Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee on Public Accounts

Infrastructure
Transportation

Wednesday, March 4, 2009
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Quest, Dave, Strathcona (PC), Deputy Chair

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Gary Boddez	Deputy Minister of Transportation
Barry Day	Deputy Minister of Infrastructure
Shaun Hammond	Assistant Deputy Minister, Transportation Safety Services Division, Transportation
Tim Hawnt	Assistant Deputy Minister, Transportation and Civil Engineering Division, Transportation
Bob Smith	Assistant Deputy Minister, Properties Division, Infrastructure
Winnie Yiu-Young	Executive Director of Finance, Policy and Corporate Services Division, Infrastructure and Transportation Departments

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8:30 a.m. **Wednesday, March 4, 2009**

[Mr. MacDonald in the chair]

The Chair: Good morning, everyone. I would like to call this Standing Committee on Public Accounts to order, please, and welcome everyone here. I would advise everyone that we do not need to touch the microphones as this is taken care of by *Hansard* staff. If you could keep your BlackBerrys off the top of the counter, it would be appreciated because it certainly does interfere with the work of *Hansard*. I would advise you that, of course, this meeting is not only recorded by *Hansard*, but the audio is streamed live on the Internet.

Maybe we can now quickly as usual go round the table and introduce ourselves.

Mr. Quest: Good morning. Dave Quest, MLA, Strathcona.

Dr. Massolin: Good morning. I'm Philip Massolin. I'm committee research co-ordinator, Legislative Assembly Office.

Mr. Dallas: Good morning. Cal Dallas, Red Deer-South.

Mr. Bhardwaj: Good morning. Naresh Bhardwaj, Edmonton-Ellerslie.

Ms Pastoor: Good morning. Bridget Pastoor, MLA, Lethbridge-East.

Mr. Chase: Good morning. Harry Chase, Calgary-Varsity.

Mr. Hawnt: My name is Tim Hawnt. I'm an ADM with Transportation.

Mr. Hammond: Shaun Hammond. I'm ADM, transportation safety services.

Mr. Boddez: Gary Boddez, Deputy Minister of Transportation.

Mr. Day: Barry Day, Deputy Minister of Infrastructure.

Ms Yiu-Young: Winnie Yiu-Young, senior financial officer.

Mr. Smith: Bob Smith, ADM with the properties division, Infrastructure.

Ms Staples: Jane Staples, office of the Auditor General.

Mr. Wylie: Doug Wylie, Assistant Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

Mr. Doerksen: Arno Doerksen, MLA, Strathmore-Brooks.

Mr. Drysdale: Wayne Drysdale, MLA, Grande Prairie-Wapiti.

Mr. Denis: Jonathan Denis, MLA, Calgary-Egmont.

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

Ms Woo-Paw: Good morning. Teresa Woo-Paw, Calgary-Mackay.

Mr. Sandhu: Good morning. Peter Sandhu, Edmonton-Manning.

Ms Rempel: Jody Rempel, committee clerk, Legislative Assembly Office.

The Chair: Hugh MacDonald, Edmonton-Gold Bar.

On item 2 on the agenda that was circulated, I would like to note as per Mr. Mason's motion at the previous meeting that the Auditor General is prepared to give a brief presentation under other business. Committee members may wish to know this before we approve the agenda because the list that the Auditor General was requested to provide was circulated to all members earlier. If I could have, please, a motion to approve the agenda. Mr. Drysdale. Thank you. Moved by Mr. Drysdale that the agenda for the March 4, 2009, meeting be approved as distributed. All in favour? Seeing none opposed, thank you.

May I also have approval of the minutes, please, that were circulated? Ms Woo-Paw. Moved by Teresa Woo-Paw that the minutes for the February 18, 2009, Standing Committee on Public Accounts meeting be approved as distributed. All in favour? Thank you very much.

Of course, this gets us to item 4 on our agenda, the meetings with the officials from both Alberta Transportation and Alberta Infrastructure. We are dealing today with the Auditor General's reports from April and October of 2008; the annual report of the government of the Alberta, which includes the consolidated financial statements of the government of Alberta annual report 2007-08; Measuring Up, the progress report on the government of Alberta business plan; and the Infrastructure and Transportation annual report for 2007-08. I would remind everyone again of the briefing material that was provided by the capable LAO research staff.

At this point I would like to invite both or either Mr. Day, of course, from Infrastructure or Mr. Boddez from Transportation to make a brief opening statement on behalf of their departments. Please keep it concise because we're dealing with two departments, and we have limited time, unfortunately. If you could keep it to less than 10 minutes, we would be very grateful.

Thank you.

Mr. Boddez: Okay. I'll start off, perhaps. On behalf of the ministers of Infrastructure and of Transportation Barry and I thank you for the opportunity to highlight achievements of the former ministry of infrastructure and transportation in 2007-08. Our copresentation will include financial results, and I will briefly address the combined ministries' finances, but my focus will be on Transportation. We will also respond to the Auditor General's report regarding the combined ministry. I'll briefly recap Transportation-related highlights in support of the ministry's core businesses and goals. This will include the ministry's three mandates, all of which report to Transportation. Barry will then speak to the Infrastructure side.

Our first mandate in Transportation was to expand Alberta's highway system to address growth pressures. This fit well with our efforts to support core business 2, safe, accessible, and connected communities. Our goal was to provide a safe, secure, and reliable provincial transportation network. We invested more than $320 million to build and enhance provincial highways, which supported Alberta's economy as well as helped manage growth. We also invested about $516 million in highway rehabilitation and maintenance and provided $591 million for strategic economic corridor investment initiatives. This included the Edmonton and Calgary ring roads and the north-south trade corridor.

In October 2007 we completed the southeast portion of the Anthony Henday Drive in Edmonton. This was Alberta's first P3 highway project. We also announced that the province was moving ahead with construction of the north leg of the Edmonton ring road as a P3 project. In Calgary we continued to make progress on the Stoney Trail northeast ring road. In the Fort McMurray area we began twinning the first section of highway 63 south of Fort McMurray and continued twinning north of the city. We also began construction on the approaches to the new five-lane bridge across the Athabasca River in Fort McMurray.

Our second mandate was to implement the traffic safety plan to enhance provincial traffic safety. In implementing the plan, we met another goal of core business 2, the delivery of safety-focused transportation education and enforcement programs. We continued to put significant funding into vehicle and driver safety programs, monitoring of the commercial carrier industry, and other safety initiatives. We worked to harmonize motor carrier regulations with regulations across Canada. We also began using thermal imaging technology to enhance safety inspections of commercial vehicles.

Under core business 3, which is strong stakeholder partnerships, our goal was to provide support for local infrastructure. We continued to help develop regional and municipal water/waste-water systems through funding under the water for life program. We provided more than $1.3 billion in grants to municipalities to help fund priority infrastructure projects.

Finally, our third mandate was to develop a new provincial aviation strategy to ensure the viability of small airports in Alberta. We produced the small airports strategy for consideration by government policy committees.

I will now provide a few specifics on spending in the 2008 fiscal year for the combined ministry. Our spending was within the approved budget. Of the $3 billion spent in the combined expense and equipment/inventory purchase vote, $2.1 billion was spent on programs under Transportation. Of that $2.1 billion, $274 million was spent on noncash items such as amortization; purchase of salt, sand, and gravel; and nominal sum disposals. The remaining $1.8 billion was spent for program delivery.

Of this total, approximately $1.3 billion was provided to municipalities through a number of grant funding programs to meet transportation and water/waste-water infrastructure needs, $381 million was spent on provincial highway rehabilitation and highway maintenance, and $36 million went toward transportation safety.

Of the $1.3 billion spent in capital investment in the combined capital investment vote, $1.1 billion was spent on programs under Transportation. This included approximately $591 million for the strategic economic corridor investment initiative, which included the Edmonton and Calgary ring roads and the north-south trade corridor; $320 million on provincial highway construction, which included projects such as passing lanes for highway 3, twinning of highway 272 south of Sexsmith, and widening of highway 54.

One hundred and thirty-five million was spent on provincial highway rehabilitation, another $35 million on government-owned water management infrastructure such as dams, canals, and spillways, $190 million for work completed by the private sector on Anthony Henday Drive southeast in Edmonton and the Stoney Trail northeast project in Calgary.

8:40

Finally, approximately $343 million was unexpended under the capital investment vote for the combined ministry. Of this amount, $156 million relates to Transportation, primarily due to project delays under the provincial highway and strategic economic corridor investment initiative programs. These funds are required for approved projects and were included in our 2008 budget.

I'll now turn it over to Barry and ask him to speak to the Ministry of Infrastructure's achievements in 2007.

Mr. Day: Thanks, Gary. Good morning, everyone. I'd like to now briefly highlight Infrastructure's activities and achievements in support of our key areas of responsibility for fiscal 2007-08. To support the delivery of sustainable provincial infrastructure, which was our core business 1, our goal was to provide safe and efficient infrastructure for individuals and communities. In conjunction with partners Infrastructure continued to oversee the design and construction of the new Calgary Courts Centre, which opened in September 2007. That facility was designed to meet LEED silver certification and has met the BOMA BESt or Go Green environmental standards on the operations of the building. We also started work on phase 2 of the Calgary Courts Centre by demolishing the old Court of Queen's Bench building and began construction of the 700-stall underground parking garage. We also started site preparation work on the new remand centre in Edmonton.

In support of core business 3, strong stakeholder partnerships, one of our goals was to provide technical expertise, project management, and support, and during the '07-08 fiscal year we provided technical, project costing, and project management expertise on a number of what we refer to as supported infrastructure projects, including 40 postsecondary projects, 50 health facilities, and 147 school projects. As an example, we provided technical support for phase 1 of the Alberta schools alternative procurement, or ASAP, project, which will build 18 new K to 9 schools, nine each in Edmonton and Calgary, by September 2010.

ASAP phase 1 included six different core designs for K to 9 schools that the ministry developed in conjunction with Alberta Education and school boards. The core school design reduces capital costs and provides enhanced flexibility to meet fluctuating enrolments. Core school designs are used in conjunction with steel-frame modular classrooms that can be added or removed to meet the changing enrolments. We also completed preliminary planning, site selection, and core school designs for phase 2 of the ASAP project. We started work with the Capital health region and the University of Alberta on the Edmonton Clinic, which is a joint project for the two boards.

Furthering goal 3, Infrastructure provided facility support for all ministries through management, maintenance, and operation of government-owned and leased buildings, land planning, land acquisition, and leasing services. This included the sale of surplus government properties and planning and project management services for government-owned facilities.

As Gary indicated, our combined '07-08 spending was within budget. Of the $3 billion spent on expense and inventory about $900 million was spent on programs within the Ministry of Infrastructure. Of this, $83.8 million was spent on noncash items. The remaining $800 million was spent on program delivery, including $125 million on leases; $179 million on day-to-day operation, maintenance, and security of about 1,800 government-owned buildings; $36 million on the Swan Hills Treatment Centre; $29 million for professional services for developing and implementing accommodation and program facility plans; and, finally, $19 million on government-owned facilities.

The capital investment side: $1.3 billion total. About $150 million was spent on infrastructure programs, including $62 million to facilitate the delivery of government initiatives; $66 million on capital and accommodation projects, including the remand centre and the Calgary Court Centre; and about $10 million on maintenance work for government-owned buildings. Finally, about $187 million was unspent on the capital side due to slower than anticipated project progress.

Mr. Chair, I'm aware of the time. I'd like to make one final comment on the Auditor General's report.

The Chair: Mr. Day, that's well over our allocation of time. I sincerely hope your budget is much more concise in your department than your adherence to our time limitations.

Mr. Dunn, please.

Mr. Dunn: Doug Wylie, please.

Mr. Wylie: Mr. Chairman, our chapters on the ministry of infrastructure and transportation are on pages 149 through 161 of our April 2008 report, and on page 321 of our October 2008 report.

In our April 2008 report we reported the results of our audit of the Department of Transportation's systems used to identify and manage conflicts of interest for contracted IT professionals. The matter which we investigated related to the TIMS project. We recommended that the department improve its systems for identifying and managing apparent conflicts of interest for IT professionals and that it ensure that there are adequate conflict-of-interest provisions with accompanying disclosure requirements in its contracts with IT professionals.

In our October 2008 report we reported that we found one exception when we completed specified auditing procedures on the ministry's performance measures. The exception related to the performance measure of physical condition of learning facilities: schools in good, fair, or poor condition. That's also included on page 19 of the 2007 ministry annual report. Mr. Chairman, the exception results from our inability to confirm that the results presented were reliable because we were unable to verify changes made by the ministry staff to external consultants' reports used to prepare the measure.

On page 387 of our October report is a listing of all outstanding recommendations that relate to the Ministry of Transportation's programs and systems. In 2002-2003 we made two recommendations: to improve the monitoring of vehicle inspection programs and the licensing of vehicle inspection facilities and technicians. We are planning to report our follow-up of these recommendations in April 2010. We will also report in 2010 on the ministry's progress implementing our recommendations to improve the monitoring of transportation grants and the contracting for IT professionals.

Mr. Chairman, those are opening comments. We'd be pleased to answer any questions of the committee.

The Chair: Thank you very much.

The chair would like to welcome Mr. Mason this morning.

We will start quickly with questions. Mr. Chase, please, followed by Mr. Sandhu.

Mr. Chase: Thank you. Given that P3 projects have a 30- to 32-year contract lifespan without fixed interest rates factored in, how are you able to accurately construct a traditionally funded comparator model to determine that P3s were, in fact, cheaper or more risk free?

Mr. Hawnt: Yeah. We construct two different kinds of models. We do an estimate based on traditional delivery, and we do a further estimate, which we call a shadow bid, which is a bid based on market factors, to compare the P3 bid. I think your question was: how can we compare a traditional bid against a P3 bid? In terms of maintenance costs that's the difficulty going forward, forecasting maintenance costs over that lifespan. We have clauses in our contract to which the reimbursement to contractors are varied. We will use that same formula when we do our own cost calculations for maintenance. We know pretty well when rehabilitation needs to be done, so we know when to plug those in. Based on our past history, we're able to estimate the capital construction of the work, so that's fairly straightforward. We know pretty much what the economic models are that the contractors are going to be using, so when we do our shadow bid, when we try and bid it as a P3 proponent would bid it, we use more or less the same factors as they do. We have consultants from the banking industry and from international finance corporations working with us when we do these bids.

8:50

The Chair: Thank you.

Mr. Boddez, do you have something to add?

Mr. Boddez: I would also like to add that the P3 proponent bears the risk of any increases in interest rates. The calculations are done using the interest rates of the day, and the successful bidder bears any risk for increases in interest rates over the life of the project.

The Chair: Thank you.

Mr. Chase: My supplementary. Given that P3s were costed out and contracted at the height of the inflationary boom, what guarantees, assurances, checks, and balances can you provide to Alberta taxpayers that we won't be on the hook for considerably higher cost if the P3 financing fails?

Mr. Boddez: I guess I would just go back to what I had supplemented to Mr. Hawnt's answer, that the contractor, the successful bidder for the P3 project, bears those risks. That's built into the equation. They do their calculations and decide if the project is viable for them, realizing that down the road they will have to bear those costs if interest rates change.

Mr. Chase: Thank you.

The Chair: Thank you.

Mr. Sandhu, please.

Mr. Sandhu: Good morning. My question to Transportation on the water for life strategy: what was provided to the municipalities for their water supply and water treatment and waste-water treatment and disposal facilities?

Mr. Boddez: Funding was provided under the water for life program, and there are two components to that program. The first is the Alberta municipal water/waste-water partnership, which is an ongoing program providing cost-shared funding to eligible municipalities to assist in the construction of municipal water supply treatment and waste-water treatment and disposal facilities. Under the partnership program project-specific grants are given to municipalities with populations under 45,000 to assist in the construction of high-priority municipal water supply treatment and waste-water treatment and disposal projects.

The second component of the program is the water for life strategy. This strategy was developed by the Alberta government in 2003. Alberta Transportation provided additional funding for regional projects where more than one municipality or location share a water or waste-water treatment facility and are linked by pipelines. Ninety per cent of the funding is available for regional pipelines, and enhanced funding is also available for regional treatment facilities. The intent is to get regions to come together as much as possible to get economies of scale from larger projects.

Mr. Sandhu: Thank you.

Can I ask another one?

The Chair: Yes, please.

Mr. Sandhu: Another one for Infrastructure: what is the status of the new Edmonton Remand Centre?

Mr. Day: The Edmonton Remand Centre is currently under construction. I think the completion date is still scheduled for 2011, so it's on schedule, and it's on budget.

Mr. Sandhu: Ah, so . . .

The Chair: Quickly then, please.

Mr. Sandhu: Okay. What will happen to the old remand centre?

Mr. Day: The final decision hasn't been made on the existing remand centre. As we approach the opening of the new facility, a decision will be made.

The Chair: Thank you.
Ms Pastoor, please, followed by Mr. Quest.

Ms Pastoor: Thank you very much, Mr. Chair. I'm wondering if there have been any studies to determine the viability and the importance of the twinning of highway 3, which is a major trade corridor, in preparation for the increased traffic as a result of TILMA.

Mr. Boddez: Work, obviously, has been done on highway 3. There were a number of passing lanes put in to address traffic safety, which is, of course, one of our key initiatives in the department. A functional study is under way to look at exactly what you are raising, the eventual twinning of highway 3.

Ms Pastoor: The word "eventual": is there any time frame on getting this done?

Mr. Boddez: If you would promise me the resources that we need to do it, I could give you a timeline. It's certainly something that, as with any other construction project, we'll have to compete for from the available resources that are there in the budget.

Ms Pastoor: Thanks for the challenge. I may take it up.

The Chair: Thank you.
Mr. Quest, please, followed by Mr. Mason.

Mr. Quest: Thank you, Mr. Chair. Looking at page 68 of the annual report, note 6, inventories for salt, sand, and gravel, it looks like about a 40 per cent increase in inventories from '07 to '08. I'm just wondering, I guess, what happened. Why are we carrying so much more inventory in '08 than in '07?

Ms Yiu-Young: The sand, salt, and gravel primarily are required – the increases reflect the increases in the budget that we've had in that year for highway construction projects. That corresponds to the amount of funding that we have for highway construction.

Mr. Quest: Will this have to be my supplemental, Mr. Chair?

The Chair: Go ahead.

Mr. Quest: Okay.
Just to continue that, the salt and the sand that we use for winter conditions and the gravel for road construction are all in the same inventory?

Ms Yiu-Young: The salt would be for the highway maintenance portion. Then it depends on the mixture that is used by the maintenance contractors.

Mr. Hawnt: Yes. We mix salt with the sand to spread on the highways. The gravel is not gravel for highway construction. It's gravel for regravelling gravel highways. We have 5,000 kilometres of gravel highways. That's what that is to cover.

Mr. Quest: Okay. Just as a supplemental, then: whose responsibility is it to order this salt and sand and so on? I'm just curious. Is that made by individual foremen? Who determines the orders and the amounts?

Mr. Hawnt: Essentially what happens is that at the beginning of each year we establish budgets and requirements. The actual ordering is done by our contractors because we're an outsourced operation when it comes to maintenance. Our field staff issue work orders, and contractors themselves do the ordering. Some deliver it by truck; some deliver it by train.

Mr. Quest: All right.

The Chair: Mr. Mason, please, followed by Mr. Fawcett.

Mr. Mason: Thanks very much, Mr. Chairman. Thanks very much for attending. My question has to do with P3s. One of the concerns which I have has to do with the business confidential blanket that gets put over P3s that doesn't allow us as the opposition or the public to see how the costs are spread within a project and just generally makes the whole thing opaque. I know that the argument is that this has to be confidential because the people have bid on it. My question is whether or not it's possible to structure it in a way in which key information is available to the public, and the people making bids know that up front. I'm really wondering if there are other jurisdictions that maybe do it a little bit differently so that there's more transparency.

Mr. Boddez: I'm not completely certain what type of key information you're looking for. The process that has been followed is that the project is of course defined engineeringwise by the department, and a package is put together which is then made available to proponents who may wish to bid on it. So if you're talking about the pre-engineering, the actual detailed engineering of the project . . .

Mr. Mason: The contract, I think, really.

Mr. Boddez: The contract itself, you mean? After the contract has been awarded is what you're getting at?

Mr. Mason: Yeah.

9:00

Mr. Boddez: Well, the information, I guess, in the contract is – perhaps I'll just ask Barry.

Mr. Day: Sure. I can jump in on this one, Gary. We do release all of the information that we are able to that isn't either proprietary to the proponent or of a commercial nature that would impact a future P3 project. The information that is related to the projects and the information on what information will be released is contained in the request for proposal, request for qualifications documents that are issued to the proponents. So they are aware of what is going to be released and what isn't.

Mr. Mason: Thank you very much.

My supplemental is to the Auditor General. Mr. Auditor General, an increasing proportion of Alberta's assets are either being owned or controlled by private corporations on very long-term arrangements. Do you have any concerns that there's not enough transparency under the current system?

Mr. Dunn: Okay. I'm going to answer the question with a question that I expect both the deputies will be able to answer. After I've finished answering your question, I'd like them to answer: what is the difference between a fixed-cost contract and its transparency and a P3?

In answer to your question, Mr. Mason, no, I'm not concerned about the amount of what you say is lack of transparency. When we looked at the P3 and did our study on that, our main objective was to ensure that there's value for money. As much as some people have quoted me, at least, I personally support P3s when the negotiation, the contracting are done right. It's two elements: (a) you must negotiate, and (b) you must contract appropriately. This is nothing other than a fixed-cost contract with delayed payment terms, but at the end of the day you have both the asset, the highway, and you have your own money. Eventually, over time, you will pay for that contract, but what you do get is a very long warranty period because if it does not meet its engineering requirements, then you may not have to continue your payment.

Can you distinguish between a fixed-cost contract, so not the financing side, and a P3?

Mr. Day: Sure. I'll take a stab at that, Fred. As far as I'm aware, we do issue or publish similar information between a P3 contract and a fixed-cost contract. With a P3 contract we publish the total contract amount brought back to net present dollars, so we're looking at future costs for the 30 years of the maintenance consolidated back to what that costs in today's dollars. So those numbers are available, which is no different from, say, a fixed-cost stipulated price contract for a building or a road project. We don't on the fixed-cost contracts publish the commercial information as well, similar to a P3 contract.

The Chair: Thank you.

Mr. Boddez: Just to jump in on the Auditor's comment, I certainly would agree with what Barry said. One of the other advantages, I think, of the P3 system – and it's been alluded to here with the long-term warranty – is that the successful bidder not only has to construct the asset but has to undertake maintenance of that asset over the life of the contract, which is typically around 30 years, and has to maintain that asset to an agreed-upon set of standards.

So there's no incentive at the construction stage for the winning contractor to cut corners on construction costs or use cheaper materials because it will quite likely affect the amount of maintenance that he has to put into that asset over the life of the contract. The asset is inspected regularly by department staff over the life of the contract, and it must be returned to the department at the end of the contracting period, the 30-year period, in an agreed-upon state of maintenance. So there's no incentive to cut corners at the construction site. Indeed, what we've seen is that they typically go the other way and build additional quality into the actual project itself so that, hopefully, they can reduce their level of maintenance that's required to keep the asset at a viable level.

The Chair: Thank you very much.

Mr. Fawcett, please, followed by Mr. Chase.

Mr. Fawcett: Thank you, Mr. Chair. On page 21 of the annual report I'm looking at a table that says Expense by Function. I see that for health, the budget estimates compared to the actuals, there's a significant variance there. Can you explain why there is such a significant variance, particularly when the comparable to the previous year's actual is relatively the same as this current year's actual, but the budget was significantly under that value?

Mr. Day: I'm just trying to interpret the chart on page 21. I think that chart relates to government as a whole, so I believe that question would be better directed to the health ministry. I don't think it relates to health capital.

Mr. Fawcett: No. I don't think so. Yeah. "Infrastructure and Transportation classifies its expenses into ten functions," and these are the functions.

Mr. Day: Okay. Sorry. We'll have to provide a written response to that question.

The Chair: Is that satisfactory, Mr. Fawcett? Do you have anything else at this time?

Mr. Fawcett: No.

The Chair: Okay.

If you could, Mr. Day, please, respond in writing through the committee clerk to all members, we would be very grateful.

Mr. Day: We will.

The Chair: Thank you.

Mr. Chase, please, followed by Mr. Denis.

Mr. Chase: Thank you. Given that the average age of Alberta schools is over 40 years and the school deferred infrastructure deficit is rapidly approaching $2 billion, can the ministry provide a breakdown of the physical condition of school facilities that are older than 10 years? Do you have a list, and do you have a costing to bring them up to standard?

Mr. Day: I'm not sure we would have. We could, I think, develop a cut of the report to take into account the schools over 10 years. We do track the condition of all school facilities, and we do a revolving condition assessment on a five-year sort of running basis so that each school in the province is assessed as to its condition once every five years. I'll look into whether we can provide that information on schools that are over 10 years, and if so, we will provide it.

Mr. Chase: Thank you very much. I look forward to receiving that information.

How much funding has been allocated to improve the conditions of schools that were rated as poor?

Mr. Day: That funding is provided through Alberta Education's budget, so I don't have an answer to that question.

Mr. Chase: Would you be able to obtain that information? I'm not sure how Infrastructure and Education overlap.

The Chair: Mr. Chase, we're moving on, please. The deputy minister was clear. We can check that through Alberta Education.
Mr. Denis, please.

Mr. Denis: Thank you very much, Mr. Chair. I first want to thank all of you for appearing before this committee. I'm referring also to page 21, as Mr. Fawcett was, but this time under the line of education. In '06-07 the budget was roughly 4 and a half million dollars; in '07-08 it was less than half to just over $2 million. Can you tell me the reason for that budgetary change?

Mr. Day: I think that line refers to funding that was spent from the ministry of infrastructure and transportation on school facilities. We have a budget within the ministry that allows Infrastructure to fund emergent projects or projects that are outside, I guess, of the normal criteria or anticipated in terms of sort of the normal ongoing maintenance funding for schools. So that funding was probably put towards some of those projects. I don't have the individual projects with me, but we could provide that.

9:10

Mr. Denis: If you could.
Just a quick supplemental. In '07-08 actual, just the middle column there, it indicates that the actual spending was just over $6 million, three times what was budgeted. Do you have a rationale as to why there was such an overrun there?

Mr. Day: This is likely due to more projects than anticipated under that program.

Mr. Denis: Could you provide a written detail of that as well?

Mr. Day: I will endeavour to provide that.

Mr. Denis: Thank you.

The Chair: Thank you very much.
Ms Pastoor, followed by Ms Woo-Paw, please.

Ms Pastoor: Thank you, Mr. Chair. On page 554 of the blue book, March 31, '08, what was the intended purpose of the $5.1 million given to Cathton Ranch Ltd.?
I'll throw my supplemental in at the same time. What criteria were used to determine the amount of funding given to this organization? What was the reason, and how did you figure out how much?

Mr. Smith: The $5 million was for the purchase of land from Cathton Ranch. We buy land on behalf of government ministry program requirements. This was for the department of agriculture to be used for agriculture research. We use appraisals to establish the value of the land.

Ms Pastoor: The research would be like U of A, U of L, U of C?

Mr. Smith: Yes, it would be. In fact, I know they work in collaboration with the U of A on research programs.
Ms Pastoor: Thank you.

The Chair: Thank you
Ms Woo-Paw, please, followed by Mr. Chase.

Ms Woo-Paw: Thank you, Mr. Chair. I would like to know what processes the ministry employs to prioritize new infrastructure projects compared to maintaining old infrastructure.

Mr. Boddez: To prioritize new . . .

Ms Woo-Paw: In comparison to maintaining the old. I think we have a backlog, right? We have a growing number of old infrastructure that we need to maintain. So what process do you utilize to determine, to prioritize?

Mr. Boddez: Well, there are certainly two components to the capital budget. One is the construction of new assets, and as you pointed out, the maintenance of the existing assets is the second component. Systems are in place to look at both of those.
On the Transportation side, for instance, there is a system that we use that measures the condition of roadways, everything from the roughness of the surface to the cracks in the roads, the sloping or the rutting of highways. All that is recorded through physical observation and fed into the system. There is the overall need, of course, to expand the provincial highway network to move people, goods, and services across the province. That's fed into the equation as well. The result is that we end up with a system that produces a list of prioritized projects for new construction.
A similar thing happens on the maintenance side. We know the inventory of our existing assets in the bridges and roads of the province. Their life condition is monitored through regular inspections, from which the data is fed back into the system, again. A typical highway in Alberta is set to last, I believe, somewhere around 18 to 20 years depending on its use, so that age factor is built into the equation as well, and the maintenance side of the system produces its list of priority projects that have to attract funding as well. Then we simply attack them in order of priority with the available budget resources that we have at our disposal.
I'm not sure if Barry would like to comment on the Infrastructure side.

Mr. Day: Thanks, Gary. If I could just supplement. The process is identical for the building side. We track condition through the Ministry of Infrastructure of all government-owned facilities as well as the health, education, and postsecondary facilities. Where the process differs a little bit is that the program ministries are responsible to determine their new requirements, the new capital requirements, and take that forward through the process. But the information on building condition is used to determine the maintenance funding.

Ms Woo-Paw: Supplemental. So are there formal guidelines within the ministry that you use to explain how public infrastructure projects are prioritized, and how does your ministry monitor the compliance of these guidelines? How do you report them and communicate them?

Mr. Day: The guidelines are actually developed by the Treasury Board, who are responsible overall for the capital plan for the province. We in Infrastructure follow the prioritization criteria and guidelines that are developed in conjunction with the Treasury Board ministry.

Ms Woo-Paw: Monitoring and reporting. How do you monitor, and how do you report and communicate?

Mr. Day: Sorry. I don't think that I understand the question.

Ms Woo-Paw: How do you monitor the compliance of those guidelines, and how do you communicate and report them?

Mr. Day: From our perspective we assess projects based on those guidelines. It's not our role to monitor. I believe that would be with the Treasury Board ministry, who is responsible for developing the guidelines. But we do follow them when we assess projects.

Ms Woo-Paw: Thank you.

Mr. Boddez: From the Transportation side it's similar. In fact, one of our performance measures deals with the condition of highways. It's publicly reported; there are targets that are published. Then the actual performance for the fiscal year is measured against those targets, and those results are published.

Ms Woo-Paw: Thank you.

The Chair: Thank you.
Mr. Mason is back with us, and his name was on the list. Mr. Mason will be followed by Mr. Bhardwaj.

Mr. Mason: Thank you very much, Mr. Chairman. I wanted to ask a little bit more about P3s, and I think I want to put the questions to the Auditor General. When I look at research in P3s, I find a very mixed record. I'm also aware of the major costs that go into these projects. One of them is the cost of financing, and government can borrow money at a lower rate. Then, of course, there's the profit factor that has to be built into any bid. Given those things it doesn't make sense to me, just in a conceptual way, that P3s could save money as long as the government was doing a good job through conventional financing methods. Can you explain what it is about P3s that gives the public an advantage over conventional financing?

Mr. Dunn: Okay. I've tried this explanation a number of times, so I'll try it again. In the P3 we've got the design and the build. I think everybody agrees that the design and the build are the same whether you have a fixed-cost contract and you contract it out and you get the asset that you've contracted for a build, whether it be a road or a building. So the design and the build will have the very same components in a P3 as a fixed-cost contract, typical contracting.

To your point about the private sector's profit, it's in the construction right there. What you're trying in the P3 is to transfer some of the risk to the contractor regarding the eventual total life of that asset. No ifs, ands, or doubts, financing by the province of Alberta is at a lower rate than what the private sector can get. Financing is at a lower rate. The province could borrow. But what you have to compare it to is the risk that you may not get the same efficiency in the design/build side, the construction side, which is the large side. You'll get more efficiencies leveraging the private sector's economies and knowledge. We get more efficiencies there, which may offset the minor amount of financing difference.

When you go to what the deputies were talking about, the final side of it is what's known as O and M, or the operational and the maintenance, and where Ms Woo-Paw was going around to, what some people know as the infrastructure deficit or deferred maintenance. By attaching all that responsibility to the contractor, you ensure that your design/build is efficient, value for money, and that you also get a fixed obligation for them to maintain over the whole life of the asset.

9:20

Let me just address financing for a moment. Many other jurisdictions use P3s, and they use P3s because they have no alternative. They do not have assets available in order to just contract, so they either have direct borrowing from the public at large through a bond issue and then finance the asset. Alberta has a choice because Alberta has financial assets in excess of its needs, and we have them invested in various funds.

You should look not just at the comparison between Alberta's ability to borrow versus the private sector's ability to borrow but also look at what Alberta can do with its investments. If you are able to derive an investment yield greater than the cost of borrowing, why would you not hold onto your money and invest it, obtain the asset maintained over its whole life with little risk, and have the difference between the cost of the financing within the contract and your investment yield? Remember that you have both your money and the asset.

In a typical contracting you give up your money. You pay for it as it's built, and you end up with the asset. In a P3, because of the delayed payment, you have the asset and your money invested, and you pay for it over time. You eventually still pay the principal, but you have the opportunity of also obtaining the difference in the investment yield of investing your funds then the interest which is in the fixed obligation.

Some of you will be aware that in today's recessionary period it's difficult to get long-term financing. What is happening in the P3 world is that your 30 years is being unbundled, split into two: the construction phase plus the warranty phase. I'll call it five-year financing and 25-year long term. If you look at what Alberta is investing in and you look at those notes to the financial statements, you'll see that Alberta has a lot of what's called infrastructure instruments. Alberta is investing in those obligations. The amount of the exposure for the difference in financing is very, very small.

If I haven't made it too long, too complicated.

Mr. Mason: No. I appreciate that.

Mr. Dunn: Maybe one of the deputies would like to also supplement.

Mr. Mason: No. I'm actually interested, Mr. Auditor General, in your take on this.

The question of risk over the long term. Would it not be the case that a company who is assuming the risk for the government, for the taxpayer, on a project over a period of, say, 30 years, would build costs into their bid in order to compensate themselves for that risk? I mean, obviously, the more risk they take on, the more they're going to add to the budget to compensate themselves for that risk. So how are you transferring the risk, ultimately, if they're charging you for it?

Mr. Dunn: Well, that's what you want to do in the transfer. They have that risk and obligation for the life of the asset or the initial 30 years of the asset. That's why I said that in P3s there are two components: (a) negotiation and (b) properly documenting and contracting the thing. The government has to negotiate it appropriately. They have to negotiate such that they realize at the end of the day that what they haven't fixed themselves is an obligation for that operation and maintenance that is greater than what it would have been if they had just been the owner. That calls for proper stewardship and proper knowledge in order to ensure that by fixing that risk transfer, I do not pay in excess of what I would have otherwise paid because I could just simply go to a design/build.

The Chair: Thank you.
Mr. Bhardwaj, please, followed by Mr. Chase.

Mr. Bhardwaj: Thank you very much, Mr. Chairman. P3s are a hot topic today. I'll ask my question on P3s as well. In terms of the schools, could you give us an update on the status of P3 schools, please?

Mr. Day: Sure. The first package that I mentioned in my introductory comments, the 18 schools, nine each in Edmonton and Calgary: we've got a contract signed and in place with a proponent. All 18 schools are well under construction. The project is on schedule. The schools will be opened in September 2010.

The second phase, what we call ASAP 2, which includes 14 schools in Edmonton and surrounding area and Calgary and surrounding area: we're currently in the planning stages, and we plan to issue the request for qualifications within the next short while.

Mr. Bhardwaj: Thank you. Can I ask a supplement?

The Chair: Yes.

Mr. Bhardwaj: I think that part of my supplement has been answered by the Auditor General, but I'll ask the deputies: what value was really derived from a conventional to a P3 in terms of the competitive analysis?

Mr. Day: I'll speak to the school project. For the 18 schools the low bid, if I could characterize it that way, came in at $118 million below our public-sector comparator. So we believe that we're getting excellent value on the schools project.

Mr. Bhardwaj: Okay. Thank you.

The Chair: Thank you.

Mr. Chase, followed by Mr. Dallas.

Mr. Chase: Thank you. Will the ministry provide an estimate on the infrastructure deficit in Alberta for the 2007-2008 fiscal year?

Mr. Day: I believe that with all of the building infrastructure those results as we have them are published on our website in terms of the individual programs. I don't know that we have a roll-up – Winnie, are you aware if that's published? If it is published, again, it would be an aggregate number through the Treasury Board within the capital plan.

Mr. Chase: Hopefully the figure exists, and if you can find it, I'd be most appreciative. Obviously, I'm talking about buildings and roads, a cumulative file, but it would be nice to have it listed so that we could see where the greatest deficits and priorities of the government are.

This question you have partially answered, but I'm asking: why does the ministry not make this information public? Why is it so hard to find?

Mr. Day: As I indicated, the information that we do have on the building infrastructure is on our website. You can actually access the individual condition assessment reports for schools and health facilities, government-owned buildings, as we have them and as we're compiling them. I'm not sure that it's that difficult to obtain. Because we're on a rolling five-year program, we may not have sort of up-to-date information on all buildings, but what we do have is on our website.

Mr. Chase: Thank you.

The Chair: Mr. Dallas, please, followed by Ms Pastoor.

Mr. Dallas: Thanks, Mr. Chairman. I'm looking at note 12 in the financial report, which is on pages 73 and 74, with respect to the Swan Hills treatment plant. I'm noting that the net operating costs for the plant increased by about 50 per cent between 2007 and 2008. I'm wondering if you could comment with respect to whether the throughput at the plant was increased by a similar margin.

As a supplement at the same time: what type of operational efficiency review has taken place or is planned in the immediate future to address those issues?

Mr. Day: Bob, do you want to take that one?

Mr. Smith: You're looking at note 12 at the bottom of page 73?

Mr. Dallas: And 74. The financials with respect to that.

Mr. Smith: Okay. Just with respect to the note at the bottom of page 73, that's dealing with the eventual cost of remediating the plant at such point in time as there's a decision made to close it. We have done an assessment of the Swan Hills plant. We are in the process of moving it through the government's decision-making process in terms of reviewing that assessment. What this note specifically deals with is that we have updated the cost of remediation that was done in 2002, valued at that time at about 37 and a half million dollars, for eventual demolition of the plant in 2018. That update is now $62.14 million and simply reflects increased costs of the remediation following, I guess, about six or seven years since it was last done.

9:30

Mr. Dallas: If I could interrupt, and I'll try to be a bit clearer, Mr. Chairman, and quick. If you look on page 74, there's a summary of revenue and expenses. I'm looking at the summary that is detailed as net operating results from plant operations and noting that that net cost of operating was about $15 million in '07 and about 22 and a half million dollars in '08. That's the nub of the question I have. Why so much different, and what are we doing to change that?

Mr. Smith: Okay. There are a couple of issues associated with that. Just in terms of the plant expenses, they've increased about $6 million. Three and a half million dollars, in fact, refers back in part to the explanation I was making a minute ago. We have increased our annual provision for remediation from about $625,000 to just over $4.1 million, so that's a significant component. That commenced in 2007-08 as a result of the assessment we were just talking about. We had a significant one-time expense in terms of replacing the refractory brick on the main kiln, and it was close to $2 million, if I remember correctly. Those two by themselves account in large part for the difference in plant expenses.

I'm just looking for a revenue picture. Well, yeah, our revenue dropped about $1.7 million as well.

Mr. Dallas: So as a result of the maintenance, there was less throughput; therefore, less revenue then?

Mr. Smith: There was less revenue. Basically, there was less revenue because there was less throughput. You're correct. The most significant revenue for the plant comes from the destruction of PCB materials. If there are lesser amounts of PCB going through, there's a lesser revenue because the other materials that are going through the plant are in fact charged out at a lesser rate.

Mr. Dallas: Thank you.

The Chair: Ms Pastoor, followed by Mr. Sandhu, please.

Ms Pastoor: Thank you. I had two questions here, but I think I'm going to stick with the P3 stuff. I'm not sure whether this should go to the Auditor General, so I'll throw it out there. What happens if the original contractor over these 30 years goes out of business or, in fact, then bundles their contract, which seems to be something that goes on in the world today, and sells it to other companies?

Mr. Day: That is a possibility.

Ms Pastoor: How do you protect against it?

Mr. Day: At the end of the day we still have a contract, a signed agreement.

Ms Pastoor: With whom?

Mr. Day: With either the proponent whom we originally signed with, or if that proponent sells their contract, as you suggest, to another financial consortium or another proponent, the contract is still in place, and they have to deliver on all of the terms of the contract.

Ms Pastoor: What happens if they've gone out of business and exist no longer?

Mr. Day: There is provision in the contract. I'm not sure that it's exactly a bond, per se, but there is provision that the contract terms will be fulfilled. So there's a guarantee on the contract, like a performance bond on another contract.

Ms Pastoor: That to me sounds like blood out of stone.

Mr. Dunn: May I just supplement? Not just going out of business, but organizations can amalgamate and merge. This comes back to: you've got to remember that you still have your money, so your biggest risk is during the construction period. That's where you normally get your performance bond: will the contractor be able to build the asset? Once the asset is built, then normally you start your payment terms thereafter. There is a small warranty period, but normally you start your payment terms thereafter. That's when you're starting to pay down those instalments, but you've got your asset. If they were to go out of business, you're now into a new negotiation with whoever is the successor, and you will possibly be able to derive even greater value because you'll buy it at a discount.

Ms Pastoor: Okay.

Mr. Dunn: You've got the asset, and you've got their money. So you're in a very good position.

This is why I come back to, actually, the two elements that the government has to be responsible for: (a) the ability to negotiate a good deal up front, and (b) put the proper contract in place such that the contract is either not assigned or, if it is assignable, that all the warranties and all the obligations come back to you. Then you're sitting in, I think, a very desirable position compared to some other organizations or jurisdictions which must use them. Alberta, remember, has a choice. You can either go the traditional design-build, if that gives you your best deal, or P3. You've got the choice. Other jurisdictions don't have the choice.

The Chair: Mr. Boddez, do you have anything to add?

Mr. Boddez: No. That was covered, I think, pretty well by both. The advantage, of course, as the Auditor General has said, is that not only do you have your money in hand, but you've already got a constructed asset. It's simply a matter of how you would negotiate to take over that asset if, indeed, the company that won the P3 walked away from it.

The other thing to note, of course, about these P3s is that there's always an investment arm in there, and they would probably step in long before the construction side went bankrupt and make sure that there was another contractor available to finish it off if the asset hadn't been completed at the point when they were running into trouble. So there are safeguards built in that way as well.

The Chair: Thank you.

Mr. Sandhu, please, followed by Mr. Mason.

Mr. Sandhu: Thank you, Mr. Chair. My question: the last portion of Anthony Henday, from Manning to highway 14, when were you planning to finish?

Mr. Boddez: That would be the northeast portion that you're referring to?

Mr. Sandhu: Yeah, northeast, from Manning to highway 14, across the river.

Mr. Boddez: Yeah, that's the northeast portion.

Is that outside of what we're looking at, the '07-08, Mr. Chairman?

The Chair: We make exceptions for Mr. Sandhu. If you could provide us with an update, we would certainly appreciate it because there are references in the annual report to that project.

Mr. Boddez: Certainly. You're quite right, Mr. Sandhu; that is the next leg in Edmonton that would go. We are still working with the federal government. There will be a new river crossing, of course, a new bridge, that is a component of that program. We still have not secured approvals from the federal government – I believe it's under the navigable waters act or the Fisheries Act or both – to allow us to go forward with that project at this time. But it certainly is, obviously, in the planning function. You can't have a completed ring without that section of the ring being done, so it is certainly in our sights.

Mr. Sandhu: Thank you.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Quest.

Mr. Mason: Thanks very much, Mr. Chairman. I want to follow up with something from the Auditor General which I didn't really understand, which is the concept that you have your money and you have your asset. Now, in my experience, governments traditionally borrow for capital projects. They don't traditionally or usually pay cash up front. A private contractor in a P3 also would very likely borrow the money. So I don't understand the concept that you have your money and your asset when, in fact, you're entering into a debt relationship either with a bank or with a P3 person.

Mr. Dunn: I'm explaining it from Alberta's perspective. I think we all appreciate that Alberta does have net financial assets. Whether you call it the heritage fund, sustainability fund, capital fund, or whatever fund you want it to be called, we have net financial assets. That's why I say Alberta is different. We do have the choice of taking the monies out of one of those pots and putting it into the ground and paying for it and it's all finished. That's your design-build, normal fixed-cost contract situation. You then as the owner have for-gone any future revenue you might have got from the investment of that money because you put it into the ground. You're also obligated for the operations and maintenance – right? – the maintenance of that building.

In this situation you do have the monies available to either pay for it or to remain in investment. That's the difference between Alberta and Nova Scotia or anybody else who doesn't have those net financial assets. They must either borrow in one of two ways: with a bond obligation to a number of people or an obligation to the contractor, the funding being provided by the contractor. If you do not negotiate very effectively, those could become much more expensive. That is right.

9:40

Mr. Mason: That helps me understand. Thank you very much, Mr. Auditor General.

You're really talking about Alberta as a unique case and comparing whether we use our cash from a surplus, for example, to buy the thing as opposed to borrowing it. But what I would like you to do is compare the advantages of our borrowing in the market to pay for these projects and a P3.

Mr. Dunn: Okay. Not to go too long; I thought it was up to the deputies here.

Alberta could borrow lots of money. Indeed, Alberta does borrow through Alberta Capital Finance – okay? – on behalf of municipalities, hospitals. Alberta assists those organizations to borrow, and we can borrow and know what the rate is very efficiently. We could borrow lots and just invest it. You don't have to construct. You're just linking it to a construction program: should Alberta borrow using its very good financial terms and just hold onto the assets and invest? That's the difference . . .

Mr. Mason: Are we not borrowing through a P3 process?

Mr. Dunn: Well, you're fixing an obligation to a P3. Okay. Remember, you're transferring some risk. The O and M you're transferring to them over the lifetime, and in that way you do take on a borrowing obligation. So long as your investment strategy on the other side, in the finance department, yields a greater amount, you haven't incurred anything.

The Chair: Thank you, Mr. Dunn.

We're going to go to Mr. Quest, please, followed by Ms Pastoor.

Mr. Quest: Okay. I've got a question for Tim, I guess. I've got to go back to these sand piles and how we manage them. It's such a substantial increase in the costs. I realize that the cost of gravel and so on went up significantly last year also. We've got these piles of sand that we order based on what our contractors are telling us they're going to need, and then we, I assume, pay them as they turn the wheels and go out and distribute this. How do we manage that inventory? I mean, they can tell us that they want the moon for sand and be out there spreading it all winter longer. What do we have in place that actually controls that, manages that inventory?

Mr. Hawnt: As with all of the work that goes on in our maintenance contract, it's delivered through contractors who respond to work orders generated by our folks. It's our folks that tell the contractors. We do the forecasting for winter and those kinds of things. We forecast the needs. We tell the contractors when they need to have their stuff in the sheds and by when. It's not up to the contractors. The contractors get paid for their materials as they're used on the road, and we have ways of monitoring and paying for that. But in terms of getting ahead of the game, we decide that.

Typically we have to work hard on the contractors to get them to bring the material in because they would like to run on – what do you call it? – a just-in-time delivery thing, but that's fairly high risk when you're dealing with snowstorms. So we have to use fairly significant efforts sometimes to get the contractors to get enough sand and salt in the sheds by the end of August, which is our sort of drop-dead date for it.

So the need is generated by our folks; it's actually purchased through the contractors.

Mr. Quest: Great. Thank you for the clarification.

The Chair: Anything else?

Mr. Quest: No supplemental.

The Chair: Ms Pastoor, please, followed by Mr. Drysdale.

Ms Pastoor: Yes. Thank you, Mr. Chair. I'd like to stick on the highway side of things, kind of following along. I think that I heard probably 20 minutes ago something about roads according to use. I'm wondering if there were past discussions or studies that have gone towards addressing the issue of ever-increasing weights and ever-increasing larger trucks and larger trailers that are pulled behind those trucks and if it would include the discussion around increasing the cost of licensing to help cover the increased maintenance on those highways.

Mr. Boddez: Okay. There's always, of course, a trade-off between what we will call legal weights that are allowed on highways from the industry side versus our side as the owner of the asset. Industry, obviously, would love to have the legal weights increased as much as possible because it's more efficient to run a truck down the highway with a heavier load, but we have to balance that against the wear and tear that happens on the highways from allowing them with these extra weights.

This issue is further complicated because these standards have to be national if not North American because trucks by their very nature tend to cross borders, both national and provincial. There is a committee system in place at the national level through the Canadian Council of Motor Transport Administrators that addresses this whole issue of weights and tries to harmonize both weights and dimensions as well as the different tire configurations that are deemed to be legal so that these trucks can move freely across provinces and also north and south of the border as much as possible.

Ms Pastoor: But does that discussion . . .

The Chair: Ms Pastoor, excuse me. You've already asked two questions. We have an issue with time this morning. We're going to allow Mr. Drysdale, please, to conclude. Then we'll have questions read into the record.

Mr. Drysdale, please proceed.

Mr. Drysdale: Thank you, Mr. Chair. My question is related to page 26 of your report here, on the physical condition of the provincial highways. I know it shows that you've met your targets, but I'm concerned about the last year shown here, our continual decline in the physical condition of our provincial highways. Could you comment on that?

Mr. Boddez: I guess the fact is that we certainly could use more budget resources to put towards highways. I think I alluded to this in a response to Ms Pastoor earlier on. The targets indicate the good, fair, and poor conditions of our highways. We strive to keep them in as good a condition as we can. Under the current system we should be rehabilitating about 1,500 kilometres of existing highways per year to keep them in reasonably good shape. As I mentioned in an earlier answer, the normal life of a highway is somewhere from 18 to 20 years. We try to program that regular maintenance and rehabilitation into highways as much as we can to keep them within our targets that we publish for highway condition. The truth of the matter is that if we had more financial resources, we certainly could direct more to the highway system and try to improve those condition ratings.

Mr. Drysdale: Just a quick supplemental that leads right into it. How much more funding do you think it would take to at least hold our condition or increase?

Mr. Boddez: Well, just to go back again, as I say, we've got about 30,000 kilometres of highways in the province. If you take a 20-year average life, we should be rehabilitating about 1,500 kilometres per year. The year that we are looking at here, I think we rehabilitated something like 800 or 900 kilometres. This is for the year we're looking at with the committee today. There is a substantial gap between what we should be doing to maintain the highway life and what we're able to put in with the resources that we've got.

The Chair: Thank you. There are some members with a desire to have questions responded to in writing from the department. We'll start with Ms Woo-Paw. If you could read your questions into the record, please.

Ms Woo-Paw: I have two. What has your ministry put in place to identify and manage conflicts of interest for contracted IT professionals as identified in the 2008 Auditor General's report?

The percentage of vehicle occupants wearing seat belts is consistently below the national average by about 5 to 8 per cent. I'd like to know: what provisions does your ministry have in place to meet the ministry's goal to improve safety in Alberta?

Thank you.

The Chair: Thank you.

Mr. Quest.

Mr. Quest: Thank you, Mr. Chair. Just back to the opening comments. You had talked about an aviation strategy and a small airports strategy. I have two in my constituency. One is operated by the county of Strathcona, one by the Edmonton airport authority. Would those two airports, for example, work into this overall strategy? It's province-wide regardless who actually manages them? Okay. Is there anything that I could get in writing about the status of that, or is it all just in progress?

9:50

Mr. Boddez: These are written?

The Chair: Yes, please. If you could provide a written response through the clerk to all members, we would be grateful.

Mr. Boddez: We will undertake to do that.

The Chair: Ms Pastoor to conclude.

Ms Pastoor: Yes. Thank you. Very quickly, on page 149 of the Auditor General's April '08 report he identified serious, in my mind, conflicts of interest over IT professionals. Has that been addressed, and if so, how?

The Chair: That concludes this portion of the meeting. On behalf of all members of the Public Accounts Committee we would like to thank both of . . .

Mr. Chase: I thought I was on the list. I had put my hand up after each question.

The Chair: Oh, I apologize. Do you want to read a question into the record?

Mr. Chase: If I may.

The Chair: Quickly, please.

Mr. Chase: Given all the talk about P3s this past year we not only lost two and half billion dollars of the asset value of our heritage trust fund, but the government committed Alberta taxpayers to lucrative private, for-profit long-term P3 contracts at the height of an inflationary period, which I see as a lose-lose deal for Alberta taxpayers. It's extremely important that we get highway 63 twinned for both economic and safety reasons. This is the question. On June 19, 2007, the beginning of construction on the twinning of highway 63 was announced with a scheduled end date of the fall of 2008. What is the reason for the delay in completion? Has the ministry completed an assessment of the final cost of the project and the new anticipated completion date?

Thank you.

The Chair: Thank you.

That concludes this portion of the meeting. Mr. Day and Mr. Boddez, we would like to thank you and your staff for your time and attention this morning and wish you all the best as you separate your departments in this fiscal year.

Thank you.

Mr. Boddez: Thank you very much.

The Chair: You're free to just pick up your stuff and take off.

Mr. Boddez: Thank you, Mr. Chairman. We will take off.

The Chair: Okay. Item 5, other business. The chair would like to apologize to the Auditor General. I thought we were going to have a little bit more time to deal with this presentation this morning. This is, again, as a result of the motion from Mr. Mason and the committee last week.

Without any further time, Mr. Dunn, please proceed.

Mr. Dunn: Okay. Hopefully, people have the material. There are three documents there.

First of all, I just wanted to emphasize that Mr. Mason's question was very valid. The office of the Auditor General reports to two committees: the Standing Committee on Leg. Offices, which hears about our budget and our resources, and we report to this committee through the output of the office. It was a very valid question that was asked of us. In the future you could challenge our office around: what are our plans? What do we plan to bring to you by way of our output?

If you go to the PowerPoint slides, if you've got that, I just want to remind you, on slide 3, that our first and foremost responsibility is on the financial statements of the province, its ministries, departments, and all of its entities. That forms the base of our work. That is our primary responsibility. There are approximately 200 entities, Crown corporations and subsidiaries, that we have to look at annually. That consumes a large chunk of our dollars.

The other output of our work is the recommendations that arise from looking at those financial statements together with what are called systems audits, results in these large publications that come before you. It's those systems audits that are the additional amount of work that we do. That is discretionary, and it's flexible.

In the actual amount of work that we are doing, approximately 25 to 30 per cent of our resources were being spent on systems audits, and 70 per cent of our work was done on financial statement audits. It is shifting now because there are more entities that we have to do those financial statement audits for.

If you're on slide 4, when we did our original planning at the end of October 2008, we had identified a number of follow-up audits that we had to formally look at and produce for you the results of our follow-up. Those related to food safety, reforestation, and drinking water, all of which will be reported in the year 2009, some in April 2009 and one in October 2009, which will be on food safety.

When we did our looking forward for the next 18 months, we tried to lock in a solid plan for 18 months and a provisional plan going out 36 months. When we looked at the next 18 months, starting on slide 5, these were the priority audits that we identified that we would be doing. Those are the education P3s, climate change part 2 – that's the new fund that is set up where there is $15 per tonne for the large emitters going into the fund. We wanted to look at that. ATB has announced that it is spending $160 million developing a new core banking system. We're going to look at that. We also were aware that issues were being raised around the contracting in the Public Affairs Bureau related to one of its previous contractors, Highwood. We had identified that as an item for us to look at.

On slide 6, we also had agreed that we're going to look at the electronic health records. The reason why we wanted to look at the electronic health records was that Alberta has spent a lot of money on the design around electronic health records, and this is an issue which is across the country, the comparability, compatibility of electronic health records in other jurisdictions. We agreed that we would join seven other jurisdictions, looking simultaneously at the design and the implementation of electronic health records in the jurisdictions. We'll report to you in, we believe, October 2009 on Alberta's performance, and then we'll report to you in July 2010 on the performance of the other jurisdictions compared to Alberta. That is a very large undertaking that we're going to look at.

We also had planned to look at commercial vehicle safety, a matter that was recommended many years ago to the departments that were here today on how they inspect commercial vehicles. If you have looked at the performance measures in Transportation, you'll see that there are many more commercial vehicles today in Alberta than there were five or six years ago. How do they handle the inspection to make sure those things are safe on the road?

Those were the priority audits of what we're going to look at in 2009.

Turning to slide 7, when we received the budget estimate of what will be approved, we realized that we will have less resources than what we originally thought we would have. Therefore, we have looked at our mandatory work around financial statements, what we have to complete annually, and what additional resources we'll have left to do the systems audits. We're going to be deferring a number of planned audits, and we will defer these to future years.

Water quantity. We'd always said that we wanted to look at water from two perspectives: quality, which is what we did on drinking water safety, those waterworks that have multiple users, and water quantity, the sufficiency and availability and where it's located. We'll defer that. Workplace health and safety. There are a number of issues around workers' safety on the job and deaths from there. We'll defer that. Network security. We had planned to again look at the whole of the information technology systems in Alberta. We'll be deferring that. We're going to also review other ones that were on our 18-month plan, and we'll determine what amount of resources we have left in order that we will do that.

The schedule attached there, which has a number of colours, was our 18-month plan starting from the time we do the plan at the end of October 2008 going to the end of the fiscal year, March 31, 2010. We have highlighted in there by way of the orange highlighting those that we have considered that we will defer and some we will cancel. It's about a third of the projects. We have repriorized the other ones as to when we will actually be able to complete that work and produce the reports for this committee.

10:00

Mr. Denis: I'd like to move to adjourn, Mr. Chair. It's 10 o'clock.

The Chair: Okay, yes. We will have to continue with this.

Mr. Dunn: Okay. Well, you have the material before you. If anyone has a question to my office, I'm more than happy to reply to those questions.

The Chair: Okay. We really appreciate this, and the chair would like to apologize to the Auditor General for the time restraints this morning.

Mr. Mason: Presumably, Mr. Chair, we'll be able to ask the Auditor General questions on this item at our next meeting.

The Chair: Yes, we can certainly do that, and the Auditor has been very gracious. If we have any questions between now and then, he's never far away, and he's always quick to pick up the phone.

Okay. No other items to discuss under number 5 in the agenda? Seeing none, I would like to thank Mr. Denis. All those in favour of the motion to adjourn? Seeing none opposed . . .

Mr. Mason: I'm opposed.

The Chair: Mr. Mason is opposed, and that's noted.

Thank you very much. I'd remind all members that the date of our next meeting is next week, of course, with Housing and Urban Affairs and Municipal Affairs. Thank you.

[The committee adjourned at 10:01 a.m.]

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