ambition to have the budget announced earlier? Will we see in your activities this year activities so that the next budget can be announced in this fiscal year? Move it up.

Ms Evans: I would doubt very much if we would announce it. If you're talking about in 2009 would we give the date for the new budget, no.

Dr. Taft: Could you bring the new budget, the 2010 budget, forward, announce it, present it, and we could debate it in what would in effect be this fiscal year?

Ms Evans: We would hope to do that. I think there were very definite reasons why we didn't do that.

Dr. Taft: Yeah. Well, it hasn't been done in a very long time, so that would be great. That would be a wonderful legacy for the minister.

Just hopping around here a bit. ATB: you know, the roots of ATB were very much for rural Alberta, for rural Albertans, and providing financial services in communities where the eastern banks wouldn't come, and the ATB remains very important in smaller centres. But ATB has grown to the point now where it's actually engaged in a lot of activities outside of the province. It helps float financing or participates in activities, really, at a national level. Can you give me a sense of— or maybe you could follow up with this. What portion of ATB's expected revenues are from outside Alberta?

Ms Evans: That's a good question. I can't give you that except to say that over the last quarter of 2008 there was significant growth in those revenues from outside of Alberta. The assets grew by \$1.8 billion, or 11.7 per cent, last year, with operating revenue increasing by 5.9 per cent. The corporate financial assets grew by \$1.4 billion,

or 38 per cent, and enjoyed a revenue growth of \$17.4 million, or 68.5 per cent, from last year. Business loans grew to \$8.6 billion, up 21.8 per cent. We've found over 660,000 Albertans in 244 communities that had assets of \$25.7 billion. I think that in the past quarter ATB raised a record \$621,705 for the United Way, so they've been very successful there. Most of the customers are Albertans and Alberta communities, but I am aware that because of the advantage perceived in ATB, they did attract investments even without marketing them. Alberta attracted investments. If you talk to Canadian Western Bank and others, they did as well.

Dr. Taft: I'm concerned just as a legislator and, I suppose, as a citizen that ATB has so outgrown its real mandate of serving Albertans, particularly in smaller communities, and even moving beyond the province to participate in national securities issues and so on.

Ms Evans: Can I clarify? Are you concerned about asset-backed commercial paper?

8:50

Dr. Taft: Not specifically. I don't know why the government of Alberta of all governments in Canada owns what is effectively a bank that has now grown to activities outside of the province. I'm not uncomfortable with us owning something that provides services in smaller centres or even in Alberta cities, but I think ATB's mandate probably needs to be reviewed. I'd be curious to know whether you could tell me or ATB could tell me through you what percentage of their activities, their revenues, their liabilities are from outside Alberta. Maybe it's tiny. Maybe it's significant.

Ms Evans: Well, we can certainly provide that, I'm sure.

Here's one comment I'd make. I'm going to have to understand why it would be assumed to be a negative thing for Alberta's Treasury Branches to grow because as it grows, it helps to capitalize the investments of investors in Alberta. We have attracted 27 per cent of the securities across Canada and the pressure I get is to further capitalize ATB so that they can grow and provide even more credit opportunities for investors. So I'm curious about the line of questioning.

Dr. Taft: Well, you sound like you could be a cabinet minister in a New Democratic or maybe Dave Barrett's government or something. I mean, what is the government of Alberta doing owning what could easily grow into being a national bank, de facto? I mean, is that a role for government, to own a financial institution that's backstopping deals that are done on Bay Street?

Ms Evans: Well, I'll give you the answer from a man who came up to me and said: "Don't you ever get to be part of a national regulator. We'd have never got a hint of concern out of somebody down east when we were trying to capitalize our operation." Albertans in these 244 communities feel very strongly that this is their bank.

Dr. Taft: So why don't we keep it to the 244 communities instead of doing deals on Bay Street?

Ms Evans: Well, if in fact this bank can grow in capacity to serve Albertans and Alberta customers, why would we stop it? That would be my question.

Dr. Taft: Okay. Well, then what I would like to see in this budget would be a similar commitment to public auto insurance because if

we can own a public bank that works not just across Alberta but across the country, there are very, very good proven models for public auto insurance. So that would have been nice to see in this budget. That would have saved Albertans a lot of money.

Ms Evans: Well, it would have if you compared to B.C. where they're paying 18 per cent, but there are heavy subsidies.

Dr. Taft: There are not. They pay their own way, Madam Minister.

Ms Evans: No. An owner came to me the other day with a \$900 fee here compared to \$2,200 in B.C.

The Chair: Thank you, Minister.

Mr. Weadick.

Mr. Weadick: Thank you very much, Mr. Chair, and thank you, Madam Minister. I'm sure it has been a long enough night already, but I've got just a couple of questions. I appreciate that this is a challenging year.

First question. I had the privilege this week of meeting with some people representing a fairly major capital banking company that does about \$200 billion a year in investments. They were in Alberta visiting to see how things are going and what some of the impacts are going to be through the budget cycle in this year. They asked me a question that I really couldn't answer, and I'm going to ask you because I think you probably can. Their concern is that right now with balance sheets on businesses becoming a little shakier, it's getting more difficult for industry to access capital. Is there anything that we are doing or we can do to help Alberta industry, Alberta companies to access the capital they need to be successful?

Ms Evans: Well, clearly, this is a challenge that the board of ATB has been reviewing, and the additional investment there has presented opportunities for more capitalization. The credit unions as well have seen significantly more dollars on deposit and, in fact, have commented about how much more advantage they've had. So within banks and areas that are dealing with our current fiscal climate, there have been things that have been done.

Alberta's enterprise fund, for example, that has been advanced by the minister of advanced education, has been giving opportunities. Our very own enterprise department has been creating opportunities. Mr. Chairman, the work you've been doing on the Northern Alberta Development Council has been in a very real way working, as the REDA has, the regional economic development authority, in strategies to put companies together. Probably the best example we've got is the national buyer/seller forum, which has now attracted international attention from America for investors to come and become involved in the work and the trade and commerce here.

So we are helping local companies, and interestingly enough we are helping national companies become more integrally involved in supplying goods and services here in Alberta.

Mr. Weadick: One of the issues that they brought up was that they've seen a significant increase in what they're having to hold for doubtful loans or potential loss loans. They've seen it go from probably half a percentage point in the past number of years to in some areas as much as 3 per cent, which is a significant increase. Are we seeing any of that here at ATB and the credit unions? If so, is that going to be a challenge to liquidity if we see increased holdings for doubtful loans?

Ms Evans: I'm going to have to get you a written response to that

because I don't want to be guilty of giving you a half-answer or a guess on that.

Mr. Weadick: That would be great. Thank you very much.

I really appreciate, too, going through the budget because we see that you're really a revenue generator as opposed to an expenditure generator. It's quite significant to see just even the change from budget to forecast for last year and then our estimates for this year. It's amazing how much those dollars on the income side, or on the revenue side, have fluctuated.

Now, I was just looking through the revenue portions. We don't have a significant number of areas where there's flexibility in our income. You know, personal and corporate income taxes will be what they'll be, and I guess they'll kind of reflect the economy. Are there any areas in here where we have opportunities for some increased revenues to come in? One I'm thinking about is that I'm assuming that there's some tax every year that goes uncollected for whatever reasons. Do we have any plans to increase or hone in on, maybe, collecting some of that money that gets past us?

Ms Evans: There has been a very aggressive strategy in the tax and revenue administration, new technology that has enabled us to be more agile in determining whether or not there are any dollars owed that haven't been collected, and I would tell you that I think there have been more successful efforts. Always there are some nuances in getting more aggressive that become obvious: more staff time required, more issues that have to be followed up on. One thing, with the lack of responsibility to collect health care premiums, there has been less need for staff to get involved in that kind of collectible. Uncollectibles at a certain point in this government, whether they're a user fee, a rental, or they're for any other purposes, are always turned over to collection agencies.

I think the most exciting thing we're doing in our ministry that relates to trying to reduce waste and increase revenue-earning capacity is the productivity and competitiveness work that we're doing. Our deputy has met with deputies from other provinces, the western provinces, to talk about strategies we can engage in. To be clear, we are working, much as we do with the lien assessments, to make sure that we help businesses to become more competitive, to become more technologically tuned in, to work on our workforce capacity, and to help grow our economy. As we help grow our economy, obviously, either through education or the productivity enhancement tools, we give ourselves an opportunity to earn more.

The nonresource-based sectors, such as the financial services sector, the hydrocarbon sector, the work that we've done on the aerospace sector, all of these things, in the member's own constituency where we have a more diverse economy based on some of the local entrepreneurs and their initiatives, the imaging one that I find so very interesting, the satellite imaging and that sort of thing is going to generate more possibilities for the future. These are the kinds of things that our enterprise group is trying to foster.

Mr. Weadick: Thank you very much. I'm glad you did because, actually, the next thing on my list was talking a little bit about productivity, and we'll maybe talk a little bit more. We've seen over time that Alberta's productivity is the lowest in Canada, and Canada is significantly lower than most other industrial countries as well. Do you have any reason why Alberta's productivity is so low? You've talked about some of the things. Are there any other things we can do or where we can educate or help people within the province to start to deal with that significant issue on the productivity front?

9:00

Ms Evans: One of the things that has been very hard to measure, I think, in the way that you measure in other places is the kind of productivity on activities like the oil sands and the kind of very specialized engagement of mining for oil. It's not measurable by comparison to many other places. American workforces are deemed to be extraordinarily competitive. Whether it relates to climate and the lack of having to overcome some of the inhospitable climates or what it relates to would be hard to say, but traditionally they have done better.

We've been working on increasing the standards by raising the awareness. One of the best ways, I think, really, is in a former ministry that I had, Employment and Immigration, where there are significant retraining dollars. In this budget about \$164 million goes towards improving skills and upgrading training. If people are unable to work at one profession, they can transfer to another area and perhaps get more satisfaction from working in a new skills area. So that's part of the productivity and enhancement that we're doing.

If I had a vision for what I hope to see happen, I would hope that someday the efforts of our Premier to move us to a greener economy, the carbon capture and storage, whatever those projects become, and then the outgrowth of that, the bitumen royalty in kind, which enables us to distribute to refineries some opportunities for value-added, will create opportunities here in Alberta to manufacture anything from jet fuels to perfume and will give a whole new kind of lifestyle opportunity for people who might have worked up in the north for years to work in more closely centred urban areas, closer to schools, hospitals, and universities, and that the work that's being done on robotics by the unmanned vehicle initiatives in southern Alberta will enable us to operate cranes and other heavy equipment in Fort McMurray from the living rooms of Medicine Hat and Lethbridge.

To my way of thinking the ultimate satisfaction in value-added that we can develop by reducing our carbon footprint and manufacturing with an entirely different stream of product and use of off-gases and so on will create jobs for our children and our grandchildren. That to me will be the best use of our advantages to create productivity.

Mr. Weadick: Thank you very much, Madam Minister. In the meeting I had this week, one of the other issues that did come up was the single securities regulator. The gentleman who was visiting here was from Montreal, and, as we do, they have a significant concern about the federal government's perceived move towards a single regulator in the area of securities regulation. I guess what I want to ask or try to get a sense of is that if the federal government was successful in this, if we went to a single-source securities regulator and assuming that that would then be out of Ontario – and we're going to work very hard to see that it doesn't happen – what do you see the impact of that being on Alberta business or even on our budget or the economy here?

Ms Evans: This is a very, very good question. I think one of our serious concerns is the impact on the capital markets. The current strategies that the federal government has come forward with raise questions around what the optionality will mean, and it's something that we have to take a close look at. There are some provinces that believe that the federal government will not satisfactorily achieve in this term of office the change in legislative amendments required to really take advantage of the plan they have to move to a single regulator. I think the real difficulty is one of gauging whether or not they are able to be successful in any measure of that and what it means to investors, both in Canada and offshore, that might want to invest in some of the projects in Alberta.

While we have been clear in our support of the passport system, while we have been clear that the harmonization of rules and regulations between the various provinces will have the best opportunity of creating a level playing field across the country for investment management strategies, it's clear that the federal government would like a different template, and their move on this, we hope, may well not be accepted. There has been an indication already from Quebec of a legal challenge, and I don't know that the other parties will be able to let this minority government move too quickly on it. But if they do, I think Alberta is going to have to be agile in assessing that impact on the capital markets. We do not want to become isolated or marginalized, so we'll have to take a close look at it.

Presently we have given a strong and a firm reaction of nonsupport to the Hawkins report and hope that other jurisdictions take a very good look at whether or not they want to give up a constitutional right without getting any particular trade-off in return. We have a constitutional right to take part in the strategies we do with the current Securities Commission in the way that we're managing it.

The very fact that we competed with and beat Ontario on an investment per capita basis in the last quarter of last year should reassure Albertans that we are still very successful in attracting investment. Hopefully, that will continue.

Mr. Weadick: Thank you. That leads to another question. My understanding is that where it may significantly impact is venture capital, especially the venture capital in the oil and gas sector. I understand that up to 60 per cent of the venture capital raised in the country is raised and spent in Alberta. Do you see that that pool could evaporate or have significant impact if the control of that was moved out of the jurisdiction into, say, Toronto or some other place? That's where I'm concerned, the venture capital area, because it impacts not only oil and gas, where we're really moving ahead, but some of the new industries that we're moving into, the other sources of energy and some of the new research that's happening. Maybe you can talk just a little bit about the venture capital.

Ms Evans: I think that on that front it would be one of the factors, but it wouldn't be a sole determinant. It would be just one of the factors. I don't think that how you actually funnel your money to invest in some of the activities in Alberta could be, perhaps – well, it certainly is a very significant factor, but the amount of venture capital that Alberta will be able to receive in the future will depend on a multiple number of answers, not the least of which is whether or not we maintain some of the service elements that have become attractive to Albertans and have attracted people here so far. When you finally have conversations with people about why they came to Alberta in the first place, whether they're an investor or whether they are somebody that has come here because of being attracted for other reasons, there are just so many factors.

We believe it could be a contributing factor, and that's why we're very anxious to suggest to Minister Flaherty – and I will be again at the FPT meeting that's to happen in May – that we haven't changed our mind on the current structure.

Mr. Weadick: Thanks, Iris. I just have a last couple of questions. One is fairly quick. I noticed the teachers' pre-1992 pensions. There's a significant increase going forward, \$356 million projected this year from \$243 million and then up to \$437 million and \$451 million. Can you just explain maybe a little bit why we're seeing such significant increases in that particular line item?

Ms Evans: It's because the government decided to begin paying pension benefits starting September 2009. In the early '90s the government agreed to cover two-thirds of the pre-1992 unfunded liability. In the 2007 memorandum of agreement, which I think really did get us a certain amount of labour peace between the government of Alberta and the ATA, the government also agreed to pay the teachers' share. So that was part of it.

Now, in the House currently we've been going through with yet another amendment on this. The liability will be fully paid up in 2060, but that's the increase in the estimate, from \$243 million to \$356 million, that accounts for that.

Mr. Weadick: Thank you very much. I understand that the universities and a couple of others have similar types of unfunded liabilities. Has there been any pressure or discussion around us looking at those as well, or are they not on the table?

9:10

Ms Evans: Well, there have been discussions that have been happening, and they have raised this. A number of consultations are going on currently. There have been discussions that haven't been formalized by coming forward to me, but I know that within their own associations some people have come informally and talked to me about things. The police come to mind, especially some of the retirees, who wonder about agreements made by their various employee management groups to allocate certain COLAs to the people that are working as opposed to those that aren't, so they come forward and wonder what we're going to do. The teachers' pension plan did. The government's assumption of that unfunded liability is a different circumstance than those in universities and with police, but it hasn't stopped people from coming forward to see if there is any way that we can in the future look at accommodating any of their needs.

Mr. Weadick: The reason I ask is that I have been approached by the university folks. They did ask me that question, and I couldn't answer it.

My last question, and maybe you could just take a minute: how are our pension plans doing in the province? We've seen some significant reductions in some of our investments, but how are they doing? How do we see them going forward? I know we've talked about some plans to let them pay back some requirements over a longer period of time. Maybe you could just highlight kind of where our pensions are and what you see happening going forward.

Ms Evans: Yeah. I think people have asked me this question in the House relative to the gains or losses on pension funds. As you know, the pension boards themselves are responsible for reporting, for defining their level of risk, and so on. To the extent that I can give you information, the pension fund reports come out in roughly September. They will identify whether or not there is any unfunded liability. My understanding is that those things are generally carried over from year to year. The losses on the pension funds here this past year, while significant, haven't been extraordinary given some of the other pension funds that have lost considerably more. I believe they're roughly the same amount that we had in our overall accounts, but I could stand corrected on the pension obligations.

Just a little bit more on that. The losses and amortized charges on the government's unfunded pension obligations for plans was forecast at \$1.6 billion at March 31, 2009, an increase of about \$500 million from March 31, 2008.

The Chair: Thank you.

Mr. Taylor.

Mr. Taylor: Thank you. Minister, with your permission I'm going to blast a bunch of questions at you here as we kind of clean out the fridge and cover a bunch of areas that we've touched on or not. I don't know how you want to deal with these. I'll try and ask them short. If you want to try and answer them short or you want to give me written answers, I'm okay with either. Okay?

Ms Evans: Well, let's just try it, and then I'll go written answer if I want to write.

Mr. Taylor: Okay. Good. ATB, first of all. Page 58 of the fiscal plan shows that ATB had writedowns of \$253 million in '07-08 and \$140 million in '08-09 due to asset-backed commercial paper. Page 59 is showing that ATB's net income prospects this year are considerably better than they were in the last two fiscal years, \$148 million versus \$26 million and \$30 million respectively, and that things are projected to improve further in 2010-11 and 2011-12. I'm just wondering if the government has allocated or set aside any money to ATB for potential losses, potential writedowns this year?

Ms Evans: No. Having said that, because of the asset-backed commercial paper, we have agreed along with the federal government, the government of Ontario, and the government of Quebec to be available as a second backstop behind the investors over a period of time, to be available should the sky fall several different ways. But there's nothing else that I'm aware of that has been assumed for this year.

Mr. Taylor: Okay. Do you have a cost on falling skies this year?

Ms Evans: Skies this year aren't anticipated to fall, but if at some future point, we have agreed to roughly \$300 million, the indemnification of roughly \$300 million to the federal government to backstop the Montreal accord. That was done predominantly, Mr. Taylor, to protect our investors. It was deemed to be our fair share, and it was divvied out accordingly to the number of investors.

Mr. Taylor: Thank you for that. A couple of questions on automobile insurance. I wonder if you can tell me or provide me with the information. What is the total projected cost of the legal action that was taken to appeal the provincial court's ruling against the minor injury caps?

Ms Evans: Written answer.

Mr. Taylor: Okay. Page 141 of the business plan lists ensuring the soundness of Alberta's insurance sector as a key challenge. Is this because there are legal challenges that may impact the stability of the automobile insurance system? How will the stability of the car insurance system be impacted by the ruling against minor injury caps?

Ms Evans: Again, I think it would be useful to give you some kind of written answer to that because we're still waiting for answers, and I think it would be better for me not to guess that.

Mr. Taylor: That's fine. Sure. While you're putting those together, can you explain whether or not there will be insurance rate increases due to the provincial court ruling against minor injury caps?

Ms Evans: Well, you know, there is a board that reviews the evidence on an annual basis. It was in June last year. I wouldn't presuppose their decision, but we can give you an expanded comment on that.

Mr. Taylor: Thank you.

Ms Evans: Obviously there have been some threats by insurance companies relative to what they might have to assume in liability, but let's not presuppose that before any ruling comes out.

The Chair: We have 13 minutes left.

Mr. Taylor: Okay. Thank you. Page 205 of the estimates, please, line 6.0.1, Regulatory Review Secretariat, is reporting a 49 per cent increase in funding, or \$231,000 increase in funding, from last fiscal year to this. There was a similar increase in last year's budget, up to \$467,000 from \$294,000 the year before. The secretariat's goal of regulatory reform is to identify opportunities to reduce and simplify the regulatory burden of government on the people and businesses of Alberta. Now, I'll try this question on you. Maybe I should be asking the chair the same question. I don't know. Given the steady increase in funding for the Regulatory Review Secretariat, do we have any tangible results yet for small business in Alberta?

Ms Evans: I think that there are a number of tangible results, but through the TILMA I think it's very clear that we need to have extra capacity. So there's an additional FTE that's being accommodated in this due to the workload and the work volume, and \$46,000 of the increase is related to a one-time increase in supplies and materials. TILMA has got a huge imposition on this regulatory review framework, and also there are some 58 statutes that have been undergoing some significant work with the various ministries. We found that the time on task was significant for the staff we had there. They could hardly keep up with it. This is one of the reasons for the increase: TILMA for sure, to the hon. member, as well as some of the extraordinary work in keeping up with it.

Mr. Taylor: Is it not true, though, that British Columbia has already developed a fairly successful model that saw red tape and regulatory burdens reduced by one-third in just three years? Especially under TILMA is this not something that you could pretty much import lock, stock, and barrel?

Ms Evans: Take off the shelf? Part of the problem is that various ministries have defined various criteria for exemptions. The regulatory secretariat itself wants to take a look at whether we can streamline that, and we can't necessarily take something off the shelf and impact it to translate it to our environment. It's been much more complicated than that.

Mr. Taylor: So TILMA is proving to be quite a complex and big job?

Ms Evans: Well, in the regulatory area, getting the alignment together, I think it can be, but it's not without its rewards. Certainly, on the banking the credit unions and others see it as a very good thing. It might not be done overnight, but everybody is still telling me it's a valid exercise to go through. What our Premier would tell you if he was here is that he would wish we could reduce more barriers across the country.

Mr. Taylor: Okay. Given that, if TILMA is a good thing, why is a national securities regulator a bad thing?

Ms Evans: In large part because I don't think, Mr. Taylor, you would ever give away something and get nothing for it. We have a constitutional right here that if I sacrificed and said, just to be

cavalier about it, “Well, yes, okay, go ahead and take that,” the next time a court looks at anything that Alberta does, it will say: “Well, you gave up a constitutional right on your own securities commission. How do you feel about that relative to environment?” I think that there are some things here that if you really look at it . . .

9:20

Mr. Taylor: Okay. Obviously, if we’re talking about giving up a constitutional right, we’re talking about giving up a constitutional right from one level of government or one jurisdiction to a more senior level, in this case the national government, the federal government. Is there a possibility, then, that the TILMA model could be used as a guide to form a national securities regulator that goes beyond the passport system that all 10 provinces willingly and individually bought into; in other words, negotiated among the provinces?

Ms Evans: There may be. I won’t deny that there could be a model, but clearly there are different scopes of the various securities commissions. In some parts of the country they are scarcely involved. I think the biggest challenge right now may be enforcement. I could stand corrected on that, but we have been working at harmonizing it. If you’re a broker, you might think it’s because you pay fees in other places.

If I can talk a little about the TILMA, one of the challenges is that you might get a new challenge by a new standard posted on the web. Frequently people have to get involved at times in areas they didn’t expect to.

Mr. Taylor: Okay. Could I get you to turn to page 216 of the estimates, please? Hang on for a second; I need a second myself to locate the line. Under other taxes, insurance taxes, why is it projected that revenue from insurance taxes will increase by \$17 million, or 6 per cent, from last year? What’s going on there?

Ms Evans: I’m going to assume that that has something to do with the amount of – first of all, because of the higher expected insurance premiums. That is an inflationary factor that comes in, roughly, an increase in insurance corporations’ tax because of the higher premiums. Also, sometimes it can be just a matter related to volumes. It’s principally the expected higher premiums.

Mr. Taylor: Okay. I’m sorry. I should know this, and I don’t. Insurance taxes are levied on all forms of insurance, not just automobile or home insurance?

Ms Evans: I believe that’s in the administration. It’s an administrative tax.

Mr. Taylor: You’re getting a lot of heads behind you nodding affirmatively.

Ms Evans: Good. Isn’t that wonderful?

Mr. Taylor: They’re all nodding in unison. You have them well trained.

Referencing page 228 from the estimates, please, we’re looking at administration fees from pension plans under other revenue. Again, the administration fees for pension plans collected for the Alberta Pensions Administration Corporation look to be up significantly, \$6.8 million from the year before. Why?

Ms Evans: A \$3.8 million increase for manpower costs because of

the increasing service and volume demands as well as the longer term concern with the succession planning, \$871,000 increase in supplies and materials due to change in lease costs, and \$607,000 increase in amortization related to leasehold improvements.

Mr. Taylor: Okay. Go ahead; I’m sorry.

Ms Evans: There’s a \$1.5 million decrease from the 2008-09 budget largely due to lower manpower costs because of unfilled vacancies, partially offset by increased facility and rental rate costs.

Mr. Taylor: Okay. Now I want to talk a little bit, if I can, about your aim to encourage a culture of savings for the people of Alberta, which could include a supplementary pension plan. You know, I admit to a certain degree of ignorance about this, but the basic question is: can we afford to do that this year? Can we afford to embark on supplementary pension plans this year?

Ms Evans: I think the question is: can we afford not to? Quite honestly, this would be a defined contribution plan. We’ve already had some 54 respondents, and people that have responded in small businesses welcome the opportunity. If all the housewives that didn’t get a chance to get a tax-free savings account knew what was implicit there, they would, I think, welcome it. Here’s why we can’t afford not to: we can’t afford not to because otherwise people will age without, perhaps, proper savings, and we want to make sure they have it.

This was launched with my predecessor. The joint expert panel had litigators on it from both B.C. and Alberta, and we’ve got Saskatchewan with a very modest supplemental plan looking at expanding theirs in the future. I would be happy to circulate to all of this group more on the supplemental pension plan. I think it’s going to be coming. We’re going to do more consultation about it. It’s going to take a while before it’s a reality.

Mr. Taylor: That answers my next question.

Ms Evans: Yeah. Very few dollars this year would be implicit in it, but hopefully the government of B.C. will continue working with us to start focus testing and see how well it’s going.

Mr. Taylor: Okay. I’m trying to wrap my head around this, and it’s something that, frankly, I haven’t paid too much attention to till now. Is this a made-in-Alberta plan, an exclusive Alberta pension plan, or is this a western Canadian pension plan, supplementary pension plan?

Ms Evans: B.C., Alberta so far and maybe Saskatchewan in future. It may actually be broader than that. Ontario was consulting on pensions plans, a supplemental pension plan; New Brunswick was as well. We did some work jointly with B.C. Now Saskatchewan is interested in it as well, and they have a legislative framework. So it could be western Canadian.

Mr. Taylor: Is this going to be compulsory, voluntary, what?

Ms Evans: It would be voluntary, and it would be an opportunity for people to get engaged. The record shows – and I think this is what’s been exciting – that the collaborative of a combined supplemental pension plan administration usually gives the investors a 2 to 3 per cent advantage. It would obviously have to be something that we talk to the players in more depth about, but the first responses from employers, chambers of commerce, small-business associations are

very positive because by their own accord they can't always afford to engage in this kind of activity themselves.

As we come out with the consultations – there were some of those consultations done online this year, including in February, but as we get further down the track, we'll be bringing forward materials so that you can have a full briefing on it.

Mr. Taylor: Okay. I mean, pension plans very often have the employee putting in a certain percentage of her or his income and the employer matching or sometimes even bettering that a little bit. How does that translate to the stay-at-home parent, for instance, or someone who doesn't have an income?

Ms Evans: Well, that would become a need. We'd have to change the Income Tax Act of Canada. I already spoke to Ted Menzies about it as part of the standards in their review of the CPP, and there may be an opportunity to amend the Income Tax Act in such a way that it would allow people to make that kind of contribution in savings. Some have suggested an alternative plan to be added to the CPP.

These things are as yet ideas, recommendations that need fleshing out or agreement by a body. Ultimately, it's possible you could have a western Canadian board, maybe B.C. and Alberta for sure but beyond that Saskatchewan, that would be a pension board that would administer something at arm's length from government, defined contribution, that they themselves ran, so we wouldn't assume a liability, but it would give people an advantage of an additional savings tool.

Mr. Taylor: How far is this along the route from concept to blueprint to done deal?

Ms Evans: B.C. already announced, even before the report was released, that they were going to engage. We have taken a more cautious approach of saying: let's work together and see whether we can get, perhaps, Saskatchewan involved. I suspect we'll be doing more conversation about this again at the FPT. The ministers will probably be talking about it because . . .

Mr. Taylor: Give me a target year for implementation.

Ms Evans: I think most people think it'll be about five years. I'm hoping it can be three or four.

Mr. Taylor: Okay. Thank you. That's close enough to time that I will stop.

The Chair: You're down to 24 seconds, Mr. Taylor. Okay.

I'd like to remind the committee members that we're scheduled to meet April 28, 2009, to consider the estimates of the Department of Advanced Education and Technology.

Pursuant to Standing Order 59.01(2)(a) this meeting is adjourned. Thank you very much.

[The committee adjourned at 9:30 p.m.]

