

[Chairman: Mr. Kowalski]

[10 a.m.]

MR. CHAIRMAN: Good morning, ladies and gentlemen. Welcome to another meeting of the select standing committee on the Alberta Heritage Savings Trust Fund. This morning we have appearing before us as a witness the Hon. Dick Johnston, Minister of Advanced Education. But prior to introducing Mr. Johnston and welcoming him here, just a comment about an update.

Our schedule for today has us meeting again this afternoon, at 2 o'clock, for discussion of recommendations. On Sunday night last, at approximately 8:25, I received a phone call from the Hon. Lou Hyndman, Provincial Treasurer, indicating to me that certain announcements had come out of Ottawa with respect to two financial institutions that are based in the province of Alberta. Mr. Hyndman requested an opportunity to appear before this committee to answer any and all questions with respect to the involvement of the Alberta Heritage Savings Trust Fund. As a result of that telephone call, I indicated to Mr. Hyndman that the first opportune time at which he might be able to appear before the committee would be 2 o'clock on Wednesday, September 4. He said that would be very fine and that he would look forward to such.

Yesterday, at 8 o'clock in the morning, Mr. Hyndman put out a news release indicating that he had requested of me, as the chairman of this committee, an opportunity to meet before the committee. A few minutes thereafter I issued a statement in response to Mr. Hyndman's request, saying that it would be most appropriate for Mr. Hyndman to appear before our committee at 2 o'clock this afternoon. So that will be the first order of business this afternoon. I'm sure it would be in keeping with the interest of members, as it was only several days ago that Mr. Hyndman appeared before the committee and certain questions were raised with him with respect to the two financial institutions in question. I hope that's appropriate action on my part as the chairman of this committee.

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Thank you.

It's my pleasure to welcome to the

committee this morning the Hon. Dick Johnston, Minister of Advanced Education. I must say that it seems it was only a few days or weeks or no more than months ago that Mr. Johnston was before the committee. If members of the committee will refer to page 19 of the Alberta Heritage Savings Trust Fund 1984-85 annual report, you will note that there are four projects listed under the general headline Education. Two of those projects, in essence, have come under the portfolio administration of the Minister of Advanced Education. One project was library development, which had an investment as of March 31, 1985, of \$9 million, but members will know that that project terminated several years ago, after a successful issuance of some 600,000 volumes of books to various institutions in the province of Alberta.

The second project is the Alberta Heritage Scholarship Fund, which is funded out of the capital projects division. Investment as of March 31, 1985, amounted to \$100 million, but there were no new dollars added to that particular project in the last fiscal year. However, in previous years the Minister of Advanced Education has come before the committee to answer all questions with respect to the Heritage Scholarship Fund.

So I would like to welcome you this morning, Mr. Johnston. Sir, if you have an overview statement, would you please proceed? As well, would you introduce the gentlemen on both sides of you? Following that, we will go to questions from committee members.

MR. JOHNSTON: Thank you again for the opportunity to appear before the committee, Mr. Chairman, to discuss the very valuable contribution which the Alberta Heritage Savings Trust Fund is making toward education in this province. With me this morning is Henry Kolesar, the deputy minister of the Department of Advanced Education, on my right, and Fred Hemingway, the chief executive officer of the Students Finance Board, who is responsible for the administration of the fund together with the student loan operations of the department.

I've circulated to you introductory information as to the 10 scholarships operated by the Department of Advanced Education for the Heritage Savings Trust Fund. I assume that all of you have that information.

The only opening comment I can make is that I think Alberta is very fortunate to have an opportunity to have these resources to reward high quality students in a variety of ways, to ensure that those students with an excellent academic record have an opportunity, where funds are not normally provided, to proceed to university or college in Alberta or perhaps outside of Alberta. The most popular scholarship, of course, has been the Alexander Rutherford scholarship. As you will note, approximately 4,000 students a year receive benefit from that program, which could amount to as much as \$1,500 to ensure that a student has an opportunity to attend an advanced education system. As well, other special programs are provided. They are defined for you in the introductory notes which you have. If you want to pursue in terms of more detail, I'm sure Mr. Kolesar or Mr. Hemingway can provide additional information for you.

I should note that the size of the fund itself, which was initially set up at \$100 million, has now grown to approximately \$130 million. It is our expectation, based on information given to us by the consultants to the Treasury Department, that that fund will be sustainable at around the \$100 million level for the next 10 to 12 years, given our current calculations. It has grown a touch over the past year. The normal payouts have varied a bit over the past three years, going from \$8.6 million down this year to \$8.2 million. I'm sure there are a variety of reasons for that. I'm not going to give you any conclusions, but of course the number of students in the system has reduced as well.

Mr. Chairman, I would certainly welcome any questions or comments about how the fund could (a) be detailed for your information or (b) be improved in terms of its scope and operation, and I welcome the opportunity to be here to listen to your comments today.

MR. CHAIRMAN: Thank you, sir. We'll begin with Mr. Zip.

MR. ZIP: Thank you, Mr. Chairman. I didn't think I'd come up that fast.

Looking at that language requirement, there's a misspelling of the word "Ukrainian". It's not "Ukranian"; it's "Ukrainian". That's a very common misspelling of that word, and it's very annoying to those of us who are of

Ukrainian origin.

MR. JOHNSTON: We'll dock that from Kolesar's wages.

MR. ZIP: On the matter of scholarships, there is one thing. The support we give to students in Alberta is very exceptional, and the work of the Alberta heritage trust scholarships can't be criticized, because it's certainly excellent. The one criticism I feel should be made and brought to the attention of this committee is the fact that the students have to pay income tax on their scholarships. I don't think it's fair. On the one hand, we encourage students to gain scholastic excellence and to work hard. On the other hand, we punish them by taxing away the benefit. Somehow or another, I urge that there be an exemption made for students from this onerous tax. Particularly when we're looking at the resource that's being developed for the future benefit of our country, I don't think it is fair. I would like to have a comment from the minister on this point.

MR. JOHNSTON: When the Provincial Treasurer appears before you this afternoon, I'm sure you can raise that with him in terms of taxation. My comments with respect to the taxation factor are as follows. It is somewhat surprising to students when they receive a notification that the amount should be included in their income tax calculation for the year, yet not too many students really pay too much tax on that money. It's my understanding that the actual tax exposure for the average student is fairly nominal, because they have other deductions which can be offset against that scholarship income, including tuition fees, which they pay themselves.

I agree with you in principle. I guess it would require an interprovincial agreement to adjust the tax system. I don't know if the Provincial Treasurer, or for that matter, the federal Minister of Finance, is too willing to entertain that change.

It has been drawn to my attention. I appreciate the reinforcement of the point. My view is that it doesn't really add too much cost to the student because, in fact, very few students have that much taxable income to deal with. Therefore, the marginal tax on that income is, at best, nominal.

MR. ZIP: Thank you, Mr. Minister.

MR. R. MOORE: Mr. Minister, I think the scholarship program is one of the best in the province. It's been very, very well received. I don't think there is a program the government has that receives more favourable attention than this program. I'd like to look at the scope of the scholarship program, if we could, and hear your comments on broadening it to include giving student loan guarantees through heritage trust fund money like those we give beginning farmers. Is that a possible area to look at?

Another one would be in the use of computers. We know that's there. Could this scholarship area be expanded to encourage students to advance their knowledge in that area?

MR. JOHNSTON: Mr. Chairman, the discussion today deals with the scholarship program, but I think it would be less than comprehensive if we dealt only with the scholarship program. Through an authorization of the Legislative Assembly, the Department of Advanced Education has a student loan system which, as well as being as broadly based and as well thought through as the Heritage Savings Trust Fund scholarship plan, in fact complements this system. That program will be something in the order of \$100 million this year, which will embrace a variety of student loan and assistance programs, which would assist about 50,000 students to attend university or colleges in the year 1985-86.

So the scholarship fund here, within the strict confines of this committee's responsibility, in fact deals with the awards for excellence, but it is important to note that other programs of the department provide assistance to those students who do not receive or qualify for scholarships provided for by the Heritage Savings Trust Fund. Those loan and assistance programs would in fact do as you've indicated — provide for additional costs such as computers and living away from home, and facilitate the student to move to university and college as well.

In terms of a comprehensive statement, I think the Alberta government, as the member noted, probably has one of the best programs, including awards and scholarships, of any province in Canada.

MRS. CRIPPS: Mr. Chairman, I know there was a lot of apprehension when the provincial examinations were to be held. Looking at the comparison of the numbers here, it doesn't appear that there's been any substantial change in the number of scholarships. I can't tell whether that's for grade 10, 11, and 12, or if there's any change in grade 12. Can you tell me if there's been any effect on the scholarships by the provincial examinations?

MR. JOHNSTON: I don't know if it is for me to draw that conclusion. I have spent a lot of time in my life doing single- or multiple-variable analysis. We find that there is some risk in pointing to one variable to explain away the change. Yet from a very casual observation you can note that the number of awards under the Heritage Savings Trust Fund scholarships for Alexander Rutherford classification has reduced by about 223 over the past year. There could be a couple of reasons for that. One may in fact be the strengthening of marking and the grades given to students because of the departmental examinations. The second could be the number of students who are in the system, because the number of students in the high school system is decreasing and will continue to decrease until about 1989, someplace in there. So as a possibility, there are a couple of combinations involved.

The other unfortunate point is that we don't know how those awards took place. That is to say, some of the awards may in fact have been grade 10 awards, grade 11 awards. We're not too sure how the grade 12 awards were adjusted or affected by the departmental examinations. However, without accepting responsibility for the statement, there have been some people in the educational business who have indicated to me that there was some mark inflation through grade 10, 11, and 12, when there were no departmental examinations, to allow some students to qualify for the fairly substantial scholarship fund provided by the Heritage Savings Trust Fund. I can't say that is true; I'm not in the area of teaching. That has been reported to me, however.

MRS. CRIPPS: I notice you have totals here, and I wonder if you have some breakdown of scholarship by grade.

MR. JOHNSTON: No more than we have broken

down the scholarships by grade in the past year. In terms of comparison, it's as good a comparison as you wanted. If you wanted a breakdown by grade 10, 11, and 12, we could provide that to you, and you could draw your own conclusions. If you're asking for that, I'd be glad to send it to you.

MRS. CRIPPS: In answer to an earlier question, you said that while we're dealing here specifically with the Heritage Scholarship Fund, no discussion of advanced education could centre entirely on that. I just want to indicate that I still think the educational opportunity equalization grants are not nearly as effective in meeting the needs of students from rural Alberta as they should be. In order to qualify for that educational opportunity equalization grant, you have to have a loan. If a student is ineligible for a loan, they don't qualify. I believe it's a real shortcoming and a disservice to many students who certainly need the financial assistance.

MR. JOHNSTON: I think that's a statement of opinion. I don't know if it requires a reaction.

MR. CHAIRMAN: Well, sir, you can use your own initiative.

MR. JOHNSTON: It was raised by the member the last time I was here. I think we had a similar discussion at that point. You must remember that to some extent it is the responsibility of the parents and students to decide about the financial responsibility for attending university. I see the role of the government of Alberta as making an equal opportunity for those people who do not have the ability to pay to go to advanced educational institutions. I think the results have been fairly significant in that we're supporting about 50,000 students this year in a variety of programs to the extent of about \$110 million, which is a fairly rapid increase from 1981-82, when we supported, if my memory is right, about 10,000 students for about \$18 million.

So there's no question that we have responded during this period when student numbers were increasing and, secondly, job opportunities on a temporary basis for students were restricted. We have essentially pumped a vast amount of money into this system. Much of that, of course, goes toward remission of

loans, so the burden on the student is not that great.

But you make the important point that to qualify for these equalization grants, you have to have a loan. I think that's a fair comment, and I guess it's one of those items we need to consider.

MR. THOMPSON: Mr. Chairman, I'd like to look at the Sir Frederick Haultain Prize list on our sheet. I note that in '81, '82, and '83, the awards were given on an individual basis. However, there seemed to be a shift of emphasis in '84, where in Arts they gave the prize to the Alberta Ballet Company and in the Humanities they gave it to Colonel and Mrs. E. Cormack and the Robin Hood Association. Maybe the minister could give us the rationale for the change in emphasis in this area.

MR. JOHNSTON: That's a good point. I raised the same question, of course, with the committee. I should note that this process is one whereby a group of ladies and gentlemen outside government evaluate all the applications for the awards under this section. They explained to me that in the specific case you referenced here, it was very difficult to separate the individual from the group they were involved with. So what they recommended was that to recognize the individual who provided leadership for the entity or the group, they would recognize that individual, but as well, because of the institution which was backing an individual, they thought it would be appropriate to recognize them as well.

If you have a recommendation for me in that area, I would be pleased to pass it on to the committee. They believe they were within the scope and intention of the section, but if there is some adjustment required, I'd be glad to pass that on to the committee.

MR. THOMPSON: Thank you, Mr. Chairman.

MR. CHAIRMAN: Would there be additional questions forthcoming from committee members? Mr. Gogo.

MR. GOGO: Thank you, Chairman. Minister, inasmuch as you had said that the students loan program of Alberta is an integral part of the Heritage Scholarship Fund, I recall it raised some questions last year. One was with

reference to the interest rate charged on student loans. I believe you indicated at that time that there were discussions with Ottawa. It was a joint project because of the federal forgiveness clause. As I recall, in reviewing what the interest rates would be, there were some at 16 or 16.75 percent to be paid out over 10 years, and young people, on graduation, obviously were not in a very strong position to renegotiate those loans. If there was any follow-up to that renegotiating, could you report to the committee what those interest rates would have been?

MR. JOHNSTON: This has always been a difficult issue. First of all, by the time the minister responsible got into his position and started grappling with some of these issues, he was shifted. So we've had a rotation of the ministerial responsibility at the federal level. But I think it's safe to say that in terms of the rate itself, this will now reflect the same process of attempting to come close to the current rate charged by the commercial institutions for normal loans. As I understand it, the current rate on student loans for this year will be about 12.25.

The unfortunate thing is that we were not able to convince the federal government, in particular, to reduce the rates or to cover the costs of the high year when the rates were 16 to 17 percent. So that rate will be locked in for those loans which came due in that year, but all other loans will reflect the downturn in interest rates which has affected the economy generally.

So the process is about the same. We haven't been able to correct that one difficult year when the rates were very high. Currently, the rates are set by the banking institutions, based on the current rates, with some premium above the prime rate.

MR. GOGO: Minister, I want to congratulate you. I know how much time you've put into this one particular area that affects so many young Albertans.

On the question of the \$100 million in student loans, I think most Albertans are well aware that that can only really continue if people pay back their loans. Could you report to the committee in terms of default? Are we running into serious difficulties with those not repaying their obligations? I'm sure we all

agree that the only way we can continue the program is if the students, after graduation, make a sincere effort to repay their loans.

MR. JOHNSTON: Mr. Chairman, again I'm in the fortunate position of being able to say that I'm the one who gives out the money and the Provincial Treasurer is the one who collects it. So I'm not altogether sure what the loan default rate has been. The last time we looked at it, it was running in the area of 12 to 15 percent. That, of course, reflects both the increase in student loans which are outstanding and the economic times we've gone through. It's my understanding and belief that most students who take down a loan do intend to repay it, and it's in that philosophy that we operate, from the Department of Advanced Education's point of view. But it is safe to say, and it's a statement of truth, that the default rate has increased, and primarily that's because of the problems of some educated people in landing secure jobs at the present time.

MR. GOGO: Thank you. I want to make a comment. Only too often we hear about problems in the department and not too often is credit given. I want to publicly commend Mr. Hemingway and his office for the tremendous assistance he's given to the constituency office with regard to youngsters having difficulty experiencing their student loan applications. I cannot think of a case, when a call is made to Mr. Hemingway's office, that we don't get a very quick response — a positive response in most cases. Minister, I want to publicly thank Mr. Hemingway while you are here.

MR. JOHNSTON: I should note just by way of statistic, Mr. Chairman, that Mr. Hemingway's leadership has allowed us to introduce a computer system to the processing of student loans. The most recent statement I have — Mr. Hemingway can correct this — is that the last time I checked, which was about a week and a half ago, we had processed about 38,000 loans, and that is essentially double over last year. So we have collapsed the processing time and, as I say, have been able to accommodate overall about 50,000 students expected to draw down from the loan fund this year. We have advanced that process substantially by a computer system and by introducing other efficiencies in the operation.

Fred, maybe you want to update that statistic.

MR. HEMINGWAY: Yes. As of September 3, we had processed over 42,000 applications involving approximately 37,000 students. We anticipate that 50,000 students will apply this year, and our computer system has been of great assistance. As you know, in the past we've had some difficulty getting answers out to all students by the registration date. Improvements are being made in this regard, and we hope to do even better next year.

MR. JOHNSTON: From a purely personal point of view, the people who call us are those people who are appealing loans. Those also have increased, in fact doubled, over the past year. That's to be expected, because the number of processed loans has doubled as well. So from the political basis, the phone calls we're getting are normally from those students who are appealing their loans. I must say that in most cases the Students Finance Board is very acceptable to listening to the appeal and to adjusting the loan if there's a legitimate reason to change or increase the assistance provided to the student.

MR. CHAIRMAN: Would there be additional questions forthcoming from committee members?

Perhaps just to comment to you, Mr. Minister. I think the last week of August and the first week of September are probably the two weeks of the year in which most committee members get calls from constituents who are a little worried about the status of a particular loan application. From my own experience, I find that most of these calls come from parents of first-year students. They seem to have more anxiety than any other group of people in our society. I'm just wondering if it's at all possible that perhaps there might be a statement in the booklet that goes out, Financial Assistance to Alberta Students, advising parents of the type of question most often asked, with the type of response that might be given to them.

MR. KOLESAR: Call up your MLA.

MR. CHAIRMAN: "Call your MLA" seems to be the most obvious one, but it's amazing how many parents visited with me last Friday when I

was in my constituency office. I had six come in an hour and a half. It was their first child who was going to an institution, and they had not had all the answers they wanted by that particular time. Of course, they were nervous and anxious and didn't know whether or not the student should go. I'm not sure how we resolve it. I don't know how we come to grips with it all. I suppose if you were to put the question, "What do you do on the Friday before school starts?", the answer might be "Visit your MLA." But there might be just a statement to relieve them of a high level of anxiety they have.

Having said that, I want to echo the words of Mr. Gogo with respect to the positive response of Mr. Hemingway and others. I also want to indicate that I've always been very impressed with the quality of service I've received from the people in your office, Mr. Johnston, in attempting to get an answer to these queries from people. They're all from an anxiety point of view: "When do I get the answer? What's it going to be? How do I go about doing it?" There are no negatives attached to that; all positives. The responses I get are very quick and very much to the point. People walk away feeling a little more relaxed about it.

Having said that, Mr. Johnston . . .

MRS. CRIPPS: Put in a plug for the grants book again.

MR. CHAIRMAN: Mrs. Cripps indicates, once again, that the information provided under the grants book is very good. Perhaps that might be circulated. I'm sure it probably is circulated on an annual basis to all members of the Legislative Assembly. It is an outstanding bibliography of available grants. I certainly hope guidance counsellors around the province might have it on their desks, at the approximate point in it they might use at a given time.

Mr. Johnston, it wasn't very long ago that you last appeared before the committee. I want to thank you again. I must say in all sincerity that perhaps the limited number of questions you have received is a true reflection of positive responses by the scholarship people with respect to the concerns of the Members of the Legislative Assembly. I can recall several years ago that you were here for the full amount of time allocated for your annual visit. That in each year has reduced itself. Last year

you were here for 39 minutes; this year you were here for 30 minutes. We want to thank you very much, extend the very best to you, and look forward to seeing you one year hence.

MR. JOHNSTON: Thank you again, members of the committee.

MR. CHAIRMAN: Committee members, as I indicated at the beginning of the meeting this morning, and for those individuals who came in a couple of minutes late, this afternoon the Hon. Lou Hyndman will be here to answer any and all questions with respect to the current status of two financial institutions that have currently become national news.

We'll now adjourn and reconvene at 2 o'clock.

[The committee adjourned at 10:30 a.m.]

