

Standing Committee on the Alberta Heritage Savings Trust Fund Act

10:03 a.m.

[Chairman: Mr. Ady]

MR. CHAIRMAN: I'd like to call our meeting to order this morning. We'd like to welcome the Provincial Auditor General and his department people before us. We would like to invite the Auditor General to make some opening comments, if he chooses, and then we would turn the meeting over to members of the committee to put questions to the Auditor General, questions that would be appropriate, having to do with the audit of the Alberta heritage savings trust fund or components in it that are funded by the Alberta heritage savings trust fund as it pertains to the financial background and auditing of those particular projects. We would invite the Auditor General, Mr. Salmon, to introduce the people he has with him, and then if he has some opening comments, proceed with them. We'll then turn it over to the committee.

MR. SALMON: Thank you, Mr. Chairman. I have with me today senior members of the office responsible for the audit of the heritage fund. On my right is Jim Hug, assistant Auditor General, and on my left is Ken Hoffman, senior director of audits in the office.

I have just a few remarks, Mr. Chairman. The financial statements of the fund this year are included on pages 39 to 56, as you know, and this particular report was released by the Provincial Treasurer on October 2. These statements were prepared by Treasury, and my Auditor's report is included on page 40. The balance of the fund's annual report is not subject to audit but has been reviewed by my office. The financial statements themselves are presented in a similar fashion to last year. The Auditor's report again contains a reservation of opinion with regards to the deemed assets. The issue is essentially the same as discussed in prior meetings, and in my opinion, the reservation, to some extent, helps to reduce the confusion regarding the size of the fund.

I'd like to comment briefly on some items in the statements and will focus mostly on the statement of changes in financial position on page 43. This statement summarizes the transactions which created the increase in the cash and marketable securities between the beginning and the end of the year. The operating transactions in the statement show the contributions to cash from the operations of the fund, and it is the net income adjusted for accrual accounting entries.

The investing transactions in the statement show proceeds and investments for each of the divisions. Proceeds from disposals, repayments, and redemptions of investments include: in the Canada division proceeds of \$8.3 million result primarily from payments by the provinces of Newfoundland, Nova Scotia, and Prince Edward Island for debentures which matured during the year, and in the Alberta investment division proceeds were primarily repayments from the four provincial agencies included in the division, which amounted to approximately \$492 million, as well as the proceeds from the sale of AMFC debentures amounting to \$723 million and the proceeds from the sale of Telus common shares amounting to \$859 million. There also, of course, was the participation in the Syncrude project amounting to about \$200 million. The commercial division realized about \$93 million from the sale of investments in the current year.

With regards to other investments within this statement, the Alberta division invested approximately \$210 million in the three corporations that are internal to the government: ADC, AMHC, and AOC. Also there are investments in TransCanada Pipelines of about

\$150 million, in the Pacific pulp mill project of \$67 million, in Lloydminster about \$170 million, and of course in Syncrude another \$204 million. Again, the commercial division made additional investments of about \$105 million in various equities on the market.

In the statements referred to as transfers and amounts expended, the amount transferred to the general revenue fund is the same as net income, and this is consistent with the requirements of the Act for the last several years. In the nonrecoverable capital projects division expenditures totaled about \$84 million, and this is the amount of the reduction in the fund's financial assets in the current year. The major projects were an irrigation rehabilitation of about \$20 million and the irrigation headworks for \$31 million.

This year's audit went well. We had good co-operation with Treasury and management and staff during the audit. Mr. Chairman, if there are some comments that we can make or answers to any questions, we'd be pleased to do so.

MR. CHAIRMAN: Member for Stony Plain, do you have a question? The Member for Westlock-Sturgeon?

MR. TAYLOR: Oh, I'm sorry. I thought I was just going on the list. What's going on? Can I defer to the others? I was just getting my name on the list. I haven't got two questions.

MR. CHAIRMAN: The Member for Stony Plain.

MR. WOLOSHYN: Yes. I'm quite concerned that this business of the deemed assets keeps reappearing. You indicated last year that you didn't approve of deemed assets being a part of the heritage savings trust fund the way they are now. If you look through your comments, you indicated that some of these deemed assets were actually belonging to other organizations. I would strongly suggest to you that some of these deemed assets probably don't exist anymore since they have been absorbed, used up, or whatever. I would refer specifically to this section dealing with the education resources for about \$9 million. In view of that, can you state unequivocally that the total value of this fund is correct? In other words, in your opinion, what is the actual recoverable value of the fund?

MR. SALMON: Mr. Chairman, I believe I'd like to answer that question this way. On the balance sheet we show the financial assets of \$12 billion, and within that particular figure we feel that this is the value of the fund. The liquidity of those particular assets, of course, could have some particular timing requirements, but on the whole we feel that the value of those assets included within that \$12 million are proper, and we have given a clean opinion in regards to that.

The deemed assets were mentioned. Again it's our view, and the reservation clearly explains that, that these funds have been expended. Now, in some cases there may be assets elsewhere, and the annual report actually indicates references to the medical fund and also the scholarship fund, but those are accounted for elsewhere in other financial statements under other legislation and included in the public accounts as well. Therefore, I have a difficult time accepting the fact that they're part of heritage. They are part of the expenditures of the capital projects division. I guess I'd like to go on record again, and probably today, that if one were to look at the Act again, it does not require that the deemed assets be shown on the balance sheet. What it does require, in section 8, is that they be shown in the financial statements. I feel that adequate disclosure is in those financial statements if the schedule remains as part of the financial statements indicating that's how much was expended on deemed assets.

There is no requirement to show them on the balance sheet, and in fact I believe the reservation has helped to take away the misunderstanding of the value of the balance sheet. In fact, I feel that even some of the newspapers are now only quoting the \$12.039 billion worth of assets, whereas the Provincial Treasurer would prefer to add the two figures together and say that it's \$15.3 billion in his opening release of his news comments when the statement came out. I'll continue to leave it that way until we can sort of come to a resolution. I certainly agree that the capital projects division investments as shown in the schedule should be shown, and they certainly can be part of heritage fund statements although not on the balance sheet themselves.

MR. WOLOSHTYN: I appreciate your answer, but I do have a difficulty. I think when the whole intent of the fund and whatever's behind it, that once moneys are allocated from it that are nonrecoverable -- in any good business practice an asset is something that you can in some way, shape, or form transform into meaningful cash flow or what have you. In the case of the capital projects division for the most part and certainly the deemed assets, we can't do this. So in reality they are not a part of the fund, and regardless of what the Provincial Treasurer would like us and the press and the public to believe, it's just not there. However, I won't argue with you. I certainly appreciate your position on it since I think it brings a lot of credibility to the argument that we have, that difference of opinion.

With respect to the \$12 billion, how much of that \$12 billion, if any, is being loaned out in some fashion to the general revenue fund? In other words, I'm asking how much heritage money is into general revenue.

10:13

MR. SALMON: Mr. Chairman, none directly.

MR. WOLOSHTYN: How about indirectly?

MR. SALMON: Well, I guess, Mr. Chairman, you'd have to comment with respect to the Alberta division, where you get into the process of investing heritage moneys in Alberta Housing and also in ADC and AOC.

MR. WOLOSHTYN: I appreciate your reply along that line, because that was my concern with both AOC and Alberta Housing. I do believe now that Alberta Mortgage and Housing almost exists simply to hold the heritage fund debentures. I would wonder if those debentures should not in fact be written down, since I do believe we have transfers from the general revenue fund to prop up some of these Alberta division investments; in other words, when the payments are coming, we are getting that through the budgeting process from the general revenue fund to put back into heritage telling me that, in sincerity, we're really doing circular financing. I would like a comment. Do you feel that those assets from the Alberta division are actually what they are deemed to be written in the report that was submitted to you, that you endorsed through good accounting practices?

MR. SALMON: Yes; I must say that I believe the provincial corporate debentures shown in the Alberta division as part of the investment of the heritage fund and these corporations are properly valued in the sense that these entities that are here are organizations that would need those dollars from some source, and they happen to be from the heritage fund. So, yes, the dollars are fed back to the heritage fund and recovered, and some of those dollars have to end

up going to Housing from the general revenue fund before they end up back into heritage when it's a case of funding a cash deficit.

In a sense, Mr. Chairman, it's a similar discussion we've had in the past with respect to what you might call a circular process. It is interesting that the answer I've given each year on this particular subject -- we now have at least the Treasurer and the Treasury acknowledging the fact that the Auditor General keeps saying that if you really want to fully understand the process and eliminate anything in the interrelationship between the provincial corporations and the general revenue fund, heritage, and these three corporations particularly, when we get to the point of issuing an opinion on the consolidated financial statements, then you've got a better picture, because all the interrelated company transactions are eliminated. This year for the first year, on page 7, they actually commented on the consolidated financial statements on column 3, which I appreciated.

MR. CHAIRMAN: Thank you.

The Member for Lacombe, followed by Westlock-Sturgeon.

MR. MOORE: Thanks, Mr. Chairman. Well, I've been listening intently to the last series of questions, and I always enjoy it when the Auditor General's here and we get on deemed assets. It seems it comes up every time, and it seems to be a problem with some people. However, I'd like to hear from the Auditor General on the format of the financial statements we have before us; that is, we have deemed assets spelled out in writing in very good detail of what it's all about on pages 31 to 38. Now, so that everyone understands exactly what is entailed, it is there. Then if we go to page 55 in the financial statements, we have the dollars broken down for deemed assets. Does he not feel that this gives a truer picture to the citizens of Alberta of where the dollars are and what they're being used for? Not going into accounting principles, but does he not feel that this gives every Albertan full opportunity to understand where the deemed assets are and what they are involved in?

MR. SALMON: Mr. Chairman, I would agree that pages 31 through 39 and schedule 6 in the financial statements do adequately describe where those moneys from the heritage fund have been placed on capital project investments, if you want to call them that.

However, I only have one simple problem. It's very simple, and it's not serious anymore because it's been around so long. In fact, this is the sixth year that the reservation's been on, and I've issued opinions for seven. It just took me a couple of years to get around to getting this on. I think that's all it is. It's very simple. It's not a difficult problem. Each year we talk about it, but I guess it's just to help everyone continually understand it. All I'm suggesting is that we should quit referring to the addition of the two figures, to the \$15 billion, and just refer to the \$12 billion and leave the schedule 6 in there and have this information in the financial statements in the annual report, and that's a good explanation. I totally agree with that. I wouldn't have a reservation if they just leave those two things and take it off the balance sheet.

MR. MOORE: Supplementary, if I can, Mr. Chairman, on that particular question. Evidently we have two professional people, the Auditor General and the Provincial Treasurer, both chartered accountants, both very knowledgeable and both very qualified, with a different opinion on how things should be reported, and I can accept both inasmuch as they are both qualified people and within their rights to state their position.

Now, back to the Auditor General, if I can, Mr. Chairman. On deemed assets the impression is seen to be promoted by some people in this House, in the media, and other areas that deemed assets have

no right on the balance sheet in the financial accounting of the heritage trust fund because deemed assets are not salable. I would like to hear the Auditor General on the majority of them, but let's just talk about some. Would he not say that Fish Creek provincial park, an urban park in the centre of Calgary, has a market value many, many, many times higher than the book value that we show in deemed assets? It could be salable because any government could decide that that land is needed for human habitation rather than have it for parks and hiking trails. They could sell it and divide it up, and it would be a tremendous windfall returned to the citizens of Alberta.

Another one on the deemed assets is the Mackenzie health centre, state of the art. We know what it's on the books for, and it's deemed there. Now, some say, "Well, we wouldn't sell it," but let's look across the world. There are a lot of private hospitals, and they have a lot of value. I would have to say that if the Liberals were ever, ever to become the government, they would apparently sell that, because they've advocated doing away with the heritage trust. They'd put it on the market. It would return to the citizens of Alberta millions more than what it is on the books. So, Mr. Chairman, to the Auditor General. Really when we talk about deemed assets and the values on the balance sheet, it has a tremendous value to the financial statements and it has a place on the balance sheet. Would he not agree with that?

MR. SALMON: Mr. Chairman, first of all, the reason the Provincial Treasurer and the Auditor General disagree is maybe professional, but I would suggest it's more an interpretation of the Act in relationship to what should be where rather than anything else. The other thing is that my stand, as included in the reservation, is that deemed assets represent amounts expended which are not recoverable by the fund, and where assets do exist, they belong to other organizations.

10:23

Now, with the comment with respect to parks, hospitals, and such nature, yes, there's value, because those things actually still exist. However, the nature of a decision to dispose of a deemed asset by a government, or this government, whichever, would be in the way of having to change the whole concept and policy of the government in relation to this fund. Also, a decision probably would be made when they make a policy change to determine where the funds would flow back to. Whether they would go back to heritage or they would end up in the general revenue fund, which is the operating area of the government, would be a decision for the policymakers at the time. So talking about values, it would depend on what you had proposed to do with a particular asset such as a park. Certainly when the decision is made, values could be determined. But it's the concepts I'm after, and it's a simple thing and certainly isn't something we're questioning. We're certainly not questioning that these moneys were expended in regard to these items. It's a very simple thing about how much liquid financial assets there are in the fund versus the expenditures of dollars to other types of projects.

MR. MOORE: A supplementary if I could, Mr. Chairman.

MR. CHAIRMAN: Final supplementary.

MR. MOORE: Back to that agenda on this. Now, I know he says it's a concept. It's a way two professional people interpret it. But I want to talk generally on the deemed assets. I would like to find out if in his very professional opinion the people of Alberta are being shortchanged in any area because of the way the deemed assets are put in this statement. Are they being shortchanged in any area?

MR. SALMON: Mr. Chairman, in completing an audit of the heritage fund, we certainly do agree with the figures included within the deemed asset accounts as being the amounts expended. Certainly we are not in any way reflecting in this discussion that we disagree with figures shown. We are strictly back to that interpretation. We don't think it's misleading from this perspective. The misleading part is strictly on the balance sheet where someone says there is \$15 billion someplace that could be utilized by someone. Certainly I don't think there is \$15 billion; there's only \$12 billion.

MR. CHAIRMAN: Thank you.

The Member for Westlock-Sturgeon, followed by Calgary-Fish Creek.

MR. TAYLOR: Thank you. Good morning, Mr. Auditor General, and also your two assistants. I'd like to pursue the question the Member for Stony Plain mentioned on the Alberta Mortgage and Housing debentures. Unfortunately, I grabbed last year's book instead of this year's. All the property literally has been liquidated as near as I can see, except for public housing, yet we still have a number of debentures outstanding. Why didn't you put in your report what the value of the assets were that those debentures were against? I know you're going to say they're guaranteed by the government so it doesn't mean sweet fanny anything; as long as the government's guaranteeing it, they're worth what they were. But for somebody looking at the report, that's a loophole even if we knew they're worth nothing. In other words, what are the assets of the Alberta Mortgage and Housing Corporation that stand behind the debentures, if any?

MR. SALMON: Yeah, I recognize what is being asked, Mr. Chairman. If we had public accounts in front of us today, we would be able to flip over to a certain page and see the housing statements and you could see the value in the statements. We have issued financial statements on housing. We also have issued financial statements on AOC and ADC for the current year, so we know they're out and we know there are asset values there. We've gone through that process of giving clean opinions on those particular statements as well. So it really is a case of you having to sort of lay out the statements now. The presentation, of course, is Treasury's way, and we feel it's adequate for purposes of the heritage fund. The additional drawing of those values from those other statements that will be public in time just isn't done.

MR. TAYLOR: I'm sorry. If I may, just for clarification rather than a supplemental, did you say the value of what stays behind in those assets is in a report on the Alberta mortgage company that's coming in later?

MR. SALMON: What I'm saying is that those financial statements have also been issued to the end of March 1992. I've already signed off and given a clean opinion on the values included in those statements.

MR. TAYLOR: You gave an opinion on the values, so it's just a case of waiting.

This is a supplementary. Maybe it's even to the Chair. Is it out of order, because this is an examination of your report, to ask what the values of those assets are now, all of them?

MR. SALMON: If you ask me, I certainly couldn't tell you off my head; I sign too many things to remember. But those statements have been issued. I just know that they have been done. So when

public accounts come -- or when the minister chooses to release them, that's up to him.

MR. TAYLOR: Well, let's go to the section then. Once that report is out and the value, I gather, is going to be very small, will you then be doing a write-down of the assets in the report to the heritage trust fund next year? Will you do a write-down when you see it is down?

MR. SALMON: No. With the accounting policy that is established for heritage, there is no need to have a write-down because of that guarantee.

MR. TAYLOR: If I may make a comment, he's the only auditor I know that can come in behind you in a revolving door and come out ahead.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Fish Creek, followed by Edmonton-Beverly.

MR. PAYNE: Thank you, Mr. Chairman. I don't want to tax the Auditor General's memory too much, but he may be assisted by page 79 of our 1991 deliberations or the report thereof in which I raised with the Auditor General my misgivings about the increasing proportion of heritage fund dollars sitting in the cash and marketable securities account. That proportion has now risen to in excess of 40 percent according to the first quarter '92-93 report. I do recognize that this is a policy related question, not an accounting related question, and I could quite appreciate the Auditor General's reluctance to comment on that policy question when we last met. However, given the additional data that supports my increasing concern, I did leave this question with the Auditor General last year:

Could I just leave on the table an open-ended request? If the Auditor General or his staff happen to come across any funds . . . that have a mix of marketable securities to generate income and divisions that are in some way, structurally or in terms of objectives, similar to the heritage fund, I would really appreciate being apprised of those so that I could start to make some more legitimate comparisons.

I wonder if in the past year the Auditor General has come across any institutional funds that are even remotely comparable which could be used as a basis of comparative judgment with respect to the proportion of the fund that's committed to cash and marketable securities.

MR. SALMON: Yes, Mr. Chairman, I remember that question from last year. We don't have anything to add to direct the member to where such a fund exists, and certainly this is a policy matter. With the growth in the cash and marketable securities, certainly recommendations from this committee would be appropriate, I expect, for consideration by the committee that looks after the funding and handling of the funds of the heritage fund, because as one would look at it today under the present policy and with the direction these investments are going, it will be even more liquid in the future. Therefore, direction as to what to do or whether to continue that, with of course the interest earnings going to the general revenue fund, as the policy is at the present time, means additional dollars if it's generating a reasonable return. As long as you're not to that point where you're, say, costing on the other end more than this can generate -- of course, I think that's the question that has to be watched.

10:33

MR. PAYNE: Mr. Chairman, as I work my way through my first and only supplemental question today, I hope the chairman will

abide the policy related references, because I will come to the accounting related question.

The Auditor General knows full well that there is both a political and a public debate as to the feasibility of liquidating the heritage fund to retire the province's debt. I know I have constituents that say: "Gee, at first flush that seems to make sense. If we owe \$12 billion or \$14 billion and we've got \$12 billion to \$15 billion in the heritage fund, why not liquidate the fund and retire that debt?" Of course, there is a public and also a political counterargument: no, these heritage fund investments are generating in excess of a billion dollars income each year, and that helps run the province for about a month. Of course, Mr. Chairman, I'm not asking the Auditor General to comment on that public and political difference in view, but I would like to ask the Auditor General: is he prepared to comment on the economic or accounting implications involved in that difference in view?

MR. SALMON: Not really. From my perspective as an Auditor General, I would be more interested in whether or not in generating this income it is greater than the requirement for interest on debt is for this particular sum of dollars. Then, of course, is the aspect of projecting the potential future in relation to whether or not things are going to turn around and this is going to generate even more money and the other still stays locked in because you're locked in at a specific interest rate. Because if you really paid this particular thing off to the GRF, it's gone forever, whereas there may be a way in which this can generate even additional dollars depending on the economic situation in the future. So I think that's a policy matter that's difficult whoever faces it. We would watch, though, from our perspective as to whether or not to point out, as an auditor will, to management if they're getting close to the point where they're not generating sufficient and there's a problem. Then they'd have to at least face up to what the decision should be at the time.

MR. PAYNE: Mr. Chairman, in the latter part of the Auditor General's response to that supplemental, he raised the theoretical possibility that ways might be found to enhance the revenue on the fund's investments in the future. Could he give one or two examples of what he meant by that reference?

MR. SALMON: Well, a simple one would be if you had a particular bond that was generating 10 percent and you had a bank loan you were paying off at approximately the same. If it was 8 percent, you'd probably keep the bond. At the same time, if in the next year the bond was due and you thought interest rates were going to drop to 7 and you're still going to have to pay 8, then you'd have to think what you're going to do. But maybe you'd just decide to wait because the next year the interest may end up being 12, so you don't want to dispose of it. You'll just take that little loss right there and then keep going because you're going to make more in the long run. That's simple theory I'm throwing out rather than giving a solution.

MR. PAYNE: Thank you, Mr. Chairman.

MR. CHAIRMAN: The Member for Edmonton-Beverly, followed by Bow Valley.

MR. EWASIUK: Thank you, Mr. Chairman. My question also is relative to the sort of bottom-line figures of the heritage trust fund. I'm not talking about the deemed assets; that's not part of my question. My question, however, is -- and you may help me with this one -- to the Auditor General. It appears to me that the government continues to or does use heritage trust fund moneys lent to the general revenue for operating expenses. Given that is the case, the

government does not have to go to outside sources to borrow for the operating expenses of the province. So my question, then, is: is this an appropriate use of the heritage trust fund? And in light of that, would not of course our bottom line be greater than the \$12 billion if we continue to use that practice of financing the province's operating fund, the general revenue?

MR. SALMON: Mr. Chairman, I think the question is on using the income from the heritage fund to fund operations, if this is appropriate. Is that what you said?

Well, I don't know whether I want to comment on appropriateness, but certainly this is the policy because, after all, the policy was made to take all of the revenue since a few years back. They've continued to do that. Obviously, generating the income internally to the province does mean that they've borrowed less money outside, and therefore it has an offsetting figure with respect to the cost of their debt load; it reduces their debt load. If they held this in the heritage fund, of course you'd have a higher debt.

MR. EWASIUK: I agree with what you're saying, that it's of course correct. However, my question is: would the heritage trust fund not secure, as a result of investments and so on, money into itself and grow as well in giving us a larger bottom-line number rather than using those funds to finance the operating expense of the province?

MR. SALMON: You're saying that maybe you could invest the billion and a half into the heritage fund and then generate additional income. That, then, has to be considered an offset against the needs on the other side, in the general revenue fund, and certainly that's a policy matter that's within the government itself.

MR. CHAIRMAN: The Member for Bow Valley, followed by the Member for Edmonton-Calder.

MR. MUSGROVE: Mr. Chairman, I would like to go back to the deemed assets of the heritage trust fund and particularly a couple of really successful deemed assets that have increased in value over the years. I'm wondering if the Auditor General keeps any update on that in the annual statement. I'm speaking in particular of the Alberta heritage scholarship fund and the Alberta heritage medical foundation.

MR. SALMON: Yes, both of those, Mr. Chairman, are adequately disclosed in other financial statements, including their market values. Certainly they have increased; that's true. Because it's an expenditure out of heritage in the capital projects division, it's only shown in here at cost to the heritage fund, but if you're going to go to the heritage fund or to the scholarship fund, you can actually see the market values. Those are included in the public accounts every year, and we give opinions on those as well.

MR. MUSGROVE: You don't do an audit on them?

MR. SALMON: Yes, we do.

MR. MUSGROVE: Oh, you do. It is my understanding that the Alberta scholarship fund had \$100 million in it in 1981-82. It has paid out about \$98 million worth of scholarships, and it is currently worth \$181 million. So taking that and the Alberta Heritage Foundation for Medical Research -- in 1979-80 there was \$300 million put into that, and it's my information that that's now worth something over \$600 million. So in those two the increase in the assets was almost the value of all the deemed assets to start with.

MR. SALMON: Mr. Chairman, on page 25 of the annual report this year, for the first year the Treasury Department included a couple of items -- I think just to use this very argument that you often hear at this meeting -- with respect to the Heritage Foundation for Medical Research and the scholarship fund, and they are showing a market value. Because I don't have the audited financial statements in front of me, I can't remember whether or not that's the market value that's shown in the statements. But you'll notice that the heritage foundation in this particular statement -- again, this is the supplementary information that the Treasury includes, not in our own financial statements; it's separate from that -- is \$575 million, and also the heritage scholarship fund is almost \$200 million, \$199 million. They're shown in those other statements and included in public accounts every year.

10:43

MR. MUSGROVE: Okay. Thank you.

MR. CHAIRMAN: Thank you.

The Member for Edmonton-Calder, followed by Wainwright.

MS MJOLSNESS: Thank you, Mr. Chairman. It's quite obvious that money is transferred to the general revenue fund from the heritage trust fund -- well, back and forth a little bit in different places -- and the two funds are fairly interrelated. I'm just wondering if the Auditor General could explain the effects or implications of a write-down on assets on our ability to transfer money from the heritage trust fund to the general revenue fund.

MR. SALMON: The heritage fund transfers all of its income to the general revenue fund. There is no money coming from general revenue to the heritage fund directly.

MS MJOLSNESS: No money directly?

MR. SALMON: No. The general revenue fund transfers money to Housing when they need to from the point of view of their cash needs with respect to their deficit. Then the Housing Corporation, you might say, also then pays their debenture dollars back to heritage. I think that's what you're saying.

MS MJOLSNESS: No. Actually, my question was: what effects do write-downs on assets have on the ability of the heritage trust fund to transfer money into general revenue?

MR. HOFFMAN: Well, the write-downs are used in the calculation of the amount of net income which is transferred. So if there is a write-down, then there's less income being transferred. If you look on page 42 on the income calculation, you see investment income and gains on disposals. The write-down is a negative coming to a net investment income, some administrative costs and then the net income, which is the amount that's transferred. So if you have a write-down, you have less money go into the GRF from the heritage fund.

MR. SALMON: So we had a write-down on Lloydminster this year. Is that included in there?

MR. HOFFMAN: Yes.

MS MJOLSNESS: Okay; thank you. Yes, I realize we did have a write-down on the Lloydminster Husky upgrader, and I know that Esso Resources have written down their investment in Syncrude by

about 20 to 25 percent. I'd like to ask the Auditor General if he feels, then, that our investment in Syncrude remains at \$518 million.

MR. SALMON: Are you talking about heritage, or are you talking about another place? If we're talking about heritage, yes, we feel adequate for the current year.

MS MJOLSNESS: We don't give it a write-down?

MR. SALMON: No, we didn't do any pressure for write-offs in the current year.

MS MJOLSNESS: Okay. My last supplementary. It has serious implications when we write down something, because that directly affects how much we can transfer to the general revenue fund and also the total value of the fund. I'm just wondering if the Auditor General feels that there's a reluctance on the part of the government -- I don't know if he can answer this or not -- to write down certain investments because of the serious implications that it has to the general revenue fund.

MR. SALMON: I suppose in any management situation there's always reluctance to face up to the fact that you've got some loss. But each year as we look at it from an audit performance basis, we're actually looking at the point of determining from our perspective, along with the work that the Treasury has done, as to what the value of these particular assets is. Certainly if we feel that we've got a concern we can substantiate and that it's something more than a temporary loss -- I mean, you can have temporary losses and recover, so you don't really write those right off because it's going to come back in another year. But if you've got a permanent loss, we will push to have that write-off take place in the year in which we determine that.

Now, certainly there were individuals in Treasury management and also on our own audit team who felt strongly about the upgrader, and that write-off did take place in the current year. That doesn't mean it was an easy decision for Treasury to finally agree with us. We just wait it out. So those things take place, but certainly we look at each item and make sure that we're satisfied in order for me to sign the opinion every year.

MR. CHAIRMAN: Thank you.
The Member for Wainwright.

MR. FISCHER: Thank you. I would just like to follow up a little bit on that write-down. When we talk about OSLO here, I notice there was \$1 million that was written down. Because of the low probability of it going in the near term, how did you arrive at that?

MR. SALMON: Well, the cost that had been incurred to date was strictly for research purposes, so there really isn't any asset sitting there now. If the project was going to come, you would hang on to that cost until you could see what was going to happen with respect to the investment. The likelihood of that investment having been postponed, with Canada dropping out, et cetera, it didn't make a lot of sense -- certainly Treasury agrees with this -- to carry that as an asset when there's no value in the research, and it looked like it might not have any value at all to it.

MR. HUG: In all likelihood, if the project does go ahead, they would have to redo the engineering studies, which would mean that the existing ongoing studies really have very little value. So there was little point in carrying those on the balance sheet at this point in time.

MR. FISCHER: So you feel that they would have to redo the whole study if they started up again?

MR. SALMON: As soon as you get a delay, you've got a problem.

MR. CHAIRMAN: You're putting the Auditor General in an awkward position. I don't think it's appropriate for him to be asked to make comments on engineering studies and their validity.

MR. SALMON: It was fine. It was just that the value isn't going to be there if they don't go ahead.

MR. CHAIRMAN: Okay. You have a final supplementary?

MR. FISCHER: This is my first question. That was a supplementary on the Member for Edmonton-Calder's question.

I would like to ask about the Ridley Grain company. I notice in here that they have paid back their full interest and full principal this year. That has not always been the case. How do you make the adjustments? Do you rewrite their contract when they delay or did not pay the interest in the past?

MR. CHAIRMAN: Hon. member, I'm not sure that question is appropriate. It's fair ball to ask the Auditor General what auditing practice he might use as far as dealing with a shortfall in the payback or interest or what he might do that would cause him to insist on a write-down, but I believe you're asking him something having to do with policy with your question. Perhaps you could rephrase it to be more direct.

MR. FISCHER: Well, I guess that the accounting policy doesn't show -- it doesn't show me anyway -- what happened to that money that was supposed to be paid.

MR. SALMON: Mr. Chairman, the comments about the debenture are in the little note (e) at the bottom of page 51. The contract hasn't changed. We look at it in relationship to what we feel the value is, whether or not there are any risks involved in recovering certain amounts, and what they've paid, et cetera. Certainly we're leaving this in this particular year at the particular value shown.

MR. CHAIRMAN: Thank you.
The Member for Westlock-Sturgeon.

MR. TAYLOR: Back again to the Auditor on the circular accounting. I'm not questioning what you're doing. I understand why you're doing it, but I'm just thinking of the taxpayer picking up the brochure.

MR. CHAIRMAN: Hon. member, if I could just interject. If there is circular accounting, the Auditor General is just auditing what the government policy puts in place. Let's be clear that this is not initiated by the Auditor General.

MR. TAYLOR: I agree, and I would never blame him for doing something like that. It's obviously a policy of -- I was going to say a demented government, but I'll just say that he's just taking . . .

MR. CHAIRMAN: Perhaps you could just move to your question.

10:53

MR. TAYLOR: See, once you do that type of thing and you say that the debenture's good because it's guaranteed, wouldn't it be fair, though, to say that this is a contingent liability? In other words, the

asset, the bond or the debenture, cannot be covered except by getting money from the government. I know in a private corporation that if you've guaranteed personally the shareholder as owner, then they put in the report that it's a contingent liability, which hangs there because you know you're going to have to get money from the government to make good on the debenture payment. Wouldn't that be a proper way in accounting practice?

MR. SALMON: Mr. Chairman, I would answer it this way, and that is that from the general revenue point of view it's a contingency, from the heritage point of view it's a receivable, and from the Housing Corporation it is a liability. Now, when Housing can't pay, then that contingency that's in the general revenue fund becomes a liability to the general revenue fund. So that's the process; that's the policy.

MR. TAYLOR: I understand what you're doing, and I think a CA would understand what you're doing. But as representatives of the taxpayers, to make it clearer for the taxpayer to understand that that debenture's got to be covered by the revenue fund, it seems to me there should be a note that there are not assets here to cover it so we will have to get something from the general revenue fund. It should be a contingent thing. It just should be easier for the taxpayer to read the statement.

MR. SALMON: I've never had a taxpayer phone me yet and ask me about the statements.

MR. TAYLOR: How about NovAtel?

MR. CHAIRMAN: Do you have a supplementary?

MR. TAYLOR: I will go on then. He's a little hard to grab this morning.

The other question is on a write-down of the OSLO investment. We've been told that it's not going to go ahead. Unfortunately, I didn't bring the report this morning. I don't think you have a write-down in there, but why isn't it written down, or will it be written down in the next report?

MR. SALMON: OSLO? OSLO is written off this year.

MR. TAYLOR: It is written off? Okay. I'm sorry. I didn't have it with me.

MR. SALMON: Yes. You don't have it, but it's gone this year.

MR. TAYLOR: My apologies. Okay.

MR. CHAIRMAN: Thank you.
The Member for Stony Plain.

MR. WOLOSHYN: Thank you. I'd like just a bit of an explanation. I'm not too clear on page 46, on the compliance information. My understanding from what's stated there is that as moneys are invested via the capital projects division, the net amount invested still is listed as an asset of the heritage savings trust fund, and then the amounts which can be used are based on a percentage of the value of the fund. Is that value being taken as the \$15 billion number or the real value of \$12 billion?

MR. SALMON: Section 8 of the heritage Act refers to this particular compliance note legislation, and it's necessary to take into consideration together not only the financial assets but also the

expenditures under capital projects to determine that percentage that's allowable under the division, because there have been percentages allowed and they must stay within those percentages, unless they change those percentages of course. Therefore, this is why you see the comment in the Act about deemed assets as being in this calculation. That's the purpose of determining and knowing how much has been expended on deemed assets, to calculate this compliance situation.

MR. WOLOSHYN: Except that the effect of this would be that as your liquid amount gets switched over into whatever kinds of assets -- say that your fund stays basically static but your available cash diminishes, and yet the amount that you can expend stays at that same height, which to me seems . . . Well, nothing that you can do, but I don't feel that that's good business practice. What I'm suggesting is that perhaps there should be some thought given and maybe a comment from the Auditor that the compliance legislation -- and I know you can't change that -- should be more reflective of available assets to expend on capital projects as opposed to the somewhat unreliable total value of the fund. That's what I believe. Is that what we're working from? I was not quite totally clear on it.

MR. SALMON: Well, actually it's established that the capital projects division cannot expend more than 25 percent of that total, and that total includes whatever they've already spent; in other words, the 15 whatever. That's been the policy since the beginning of the Act and the establishment of the fund. In other words, it would have to end up being a whole policy process change if they were going to change it. That's the way the Act is, so it would have to be an Act change.

MR. WOLOSHYN: I appreciate that, and I was hoping you would say whether you agreed or didn't, but that's quite all right. As the chairman has indicated, you're just here to reflect on the audits.

On page 51 there are a couple of notes that give me, I guess, a question. In there, there is authorization under note (b), for example, and I believe in note (d), both of them, and some of the others. Let's stick with note (d) for a minute; that's the AI-Pac portion. I see there that somehow or other the repayment is going to be on a tenuous kind of thing, the extent of the available cash flow of the company. Now, most debentures are outlined with a specific repayment schedule: principal, interest, or whatever we have. For the life of me, I would question whether the security of the loan is as great as its book value all of sudden if the return, or the repayment, of it is based on something that we will have no knowledge of, something called cash flow of the company down the way. Am I misreading this or not?

MR. SALMON: Mr. Chairman, you're really talking about the basis of the agreement that's been established with the organization, and our responsibility is to ensure that they reflect that agreement within this note so that one can understand it. I think you're saying that because it's so in the future before you're going to really see any return on this thing, it seems a little strange, but that is the arrangement, and we're just making sure that you can understand that and how it's been done.

Do you want to comment?

MR. HUG: This particular loan is still in the process of being advanced, so it's very early to judge how it will perform. Certainly over the years we'll have to look at the amount of participation payments that the companies do provide on this particular debenture, and based on that history and how it is performing, we will have to assess whether or not the loan is recorded at an appropriate value.

MR. WOLOSHTYN: So if I follow this correctly, then -- and again I'm just trying to find what is happening; I'm not reflecting anything on the Auditor's report per se. We had a situation in Ridley Grain -- one of the other members asked -- where they weren't able to meet their commitments, and now thankfully they're meeting them. If the same occurs with this particular loan, this particular debenture, that the cash flow isn't there so we can add as long as we please the interest onto the principal or whatever we want to do for paper numbers, just as a matter of an accountant's opinion -- if that cash flow in the future doesn't materialize and if these moneys are expended, is there a good potential that this investment could in fact then be written down?

MR. SALMON: Yes. You'd have to take into consideration the situation at the time, as to whether or not there's been permanent value lost in this investment, and then there would be a write-down. That's right.

MR. WOLOSHTYN: Usually, if a company can't make its projected profits, cash flow, then that's usually a reflection of a permanent loss. Is that not correct?

MR. CHAIRMAN: Hon. member, you're way over on your questions.

The Member for Westlock-Sturgeon.

MR. TAYLOR: I'll put my glasses back on.

Mr. Chairman, I just wanted to know whether or not the manual for the interest payable by Alberta-Pacific on its \$275 million subordinated debenture is out yet. We were waiting on it for last year. As you know, it's a fairly complicated debenture. It's tied to cash flow and, I think, operating profits of the pulp mill. I wanted to know whether that had been issued or whether it's available, because about a year ago we were waiting for it.

11:03

MR. SALMON: This still isn't settled fully. I mean, they still haven't advanced all the money, et cetera.

MR. TAYLOR: Pardon? I'm sorry.

MR. SALMON: We already commented on the fact that this is still an ongoing thing; it isn't finalized yet.

MR. TAYLOR: I see. Okay. I'm sorry. So it's in the process yet. Shouldn't we be getting along on that? I was by there the other day. There's all kinds of smoke and dirt and everything flying around there, and now you tell me that you haven't got the manual ready. Oh, well.

MR. CHAIRMAN: Do you have a supplementary?

MR. TAYLOR: Yes. I just had to comment in surprise.

The second question is a little more complicated to assess. The Auditor General audits the heritage trust fund and, I take it, makes comments when he thinks that investments are not good or are bad or does write-downs and stuff like that. It's not policywise, but this gets very close to it. In view of the fact that the owners of the heritage trust fund are the people of Alberta, or the government of Alberta -- you mentioned circular accounting; we guarantee everything else -- why isn't there a recommendation in the heritage trust fund report saying that we should liquidate certain investments to pay down the debt grandpa has or, you know, the parent company or the government has rather than retain them when the parent company is paying higher interest than what the heritage trust is

earning on investments? Now, isn't it a requirement of the Auditor to point out that certain investments may better be liquidated and applied against the debt of the parent rather than earning the low interest rate that it is earning?

MR. CHAIRMAN: Hon. member, I believe you may be getting off on political philosophy as opposed to dealing with an issue that the Auditor General can really rule on.

MR. TAYLOR: Mr. Chairman, I've got subsidiary companies that had poor financing deals, and the auditor, a different auditor maybe from the other, would say that these assets should be liquidated and passed back to the parent to pay down.

MR. SALMON: Mr. Chairman, I think I really answered as far as I would want to go when I was talking to Mr. Payne about the process of debt versus the earnings that are created by the heritage fund.

MR. TAYLOR: You consider that strictly. He doesn't apparently think it's part of his duties to recommend certain assets be liquidated and money passed back to the government.

MR. CHAIRMAN: I believe that's what the Auditor General was saying, that it's beyond his scope, hon. member. Is that your final supplementary? Thank you.

Member for Stony Plain, you have a question?

MR. WOLOSHTYN: Yes, please. Alberta Mortgage and Housing Corporation. This is just for clarification. I don't have any ulterior; I just don't understand this.

MR. CHAIRMAN: Hon. member, you're certainly free to ask a question of the Auditor General on that, pertaining to his responsibility. Bear in mind, though, that this afternoon at 2 o'clock the Hon. Dick Fowler, Minister of Municipal Affairs, will be with you.

MR. WOLOSHTYN: No. This is strictly to do with the fund here. I'm sure the Auditor General can answer this.

MR. CHAIRMAN: Okay. Fine.

MR. WOLOSHTYN: On page 50 there is an investment of \$140 million in the Alberta Municipal Financing Corporation from the fund for 1992. Is that correct? Under schedule 3, is that a repayment of \$570 million, with assets being sold off? [interjections] Page 51, under the comments in the middle of the page: disposals, repayments. That was a \$570 million repayment to the fund. Is that correct?

MR. SALMON: Yes.

MR. WOLOSHTYN: Dealing strictly with the Alberta Municipal Financing Corporation, there would have been a \$430 million or whatever net gain to the fund. Is that correct?

MR. SALMON: I don't know whether the figure is right, but there is a substantial gain.

MR. WOLOSHTYN: Is that what is happening? We're prying money out, investing it in one direction, and then they're paying back other parts in other directions. Is this in fact what's happening? That's what I'm reading. I would just like not a value judgment on it. In fact is that what's happening?

MR. SALMON: There was a gain on AMFC of \$152 million actually.

MR. WOLOSHYN: I would have another question, and you may or may not have the answer. The Alberta Municipal Financing Corporation is in a position over there where -- and I am picking this up out of note (a) on page 51 -- their debenture comes due all in one shot, the principal on maturity. It says that the "debentures are fixed to maturity and redemption is by a single payment of the full principal sum on maturity."

MR. SALMON: But they vary, I think, in the years.

MR. WOLOSHYN: They'll vary in each given year.

MR. HOFFMAN: There's a number of debentures outstanding.

MR. SALMON: Yeah, there's more than one.

MR. WOLOSHYN: Anywhere in the material which you've been given by the Treasurer with respect to the fund is there given a real market value of the financing corporation? I'm quite concerned that as they are paying back one debenture, they're accessing another in the same year. This year you received \$570 million, and you paid out \$140 million.

MR. SALMON: AMFC's financial statements, which we also audit, do disclose each of the debentures and the dates and the interest rates and so forth. All of that detail is within that set of statements. This happens to be the gross amount that they've borrowed from heritage.

MR. WOLOSHYN: So they are continuing to exist as a part of heritage.

MR. SALMON: Yes.

MR. WOLOSHYN: Okay. Thank you very much.

MR. CHAIRMAN: Thank you.

That concludes the questions from the members this morning. We appreciate the Auditor General and the people from his office attending our meeting this morning and the information that they gave to our committee.

This afternoon we will have the Hon. Dick Fowler, the Minister of Municipal Affairs, appear before the committee at 2.

The Chair would entertain a motion for adjournment from the Member for Calgary-Fish Creek. All those in favour? Opposed?

Could I ask the members from the Official Opposition and the Liberal Party to remain for just one moment.

[The committee adjourned at 11:11 a.m.]

