

8:34 a.m.

Wednesday, December 14, 1994

[Deputy Chairman: Mr. Herard]

MR. DEPUTY CHAIRMAN: Good morning, ladies and gentlemen, and welcome to the Standing Committee on the Alberta Heritage Savings Trust Fund Act. I have the pleasure of being the referee this morning while our chairman is winging his way to Edmonton from Lethbridge.

We have the honour today of having before us the Hon. Jim Dinning, the Provincial Treasurer, and I trust that he will also introduce his staff. As is the tradition of this committee, we would ask the minister to give us the benefit of his comments for the first 15 minutes or thereabouts of these proceedings, and then we will begin with questions from Her Majesty's Loyal Opposition and then government members.

Before we begin, does anyone have any recommendations they wish to read into the record?

Seeing none, Mr. Dinning.

MR. DINNING: Good morning, Mr. Chairman and members of the committee. It's a pleasure to appear before you one year less three days as compared to December 17, 1993.

I have with me the Deputy Provincial Treasurer, Mr. Allister McPherson. Allister is responsible for the operations of the Alberta heritage savings trust fund and so is here to assist me in providing answers and accountability to the committee.

As you acknowledged, the Premier appeared before the committee last week and announced the long-awaited review of the Alberta heritage savings trust fund. He's made it clear that it's our intention to ask Albertans what their views are on the future role of the Alberta heritage savings trust fund and made it clear that we will be going out with a tabloid in early January spelling out the facts and asking a number of the questions that he raised before the committee last week. That committee will be out on the road.

You, Mr. Chairman, having been invited to serve on that committee along with Dr. Percy, Mr. Langevin, Mr. Doerksen, and Mr. Dunford, will be out on the road — goodness knows, you might even be out on the road on budget day; what a pleasure that would be — in eight centres around the province in February, which would then be supplemented by a response sheet within the tabloid, along with possibly a 1-900 number or the like inviting Albertans through Telus — not through MTT but through Telus — to provide us with advice and information on their views on the fund. Following that, the committee would have its opportunity to make its report to the government, and then the report would be filed in the Assembly with the intention that there would be a debate in the spring sitting of the Legislature. Following that, there would be a decision.

When the Premier appeared before the committee, he gave notice, of course, that we would be tabling the assessment of the market value of the fund, which at that time was nearing completion. Members of the committee will remember that, as a first step, in late October we launched the assessment of the market value of the fund by asking four investment dealers — Nesbitt Burns, RBC Dominion Securities, ScotiaMcLeod, and Wood Gundy — to do an independent assessment of the market value of the fund. I'd remind members of the committee that these four companies and their competition on the streets make their living, their daily and hourly bread and butter, out of knowing what is marketable and what market value is. They virtually live and die by the value that the market places on this fund and its assets, not some theoretical think piece but real, live market value assessment

of the fund's assets. They disclosed in their report, prefaced by a letter from those four companies to me where they said:

The Dealers assessed securities which had a cost of \$10,970 million as presented in the financial statements of the Fund as of September 30, 1994 . . .

I might bracket that by noting that those were audited by the Auditor General of the province of Alberta, an officer of this Legislature.

. . . and concluded that these securities had a market value of \$11,435 million as of that date.

I might note that that's a \$465 million improvement vis-à-vis the book value as reported and disclosed in the heritage savings trust fund annual report.

They went on at page i to say:

In general, the assets of the fund are highly marketable and liquid. The Auditor General of the Province of Alberta has confirmed the list of assets of the Heritage Fund as shown in Appendix 6 [of the report]. The Heritage Fund could realize on the value of these investments by selling them in the market subject to recommended changes to certain securities that in the Dealers' view would enhance the acceptance of these securities in the market.

They went on in page ii, Mr. Chairman, to note the breakdown of the various four divisions of the fund — cash and marketable securities, Canada investment division, Alberta investment division, commercial investment division — and assigned a value to each of those, given the Auditor General's audited cost assessment which he had disclosed in his report, which is also appended in here.

In the cash and marketable securities division they acknowledged that the cost of the assets in there, not including accrued interest, were some \$6,585,000,000. The four dealers acknowledged that all — all — of the securities in the cash and marketable securities division of the fund are fully marketable and highly liquid securities and went on to assign a market value of \$6,593,000,000.

At the same time, in the Canada division they acknowledged:

The Dealers believe that the market value of some issues could be affected should the sale of an entire issue to a third party or parties be contemplated. The Dealers believe that the market's capacity to absorb particular issues, coupled with the respective borrower's normal financing program, could result in an interest rate premium and thus negatively affect that security's value. However, an orderly distribution could mitigate this situation.

So the Auditor General and the books having assigned a cost value of \$1.101 billion — okay? — the dealers advised that that in fact had a market value of \$1,182,000,000.

With respect to the Alberta investment division, the dealers acknowledged:

In terms of liquidity, the provincial Crown Corporation debentures are not currently known to investors and therefore, as noted above, could carry a liquidity premium when first offered to the market. Such a premium has been taken into account in assessing the market value of these securities.

Even though they concluded that while the cost was \$2,786,000,000 with respect to the financial assets here, the market value in fact was in the order of \$3,007,000,000.

And the same with the commercial investment division, Mr. Chairman, where they noted that the securities in the division "are highly marketable" and said that the cost of these assets was \$429 million but the market value was \$653 million.

So, Mr. Chairman, you can see that the four dealers, having been asked to do their work, have done so. It's acknowledged that this is a credible group of people who have expertise and a history of success of operating in the market.

Mr. Chairman, I won't go into a lot of detail, but, you know, let's also acknowledge that there are some who will belittle the heritage fund and its investments and what it has done. I take strong exception to that belittling, because in addition to providing

some \$15 billion in income to the general revenue fund of the province over the last 15, 16 years – that's a massive infusion of dollars. Had we not had it, we would have faced two options: we would have had to reduce spending even further or run higher deficits, or we would have had to find that revenue from another source, that being taxation. Acknowledging that that \$15.4 billion has made a contribution is something I think we should do.

8:44

Let's not belittle, as some might want to do, the amounts expended under the capital projects division of the fund. They're noted on pages 63 and 64 of the '93-94 annual report. Let me just summarize them quickly because I sense that I have approximately five minutes remaining, having started late.

Mr. Chairman, Advanced Education and Career Development, for instance, has seen that the Alberta heritage scholarships of some \$100 million previously invested in 1981 now have a value in excess of \$200 million and have paid out to nearly 80,000 Albertans an amount in excess of \$125 million. That is a strong, strong investment in the future of this province in having supported students attending postsecondary institutions.

The same with the Farming for the Future program and the Food Processing Development Centre. Even the rail hopper cars have played an important role. I think of urban park development in a number of centres around the province, including Edmonton and Calgary, including my own constituency of Calgary-Lougheed, which, along with the constituencies of Calgary-Shaw and Calgary-Fish Creek, is the home of Fish Creek provincial park, an important asset that is there because we were able to establish the heritage savings trust fund back in the early '70s.

[Mr. Dunford in the Chair]

I think as well in terms of the Heritage Foundation for Medical Research, a \$300 million investment now well in excess of \$600 million, having provided hundreds of millions of dollars of research funding and important support to the cause of medical research in the province. Individual line service – it's important to some members of this Assembly, especially those who reside outside of the major centres of Calgary and Edmonton – so that citizens throughout the province have access to an individual line and are no longer exposed to a party line. That is a good, good investment by the heritage fund in this province, along with heritage learning resources in education, the Oil Sands Technology and Research Authority, Kananaskis Country, a jewel in the Alberta crown. When you look around the world, there is not a park development like Kananaskis Country anywhere on this continent, frankly. It's a well-kept secret among Albertans. We haven't promoted it outside of the province, so by and large only Albertans enjoy that tremendous asset.

As well, in the area of reforestation, the Pine Ridge reforestation nursery enhancement. The water management systems improvement and the work done on irrigation rehabilitation, Mr. Chairman, is of benefit not only to the residents of Lethbridge-West and Lethbridge-East but of course to residents throughout the entire south of Alberta and provides a security of water supply that is vital to the economic and social development of the province. Again, under the Labour portfolio: occupational health and safety research and education, something that you're familiar with, Mr. Chairman, having formerly sat on the Occupational Health and Safety Council and having worked with the department in disbursing those funds for research.

The children's hospital in Calgary is a jewel, along with the Tom Baker centre, and the Walter C. Mackenzie Health Sciences

Centre here in the city of Edmonton. Airport terminal buildings throughout the province, Mr. Chairman: an investment of \$16.4 million on the books but a value from an economic development point of view. Just opening up Alberta beyond Calgary, Edmonton, Lethbridge, and even Red Deer is important, and it's something that I believe the heritage fund has played an important role in.

So, Mr. Chairman, we are on the eve of beginning a long-awaited review of the fund. I think it's timely. This is an important process which you are now about to embark on, and I don't think it's anything that Albertans would want any of us to take lightly. We will go cautiously in making this decision, but we are open to the views of Albertans. Unlike others, we have not yet made up our minds. We have an open mind on this and are anxious to hear the views of Albertans, recognizing that they see this as a heritage savings trust fund that has provided good benefits to this province and will continue to do so into the future, subject to the wishes of Albertans.

I'm in your – your – good hands, Mr. Chairman.

MR. CHAIRMAN: Thank you.

Okay. We'll begin with Michael Percy.

DR. PERCY: Thank you, Mr. Chairman. Before I ask the hon. Provincial Treasurer a question, I'd just confirm that since the Treasurer spent, oh, 12 and a half minutes on the investment dealers' report, that is fair game then, since it's been discussed in the introduction, and we can devote some time to discussing its conclusions. Am I fair in . . .

MR. CHAIRMAN: Oh, I think so. Jim's a pretty amenable fellow, I think. If you get too tough on him, I always have the prerogative to step in.

DR. PERCY: A question to the Provincial Treasurer. I'm willing to accept the notion that market value defined as value to a third party is a valid definition, if you're ex Alberta in particular. On the other hand, if one asked the question, "What is the value of the fund to Alberta residents?" the answer to that question is slightly different. I think that's where some of the controversy over interpretation of the report has arisen.

My question is as follows. If you look at the various Crown corporations that are financed, that in fact the fund holds debentures for, the Agriculture Financial Services Corporation, AOC, ASHC, and AMFC, you find that last year, for example, the general revenue fund provided \$302.8 million – that's the cumulative subsidies to these entities – to pay down their \$406.4 million in debt obligations. My question is simply this. If one were asking what the value is of the assets of the fund excluding the value of those assets that are supported by subsidy or guarantee, as stand-alone entities, would you still attach the same market value that the investment dealers have? Those subsidies are in fact a liability of Albertans. So to the extent that you're asking the question of what the value is to Albertans, I would think it would be prudent that you would in fact net out that portion of the value which in fact flows from taxes or a guarantee by Albertans. The question simply is: would you be willing to accept that there's really a distinction between the market value of those assets to third parties as opposed to the value to Albertans once you exclude those types of assets whose values are contingent on subsidy or guarantee?

MR. DINNING: No, Mr. Chairman.

DR. PERCY: I've never had such a succinct answer.

My second question then. Let me give you this analogy. I give my wife a cheque for \$100. She has \$100 more; I have \$100 less. My household income wealth hasn't changed. I look at the Alberta heritage savings trust fund and I find that as of September 30, 1994, there are \$1,765,000,000 in marketable securities invested in province of Alberta debt instruments. So again following the analogy that if I give something to my wife but there's a claim on my resources or she gives me a cheque and there's a claim on her resources, there's no net change in our household wealth, would you be willing to accept the fact that in terms of the value of the fund to Albertans as opposed to the market value to third parties ex Alberta, you would want to net out those securities? The Auditor General in fact nets them out when he looks at the net debt of the province of Alberta, Mr. Treasurer. So my simple question is: would you be willing, then, to accept the notion – I've watered this down – that these really aren't from the perspective of Albertans net assets?

8:54

MR. DINNING: No, Mr. Chairman.

DR. PERCY: My final question, then, is: are you then going to instruct the Auditor General not to net these out as he does when he calculates the net debt figures? Mr. Treasurer, I know you would never, as you admonished me, ever want to question at all the integrity of the Auditor General. So will you admonish, then, the Auditor General and suggest to him that he not net it out, since you in fact view that as not being realistic when looking at the value of the fund itself to Albertans?

MR. DINNING: No, Mr. Chairman. I think the hon. member's line of questioning is regrettable. You know, this is a horse that the Liberals choose to flog from time to time because they're looking for an issue to flog. The fact is that the paper of these corporations is an asset of the heritage savings trust fund. They could just as easily be an asset, a holding of a pension fund anywhere around this world. Many of the provinces' papers, the paper that provinces credit, are held by pension funds and investment funds around the world, and there isn't one of those credits of any kind that lacks a provincial guarantee. This is either issued by the Crown or an agent of the Crown. Therefore, Her Majesty backs up that paper, and there isn't an entity in government around the world that offers a credit that has the respect and has the high value of the market placed on it that lacks that backup. So whether the subsidies for these corporations are – it doesn't matter whether they're paid for or where they're paid from or who owns the debentures, whether it's owned by the heritage fund or a third party, the payment on those debentures still must be made.

If the hon. member wants to launch a complaint or a concern about the subsidies that are paid in order for these corporations to finance their activities, the place to do that, Mr. Chairman, is not in the heritage fund committee. It is in the Committee of Supply when the Social Housing Corporation comes up, when Municipal Affairs is debated, when AOC is debated in the economic development estimates, or when the Financial Services Corporation is debated in agriculture. If the member would like to take on the Alberta Municipal Financing Corporation, he's welcome to do it there when the estimates of the department of the Treasury come up.

Mr. Chairman, I think it's regrettable that the Liberals have chosen to take this approach. The investment dealers and the market, the real live day-to-day, hour-to-hour, megasecond-by-

megasecond market, take a different view than the professor from across the way in all respects. Thank God they do, because we live by that sword and we die by that sword, not the quill pen of someone else.

MR. CHAIRMAN: Thank you.

Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman. A recent study done by Professor Mumey reports an asset value for the heritage fund that is \$3.4 billion lower than the value in the audited financial statements for '93-94. Can you explain the discrepancy between the two sets of numbers?

MR. DINNING: Well, Mr. Chairman, I can answer the question, but first of all let me refer to a couple of places where outside organizations have commented on our financial reporting and the commendation that the government has received from the likes of the Institute of Chartered Accountants of Alberta, the accounting profession in this province, the professional body of which the Member for Calgary-West is a member and from which he used to receive his bread and butter and probably wishes he still did. They said in their document *Staying the Fiscal Course*, February 1994:

Albertans can feel confident that they have the full picture of the province's finances. Alberta is now viewed as a leader in financial reporting among governments.

I say that only because we produce financial statements of individual funds and government agencies, including the heritage fund. The heritage fund is a separate, stand-alone legal entity legislated by this Chamber. What happens then is that the results of those funds are consolidated into the public accounts to provide the overall picture of the province's financial situation.

The Auditor General agrees with both the heritage fund financial statements and the consolidated statements. I would advise members of what the Auditor General said on November 30, 1994, when he appeared before this committee. When he was asked to comment on Professor Mumey's work, he said:

He's just selecting one portion of the investment in the province in the amount of \$2.1 billion, and I can't reconcile that figure . . . Do I agree with his assessment? The answer is, no, I don't agree with his assessment.

The Auditor General of this province said, "No, I don't agree with his assessment."

I think the fact that some of the heritage fund's investments are in provincial debt is quite acceptable. It has got that value.

So I think regrettably what the professor from the University of Alberta has done is gotten confused and in his attempts has tried to confuse Albertans by arbitrarily lumping some of the province's other financial affairs with those of the heritage fund without rounding the circle and without completing the picture. I'm disappointed that that's the case, but that sort of goes with the job; doesn't it?

MRS. LAING: How can the heritage fund investment returns compare to the carrying cost of the debt? Would you give us that analysis?

MR. DINNING: Mr. Chairman, in simple terms the heritage fund's investments and their returns are spelled out on page 7 of the heritage fund annual report and as well on page 26. Quite simply, the heritage fund's investments earned a rate of return of about 10.7 percent in '93-94, whereas in 1993-94 our debt costs of the general revenue fund were in the order of 8.7 percent, a fairly healthy spread, one that also shows the value of our provincial credit in the marketplace.

9:04

MRS. LAING: That's good news, Mr. Treasurer.

Could you tell us also what the main changes were in the heritage fund in '93-94?

MR. DINNING: Mr. Chairman, one of the key things that we did in this fiscal year was the sale of our assets of the Alberta Energy Company. It reinstated the cost of those assets back into the heritage fund. An additional profit of some \$273 million was experienced because of the timely sale of that asset, and that money went to the very bottom line to reduce the province's accumulating debt, i.e. its deficit. Investments in our Crown corporations were down by over \$380 million because in fact debenture repayments exceeded new borrowings.

Two other pretty important activities of the fund last year were our sale of a 5 percent equity share in Syncrude to Murphy Oil for the book value of \$150 million, and we remain with an 11.74 percent holding in the Syncrude project. Lastly, you would have seen an increase in marketable securities investments by nearly \$700 million, which reflected both the sale of assets and repayment of debentures. Those are the primary highlights of the heritage fund activities this past year.

MR. CHAIRMAN: Thank you.

Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you. I'd like to thank the Provincial Treasurer and his assistant for being here today, albeit they moved the time up a couple hours, but I'm sure it was better for all of us. I'd like to focus, Mr. Chairman, on this valuation, being somewhat of a valuator myself. I just wish we even had more time to ask all the questions I think I have with this valuation. The first thing I'd like to point out to the Treasurer: these investment dealers are the best in the business – there's no doubt about it – but they've made mistakes before in other deals. I just need to point out devalued Petro-Canada shares. I think they were at \$12, and as soon as they came out, the market told them they were worth \$8. I think there's probably even some government issues, the Telus issue and such. I don't mean to say that in a sense to cast doubt on this report. I don't do that at all. But I would like to point out that this is not necessarily an infallible report with regards to its valuation.

As I go through the valuation, I look at the comments made. I guess for my first question I'd like to go to page 13, appendix 1, items that were excluded from the valuation. If we did a valuation and we exclude some items, I guess that's a good place to start. Why did we exclude these things? Because I'm limited to three questions, I'd like to start at the very last and work our way up.

Vencap Equities was excluded from the valuation. I look to the reasons why, and I guess this was – I appreciate the Treasurer's comments on that – a mutual exclusion. There's reference made to the fact that you'd sort of have to value all the little companies under Vencap in order to get a value for Vencap. Well, that would be okay if we were valuing shares, but this is a loan, and it does have some residual income feature to it. There's been over the last year a question as to whether this loan is still worth what it's on the books at. So my first question to the Treasurer is to get his comments as to why this was excluded. In fact, this was a loan, and I don't think you necessarily need to look at all the investments that Vencap has in the small companies to tell you whether this thing is still collectible or not. I mean, he's had discussions with Vencap, I understand, about repayment of this loan, and he must have some sort of idea.

MR. DINNING: Mr. Chairman, two things. I would remind the member about the track record of these four companies, having been of course in his preamble. These same companies do live and die by the market. He talked about Petro-Canada. Petro-Canada might have been issued at \$12 and marketed at \$8, but the fact is that those shares were not trading in the market at that time. They were ascribing some value to the underlying assets, but it was not being traded in the market at that time. These assets that were valued by the four dealers were being traded in the market at the very time that they ascribed a value to them. Perhaps the hon. member hasn't had a chance to read the full document, but in each section there is a methodology section which goes into detail, and he fully understands, especially when it relates to the stock exchange or for common stock and for the bond market for the trading and the other instruments.

As for the exclusion, Mr. Chairman, yes, when the dealers took on the task, they realized in short order that these are assets that do not have a day-to-day determination of their market value, that would require a great deal of in-depth research that would take a lot longer and would cost a great deal of money in order for these four organizations, that have the credibility in the marketplace, to put their name on the bottom line. It's like the Auditor General. He doesn't willy-nilly, easily sign off his opinion. The member across the way who was asking the question I'm sure would never frivolously have given his name to an unqualified or even a qualified opinion on a company's financial statements nor would we expect. In fact, we expect strongly the other way, that these four companies would put their name to something that they were if not a hundred percent sure of then 99.99999 percent sure of.

As for Vencap, the member should know – and I'm sure this has just escaped his memory – that there is an option within the Vencap arrangement for the province to convert its holdings into common shares. To do an assessment of that part of the Vencap holding would require an evaluation of those underlying assets, those underlying investments that presumably bring value to the share value of the company. That is why a more extensive review is necessary of that project, of that company and all of the other assets that are described on page 13. We were not prepared to invest either the time, given the heritage fund review, or the large amount of money, for which either the hon. member or at least one of his colleagues would have gladly beaten me over the head for having invested that kind of money in doing that kind of valuation.

MR. DALLA-LONGA: My turn? Gosh, I don't know where to start with that answer. I think the Provincial Treasurer is somewhat confused. Market value is not necessarily stock trading prices. There are case precedents that say that. It's an indication, but like some of the oil companies that are trading on the Alberta Stock Exchange, their values go up and down daily based on perception, not value.

When he talks about Vencap, Mr. Chairman, and the option . . .

MR. CHAIRMAN: Excuse me for interrupting. So I didn't lose money on that last transaction I made; I just perceived I lost money.

MR. DALLA-LONGA: Well, I was just responding to the Treasurer's comments that these are all trading companies on public stock markets, and therefore that's the value of the company. I think he's confused. Stock market trading prices aren't necessarily . . .

9:14

MR. WHITE: A point of order, Mr. Chairman. If in fact the member has been leading off the topic, it's the chairman's not just

prerogative but duty to interrupt. However, it is not the chairman's prerogative to clarify a point that he's not concerned with.

MR. CHAIRMAN: It's not; eh?

MR. WHITE: No, it certainly is not.

MR. SAPERS: So we get back these two minutes.

MR. CHAIRMAN: All right. You can have your two minutes.

MR. DALLA-LONGA: My point, if I can put it in a different way and maybe condense it, is that stock market trading prices are not necessarily how you value a company. You have to look at the underlying assets and such. I think the Treasurer was probably confused about that.

Getting back to Vencap, which is what I wanted to sort of cover, he talked about the option, and it's an option at the province's choice to convert. No, I had not forgotten about it, as I had not forgotten about the residual amount. As I understand it – I maybe have the wrong understanding, and this is where it could be clarified; it could be cleared up – that would serve to increase the value. What I am concerned about is that the value is in fact what it is on the books at. If there is a conversion feature – and I know there's a conversion feature, and there's a residual income feature – that's great. That would serve to, in all likelihood, increase the value. But it is a debt, and maybe the Provincial Treasurer can just quite simply tell us that he's confident that they're still going to collect that debt as it's on the books. Then I'd be happy.

MR. DINNING: Well, Mr. Chairman, Allister can perhaps expand on this, but Vencap has invested in companies that generate cash flow, that generate revenue, that generate net income in the end, and the underlying value of Vencap is all of that income: cash flow, net income. There's no guarantee here. It's a limited company. There's no guarantee. So I'm not quite sure what kind of mushrooms the hon. member, who I might add is a member of the accounting profession so his question comes as a bit of a surprise, is trying to dig up here.

MR. DALLA-LONGA: Last time I looked at the Vencap financial statements, they had almost as much cash as they owed to the province – it was in the range – plus they had a whole bunch of companies. Debt takes a priority to the shares. Surely the Treasurer must be able to give his own personal view – and I won't hold him to it – as to whether he thinks we'll get our money back. I mean, I don't see why that's that difficult a question. You don't even have to be an accountant to ask it.

MR. DINNING: Is that a question? He was wondering.

MR. CHAIRMAN: Yes.

MR. DINNING: Okay.

Well, Mr. Chairman, a \$200 million investment is on the books at this point, with the write-down, as it says, the unamortized discount on the loan, being \$68 million and on the books a value of \$132 million today. If he would like a more refined answer, he could do one of two things: go and solicit from Vencap or the market the best possible offer for the government's current holdings, or he could use his Liberal research budget to go and ask the investment dealers to put in anywhere from \$100,000 to \$200,000 to \$300,000 to \$400,000, have them do an in-depth

study, put their name to it, and perhaps he'd like to file that with the committee when the work is done.

MR. CHAIRMAN: Okay. Thank you.
Victor Doerksen.

MR. DOERKSEN: Thank you, Mr. Chairman. Mr. Treasurer, you alluded earlier in your opening remarks to two endowment funds that I want to zero in on, one being the Alberta heritage scholarship fund, which had an initial investment of \$100 million and now according to the statement has a value of \$224 million, and the other one, the Alberta Heritage Foundation for Medical Research endowment fund, which had an initial investment of \$300 million from the fund and now stands at \$677 million. While the members of the heritage review fund haven't had the opportunity to sit down with either yourself or the Premier, are these on the table for discussing whether these will remain as something we should consider liquidating or whether these are now firmly entrenched and will stay forever?

MR. DINNING: Well, Mr. Chairman, while we would invite comment from Albertans on those assets, in my personal view I believe the answer to your question is no. Perhaps, if anything, they might more appropriately be the subject of debate in the Legislature as to their future. They do not sit in the financial statements of the heritage fund as a financial asset of the heritage fund. We've taken those deemed assets and moved them off to the side and simply accounted for them as we have in the last few pages of the heritage fund report. They do, however, add value to the province's consolidated financial position, and of course some would say that if that were the case, then they're over here on one financial statement and they might be washed out on the other statement and therefore they have no value. Well, some professor from some other university might want to suggest that, but I don't think that would be a good idea. They do add significant value to the quality of life socially and economically in this province. Frankly, no, I think they're not on the table as far as what we should do with the fund insofar as if Albertans said we're going to liquidate it. It might be that that's not one thing that would be open for liquidation.

MR. CHAIRMAN: Just before we move to your supplemental, I want to welcome this morning a rather distinguished and large group. I just would indicate to you that what you're witnessing today is the committee meeting of the standing committee on the heritage savings trust fund. We have in front of us today the Provincial Treasurer, the Hon. Jim Dinning. I don't know if you can see him from there, but he's about to turn around and give you a wave. Thank you.

9:24

To my right in the front row we have members of the loyal opposition, who are of course questioning the Provincial Treasurer. As well, in the second row we have government members, who are of course doing the same, and you'll see that we alternate back and forth. On your program you will not be able to tell who we are by the seats that we're in because in these particular hearings we are more informal in the sense that we can sit other than in our designated seats. Despite the boring aspect of my presentation to you, I'd also indicate that certain members can have their jackets off as well. So we're glad that you were able to drop in to see us today and certainly want to take this time to wish you a Merry Christmas.

Okay. Victor Doerksen.

MR. DOERKSEN: Thank you, Mr. Chairman. Jim, I appreciate your comment that these assets are no longer included in the valuation of the fund, but of the capital projects division expenditures – and you're quite right that a lot of these you cannot liquidate, the park in Red Deer for instance, nor would we want to. But of the projects in that fund these two are easy to get your hands on the money. I'm not suggesting or predicting what Albertans might say about that. I think it might have some merit in at least identifying these because they are something that we as Albertans need to know about and should be proud about.

My second question follows along the same line. In our discussions with the public will we entertain notions to increase or have other endowment funds, such as if we wanted to set up an endowment fund to fund research into the education area, and let Albertans say: should we consider putting a block of funds aside that will fund investment in the future in these areas? Will we consider that in our scope as well? I know we haven't sat down and chatted about this.

MR. DINNING: Is that sort of like a fund that might do research into the value of, say, a bachelor of education in order to help to be a teacher in school? Is that what you mean?

MR. DOERKSEN: I'm thinking more in terms of if you wish to explore technology in the education system and the advances in technology and in making sure that the technology capabilities that we now have in the classroom are fully utilized . . .

MR. DINNING: Oh, I see.

MR. DOERKSEN: . . . or if we wanted to fund capital projects for that kind of development down the road on an ongoing basis, we'd have a block of funds set aside that does that forever and ever. Again, I'm not trying to predict what Albertans will say, but I'm saying: will we entertain some discussions along those lines?

MR. DINNING: I just wanted to get a clarification on that. I think those kinds of ideas, including the role of the medical research foundation, the scholarship fund, really are questions that Albertans will want to answer or at least comment upon, and I think that's what will make the public review process an exciting one. You're absolutely right. We don't come with any predetermined notions, unlike others around here, on this issue, and I think that's valuable. Albertans have a number of good ideas about the fund and its role, its future and its past, and I think those ideas will be valuable.

I put forward perhaps just one caution, and that is that the only reason that the nominal value of the heritage fund has been reduced quarter by quarter is because the heritage fund has until recently been used to fund capital projects division investments, which having spent that money then goes off the financial asset balance sheet over into the deemed assets, which are no longer part of that, quote, \$12 billion of financial assets. Setting up another \$50 million or \$100 million or \$300 million endowment fund would have the same impact because you're setting aside that money to generate income for a specific purpose separate from the \$12 billion heritage fund. But I agree with you. I think there are valuable ideas that don't reside under this dome that Albertans will have about the fund.

MR. DOERKSEN: Thank you, Mr. Treasurer. Let me just say that I'm really looking forward to the chance to be part of this review committee. I look at it as an opportunity for us to take the mystique away from the Alberta heritage savings trust fund,

promote it for what it has done, and then look at what we can do with it in the future. So thank you for your comments. I appreciate your being here this morning.

MR. DINNING: On the fund, as well, we'll ensure that within the information piece, the tabloid that Albertans have, the value of many of the projects that I talked about at the outset of my comments will be explained and Albertans will have that information in front of them. Maybe you as an informed member of the panel will be able to, again, take that mystique and mystery out of some of the value that the heritage fund has provided to the province.

MR. CHAIRMAN: Howard Sapers.

MR. SAPERS: Thank you, Mr. Chairman. Good morning, Mr. Treasurer, Mr. Deputy. The Alberta Social Housing Corporation received a \$202.9 million subsidy from the general revenue fund in '93-94 to repay in part the \$309.4 million debt obligation to the heritage fund. Even so, there is still an accumulated deficit in ASHC of some \$230 million, and it has a provision for a loss in nonaccrual loans representing about 11 percent of its asset portfolio. This does not compare well to the ratio in private-sector institutions, which I believe is under 3 percent. Now, in light of the accumulated debt, the transfer, the subsidy, and the bad ratio, could the Treasurer explain why anybody in the private sector might pay the estimated \$1.424 billion for this Crown corporation without the inclusion of a provincial loan guarantee? I'd like to point out that the independent market valuation by Professor Mumey was only \$268 million for this asset.

MR. DINNING: Mr. Chairman, two answers. The fact is that the heritage fund doesn't own the assets of the Alberta Social Housing Corporation. I see the Member for Edmonton-Mayfield is wincing, so I'll say it again. The Alberta heritage savings trust fund does not own the assets of the Social Housing Corporation, the Alberta Opportunity Company, or the Agricultural Development Corporation. The shares of those are owned by, I guess in name, the Provincial Treasurer. Her Majesty owns those shares.

The heritage fund owns paper – debentures, borrowings, loans that have been made from the heritage fund to that entity – and has been able to make those investments because there is a guarantee. If it isn't the Crown, they are agents of the Crown. Any investment person, possibly even a professor of the university, might tell you that there probably isn't a government credit that exists on the public market today that doesn't have the backing of the Crown or of the government, whether it's the United States or whether it's Canada or whether it's any government around the world. They back that up by basically the faith in the credit of the province.

So, Mr. Chairman, once again I'd remind the hon. member that if he has a concern about the debenture and the payment of its obligations to the heritage fund, it sources those funds from the general revenue fund, and those are subjects that should be debated in Committee of Supply when the Social Housing Corporation is up for debate with the Municipal Affairs portfolio.

9:34

MR. SAPERS: I wanted to ask you a similar question, Mr. Treasurer, about AOC. The Alberta Opportunity Company received a subsidy of almost \$18 million from the general revenue fund last year to repay its \$32.5 million in debt obligations to the heritage fund. Even so, it too has an accumulated deficit just under \$30 million. I understand the current valuation of those

assets is \$98 million, even though it has an independent market value, according to Mumey, of about \$88 million. I don't want you to have to repeat your answer for a third time, because you repeated it twice in that first answer. What I'd like to know instead is: could you please tell the committee what you feel the net asset value is to Albertans of the interests in AOC and the Social Housing Corporation?

MR. DINNING: Mr. Chairman, I'll just go back briefly to my answer. Allister advised me that not only does the heritage fund loan money to the Social Housing Corporation, but the Canada Mortgage and Housing Corporation, the federal government in Ottawa, loans money to the Alberta Social Housing Corporation. Why? Not because of the underlying asset value of the corporation itself but because it's an agent of the Crown, and therefore lenders know that when they lend money to that agent, the Crown, they're going to get paid back.

With respect to the value of the heritage fund holding of the Alberta Opportunity Company, it is on our books at a cost value of \$105 million, \$106 million. The four investment dealers have in fact ascribed a premium to that, a higher value than that, because of the marketability of those assets, because the market will buy them. The market value is determined by the people who will buy them, and the people who buy them are in the market. So the market has determined that value.

MR. SAPERS: Mr. Chairman, I'm going to slightly change my line of questioning because I don't think I'll get any satisfaction on the original line of questioning.

Mr. Treasurer, there's an interest rate reset provision for approximately \$1.63 billion worth of debentures in the fund, but there's not an interest rate reset provision on, I think, \$816.5 million. I'm wondering if you could explain what criteria is used for establishing the reset provision every five years on the \$1.63 billion, why you would exclude the \$816.5 million, and why there wouldn't be an interest rate reset provision on a five-year basis just as a matter of standard practice for all the debt held.

MR. McPHERSON: Mr. Chairman, the basic reason is that the debenture financing provided by the heritage fund to the Crown corporations was to have terms and conditions that would somewhat match the asset portfolio of those corporations. So if the Social Housing Corporation were extending a 20-year mortgage on a fixed rate basis for 20 years, it would be financed on a 20-year fixed rate basis. If they were extending five-year mortgages that would have five-year redeterminations, the financing was designed to try and mirror in large measure those provisions on their assets. So that's the general policy involved in determining that.

MR. CHAIRMAN: Thank you.
Denis Herard.

MR. HERARD: Thank you, Mr. Chairman. Being that I'm the chairman of the technology integration committee for the Education task force, one might think that my honourable friend Mr. Doerksen was slipped a question or something with respect to that. It's a good question, and I've had the same question a time or two, and I appreciate your response with respect to that.

My questions are related to the cash and marketable securities division of the heritage fund. What is the purpose and/or objective of that particular division?

MR. DINNING: Well, Mr. Chairman, the reason why that was set up at the outset was that for those dollars which would not be

invested under any of the other divisions – whether it's the Alberta, Canada, or commercial or capital projects divisions – there was a natural may I call it a home that's spelled out in the Act in section 10, and these are often referred to as section 10 holdings of the fund. It basically says that for dollars not invested in the other areas, they shall be invested here. So it has basically three purposes. One is to provide for a liquidity pool of funds. It's not immediately available for other divisions. Secondly, it's there to yield a commercial rate of return. Thirdly, it's there to complement the borrowing program activities by investing in short-term paper of the province at the rate that the province borrows on the market on any given day, hour, or minute.

MR. HERARD: With respect to the performance of that division, are there standards or measures of effectiveness or benchmarks or something that would tell us how that fund is performing?

MR. McPHERSON: Mr. Chairman, currently the cash and marketable securities for investment management purposes are essentially divided into two parts. The first part is, as the Treasurer mentioned, a shorter term liquidity pool. The benchmark that we use to see whether we're achieving a commercial return is a 91-day treasury bill index. It's not a perfect index, and we often should be above that index, occasionally below it depending upon the term to maturity of the investments vis-à-vis the index. For the balance of the cash and marketable securities we have an extended term. I think the guidelines say that we can invest out to five years. We have an average term of somewhere between two and three years. As a benchmark for that portfolio we would use what is called a short-term bond index that is published regularly by ScotiaMcLeod as an index of the returns that you should expect if you were holding kind of a representative sample of bonds in the marketplace with a term to maturity of, say, approximately three years.

MR. HERARD: My last question deals with the proportion of the overall fund that sits in the cash and marketable securities portfolio. It seems like it's about half of the heritage savings trust fund, and I'm questioning whether or not that's an appropriate proportion of the fund. I'd like you to comment on the longer term returns versus the shorter term returns and whether or not we should have that much of the fund sitting in cash and marketable securities.

MR. DINNING: As a long-term investment strategy, Mr. Chairman, I think it's safe to say that the answer is no. But pending the outcome of the long-awaited heritage fund review, the Deputy Treasurer came to me and said: look; it doesn't make sense if there is uncertainty as to if this fund is going to be here for one year or 10 years or 30 years. The certainty about its future is essential to a sound investment policy which drives a sound investment strategy, and in the absence of a final determination as to the future of the fund and what its objectives or goals ought to be, they have invested, may I say, cautiously in the shorter term of the market. Some securities go out I think as far as five years, but it would not be prudent to get into the equity market thinking you're going to be out in six or 12 or 15 months or into the bond market for the same reason.

9:44

I know that the Member for Edmonton-Whitemud suggested that these were invested where there's too much cash in short-term investments and instead we ought to really be into the market on the equity side and into the long bond side. I think he said that in

the last year. Well, Mr. Chairman, thank God he doesn't work in the investment management division of the Treasury Department because that part of the market has been disastrous. It's provided the lowest returns of anywhere in the market in the last 10 months. Interest rates, having gone where they've gone given a misguided Liberal fiscal policy in Ottawa — it would have been disastrous. I won't equate it to Orange county in California, but it would not have been a wise investment strategy. So awaiting the outcome, it's invested prudently, and I think that even the investment dealer's assessment would indicate that it's trading at premium to its cost on the book.

MR. CHAIRMAN: Okay. Thank you.
Ken Nicol.

DR. NICOL: Thanks, Mr. Chairman. Mr. Treasurer, the Alberta Ag Development Corporation or now the Ag Financial Services Corporation has a debenture set with the heritage fund. We look at that and look at the evaluation that comes out of it, and it's about \$950 million in terms of the evaluation. The heritage fund report actually says \$986 million. The program is supported with a subsidy out of general revenues every year of about \$82 million. Is that basically a system that we can expect to continue if these debentures were to be sold off to the private sector? You know, you've talked about the possibilities and that, and you said in your implication of your response to the first question that the status quo had to be the method for revaluing the debentures. So the status quo includes that transfer from general revenue. Does that mean that that would go with the sale if they were put on the market?

MR. DINNING: Well, Mr. Chairman, as long as there is a credit — the Agriculture Financial Services Corporation becomes a credit or a paper or an instrument that the heritage fund or others could invest in — it will require a guarantee by the Crown, either issued by the Crown or it being an agent of the Crown. It has an implicit if not an explicit guarantee. So the repayments, whoever owns the paper, must be made, because that's our first obligation.

Then the question becomes: should there be a financial services corporation? I know that the hon. member is more familiar with the agricultural community than I'm likely to be in the next little while, and the question becomes: should the corporation continue to offer the lending programs that it does? Is it of value to the agrifarming, agribusiness in this province? The government's view is that, yes, it is. To a large number of Albertans, many of whom the member represents or knows, it's of value as well. As long as those programs are there, if the idea is to perhaps prevent or make that farming community, ranching community less vulnerable to the volatility in the market, then there will be times when a subsidy or a payment of some kind will have to come from some source to ensure that the corporation is able to meet its debt obligations to whomever holds that paper. So I'd answer the question similarly as I have with others: that debate is less likely to occur here in this committee than it might in Committee of Supply or in a motion before the larger Assembly.

DR. NICOL: But the discussion of the value of the assets in terms of the Alberta heritage savings trust fund is contingent upon the action that is done through general revenue or done by the legislative process in its evaluation of the budget. As we talk today about the value and the investments made under the auspices of the heritage fund, that approximately \$950 million obligation that exists between the fund and the Ag Financial Services Corporation has been given a market value. Now, that market

value is based on the perceived income flow that that paper, as you call it, can generate. In terms of market value now you have the option to deal with it in terms of the net ability to service that debt, including approximately an \$82 million transfer from general revenue, or you can value it as a discounted piece of paper contingent upon elimination of that transfer. All I'm asking is: are these kinds of things going to be considered and are they possible? You may sell it off at a much lower value than that, so the buyer recognizes that that \$82 million transfer is not backing it.

MR. DINNING: The good name of the province and the faith that holders of our paper have in that name is paramount. The fact is that any paper — may I call it paper? — offered by any Crown organization or any agent of the Crown will and must always carry the name of the province behind it. That's why any government security has value in the market today, and if it requires either a change in the lending practices, a change in the loan policies, a change in the funding of the corporation, all of that is of secondary importance to the Crown meeting its obligations. The member knows, as with any of us, that if we are in default with our banker, as individuals we are not likely to be able to borrow money again, Dome Petroleum excepted. That's true of us personally. It's very true of a province and of a government.

It's always interesting when people ask me: is Newfoundland or Nova Scotia or Hydro-Québec up to date in meeting their financial obligations to the heritage fund? Some informed people ask that. I'm always astonished when I get that question from informed people, because if they were behind by a nickel, they'd have a terrible time financing any of their other operating or capital requirements tomorrow and well on into the future. If they were a nickel behind with us, the marketplace would know it in a nanosecond, and that would affect their rating. The same is true here.

So I'm a little bit at a loss as to why this GRF debate is raised in terms of the security of the heritage fund holdings of the Agriculture Financial Services Corporation.

9:54

DR. NICOL: Mr. Chairman, a final question then. Paper is valued based on the perceived income flow that that paper can generate. Is that right?

MR. DINNING: No.

DR. NICOL: Well, you must make investments on a different basis than I do, Mr. Treasurer. When you put out a debenture to a new organization like Ag Financial Services, the value of that debenture as it's traded on the market is a function of the security behind that piece of paper, and that's based on the income flow to pay it off. Ag Financial Services obviously doesn't have the land base to cover the debt, otherwise it would be able to finance it in the commercial market. That's why we have the Ag Financial Services Corporation, because we are taking on a high-risk category of agricultural borrowers and we are taking an above-market level of risk. Rather than finance those loans at a, quote, above-market rate of interest to account for that risk, we allow a proximate market rate of interest to be charged with a government transfer to cover that interest premium. So what we end up with then is: if that government transfer into Ag Financial Services to back the debenture from the heritage fund is taken out, when those debentures are put on the market, they'll be marketed subject to the risk that now exists. Mr. Treasurer, I would ask: is that not a reasonable option, if we're going to sell it out, to sell it out at a

high-risk interest premium as opposed to a continued transfer from general revenue?

MR. DINNING: The bottom line is the heritage fund. It's the policy of this government that the heritage fund will not take that risk. The general revenue fund takes that risk, and that is why this Assembly appropriates funds, to ensure that the obligations of these corporations are met. They are obligations that Her Majesty has said we will pay. "Count on us. Trust us. We meet our obligations."

DR. NICOL: So the debentures will be sold with a transfer from general revenues associated with them.

MR. DINNING: If they are ever sold, just as any other debenture or paper or instrument is sold on any market in this world that belongs to the province of Alberta or the Crown or an agent of the Crown, it will carry that guarantee. You know, where do you draw the line? [interjection] No, no. It's a rhetorical question. Where do you draw the line? Do you say that the GRF debt, the GRF borrowing has the guarantee? AMFC, well, maybe it doesn't. AFSC, maybe it doesn't, but AOC will. The problem is that if you have a different status for each of your instruments if you're out in the market, the market will then begin to question the value perhaps of your GRF debt if one other instrument lacks the adequate backing that other governments across the country have ascribed to and put behind their instruments in the market.

Thank you, Mr. Chairman.

DR. NICOL: Mr. Treasurer, if you put a debenture on the market with a perceived ability to recover the dollars in that debenture, then that will value based on risk in the market. Right now the value of the debentures associated with the Ag Financial Services Corporation are contingent upon a transfer from general revenue to discount that risk associated with these high-risk lending philosophies. That's what Ag Financial Services is there for, and that's what its responsibility is. So all I'm saying is that if those debentures are transferred, are they going to be transferred and valued at the market based on their risk premium or discount, or are they going to be transferred associated with a continued transfer from general revenues to support the risk issue of the Ag Financial Services Corporation?

MR. DINNING: They will continue to be associated with Her Majesty the Queen, and therefore they will have the promise of Her Majesty the Queen in right of Alberta to pay those obligations full stop.

MR. CHAIRMAN: Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman. Mr. Minister, I want to ask about Alberta-Pacific Forest Industries. What is the current status of the Alberta-Pacific Forest Industries pulp mill project?

MR. DINNING: Mr. Chairman, members had a chance to question the Minister of Economic Development and Tourism and the Legislative Secretary to the minister. Perhaps there wasn't time, but this project falls under that departmental responsibility. As I'm advised, the project itself was completed on time and within the budget. The mill began operation a short time ago and is in commercial production. Its production levels are at close to 95 percent of its capacity. So it's on its way. It's come into the market at not a bad time and is operating successfully.

MRS. LAING: Good. Thank you.

Is the loan in jeopardy under the heritage savings trust fund as the mill is coming on stream and pulp prices seem to be more depressed and the market capacity exceeds the demand? Is there a concern?

MR. DINNING: There isn't, Mr. Chairman. There is a contract between the company and the mill and one of its joint venture partners, Mitsubishi, to buy all of the pulp mill's production at current market prices. We've seen some upward turn in pulp prices, and there is a positive outlook on the future of the market. So there's every reason to conclude that the heritage fund investment is secure today.

MRS. LAING: Thank you.

I want to change the topic for my last supplemental. It has to do with the equity returns on the Canadian investment division on page 26 of the annual report.

MR. DINNING: Yes, ma'am.

MRS. LAING: Okay. Thank you. Why are the equity returns generally below the equity indices shown on 26?

MR. McPHERSON: Mr. Chairman, the main reason why the returns are below the TSE 300, certainly in the past two or three years, is because one of the sectors in the TSE which has performed very well has been the so-called small cap companies; in other words, the smaller companies. The commercial investment division is managed on a passive quasi sort of index basis but with a concentration on, say, the top 100 companies as opposed to the 200 smaller companies. So for that particular period where those smaller companies performed very well, the overall index outperformed this division. I guess in comparing it, we would from an investment management point of view probably compare it to either the TSE 100 or the TSE 35 as being more representative of the actual portfolio that's held here.

I guess one other major difference – and I think it's noted in the report – is that under the federal Bank Act a province is not allowed to own bank shares generally. So we obviously don't participate in that part of the market, which again in recent times has performed quite well.

10:04

MRS. LAING: Thank you.

MR. CHAIRMAN: Okay. Lance White.

MR. WHITE: Thank you, Mr. Chairman. Mr. Treasurer, a little more than an hour ago, in an answer to an earlier question series by Mrs. Laing from Calgary-Bow, you read a quote, I think, to the effect that Alberta accounting, in all matters I gather, is full disclosure and in fact is the leader of all provinces. In light of that and this long, long, long awaited review, in your words – you were quite right – and in view of the fact that the Premier says that this is sort of a savings account for Albertans, the fundamental question that Albertans will then be asking in this long awaited reviewed is quite simply: should we be cashing in our savings account in order to pay the mortgage? Would it not be reasonable to say to those people as you're going out to talk to them that the value of the assets of the savings account that can actually be sold is the true number that they should be looking at in order to balance the books in another manner, in the household analogy?

MR. DINNING: That's correct. It should. That value of the financial assets as determined by those who operate in the marketplace is \$11.4 billion. You're absolutely right. I agree with you. Thank you, Lance.

MR. WHITE: The second question then. When one comes to market one of the assets listed – and the very last asset listed on page 43 under Transportation and Utilities, airport terminal buildings, are the same buildings that rightfully or wrongfully are going to be withdrawn from funding – then these are and will be pointed out as the assets that can in fact be sold. Is that correct?

MR. DINNING: Mr. Chairman, maybe I should go through it again for the hon. member, or maybe he could seek some advice from Edmonton-Whitemud. The assets described on pages 63 and 64, one of which is the terminal buildings on the bottom right-hand corner of page 64, that investment of \$16.4 million over a period of years in the airport terminal buildings – are you there? – is an asset contained within the capital projects division of the heritage fund. It is not included in the financial assets of the heritage fund, which show up on these books at \$11.9 billion, which the investment dealers have effectively said is worth in the order of \$12.5 billion. They are not part of the financial assets to be marketed.

MR. WHITE: A simple no would have sufficed there. I knew that.

The third question, then, is again on accuracy, speaking again to this long-awaited review. Speaking to the people of the province of Alberta, you would say to them: your savings account now holds less assets than it did because in the last short time, rightfully or wrongfully, the Alberta Energy Company's, the Nova Corporation's, and Syncrude's assets have been sold, those assets totaling about a half billion dollars or 500 and some odd million dollars. About half of the funds were returned to this particular account, and the earnings were returned to general revenue. My question is this. To the average soul out there, if there's money in a savings account, taking the Premier's words, that actually accrues some interest or some earnings. Presumably, then, you would either leave it in a savings account or, if you sold off some of the assets, you would in fact pay down some of your debt. Instead of going from the savings account to pay the mortgage, what you did is you went out and bought more groceries or bought a car or put in a garden. Is that sort of an accurate representation in layman's terms of what transpired there?

MR. DINNING: Mr. Chairman, it would be against the law created in this Chamber for that income to the heritage fund to stay in the heritage fund. The law of the province prescribes that all income to the heritage fund be transferred to the general revenue fund. That's the law, and that is why all of the investment income, some billion dollars as outlined in this financial report, including the profit on the Alberta Energy Company's shares sale, has been transferred to the general revenue fund, to pay for health and education and all other government programs, providing a revenue stream that would require either taxation from another source or increased taxation or reduced expenditures or a higher deficit. That's why the heritage fund is there now, providing that income to the general revenue fund as prescribed by the law approved by this Assembly.

MR. CHAIRMAN: Thank you.
Denis Herard.

MR. HERARD: Thank you, Mr. Chairman. I noticed that as of March 31, 1994, the AOC's deficit was 29 and a half million dollars. I know that the AOC has had some business failures, and my hon. friends in the front row probably would want to dwell on those, but I'm sure that the AOC has also had some successes. The bigger question, I guess, is: given the current budget restraints, how can we continue to justify providing loans to businesses?

MR. DINNING: If I'm not mistaken, the Member for Calgary-Shaw asked that question of the Premier last week, and the Member for Calgary-Varsity, the Legislative Secretary to the Minister of Economic Development and Tourism, indicated that a review of the AOC was under way. You bring in a gentleman like Jack Donald, who's the chairman of Parkland Industries, who's the chairman of our Tax Reform Commission, who also happens to be the chairman of the Alberta Opportunity Company, and sit him down and have him explain the activities of the company. It would be a difficult decision to say: shut it down; don't do this anymore. Their investments, their loans do generate economic activity that for the most part, they are convinced, would not happen in this province. Most of it doesn't happen in Calgary or even in Calgary-Egmont; most of it does happen outside of the two larger centres where there is still a thirst for that kind of capital.

I admit, I acknowledge that I share some of that same kind of what-should-we-do thinking given the approach that we've tried to take in trying to get out of the business of business. That's what debate in this Legislature, I believe, will help us to come to a conclusion on, and I'm sure that all members of this committee would want to participate forcefully in that debate.

10:14

MR. HERARD: As a supplemental, in the past few years business has been operating in an environment where the cost of credit has been quite low, and of course through what I think is misguided policy as well, we're seeing that go up again. I'm wondering if the demand with respect to AOC in terms of the size of their loan portfolio and their costs of operation has been affected very much by what's been taking place in the industry and whether or not businesses have been able to perhaps secure their own lower cost loans with respect to going to a lender of last resort.

MR. DINNING: Well, Mr. Chairman, if a business wants to begin and searches the streets for financing and can't get it and makes application to AOC and goes through their scrutiny and is willing to take a loan at a value that probably exceeds what they would want to get or think they're eligible to get at the Royal Bank or CIBC and if they still want to run their business and can make a go of it by paying the premium that they have to pay in order to borrow from AOC, that becomes their choice. AOC is doing its best not to operate in that kind of a deficit position, and it has obligations to the heritage fund at higher interest rates. They've made a decision to borrow longer term at higher rates, and they got stuck. Lots of people have done exactly the same thing, but the heritage fund is not going to be the bailout of perhaps a mistaken borrowing strategy by another entity.

MR. CHAIRMAN: Okay. Mike Percy.

DR. PERCY: The Treasurer has danced around a number of issues, really a good soft shoe, but the issue that he has danced around and refused to answer is a very simple one. It's one that the committee will be confronted with when they are asking and seeking Albertans' opinions on the fund. What is the value of the

fund to Albertans as opposed to a bunch of Toronto stockbrokers – the dine, white wine, and brie set – who are quite willing to accept assets backstopped by Alberta taxpayers? As the Provincial Treasurer has often told us, there's only one taxpayer, and that taxpayer is feeling very beleaguered. So my question is to the hon. Provincial Treasurer. Were you to have asked the investment dealers what the value of the fund is to Alberta taxpayers as opposed to a bunch of Toronto stockbrokers – after all, one would have hoped that's the relevant set: Albertans, not the central Canadian financial interests – do you think you would have gotten the same answer?

MR. DINNING: Yes, Mr. Chairman.

DR. PERCY: I love it when he's just punchy like that.

Now, in response to a question from my colleague Ken Nicol, the Provincial Treasurer was obviously confused, because it's very clear that the value of the debentures of the Crown corporations held by the heritage savings trust fund are presently a gross asset to the fund backstopped by a flow of contingent liabilities to Alberta taxpayers, not Ontario taxpayers. Were that guarantee to be removed, were the subsidy to be removed, those debentures would trade at a much lower price. The value of those assets in the fund would decline. It would be out there; it would be discounted. My hon. colleague had asked the question: why not do that? Why not cut the gravy train? Why not protect Alberta taxpayers? Then if there is the decision made to engage in an orderly liquidation of the fund, why not actually think of Alberta taxpayers as opposed to Toronto stockbrokers? Why not, in fact, discount the bond before it leaves the fund? That's my question, Provincial Treasurer.

MR. DINNING: Mr. Chairman, the answer is that these are credits, this is paper, these are debentures issued by the Crown or by an agent of the Crown, and those are the rules under which these Crown corporations and their counterparts across the country operate. I believe if the hon. member has a concern about the work of the AOC and the benefit it has provided to Alberta businesses, the AFSC that has provided substantial benefit over a number of years to the farming and ranching communities of this province, and the Social Housing Corporation, which was there to provide housing especially at a time when the economy was growing like gangbusters, it's all well and good. It's great. I welcome the debate, but I welcome the debate in the right forum. The heritage fund as an investor in these assets, just as the pension fund of a Liberal government or the investment fund of any entity around the country, would expect that kind of backing up: a promise, a promise to pay on behalf of Her Majesty. I would not recommend a change in those lending practices.

DR. PERCY: Well, thank you, Mr. Chairman. I would put it to you, hon. Provincial Treasurer, that you're playing a shell game with Alberta taxpayers, that these assets have corresponding liabilities. Were one to ask Alberta taxpayers what the value of the fund is to them, they would naturally say, on one hand, that there is an asset that has value because I'm guaranteeing it with my own money, tax dollars, or a flow of revenues from the general revenue fund. Those are my dollars, because there's only one taxpayer. It has asset value here. There's a corresponding stream of liabilities or a guarantee to which I as a taxpayer am ultimately responsible. So why not front up to Alberta taxpayers and say: "Look, once we sort out what we owe one another, whether it's Alberta bonds or whether it's the set of liabilities that we have that backstop these four Crown corporations, we have about 8 and a

half billion dollars." That's still a lot of money for Albertans. Now, it's true that if we want to give money to Toronto stockbrokers or to Ontarians or people in Saskatchewan and B.C. who want to buy those debentures, if we want to ship Alberta taxpayer dollars out of the province to those people, we can do it, and you certainly can do it by continuing to guarantee those assets or ensuring that there's a flow of funds from the general revenue fund. We could certainly do that, because Alberta taxpayers have had deep pockets in the past when we look at the accumulated deficits of this government, but why would you want to do that? Why would you want to sock it yet again to Alberta taxpayers? Why not just say: "Eight and a half billion dollars is a lot of money. That's the net value of the fund to you, though out of the province, if we're willing to ship tax dollars, it may be \$12 billion." Why do you want to hit the Alberta taxpayer yet again?

10:24

MR. DINNING: The reason why, Mr. Chairman, is that to do so would be a lie, and the Progressive Conservative Party and the government under Ralph Klein do not lie. If the Liberal Party would like to tell that lie to Albertans, they're entitled to do so, and they will suffer the consequences.

Mr. Chairman, I know that the member is drawing some of his advice from one of his fellow fellows of the Western Centre for Economic Research, a paper prepared by Dr. Mumey, which makes the suggestions that the hon. member is bringing to this committee, but I think it's regrettable that somebody would do this kind of substandard work on something as important as the heritage fund. I'd refer hon. members, if they have a chance, to read the last few words of the report itself, where it says that the fund statement on page 27 reports that the market values of the investments of AMHC, Social Housing Corporation, AADC, and AFSC exceed cost. This is a seriously misleading statement, he says. What I find so terribly, seriously misleading about this suggestion and the suggestion of the member across the way is that there is no such statement on page 27 of this report. It says very clearly that the Alberta investment division Crown corporation debentures – the debentures – have a market value of the stated amounts. It does not say anything else. Then he goes on to say that the market value claimed for these debentures far exceeds the worth of the financial assets of those corporations. As I said to the hon. members across the way, you don't own that asset; the corporation owns the assets. Bond holders – and maybe the Liberal members need some help here – don't own assets. Bond holders own the promise to pay it back. It's equity owners that own assets, and there is a difference between bond holders, who own debt, and equity owners, who own ownership. There is a difference. Again, I think it would be misleading in the extreme to Albertans.

Let me try even once more with the hon. member across the way to bring it home as to what constituents in Calgary-Lougheed would be interested in. The fact is that today a resident of Calgary-Lougheed or maybe even a resident of Edmonton-Whitemud after a period of time, despite the attempts of the Liberal government to get its hands on the RRSP savings, has accumulated, say, \$100,000 in his RRSP. He turns around; he may want to remortgage his home. He may do so within his RRSP, so he decides to take out a \$75,000 mortgage. He takes it out of his RRSP, living within all the rules that exist now. It could be changed, probably threatened, by the Liberal government in Ottawa, but he has a \$100,000 RRSP and a \$75,000 mortgage from that RRSP.

The hon. member across the way would say that when he consolidates at home in his own body, he's got an RRSP equal to \$25,000, which is absolute poppycock. The value of his RRSP is

\$100,000. He has a debt payable of \$75,000, whether it's to his RRSP, to his banker, to himself, or to a third party. But the mortgage has a value; the RRSP has a value: the RRSP of \$100,000, the mortgage of \$75,000. His net value, if you just take those two assets together, forgetting about the value of the house, is \$25,000, plus the value of his house.

Now for the hon. member to say that it's not worth \$11.8 billion, that it's worth \$8.8 billion or it's worth less, is falling into that same kind of trap. I would pray, Mr. Chairman, as you're out traveling, informing Albertans and listening to their views, that that big lie not be allowed to be perpetrated, as has been promoted by certain members in wanting to say that the value of the fund is less than what has been stated by the Auditor General and by the four investment dealers.

Thank you, Mr. Chairman.

MR. WHITE: Mr. Chairman, a point of order. A point of order. You can't just wave me off.

MR. CHAIRMAN: Yeah, I can. I just did.

MR. WHITE: No, you can't. A point of order, Mr. Chairman. You cannot wave me off.

MR. CHAIRMAN: Danny Dalla-Longa.

MR. WHITE: A point of order, Mr. Chairman.

MR. CHAIRMAN: Do you want to take up the time, or do you want to get Danny's question in?

MR. WHITE: A point of order, Mr. Chairman.

MR. CHAIRMAN: All right. What's the point of order?

MR. WHITE: The point of order, Mr. Chairman, is that we stand in this committee under the same rules as the House, and an implication that one or any of the members has lied or is lying is unparliamentary and it should not be stood.

MR. CHAIRMAN: Okay. I understand that now. In the preambles that particularly you, sir, make, do you want me to start interrupting on points of order and that type of thing? I think we're here to ask the questions and get the answers, and I think there's been a certain amount of friendliness and perhaps even joviality that has gone on with these hearings that we haven't worried about. Now, this late in the day when we're trying to get in one more question from your colleague, to all of a sudden start preaching about points of order I think might be appropriate but might be misplaced.

MR. WHITE: Mr. Chairman, you don't seem to realize that your place here is as a chairman. You can't willy-nilly throw in and out rules of order. I mean, yes, you can rule upon them, but you can't say that it's not . . .

MR. DINNING: Mr. Chairman, am I excused now, it being 10:30?

MR. CHAIRMAN: No. I think it was called to order at 8:35, according to my notes. But we're going to spend some more time on this obviously.

Do you wish to continue on your point of order, sir?

MR. WHITE: I'd just ask for a ruling, that's all, and then I think you've got it.

MR. CHAIRMAN: Yes. On the point of order?

MR. HERARD: Yes, Mr. Chairman. I think the hon. member is saying that, you know, we are trying to operate under the same rules as the House. Well, one of those rules is that when you have a point of order, you also have a citation. I didn't understand his point of order, so I would perhaps ask for clarification as to what the problem is and what the citation is so that you can make a ruling based on some rules.

MR. WHITE: I'd say in our standing rules of order under 23(i). I think you'll find it's implying motive.

MR. CHAIRMAN: Did you wish to respond, sir, to the point of order? I think it was being raised with an inference that you were making.

MR. DINNING: Only that the member across the way asked me to tell something to Albertans that would not be truthful. I don't do that. I don't think it's a wise thing for any of us to do. But if he wants to say something that's untruthful, I will call it a big lie, and it is that. A spade is a spade. It may be just an instrument for digging within the Liberal caucus, but a spade is a spade in the government caucus, and we don't stand for that kind of nonsense. Any talk of the heritage fund being anything less than the value ascribed to it by (a) the Auditor General and (b) an independent assessment of it by people who live and breathe and die by what goes on in the marketplace every single day is a massive fertilization of the truth. I know that members across the way wouldn't want to engage in that kind of activity. Once again, Mr. Chairman, I will call a spade a spade. If I'm asked to tell a lie, I will not do so, and I will call it a lie.

10:34

MR. CHAIRMAN: Danny, do you have one question?

MR. DALLA-LONGA: The Treasurer is getting himself into a lot of problems this week. He's calling people liars and people stupid and . . .

MR. CHAIRMAN: We have a member this morning that is quite stuck on procedure. So with that, given that it is then my responsibility to make a ruling, in listening to the discourse that we've had this morning and of course listening particularly carefully to the response of the Treasurer to the various questions that have been put forward to him, I think there's been an exchange between varying philosophies. I have tried in my own way to allow the expression freely of these various philosophies, but certainly what will happen, then, both in the preambles and in the responses is that there's bound to be some sort of grinding at the edges of these particular philosophies. To date we've really tried to let that go.

If in fact the performance of the chair this morning has been somewhat informal, then I guess it was because I was going with the flow that we've been able to establish. However, the points of order that have been raised and then the discussion we've now had I think point out the fact that perhaps as a chairman I am too flexible. Perhaps what we should be dealing with in the future – and particularly this afternoon might be a good time to start – is that when we have witnesses in front of us again, the chairman will be much more judicious in his performance as a chairman,

making sure that all of the questions are to the point of why we are here, to really fulfill a mandate.

Having said that, my ruling is that we had a bit of an exchange between a couple of people. I don't believe there's a point of order.

We are now past our appointed time. The Treasurer is excused. Is there anyone that wishes to read a recommendation into the record?

MR. SAPERS: A point of order before the Treasurer leaves. [interjection] No, this is a new point, and it is a sincere one. During debate it's my understanding under our standing rules that if there is a point of order raised, that time doesn't come out of the period of debate. I'm just wondering what rules this committee is operating under, because if those rules apply, as I believe they should apply, then this discussion on the point of order would not take away from the Treasurer's time that he has to explain his dealings with the heritage savings trust fund.

MR. CHAIRMAN: Well, to date we've been operating under the rules that we established at the organizing meeting, so we will continue to proceed that way until such time as we change them.

MR. SAPERS: Did we ever specifically debate this question?

MR. CHAIRMAN: Not this particular question, because it hadn't come up. So my ruling is that this was part of the time that we spend here this morning.

MRS. LAING: I move we adjourn.

MR. CHAIRMAN: There is a motion for adjournment. All in favour?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Thank you.

[The committee adjourned at 10:38 a.m.]

