



Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on
Public Accounts

Alberta Gaming and Liquor Commission
Agriculture Financial Services Corporation

Tuesday, October 6, 2009
9 a.m.

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**Legislative Assembly of Alberta
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Second Session**

Standing Committee on Public Accounts

MacDonald, Hugh, Edmonton-Gold Bar (AL), Chair
Quest, Dave, Strathcona (PC), Deputy Chair
Benito, Carl, Edmonton-Mill Woods (PC)
Bhardwaj, Naresh, Edmonton-Ellerslie (PC)
Chase, Harry B., Calgary-Varsity (AL)
Dallas, Cal, Red Deer-South (PC)
Denis, Jonathan, Calgary-Egmont (PC)
Drysdale, Wayne, Grande Prairie-Wapiti (PC)
Fawcett, Kyle, Calgary-North Hill (PC)
Jacobs, Broyce, Cardston-Taber-Warner (PC)
Johnson, Jeff, Athabasca-Redwater (PC)
Kang, Darshan S., Calgary-McCall (AL)
Mason, Brian, Edmonton-Highlands-Norwood (ND)
Olson, Verlyn, QC, Wetaskiwin-Camrose (PC)
Sandhu, Peter, Edmonton-Manning (PC)
Vandermeer, Tony, Edmonton-Beverly-Clareview (PC)
Woo-Paw, Teresa, Calgary-Mackay (PC)

Auditor General's Office Participants

Fred Dunn	Auditor General
Ronda White	Assistant Auditor General
Doug Wylie	Assistant Auditor General
Ram Rajoo	Principal

Support Staff

W.J. David McNeil	Clerk
Louise J. Kamuchik	Clerk Assistant/Director of House Services
Micheline S. Gravel	Clerk of <i>Journals</i> /Table Research
Robert H. Reynolds, QC	Senior Parliamentary Counsel
Shannon Dean	Senior Parliamentary Counsel
Corinne Dacyshyn	Committee Clerk
Erin Norton	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Communications Services
Melanie Friesacher	Communications Consultant
Tracey Sales	Communications Consultant
Philip Massolin	Committee Research Co-ordinator
Stephanie LeBlanc	Legal Research Officer
Diana Staley	Research Officer
Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

Standing Committee on Public Accounts

Participants

Alberta Gaming and Liquor Commission Participants

Muriel Grimble	Executive Director, Gaming Products and Services
Ann Hammond	Executive Director, Corporate Services
Gill Hermanns	Executive Director, Regulatory
Gerry McLennan	Chief Executive Officer
Kent Verlik	Executive Director, Social Responsibility

Agriculture Financial Services Corporation Participants

Rick Bell	Vice-President, Lending
Merle Jacobson	Vice-President, Risk Management
Brad Klak	President and Managing Director
Krish Krishnaswamy	Vice-President, Finance and Corporate Affairs

9:00 a.m.

Tuesday, October 6, 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. I hope you've had a very good summer. Perhaps we can start by quickly going around the table, starting with the hon. Member for Strathcona, and introducing ourselves.

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

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

Mr. Jacobs: Good morning. Broyce Jacobs, Cardston-Taber-Warner.

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

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

Mr. Vandermeer: Good morning. Tony Vandermeer, Edmonton-Beverly-Clareview.

Mr. Olson: Good morning. Verlyn Olson, Wetaskiwin-Camrose.

Dr. Massolin: Hi. Philip Massolin, committee research co-ordinator, Legislative Assembly Office.

Mr. Wylie: Doug Wylie with the office of the Auditor General.

Ms White: Good morning. Ronda White with the office of the Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

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

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

Mr. Benito: Carl Benito, Edmonton-Mill Woods.

Mr. Johnson: Jeff Johnson, Athabasca-Redwater.

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

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

The Chair: Hugh MacDonald, Edmonton-Gold Bar.
Mr. Denis?

Mr. Denis: Yes. I can hear you. Jonathan Denis, Calgary-Egmont.

The Chair: Okay. Thank you, sir.

He's joining us, of course, this morning via teleconference.

Item 2, approval of our agenda. I would like to advise that ministry annual reports and the report of the Auditor General of October 2008 were all released last week, and all members, hopefully, received paper copies. These documents are also linked to the committee's internal website.

Yes?

Mr. Johnson: I was just going to move that we bump item 6 up to 2(a) so that we could have a discussion under Other Business about when and how the Alberta Health Services will appear before us.

Mr. Denis: I'm having a very difficult time hearing. If you could have the clerk turn up the mike, I'd appreciate it.

The Chair: We cannot do that. You're going to have to listen keenly, and I will encourage the members to talk quite loudly. Is that fair enough?

Mr. Denis: I can hear you, Chair. Don't worry.

The Chair: Okay. I can appreciate that.

Mr. Dunn: Mr. Chairman?

The Chair: Yes.

Mr. Dunn: It's the report of the office of the Auditor General of October 2009.

The Chair: Yes, 2009.

Mr. Dunn: And '08, of course, will stand before the committee at all times, but '09 has just been released.

The Chair: Appreciate that.

Mr. Johnson, you would like to move up item 6, other business, before we deal with the matters of the reports and the research that was done by the researchers over the summer?

Mr. Johnson: Agreed. Yeah. That's what I'm asking.

The Chair: Propose a motion, then.

Mr. Johnson: You betcha. I move that the Public Accounts Committee not meet on the afternoon of October 7 as proposed by the subcommittee and that a special meeting of the Public Accounts Committee be held on October 26 from 8:30 till 10 a.m. for the express purpose of reviewing Alberta Health Services.

I'd also move that we call the Hon. Ron Liepert, Minister of Alberta Health and Wellness; Dr. Stephen Duckett, president and CEO of Alberta Health Services; and Mr. Ken Hughes, board chair, Alberta Health Services, to appear before the committee on the morning of October 26 and that our regularly scheduled meeting of October 28 be cancelled in view of the fact that we will be meeting on October 26.

That's my motion.

Mr. Quest: We'll probably have to deal with the agenda being adopted first.

The Chair: I think we should. Yes.

Mr. Johnson: I thought we did that already.

The Chair: No. Would you make that motion, please?

Mr. Johnson: I will make the motion to move item 6 up to 2(a) so we can deal with it.

The Chair: Okay. That's item 6, other business. The hon. Member

for Athabasca-Redwater would like to deal with item 6 first. All those in favour? Opposed? Thank you. Okay. We will deal with item 6.

Now, please again present your motion you would like to see.

Mr. Johnson: I would like to move that the Public Accounts Committee not meet on the afternoon of October 7 but, rather, on October 26 from 8:30 till 10 a.m. to review Alberta Health Services that we call the Minister of Health and Wellness, that we call the president and CEO of Alberta Health Services, and that we call the board chair of Alberta Health Services to appear at that time and in light of that, that we cancel our October 28 meeting.

The Chair: Okay. Thank you. That's the motion. All in favour? Opposed? Okay. Open for discussion.

Mr. Quest: It's passed.

The Chair: No discussion.

Mr. Bhardwaj: You asked for a motion, and we voted. You didn't ask for discussion. You just said, "All in favour," and we all voted. You didn't ask for discussion.

The Chair: All in favour of this motion.

Mr. Bhardwaj: Yeah.

The Chair: But no discussion. "All in favour" of discussing the motion.

If that's your interpretation of that, that's fine. So be it. But the chair would like to say on the record that we worked over the summer to try to facilitate this meeting with Alberta Health Services. Now you have an organization that was to appear before us tomorrow for two hours and a separate meeting with Alberta Health Services on the 28th of October which as a result of this is cancelled. You are dealing with an entity that has had a significant budget deficiency: the year in question, \$342 million.

Instead of having public scrutiny of both the department and Alberta Health Services for three and a half hours before this committee, you have as a result of your motion decided that we will look at their books for 90 minutes, or an hour and a half. Taxpayers may have some issues with this. They may have significant issues with it. But if it's the will of the committee, there is very little I can do other than express my frustration and my disappointment that this has occurred.

The Auditor worked very hard on his report. First off, Alberta Health Services indicated that we needed to wait until after the Auditor reported. The Auditor reported Friday. Our meeting was to be tomorrow. When Alberta Health Services indicated that they cannot come because we haven't had the latest Auditor's report, that no longer applies. The date of October 7 was never in question during the month of August or part of September. Alberta Health Services never indicated through the clerk to the chair or anyone else that this date was problematic, but suddenly it is.

You have cancelled the meeting on Wednesday morning, the 28th, with Alberta Health Services. I don't know how the taxpayers are going to feel about this; the taxpayers can read the Auditor's report as well as anyone else. Instead of meeting with these individuals, these two entities, to discuss their budget – if you read the Auditor's report carefully, you will understand that the budget for Alberta Health Services was never formally voted on by the board. Taxpayers are going to have some issues with this.

If that's the decision the committee made, that's fine. There will be no meeting tomorrow afternoon. There will be no meeting on Wednesday the 28th. I don't know which members are going to be able to attend on the morning of October 26. I already have stuff on my schedule. If that's the decision, the taxpayers certainly are going to have, I think, questions for you all.

Thank you very much.

We will move on now.

Mr. Quest: I'd ask the chair if I can just be on the record.

The Chair: Yes.

Mr. Quest: I would just like to reiterate that I think the taxpayer is going to be well served. There will be a good, 90-minute, intense question-and-answer session with both of these groups. I think the taxpayer will be well served.

What we've done here is a simple date change. There have been no refusals or cancellations. There has been a date change for when the meeting would take place, and a good productive meeting will take place on the 26th.

9:10

The Chair: Well, again, Mr. Quest, we are going from an examination of the books of both Alberta Health Services and the department, which, everyone complains, consume up to one-third of the provincial budget. We are looking at their expenditures for the past year, 2008-09, for 90 minutes, or an hour and a half, instead of three and a half hours. So taxpayers are not well served. This is a group that has had a lot of problems, as is outlined not only by the Auditor General but by the fact that they keep coming back and getting more and more money. It seems to me that this committee is not interested in trying to find out why.

Mr. Quest: I think we're all very interested. That's why we're bringing them in here all together on the 26th. Okay.

The Chair: Okay. You might be chairing the meeting because I have scheduled arrangements made that are going to be difficult to change.

Mr. Quest: Okay.

The Chair: Okay. So that's going to lighten our load considerably this morning.

Now, this brings us to item 3, if no members want to change that, and that's our meeting with the Auditor General and the committee research staff. The rest of this hour is to be an internal briefing from our Auditor General and the research co-ordinator.

I would like to call for a motion to now move in camera. It's been the tradition of this committee that we move in camera for this portion. Mr. Drysdale moved that the meeting be moved in camera. Thank you.

I would ask *Hansard* staff and any members of the public, please, if you don't mind, to now leave the room. Members will need to operate their own microphones so that Mr. Denis can follow the discussion.

[The committee met in camera from 9:12 a.m. to 9:48 a.m. and reconvened at 10 a.m.]

The Chair: Good morning. I would like to call this portion of our meeting to order, please, and welcome officials from the Alberta Gaming and Liquor Commission. Thank you for making the time to

meet with us today. We appreciate it. Other entities that we have called before the committee for these fall meetings have refused to come on the requested dates, so we really appreciate your time, Mr. McLennan.

Please note that you do not need to touch the microphones. Our *Hansard* staff will turn them on and off for you. Also, members, please do not leave your BlackBerry on the table as they interfere with the *Hansard* equipment. I would also like to advise that legislative committee meetings are now being audiostreamed for listening on the Internet.

Before we proceed with your presentation, we will invite everyone around the table to quickly introduce themselves for the record.

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

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

Mr. Jacobs: Good morning. Broyce Jacobs, MLA, Cardston-Taber-Warner.

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

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

Mr. Vandermeer: Good morning. Tony Vandermeer, Edmonton-Beverly-Clareview.

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

Mr. Kang: Good morning, everyone. Darshan Kang, MLA, Calgary-McCall.

Mr. Chase: Good morning from Harry Chase, Calgary-Varsity, and on behalf of Laurie Blakeman welcome to her Edmonton-Centre constituency. She usually adds "beautiful."

Mr. Benito: Greetings from Edmonton-Mill Woods. Carl Benito.

Mr. Verlik: Good morning. Kent Verlik, Alberta Gaming and Liquor Commission.

Mr. McLennan: Gerry McLennan, CEO, Alberta Gaming and Liquor Commission.

Ms Hammond: Ann Hammond, Alberta Gaming and Liquor Commission.

Ms Grimble: Muriel Grimble, Alberta Gaming and Liquor Commission.

Mr. Hermanns: Gill Hermanns, Alberta Gaming and Liquor Commission.

Mr. Wylie: Doug Wylie, with the office of the Auditor General.

Mr. Rajoo: Ram Rajoo, Alberta Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

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

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

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

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

Mr. Johnson: Jeff Johnson, Athabasca-Redwater.

Mr. Olson: Good morning. Verlyn Olson, Wetaskiwin-Camrose.

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

The Chair: Hugh MacDonald, Edmonton-Gold Bar. I would like to advise everyone that Jonathan Denis, the hon. Member for Calgary-Egmont, is with us via teleconference.

Mr. Denis: Thank you for that glowing introduction, Mr. Chair.

The Chair: Oh, you're quite welcome.

I understand that you have a short PowerPoint presentation, Mr. McLennan, and following your presentation we'll have comments from the Auditor General, if he has any, regarding his reports. Please proceed.

Alberta Gaming and Liquor Commission

Mr. McLennan: Great. Thank you, Chair. We have a PowerPoint presentation that's on the screen just behind the chair.

Good morning, everyone. As I mentioned, I'm Gerry McLennan. I've been with the Alberta Gaming and Liquor Commission for 25 years. The past two years I've been the CEO. With me today are the members of our executive team. They introduced themselves. I'd just like to take a minute to explain what some of their duties and responsibilities are.

To my left, Kent Verlik is executive director of social responsibility. He's responsible for all the programs for prevention, et cetera, on the liquor and gaming side of the business, which we take very seriously on a daily basis. To my right is Ann Hammond. Ann is the executive director of corporate services. Her duties of responsibility: finance, strategic services, and liquor distribution. Beside Ann is Muriel Grimble, executive director of gaming products and services. Muriel's duties: oversee slot machines, VLTs, electronic bingo, tickets. She also sits on the board of the Western Canada Lottery Corporation as one of our representatives. Beside her, around the corner, is Gill Hermanns. Gill is executive director of regulatory. They license and regulate all liquor and gaming in the province, and we'll get into that in a little bit more detail. In behind we have Alain Maisonneuve, who's helping us out this morning. He's the director of strategic services.

Today I'll provide a brief overview of the AGLC, including its '08-09 activities and performance results, and then would be pleased to answer any questions. The AGLC is a Crown corporation, a commercial enterprise, and an agent of the government of Alberta. Our role is to administer the Gaming and Liquor Act, the gaming and liquor regulations, and related policies. We're responsible for regulating Alberta's charitable gaming activities like raffles,ingos, and pull tickets and conducting and managing provincial gaming activities like VLTs, slot machines, and ticket lotteries. We also control the manufacture, importation, sale, purchase, possession, storage, transportation, use, and consumption of liquor in Alberta.

We manage and control Alberta's gaming and liquor industries responsibly and with integrity. In all of our decisions we maintain integrity and weigh social responsibility against Albertans' right to personal choice and against the economic benefits generated by liquor and gaming. We generate significant revenue for the province, over \$2 billion annually, which contributes to the growth of Alberta's economy, the prosperity of the communities, and the well-being and quality of life.

Our structure includes a seven-member part-time board that reports through the chairperson directly to the Solicitor General and Minister of Public Security. The board is responsible for developing policy, conducting hearings, and making licensing and registration decisions. It also ensures that the powers and duties of the commission are appropriately carried out through the chief executive officer. Eight divisions manage the day-to-day operation of the organization and report to the board through the CEO. I should mention that this presentation is based on '08-09 information, but we have since reduced the number of divisions to seven by amalgamating corporate services and liquor supply and distribution.

Our 858 employees are located in offices throughout the province. Our head office is in St. Albert, but we also have offices in Calgary, Grande Prairie, Red Deer, Lethbridge, and Stettler.

The AGLC operates within three policy frameworks, or models. For the liquor industry there is a private liquor model under which the private sector determines which products are available for sale in Alberta, the retail price of the product, and the number of retail locations. The private sector also operates the warehousing and distribution of liquor products. Under this model the AGLC administers and enforces the Gaming and Liquor Act, regulation, and policy. It also monitors the supply chain and warehousing operations.

For provincial gaming the AGLC conducts and manages ticket lotteries and all electronic gaming devices as required by the Criminal Code of Canada. These activities are delivered through the private sector in facilities owned by the private sector. For charitable gaming, casino table games, bingos, raffles, and pull tickets eligible charitable and religious organizations apply for and receive licences from the AGLC allowing them to conduct gaming activity. The AGLC assesses eligibility and monitors the use of proceeds by these groups to ensure compliance with the Criminal Code and AGLC policies.

Under each policy framework there is a complementary flow of funds. For liquor no funds are exchanged until a licensee orders the product. AGLC sells the product to the licensee at a wholesale cost and collects the funds before shipment is released for delivery. From those funds the AGLC pays the supplier for the product since it is in the warehouses on a consignment basis, the container recycling fees, and federal duty and taxes and retains the liquor markup. After deducting our liquor-related regulatory and operating costs, including fees from licences, levies, and fines, the AGLC provides the net amount to the general revenue fund.

For '08-09 within the liquor model Albertans had more choice than ever before. Over 15,000 different liquor products were available to Albertans through 1,210 privately owned liquor stores. Over 3.4 million hectolitres of product were sold to liquor licensees, resulting in gross revenue of over \$2 billion. From the product sold, AGLC paid over a billion dollars to suppliers, to the federal government for taxes and duties, and for container recycling fees. Our liquor-related regulatory and operating costs were \$20.9 million. The AGLC also collected \$20.8 million on licences, levies, fines, and other charges. In total under Alberta's liquor model over \$684 million was provided to the general revenue fund, a \$4.2 million increase over the previous year.

10:10

The second model under which the AGLC operates is the provincial gaming model. Under this model the AGLC receives revenue from slot machines, ticket lotteries, VLTs, and electronic bingo. We ensure that prizes are paid and remit payments to the federal government. Commissions are paid to the retailers and operators for each type of gaming activity. Charities and religious groups are also paid a commission from slot machines and electronic bingo. After deducting our gaming-related regulatory and operating costs, the net amount is provided to the Alberta lottery fund. Under the provincial gaming model the AGLC had revenues of \$25 billion in 2008-09. This revenue was generated in conjunction with close to 2,400 ticket lottery centres, 1,000 VLT retailers, three racing entertainment centres that license race tracks, 21 licensed bingo facilities offering electronic bingo, and 24 casinos across the province.

The bulk of the revenues are returned to players in the form of prizes, almost \$23 billion in '08-09. Charities received about \$175 million in commissions from electronic gaming at casinos and bingo halls, and the private operators received almost \$340 million for the venues, staff, and services they provide. Over \$33 million was remitted to the federal government from electronic gaming. After deducting AGLC regulatory and operating costs of about \$200 million, the balance, or about \$1.5 billion, was transferred to the Alberta lottery fund. Revenues of the lottery fund were allocated to programs administered by 14 government departments and were subject to an appropriation by the Legislature. The lottery fund financial statements report this approved allocation.

Under the charitable gaming model the gaming events, raffles, pull tickets, bingos, and casino table games are conducted and managed by charitable and religious groups under licence from the AGLC. The cost of products and services from the private sector are paid by the charity. The charity retains the proceeds from the event. Other than the licence fee the AGLC receives no revenue from charitable gaming. This model provides opportunities for charitable and religious groups to benefit directly from gaming activities.

Nonprofit groups across the province earn millions of dollars to support their programs and activities by conducting and managing bingos, casino events, selling pull tickets, and holding raffles. The funds from charitable gaming stay in the community, where they help local communities remain vibrant and attractive for residents and newcomers alike. In 2008-09 over 11,000 charitable and religious organizations earned \$77 million from table games at casinos, \$53 million from holding raffles, \$8 million from paper bingo, and \$15 million from selling pull tickets. In addition to the \$150 million received through charitable gaming events, charities also received \$175 million in commissions from electronic gaming, for a total of about \$330 million from licensed gaming events.

I'll now turn from the financial highlights to the regulatory highlights. The AGLC introduced new policies to improve bar safety. These policies address minimum drink prices, happy hours, and drink orders at last call to help curb binge drinking and overconsumption in bars and clubs. The policies were introduced in response to research which has shown a strong connection between cheap drinks, overconsumption, and violence. The AGLC will continue to monitor violence in and around licensed premises to ensure that its policies make a positive difference in the lives of Albertans.

We take the issue of minors accessing liquor very seriously. Due to our effective inspection enforcement initiatives and our collaboration with the industry we have seen an increase in compliance. In '08-09 the percentage of liquor-serving establishments requesting proof of age from young people was 83 per cent, a 2 per cent

increase over the previous year. In '08-09 the percentage of lottery ticket retailers requesting proof of age from young people was 57 per cent, a 16 per cent increase over the previous year.

In addition to maintaining the integrity of liquor and gaming businesses in Alberta, the AGLC also takes its social responsibility very seriously. The AGLC offers five smart training programs, which are a best-in-class series of competency-based courses aimed at educating and informing everyone involved in the gaming and liquor industries about their social responsibilities and duty-of-care obligations. Over 15,000 individuals completed our liquor-related programs, and almost 4,000 completed our gaming-related programs in '08-09.

ProServe training, which is focused on the service of liquor in licensed premises, will become mandatory for all individuals involved in the sale or service of liquor on January 1, 2010. We're working diligently with all our licensees to ensure they are able to meet this deadline.

In '08-09 the AGLC established a multisectoral stakeholder advisory group, the Alberta Safer Bars Council, in response to growing concerns regarding violence in and around these premises. The council was also established to enable Alberta's liquor industry to proactively and co-operatively move forward with a number of key initiatives.

Responsible Gambling Awareness Week aims to educate Albertans on maintaining a healthy perspective on gambling and on how to seek help if gambling is a concern. In October 2008 the week was expanded to include VLT outlets and bingo halls in addition to casinos.

The Alberta responsible and problem gambling strategy is a joint initiative with Alberta Health Services that was developed to ensure that Albertans who choose to gamble have the resources they need to make informed decisions, to minimize gambling-related harm, and to create healthy, sustainable gambling environments. In 2008-09 work began on an implemented plan for a five-year strategy. Six new responsible gambling information centres were opened last year, bringing the total number of centres to 14. These centres are staffed by trained people, responsible gambling consultants. Player awareness terminals were also installed in all these locations.

We also launched a co-operative multimedia responsible gambling campaign with Alberta Health Services. The campaign highlighted some community-acknowledged myths and facts about gambling while educating Albertans about the need to set time and budget limits and to treat gaming as a form of entertainment, not a way to make money.

My final comments this morning relate to the recommendations directed at the AGLC in the office of the Auditor General's April 2008 report. In it the Auditor General identified that the AGLC, like many government departments, did not have adequate IT control frameworks in place. To address this concern, AGLC IT management participates in a government-wide initiative to develop and implement an overarching IT control framework, which is led by Service Alberta. While the AGLC develops an IT control framework specific to its needs, we monitor the government-wide initiative to determine if all or parts of this framework add value to the AGLC. The AGLC has completed self-assessments to determine where our priorities should be in terms of implementing the various components of an IT control framework. In response to the AG's second recommendation for the AGLC, an existing change-management process has been adopted as a standard for the IT environment.

This concludes my presentation. I thank the committee for the opportunity to share information about our organization, and I'm pleased to answer any questions committee members may have.

Mr. Denis: Mr. Chair, could I get on the list, please?

The Chair: Yes, you certainly may, Mr. Denis.

Mr. Dunn: Doug Wylie will read in our opening comments.

Mr. Wylie: Mr. Chair, my comments will be brief. Given AGLC's dependence on information systems, over the past few years our focus at AGLC has been on evaluating the design and operating effectiveness of the information technology controls to the extent required for our financial statement audits. Most recently our audit work resulted in two recommendations relating to AGLC's IT systems. Just to clarify in case members are looking, it's the October 2008 report.

In our October 2008 report on page 351 we recommended that AGLC "design and implement a comprehensive IT change-management policy with well-designed, efficient, and effective control processes." On page 52 of the same report we indicate that AGLC should work with Service Alberta to develop a comprehensive IT framework. We're pleased to report on page 320 of our most recent, October 2009, report that the commission has fully implemented our recommendation relating to its IT change-management process. As indicated, we have not yet followed up our recommendation that AGLC develop a comprehensive IT control framework, but we will be doing that once implementation is determined.

Mr. Chairman, that concludes our opening comments.

10:20

The Chair: Thank you.

We will now proceed to questions. Mr. Chase, followed by Jonathan Denis from Calgary.

Mr. Chase: Thank you. Possibly the questions I'm about to ask might have been answered had the Solicitor General's full annual report for 2008-2009 been provided to committee members. Unfortunately, it hasn't.

Referencing page 71, note 14, what is the nature of the 14 legal claims, amounting to \$163 million, in which the AGLC is a defendant?

Ms Hammond: They're made up, as we indicated, of 14 claims. Several of these claims have a very long history with us. Some relate to gaming. Others relate to the liquor side of our business. Some of them are by individuals. Others are by corporation. The details I'm not sure it's appropriate to share with the committee.

The Chair: Your second question, Mr. Chase.

Mr. Chase: Thank you. Another equally alarming figure: \$181 million. Given the cuts to education, health, and social programs, did members of this commission advise the Premier to forgo the approximate \$181 million in liquor sales tax increases?

Mr. McLennan: No, we did not.

Mr. Chase: Thank you.

Mr. Dunn: Mr. Chairman, if I could just supplement because it came up from the other member, too. Not so much the names, Ann, but could you share with the committee: what are the causes of those claims? It's really the background, the causes. Some are as a result of the privatization of the liquor business and then leaseholds and the real estate challenges. Those were historical claims. Could you just share with the committee the background of some of them?

Ms Hammond: Yeah. Some of them have to do with whether or not a gaming licence was issued. One involves a motor vehicle accident. There are some regarding the relationship with our warehouse. There are a number that relate to wrongful collection of taxes. There was a claim about an injury. There are some allegations about the improper sale of tickets.

The Chair: Thank you, Ms Hammond, for that. I appreciate it. Mr. Denis, please, followed by Mr. Mason.

Mr. Denis: Yes. Thank you very much, Mr. Chair. I appreciate the steps that you've taken such as minimum drink prices, as you mentioned, in an effort to curb violence and altercations at licensed premises over the last year. I know you've also instituted a program called Barwatch, and I'm wondering if you could comment on the effectiveness of that vis-à-vis the money that has been put into that over the last year.

Mr. Verlik: My understanding is that Barwatch is a licensee model that's in place currently in Calgary and in Banff. It's an agreement between the licensees in an entertainment district to work together. They share information. It's not a program that's currently being offered by the AGLC. We talk about it at our Safer Bars Council, but it's not a program that we're delivering.

Mr. Denis: Thank you.

The Chair: Is there anything further at this time, Mr. Denis?

Mr. Denis: No, that's it. Thank you.

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

Mr. Mason: Thank you very much. I appreciate your presentation and your joining us this morning as well. My question stems from my experience representing my constituency and, before that, on Edmonton city council representing the northeast part of Edmonton. It has to do with bars in which things like overserving, drug dealing, violence, gang activity, prostitution take place. In my experience these are very often at hotels, and they're very specific places where the problem continues and repeats.

One of my frustrations is that the commission doesn't take a very hard line with bars where repeat offences occur. I could contrast that with, for example, serving underage people versus selling cigarettes to underage people and the enforcement that's done by the federal government with respect to that, where they regularly go in with stings, and when they get a conviction, then the city automatically lifts the business licence. It's a really hard-line approach. I contrast that with the approach that the Liquor and Gaming Commission has employed over the years. I wonder why you don't take a harder line with problem bars and actually just lift their licence if they don't comply and comply immediately.

Mr. McLennan: Yes. I'll start it off, and I'll have it supplemented by Kent Verlik. With regard to enforcement we take the enforcement of liquor and gaming extremely seriously. We have a regulatory division with over 80 inspectors, 30 investigators. Last year on the liquor side of the business we conducted over 25,000 inspections of licensed premises. We concentrate on overservice, service to minors, those types of offences. We target the bars that are identified to us through the police agencies, through our own information. If we do find these people breaking policy, legislation, an incident report is submitted. We will either fine them, suspend them, or cancel their licence. It has to be a progressive disciplinary system

unless it's something that is extremely serious. You can't cancel a licence right off the bat.

We have instituted a significant number of programs to deal with safety and the issues in and around licensed premises. I'll just ask Kent to elaborate on that.

Mr. Verlik: I think you were alluding to sort of the enforcement aspects. What I can add is what we're doing in order to encourage higher standards amongst our licensees. We've created the Alberta Safer Bars Council. Its membership consists of knowledgeable and experienced individuals representing 18 different stakeholder groups in the province, including Alberta Health Services, licensees, industry associations, police forces, et cetera.

What we are doing in order to try and complement the enforcement practices by educating the licensees is that we provide our ProServe training program, as we mentioned earlier, for all individuals who work in licensed premises. We have mandatory training that's required for all door security staff. The Safer Bars Council has recently endorsed a new program that we'll be piloting in Edmonton next year. It's called Best Bar None, which is an accreditation program that will recognize licensees for having best practices in place to curb violence in and around licensed premises.

I think we're just saying that we have both sides covered, both the enforcement and also the encouragement of higher standards, at licensed premises.

The Chair: Thank you.

Mr. Mason: Thank you, Mr. Chairman.

The Chair: I think we'll move on.

Mr. Mason: I have a supplemental, do I not?

The Chair: Briefly, please, because there's quite a long list here this morning.

Mr. Mason: Thanks. I'd like to know, say, for over the past three years the number of offences. You've indicated 25,000 inspections in the last year. How many offences were found? How many of those resulted in fines? How many resulted in suspensions? How many resulted in cancellations?

Mr. McLennan: I don't have that information today. I will get that information and provide it through the chair to the committee.

Mr. Mason: Thank you.

The Chair: Thank you.

Mr. Fawcett, please, followed by Mr. Kang.

10:30

Mr. Fawcett: Thank you, Mr. Chair. On page 69 of the AGLC annual report – it's in notes to the financial statements – note 12, there was almost a 10-fold increase to miscellaneous expenses, from about \$1.2 million to \$12.9 million. What kinds of items are included under miscellaneous expenses?

Mr. McLennan: The significant increase in miscellaneous expenses was a result of a court settlement that was reached in the past year. Part of the agreement was a confidentiality agreement, so I can't get into the specifics or the details, but as I mentioned, the significant increase was a result of the court settlement.

Mr. Fawcett: Okay. Are there any other expenses that fall within

that category of miscellaneous expenses, and can you share what they are, or was that wholly just that one piece?

Ms Hammond: There are other items that are included in miscellaneous expenses that aren't captured by any of the other categories, so they would go into miscellaneous, and from year to year what goes into that category can change just because of sort of the ad hoc nature of the expense.

The Chair: Mr. Kang, please, followed by Mr. Sandhu.

Mr. Kang: Thank you, Mr. Chair. On page 71 of the AGLC report, note 14, what are the details of the lease amending agreement for which the AGLC has agreed to pay \$6.4 million for capital investments?

Ms Hammond: The contingencies?

Mr. Kang: Yes.

Ms Hammond: You're wondering about the \$6.4 million?

Mr. Kang: Yeah.

Ms Hammond: That is part of a lease agreement with a tenant. We had agreed to certain capital investments both to the facility itself and some IT equipment to help them conduct their business.

Mr. Kang: Okay. The number of tenants: is that across the province?

Ms Hammond: It's one tenant.

Mr. Kang: One tenant only?

Ms Hammond: Yeah.

Mr. Kang: Oh, that's lots of money for one tenant.

Okay. My supplementary is: who are the third parties for which the AGLC has agreed to assume their premise leases as part of the amending agreement?

Ms Hammond: Again, that's part of the agreement with the same tenant.

Mr. Kang: Thank you, Chair.

The Chair: Mr. Sandhu, please, followed by Mr. Chase.

Mr. Sandhu: Thank you, Chair. I've got a question on the annual general report for 2008-09. Comparing the 2007 versus the 2008-09 reports, the percentage has dropped from 2007 to 2009 in performance measures. What caused that to happen? Under 9(a) and 9(b), the same thing. Page 76.

Mr. Verlik: Those percentages are plus and minus 3.1 per cent just by the random nature by which the samples are collected. I think that some of that could be simply explained. The variance between them would fall within the same amount, so that 2 per cent drop probably isn't a significant change from the previous year, but it is 2 per cent lower.

As for the explanation, really, it's a sample from Albertans.

Mr. Sandhu: Thank you.

The Chair: Thank you very much.

Mr. Chase, please.

Mr. Chase: Thank you. I'm referencing page 68 of the 2008-2009 annual report. The Alberta government is primarily dependent on, one could say addicted to, the volatility of two nest eggs in its undiversified financial basket, the first being world-regulated nonrenewable resource pricing and liquor and gaming revenue, which surpasses conventional oil revenue. On page 68 it states that "the AGLC bears the cost of social responsibility activities related to liquor and gaming." What data has the AGLC collected on the negative impacts that gambling and alcohol addictions have on the economy and on society? My feeling is and I'm wondering: are our societal losses written off as secondary to gambling revenue gains?

Mr. Verlik: The AGLC takes its social responsibilities in both the gaming and liquor industries quite seriously. Specifically, first to answer the question regarding liquor, we've done substantial research into industry best practices. We have worked very closely with Alberta Health Services in developing an Alberta alcohol strategy in conjunction with a national alcohol strategy. This field has been well researched, and we're aware of what the social costs are. However, the economic benefits are quite substantial at the same time. So to answer the question, we're aware on the liquor side of what it is, and we're taking strong action to try and minimize those impacts, recognizing that Albertans have a right to choose and to participate in these activities and that our experience is that prohibition doesn't work.

On the gaming side I would say the same thing, that we have researched this. The Alberta Gaming Research Institute, one of many institutes of its type in Canada, is looking into this. They are presently in the process of conducting a socioeconomic impact study of gambling in Alberta, and we look forward to the results in 2010.

Mr. Chase: Thank you. Just to judge the seriousness of the problem, what percentage of revenue generated from gambling and liquor sales has been redirected towards research and addiction programs?

Mr. Verlik: We don't fund on any direct allocation model. We're funding our programs based on what the perceived need is and the ability for us to deliver on those needs. I can't speak for Alberta Health Services, which, as you can well imagine, would carry a substantial cost for both the delivery of alcohol dependence treatment, et cetera, and of course problem gambling, so I'll defer that to them. On our side combined we spent last year approximately \$5.2 million, which is well within the range that most other jurisdictions who have these issues are spending, proportionately, that is, with the revenue that we're generating.

Mr. Chase: Can you give a percentage figure for that \$5.2 million in terms of total revenue: \$5.2 million over what denominator?

Mr. Verlik: Okay. Well, that would be over the approximately \$2.1 million, so I'd have to do the percentage, but, yeah, it's probably less than 1 or 2 per cent, I would say.

Mr. Chase: Thank you.

The Chair: Thank you.

Mr. Benito, please, followed by Mr. Mason.

Mr. Benito: Thank you very much, Mr. Chair. I'm hearing a lot of information from some constituents of mine that they have many friends or many organizations, businesses that are really lining up to get an application for video lottery terminals. They were told that they have to wait for some innumerable period of time. But I was surprised to see, you know, in the financial statement for 2008-2009 that the income for the video lottery terminals went down from about \$10.6 billion in 2008 to \$8.9 billion in 2009. My question is: what accounted for the decrease in VLT revenue? Is this degree of variance normal? How many VLTs were operating in Alberta during this period of time?

Mr. McLennan: I can respond to that. We have 6,000 VLTs that are operating in the province. The government has set that limit. That limit has been in effect since about 1995 or 1996.

With regard to the drop in revenue from VLTs, it can be attributed to three areas. Number one, the smoking legislation came into effect on January 1, 2008, and resulted in a significant drop in revenue. The economy of Alberta also had an impact, and the number of casinos in the province has also drawn some players away from VLTs in bars and lounges to casinos.

10:40

Mr. Benito: Thank you very much, Gerry.

The Chair: Thank you, Mr. Benito.

Mr. Mason, please, followed by Mr. Dallas.

Mr. Mason: Thanks very much, Mr. Chairman. I want to follow up on my earlier question. You outlined a number of programs aimed at educating bar owners and seemed to indicate a preference for those kinds of programs over a get-tough policy. I'd like to know how much those programs cost and how you measure their effectiveness.

Mr. McLennan: First of all, before Kent responds, I'd like to say that we don't have a preference for training. It's equal between training licensees and enforcement. We have a very significant enforcement role; we work very closely with police agencies.

With regard to the cost of the different programs and what they are, Kent.

Mr. Verlik: Presently we have the ProServe training program, and we have ProTect. Both of those are revenue neutral. We generate revenue from the attendees of the ProServe training program, which is covering, essentially, the costs for that.

As for the cost for this Best Bar None pilot, we're working with SafeCom to look to use some of the funds from that set of funds that they have to help finance that program. The estimate for this best bar none program, which is kind of a carrot, if you will, instead of a stick for licensees, is approximately a hundred thousand dollars.

Mr. Mason: The other question, which was not answered, is how you measure the effectiveness of these programs.

Mr. Verlik: Yes. We will be conducting a thorough program evaluation of our training programs beginning in March of 2010. That's when the programs are completely up and running, with all the licensed staff having to have attended those programs. We follow a very formal evaluation process with all the programs that we deliver and evaluate. Unfortunately, I can't give you the results of that one. However, it's based on other programs that had previously been independently evaluated and proven to be successful.

The Chair: Thank you.

Mr. Dallas, please, followed by Mr. Kang.

Mr. Dallas: Thank you, Mr. Chairman. I'm looking at page 64 of the '07-08 annual report, the notes. Note 2 discusses a joint venture with the Western Canada Lottery Corporation. My first question has to do with the relationship that we have, the partnership. How often do we review it? Is it a licensing agreement? What type of arrangement do we have, and what diligence has the board provided in terms of evaluating that relationship?

Ms Grimble: Well, basically, the formation of the Western Canada Lottery Corporation takes us back about 30 years, at the time when we first started to deliver lottery tickets in the four provinces: British Columbia, Saskatchewan, Manitoba, and Alberta. That partnership now is three provinces – Saskatchewan, Manitoba, and Alberta – and the board has a representation of two members from each one of the provinces: one member from the board of AGLC and myself, as is the case with the other two provinces.

We have actually reviewed the agreement that we have with the three provinces over the last couple of years. To your point, it probably hadn't been reviewed with a kind of diligence since about 1991 and then again in 2000. We look at basically the way in which the funds are distributed to the three provinces to make sure that there's an equitable arrangement, and we've also done a lot of work in terms of the governance of the board of the Western Canada Lottery Corporation.

I don't know if there were any other specific questions.

Mr. Dallas: A supplemental, Mr. Chairman, if I may. The note refers to proportionate consolidation in terms of how we bring those numbers into the reporting. I guess that leaves me without a sense of how the organization performs relative to factors such as administrative cost, promotional cost relative to other products that would be offered through the lottery products that we're engaged with. Is there an assurance that you can provide that those costs are similar or a way that we can look at the statements to determine that?

Ms Hammond: Well, there are a couple of ways. There is note 17 to the financial statements, which gives an overview of the Alberta share of the WCLC operations that are consolidated into AGLC. As well, the WCLC financial statements and annual report is a public document, so if there was an interest from the committee, that's available on their website.

Mr. Dallas: Thank you.

[Mr. Quest in the chair]

The Deputy Chair: A supplemental, Cal?

Mr. Dallas: No. That was it, Mr. Vice-Chair.

The Deputy Chair: All right.

Mr. Kang, please, followed by Ms Woo-Paw.

Mr. Kang: Thank you, Mr. Chair. On page 70, note 13, of the AGLC financial statements it states that estimated revenues from subleases are \$3.82 million, yet the provision for losses on the leased property is \$2.69 million. Could you please explain this?

Ms Hammond: We have a number of leased properties that are an extension from the privatization days, where there had already been

a commitment for certain lease payments. We have subsequently subleased those properties, but the current market rate for the leases is less than what our commitment on the payments is. That is why there is a difference between the revenue coming in and the provision for the loss.

Mr. Kang: Is it a feasible business practice to be setting aside provisions for the losses equal to the estimated revenue for the leases? You know, is there any other way of trying to mitigate those losses? That is what I'm getting at. I mean, it's been so long.

Ms Hammond: Well, in some situations we have tried to sell property, but the property is typically in locations where there's not a ready market for those properties. That's also why it's difficult to try to recuperate the same revenue as we have costs for those properties. It is something that we continue to look at, and where there are opportunities to make other financial arrangements, we certainly take advantage of that. It is a historical thing that we're under commitment to comply with, so we try to mitigate those costs as best we can.

Mr. Kang: How many years is that commitment, you know, on those properties? How many more years – ten years, four or five years – will we be paying for all this?

Ms Hammond: It explains it in the note, that the bulk of it would be over by 2014, but there are some that go longer than that.

The Deputy Chair: All right.

Ms Woo-Paw, followed by Mr. Chase.

Ms Woo-Paw: Thank you, Mr. Vice-Chair. On page 69 the operating expenses for data processing from 2008 to 2009 increased by over 33 per cent. I would like to know what results you were trying to achieve with this increase in expenditure.

Ms Hammond: I'm sorry. Which page in which report?

Ms Woo-Paw: Page 69, 2008-2009 annual report.

Ms Hammond: Sorry. Which cost in particular was it?

10:50

Ms Woo-Paw: The operating expenditure for data processing increased from \$2.7 million to \$3.6 million, about 33 per cent.

Ms Hammond: I believe that is related to the change from our previous sort of cash-based system to a TITO system, where players, you know, put cash into a machine, but instead of the machine paying out in cash, it pays out in tickets. There was an increased cost to that.

Ms Woo-Paw: So what you had intended to achieve was achieved with this one-time . . .

Ms Hammond: Yeah. There's better cash management and certainly operating costs at the casinos by moving in this direction, and it's consistent with the move in other gaming jurisdictions. There's also a lowering of our maintenance costs because, of course, with cash going in and out of the machine, there's constant wear and tear on the sort of internal workings of the machine. By issuing tickets, it relieves that complication.

Ms Woo-Paw: Thank you.

The Deputy Chair: Mr. Chase, please, followed by Mr. Drysdale.

Mr. Chase: Thank you. I'm referencing page 62 of the 2008-2009 annual report, which states other income of \$15.7 million, yet this amount is not clarified in notes 9 or 11. Can you please provide a breakdown of the source of the \$15.7 million in other income?

Ms Hammond: The \$15.7 million is the budgeted amount for other income. The actual is \$20.8 million, and that's described in note 11. In note 11 it's primarily interest income, fees from licences, some gain on the disposal of some property. We have some liquor levies and other items there.

Mr. Chase: Thank you for the clarification.

The Deputy Chair: Mr. Drysdale, please, followed by Mr. Bhardwaj.

Mr. Drysdale: Yes. Thanks, Chair. My question is to do with note 7 on page 80 of the '08-09 financial statement under transfers to aboriginal initiatives. The amount given to the First Nations development fund nearly doubles. Firstly, I guess: does this funding come from the First Nations casinos? And a supplementary: were there any specific objectives attached to this funding increase?

Mr. McLennan: Yeah. In 2001 the government approved a First Nation gaming policy, which authorized AGLC to license casinos on First Nations. In the last couple of years five First Nation casinos have opened up. The money disbursement from First Nation gaming, just for the information of the committee: the operator gets 15 per cent of the slot revenue, the charity gets 15 per cent, and 70 per cent goes into the Alberta lottery fund. Out of that 70 per cent, 40 per cent goes back to the First Nation development fund. That increase is a direct result of new First Nation casinos opening up and the money that's earned from slot machines going into the lottery fund and back to the First Nation development fund.

Mr. Drysdale: Okay. Thanks.

The Deputy Chair: No supplementary?

Mr. Drysdale: Well, I asked, you know: are there specific objectives for that money?

Mr. McLennan: Well, the objective behind the First Nation gaming policy was to enhance the standard of living on First Nation lands through both economic development as well as a charitable model to assist the people with housing, with roads, with treatment programs, providing young people with different programs, providing seniors with programs. It has been a successful program.

The Deputy Chair: Mr. Bhardwaj, followed by Mr. Mason.

Mr. Mason: Mr. Chairman, if I could make a point of order. The rules require alternating questions between government and opposition members, and that's two government members.

The Deputy Chair: Yeah. We must have missed you earlier. Okay. We'll switch you back. Mr. Mason, followed by Mr. Bhardwaj.

Mr. Mason: Thanks very much. I appreciate that.

I wanted to ask a question about the – what did I want to ask the question about?

Mr. Bhardwaj: Can I ask mine?

Mr. Mason: You go ahead.

The Deputy Chair: Okay. We'll switch it back to what it was now that we've made the point. Mr. Bhardwaj, please, followed by Mr. Mason if he remembers the question.

Mr. Bhardwaj: Okay. Well, thank you very much, Mr. Chairman. Electronic bingos have been around for a number of years, and there are a number of nonprofit organizations in my constituency who use that service. On page 62 of your annual report revenues from electronic bingos have fallen from \$42 million in '08 to \$35.7 million in '09. My question is: do you see video bingos as being less popular than they've been previously?

Ms Grimble: You're talking about electronic bingo being less popular?

Mr. Bhardwaj: Yeah. Electronic bingo, yes.

Ms Grimble: One of the factors in bingo is, basically, that there has been an attrition of bingo halls, so a lot of the impact has been kind of condensed into a fewer number of halls. I think electronic bingo has been very positively received by the industry, and we consider it to be – we've just replaced some of the equipment, and we're working with the bingo industry to help them be successful. Certainly, bingo has had some struggles over the last five to 10 years, and we're working with the industry to help rejuvenate bingo to support the charities that the bingo industry supports.

Mr. Bhardwaj: Okay. My supplement would be, then: has there been much effort to make video bingo more innovative to attract a wider audience? I guess you answered part of the question, but see if you can elaborate on that just a touch.

Ms Grimble: I guess the answer is yes. We have upgraded the equipment in the bingo halls to satisfy the players. Obviously, the bingo industry is looking to bring in new players, so we're looking at ways to support them in doing that. We've added some elements to the game that, again, would help them broaden their player base. We have a concentrated effort on working with what we call Bingo Alberta, which is an association that represents all bingo halls in the province. They have been doing a stellar job in terms of getting bingo groups to work together and develop policies and practices to help them maximize their revenues to charities. So we do have a very concentrated effort to bring innovation and stability to that industry.

Mr. Bhardwaj: Thank you.

The Deputy Chair: Mr. Mason.

Mr. Mason: Thank you very much. I remember my question now, and it had to do with the retail sale of beer and wine. Currently that's generally sold in stand-alone liquor stores, although there are some wine stores and so on. But if a grocery store wants to sell beer and wine, they have to put it in a separate building. I'm just wondering, you know, what the reason is for that decision. Are those decisions made by the commission? Why not just allow the sale of beer and wine in grocery stores?

Mr. McLennan: The issue with regard to privatizing the liquor

model goes back to 1993, and the decisions on a model were made at that particular time. In surveying Albertans, Albertans have indicated that they are not pressing to have liquor on the shelves of grocery stores. They want to have it in facilities where minors are prohibited, where there's surveillance done as to, you know, who's in the store, what they're buying. You can keep shoplifting theft down. There has been no demand at all from the grocers to have liquor on the grocery shelves, and we get very, very few letters, either through MLAs or directed to our organization, on a yearly basis asking for liquor on the shelves of grocery stores.

The impetus of the privatization model was to help small business. We had 202 liquor stores when we privatized in 1993. Now we have over a thousand liquor stores, which have created thousands of jobs for Albertans, created countless opportunities for construction, for the sales of cash registers, coolers. It's certainly been a very viable industry, the model that we do have in Alberta now.

11:00

Mr. Mason: You indicated that you have surveys of Albertans saying that they prefer the current model. I wonder if you'd be prepared to share publicly those surveys.

Mr. McLennan: Yes. We'll go back. It's been some time, but I'll see what I can do on that.

Mr. Mason: Thank you.

The Deputy Chair: All right. Mr. McLennan, I guess if you could provide those through the clerk to the committee, then that would be great.

Mr. Olson, please, followed by Mr. Chase.

Mr. Olson: Thank you. I'm looking at page 62, the statement of operations in the 2008-2009 financial statement, and I'm kind of interested in profit margins with respect to the various revenue streams there. It looks like gaming terminals and video lottery terminals, relatively speaking, you know, have a smaller profit margin than ticket lottery and electronic bingo. It looks like around 8 per cent for the former and 48 per cent and 30 per cent for the other two. My questions are: what kind of factors go into accounting for the differences in these profit margins? That's one thing, and I'll ask my supplemental right away, too. Are these types of margins predictable? Are they the kinds of things that are pretty stable and predictable? If you could just speak to some of those things, please.

Ms Grimble: I guess the short answer would be, you know, that basically in the electronic gaming world it's a 92 per cent prize payout. Obviously, the gross revenues are significant, and the payouts are significant. In the ticket business that's quite predictable because the chips in the games are all set at that 92 per cent, so we know what, you know, basically over time the profits are going to be. The ticket business is a variety of games with a variety of different price points. They range from about 50 per cent to 62, 63 per cent in the game. That's also predictable in terms of us setting those payouts on those games also, but I guess they're what we would call a lower sort of return type of game. Certainly, on electronic equipment you have a different play mechanic.

So the 92 per cent is an industry standard. In the lottery business the big jackpot games run about 50 per cent in terms of prize payout.

Mr. Olson: Thank you.

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

Mr. Chase: Thank you. To his credit former Liberal MLA Maurice Tougas pushed the government to institute drink prices that did not encourage excess drinking, binge activities, and potential violence. Referencing page 70 and a news release from July 3, 2008, the AGLC set new policies for minimum drink prices, maximum drinks, and happy hours in bars. This initiative was “designed to make provincial drinking establishments safer for staff and patrons.” What evidence can be provided to show the success of this initiative? Has there been, for example, a decrease in problem drinking within establishments, disorderly behaviour, fights, that sort of thing?

Mr. McLennan: Yes. That policy came into effect in August of 2008. In discussion that we’ve had with liquor industry stakeholders, operators of bars and lounges, and through discussion that Kent has also had with people, we have been told that reducing happy hour times, minimum drink prices, and restricting the number of drinks at closing has had a positive effect. Do we have any statistics or anything like that that we could add? No. However, what we do have is information that has been provided by our stakeholders that we’re partners with that said that this has been a very positive initiative.

Mr. Chase: So it has been a win-win, in other words, for bar owners and so on.

My second concern is that bars are becoming creative in circumventing these minimum prices. One bar in Edmonton, I think, was providing \$21 to college students. The first in the door would receive a coupon or \$21 worth of cash to then consume however much \$21 of cash would provide in the establishments. Has the commission adjusted the rules to deal with these deviations? In other words, they’re sort of suckering us in terms of going around the rules that have been established to protect people.

[Mr. MacDonald in the chair]

Mr. McLennan: At this particular time no, we haven’t. We’re monitoring the situation. We find that these types of initiatives don’t last very long. They’ve also found that a significant number of people are walking in, taking the \$10, and going home and buying pizza, et cetera. We are monitoring the situation. If we felt that it was getting out of control, we would certainly get on it right away.

Mr. Chase: Thank you.

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

Ms Woo-Paw: Thank you. Core business 5, goal 7, states your commission’s intention to encourage social responsibility. I see that you do have some performance measures developed around measuring consumer satisfaction. I’d like to know whether the commission intends to develop performance measures to monitor the effectiveness and performance around problem and responsible gambling.

Mr. Verlik: The short answer would be yes. We’ve been working with Alberta Health Services to develop, as was mentioned in the presentation at the beginning, a responsible and problem gambling strategy. In that particular strategy we have also identified some key performance measures that would be there that also align with the current performance measures within the AGLC business plan.

Ms Woo-Paw: A supplementary. The issue of problem gambling reaches across cultures in our increasingly diverse province. Of all the materials – your awareness week material, the campaign, and the survey – what communication strategy do you have in place to ensure that all of this includes and reaches the diverse communities in Alberta, not just the major cities through small grants to an agency but, I’m saying, the diverse communities across the province?

Mr. Verlik: A significant undertaking in our responsible and problem gambling strategy is recognizing the diversity of the culture in Alberta and ensuring that we are able to communicate to the different groups in a way that resonates with them. We’re looking at developing materials that would be in a multitude of languages, et cetera, providing services in ways that are easily accessible by people depending on their need and desire, I guess, for the type of help that they need.

Ms Woo-Paw: Thank you.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Benito.

Mr. Kang: Thank you, Mr. Chair. The AGLC’s website reports on the responsible gambling program, which shows a video on problem gambling to VLT operators and requires a sign to be posted. How does the AGLC monitor the success of this initiative beyond reporting on how many VLT operators have watched the video?

Mr. Hermanns: We conduct regular inspections on them to ensure that their staff have the courses. They go in under cover to ensure that they’re following all the rules, that they’re not playing, that they’re not providing credit to customers. They’re also ensuring that customers are not overserved liquor in conjunction with playing. They also watch to ensure that they are identifying customers who may have gambling problems and are approaching them and talking to them.

Mr. Kang: My supplementary to that is: does the AGLC collect information on the number of Albertans who have gambling problems, and if so, has the responsible gambling program had any impact on these numbers? Is there any data, you know, like Teresa was talking about, from different cultures, from different ethnic backgrounds? Is there any breakdown on those numbers?

Mr. Verlik: The last problem gambling prevalence study was conducted in 2002 in Alberta. At that time 1.3 per cent of Albertans were considered to be problem gamblers, another 3.9 per cent at moderate risk, and 9.8 per cent at low risk. There is some preliminary information. I’d alluded to the socioeconomic impact assessment study that’s currently under way. Part of that study requires them to collect prevalence data in Alberta again, and I would say that this is a success in the sense that we have reduced it from 1.3 to 1 per cent for problem gamblers, from 3.9 per cent to 2.8 per cent at moderate risk, and from 9.8 per cent at low risk to 7 per cent. So it would appear that our efforts are working.

11:10

The Chair: Thank you.

Mr. Benito, please.

Mr. Benito: Thank you very much, Mr. Chair. Many organizations in my constituency are very much appreciative of the casino dollars they receive from your organization, but by the same token many

concerns are also present on the negative effects of these gambling and liquor addictions. With reference to the social responsibility initiative your organization is doing, you know, so that I can explain to my constituents that we really care about these people, those getting addicted, can you indicate the dollar value on this mentioned social responsibility initiative? If you don't have the amount, can you do it by percentage of the amount you have transferred to the Alberta lottery fund so that we can show to the people in my constituency that something is really being done on these social responsibility initiatives?

Mr. Verlik: I'll allude to our responsible and problem gambling strategy, which, I think, appropriately we referred to as both sides of the coin, and that coin, of course, is problem gambling and responsible gambling. Responsible gambling would fall within our purview. However, problem gambling, treatment, and prevention to a large extent would fall within AHS. Again, I don't have the numbers specifically on what they're spending on it, so I would refer you to them.

In terms of our expenditures we have a number of programs. Canada is recognized and Alberta, I would say, is also recognized as a leader in developing responsible gambling programs. Our current budget at the AGLC for these program deliveries is approximately \$3 million.

Ms Hammond: And just to supplement that, in the notes to the financial statements for the lottery fund, note 15, Health and Wellness, shows that over \$90 million was transferred to the Alberta Alcohol and Drug Abuse Commission from the lottery fund in '09. The previous year it was almost \$85 million. As well, there's another \$1.5 million from the lottery fund that goes to the Alberta Gaming Research Institute that allows them to do research into gambling issues.

Mr. Benito: Thank you very much. My second question, Mr. Chairman, is the enforcement aspect of your organization, about illegal activity in liquor places and, you know, places that we do gaming. What capability does your organization have in terms of the enforcement aspect and best practices that you mentioned to make sure that illegal activities such as my colleague Brian Mason mentioned are lessened where liquor is sold and gaming is conducted?

Mr. Hermanns: We conduct in total about 33,000 inspections a year with our 80 inspectors in both gaming and liquor. Our inspectors also work very closely in a number of the communities with public safety committees, which are task forces that are made up of the local police, bylaw officers, and fire. They target problem premises to go into. They go in as a group, and they all have their own responsibility once they get into the premises. You know, whether it's Edmonton, Calgary, Fort McMurray, Grande Prairie, Lethbridge, Red Deer, a lot of the major centres work with these groups.

We conduct a number of different types of inspections, whether it's liquor or gaming. They do maintenance checks to ensure that they have all the equipment working right, everything is up to standard, surveillance, and all that. They also do undercover checks where they go in under cover to identify problems and issues. They also do operating checks where they go in, identify themselves to the manager on the premises, and walk around to look for minors, look for intoxication, ensure all the training programs are in place. So they have a very in-depth program that they follow.

For illegal activities, you know, we work very closely with the

police agencies to ensure that illegal activities are identified. We work with the police if it's drugs. The information is provided to them. If they find drugs and they charge the bar owner, they provide the information to us, and we then take action under our act and policies.

Mr. Benito: Thank you very much for those answers.

The Chair: Thank you.

Mr. Mason, please, followed by Mr. Jacobs.

Mr. Mason: Thanks very much, Mr. Chairman. Just to follow up on the previous question and specifically with respect to casinos and gambling activity, my understanding of the model that's used is that while the community organization supplies many of the people to work at a casino, they are operated by private companies who have a licence or a contract with the commission. I'd like to know what steps you take to screen those companies to ensure that organized crime is not involved in the operation of casinos in our province.

Mr. Hermanns: We have a very in-depth due diligence program that falls under my area. It's a combination of both criminal investigators and financial investigators. The casinos and all their key employees – owners, managers, shareholders – go through an annual review where the personal disclosure is approximately 68 pages that they have to complete. It gives a full history. The first time they complete it, it's a five-year history. Some information goes back 10. We run all the different criminal indices on them. If they're located in another province, another jurisdiction, we follow up there. We conduct interviews. We contact the local authorities. Let's say if the operator happens to be out of Las Vegas, we will go down to Las Vegas. We will talk to the gaming authorities down there as well as local authorities.

So we conduct a very in-depth background into who they are, where their money comes from. One of our biggest concerns – and we really enhanced it in early 2000 – is the financial side to ensure that there is no organized crime or organized crime money tied to these casinos: where is the money coming from to invest in these casinos? We identified it once, and the owner had to sell the casino; they had to divest themselves from the casino once we identified the tie to organized crime.

Mr. Mason: Do you then go back and look and trace, you know, who owns the company that owns the company and who the shareholders are and then check with other agencies in Canada and the United States on those things? Does that describe the process?

Mr. Hermanns: Correct. And we go back to associated companies if they're, you know, associated with other companies. We'll get as much as we need. A lot of time the information we get comes to us in boxes, and we go through it. So a very lengthy process. Our staff have travelled the world to interview people to find the background of these people. If they're from Australia, Hong Kong, Macau, no matter where they are, we go to check their background and ensure that there are no organized crime ties.

Mr. Mason: Thank you.

The Chair: Thank you very much.

Mr. Jacobs, please, followed by Mr. Kang.

Mr. Jacobs: Thank you very much, Mr. Chairman. First of all, I confess that my knowledge of alcohol and gaming is extremely

limited. However, I do have a question regarding the process that volunteer groups use when they go to casinos to achieve or earn funding for their various projects that they may be involved in. You know, groups go in and do work at casinos to achieve some funding for their cause. Could you explain to me the criteria necessary for a group to qualify and how you decide which groups access this program?

Mr. Hermanns: The basis goes back to the Criminal Code. The Criminal Code allows gaming to be conducted and managed for charitable and religious purposes. So within our Charitable Gaming Policies handbook the front section goes through all the eligibility criteria for a group to qualify for a licence. A group would file an application with us. We would review the application to ensure that it meets the eligibility criteria, such as how it's structured: it has a volunteer membership; it has a board duly elected by its members; it has a membership; it conducts programs that are eligible, whether it's a community league, community association based in Edmonton or Calgary, a minor sports group. We go through the criteria.

The second step is that they tell us what they want to spend the money on. Are those uses eligible? Do they meet the criteria as outlined in the Criminal Code as being charitable or religious?

Mr. Jacobs: Could you evaluate the success of this program and share with us how much money actually was paid out in the past year?

Mr. Hermanns: In '08-09 I believe the total was \$330 million that charities benefited by conducting casinos, raffles, pull tickets, and bingos.

Mr. Jacobs: The evaluation. How much good is it doing, if you will?

11:20

Mr. McLennan: I could elaborate on that. In discussion we've had with charitable organizations, the money that they make from gaming pays a lot of their program delivery costs for the many worthwhile programs that they have, and they say that it has been a real benefit to their programs to have the opportunity to work these gaming events.

Mr. Jacobs: Thank you.

The Chair: Thank you.

Mr. Kang, please.

Mr. Kang: Thank you, Mr. Chair. AGLC's website reports on the voluntary self-exclusion program, including a program evaluation that was conducted in 2007. How many Albertans are currently registered in this self-exclusion program, and how many of those individuals have been charged with an offence of violating their agreement?

Mr. Verlik: Presently we have about 1,600 individuals who are active participants in the programs. There have been over 6,000 people on the program since its inception. Each year we record approximately 600 what we call violations of their agreements, or breaches, where they're caught re-entering the casinos, so we're quite diligent in enforcing that particular program. At the same time, recent amendments to the Gaming and Liquor Act will now give us the ability to charge them under our own act for being in a licensed casino gaming facility while being a member of the

voluntary self-exclusion program. So I think there'll be some interesting data on those charges in the next year.

Mr. Kang: Okay. How does the AGLC monitor the success of this program in terms of its ability to help those problem gamblers?

Mr. Verlik: We used the same approach we do for all the programs when the program first came out. You know, the way that we develop, implement, and evaluate the programs follows a scientific method. We piloted the program. In 2007 our evaluation conducted research with people on the program. We surveyed approximately 400 individuals on the program. We did focus groups with their significant others to ask them about the program and how successful it has been for them. Fifty per cent of the people who sign up are able to successfully regain control of their gambling. The other 50 per cent have some challenges.

However, the program's greatest benefit is as a gateway to treatment. Through our responsible gaming information centres, which we have in the casinos, those individuals have someone that they can deal with, speak to, that gives them information and encourages them to do more than just sign up for the program but seek active treatment if they think that their gambling is a problem.

Mr. Kang: Is there some kind of incentive for people to sign up for those programs? How do you get them to sign up for those programs?

Mr. Verlik: Well, we have advertising, of course, in the casinos. Certainly, we've educated all the staff as to the availability of this program, and through our daily interactions with regular patrons we'll remind them of that program. Ultimately, it's up to the individual to decide that that's a step that they want to take, and when they do, we're ready for them, as I say, as a gateway to treatment through other services.

The Chair: Thank you.

Mr. Denis, are you still there?

Mr. Denis: I sure am. Just one question regarding the smoking in casinos run by First Nations. I'm wondering what steps, if any, your department has taken to try to obtain some sort of agreement, voluntary or otherwise, to effect smoke-free casinos there?

Mr. McLennan: As this committee is aware, there is provincial legislation that prohibits smoking in public areas in the province of Alberta. That's provincial legislation. The federal Indian Act gives First Nations authority to pass bylaws to allow certain areas for the general public to smoke. First Nations have chosen to designate through bylaws certain portions of their casino facilities to allow smoking. We have talked to the First Nations. We've talked to the operators with regard to the health issues, the concerns. However, at this stage of the game the First Nations have not agreed to discontinue smoking. We have consulted our legal people, but as I mentioned earlier, the federal legislation supercedes the provincial legislation on this matter.

Mr. Denis: Thank you very much.

The Chair: Thank you.

Mr. Chase, please, followed by Mr. Benito.

Mr. Chase: Thank you. On page 74 of the Solicitor General's 2008-09 annual report it states that the AGLC partnered with Alberta

Health Services to develop an Alberta alcohol strategy. Earlier we talked about I think it was about \$5.1 million, if I correctly remember, for addiction strategies in general. I'm assuming that dealt with gambling and alcohol. The question I'd formerly asked was: what percentage of revenue is redirected towards addictions? I believe it was in the area of \$5.1 million. My first question. Formerly AADAC was primarily responsible for dealing with addictions programming. Now that the program falls under the jurisdiction of the superboard, or Alberta Health Services, has your department been able to maintain the same type of working relationship with Alberta Health Services that you previously had with an independent accountable AADAC?

Mr. Verlik: The short answer is yes. I mean, there have been some challenges as they've gone through the transition, but we have largely addressed all of those. We have key contacts that we're continuing to move forward on both the alcohol strategy and the responsible and problem gambling strategy.

Mr. Chase: Great. I'm pleased to hear that. I was worried that AADAC might get lost like mental health services within the large superboard.

When is the Alberta alcohol strategy anticipated to be fully developed and implemented, and are you able to provide any details on your working relationship thus far in terms of implementation?

Mr. Verlik: We have developed a strategy. It has been presented and approved in principle by our board and at the time the board of the Alberta Alcohol and Drug Abuse Commission. There have been some changes, as you've alluded to earlier. At this point what we're busy developing is an action plan, a budget, a governance structure by which this strategy might be implemented. We're still continuing to work on that. As you can appreciate, there are a lot of other ministries who need to be consulted as well in order to develop this action plan because there are lots of initiatives that are already covering aspects of the strategy. So we're hoping that we'll be moving forward in the next year, potentially, to bring this forward to government for further consideration.

Mr. Chase: Thank you.

The Chair: Thank you very much.

Mr. Benito, please.

Mr. Benito: Thank you very much again, Mr. Chair. The \$1.5 billion, if I'm correct, transferred to the Alberta lottery fund is not a small amount of dollars. So if we think this is helping the Alberta government in its economic development, I think we should all support your organization's endeavour to make more money for our province.

Now, you mentioned a while ago about 6,000 VLTs. If I understood you correctly – correct me if I'm wrong – this is basically '95-96, or more than 10 years old. What is stopping your organization from meeting the demand for these video lottery machines being requested by communities so that they will have more of these machines in different places? Do you need new legislation to do this so that we could increase the number of VLTs? If you are making money, if there's new legislation, I think that's my job to make sure that we help you. At the same time, as mentioned in my first concern, we have to make sure that the social responsibility initiative, you know, equates a certain percentage of the dollar that you're giving back to the community. So do you need any help for new legislation to meet this purpose?

Mr. McLennan: In approximately 1995 there was a committee that reviewed gaming in general, and at that time one of the recommendations that came out of that was that there would be a cap of 6,000 on VLTs in the province. That cap is a government decision, and it has been maintained since that time. As a result of the cap and demand, we have, I believe, at the present time about 75 licensed premises in the province that would like VLTs, and the wait time is two to three years to get those VLTs, to get through the list. It's government direction on a cap of 6,000 VLTs.

11:30

Mr. Benito: Thank you very much for that answer, Mr. McLennan.

I hate to ask my second question, but I made a promise to some of my constituents, so I'm going to ask this anyway. This is in regard to achievement bonuses for the executives of your organization when targets are met. Can you elaborate? You know, is this part of the deal on your employment? Any information that might help my constituents will be appreciated.

Thank you.

Mr. McLennan: Yes. We operate under government direction, the processes, the policies of government. As mentioned earlier, our chairperson reports through the Solicitor General. The bonus structure that is in place for the management and opted-out employees, excluded employees, of the Alberta Gaming and Liquor Commission are the same policies that apply for government. In the 2008-09 fiscal year 214 employees received a total of \$1,268,000 in bonuses, which equates to about \$5,900 per person. It's made up of 90 excluded and opted-out systems people, excluded clerical help, executive team, the balance being the managers in the organization.

Mr. Benito: Thank you very much for that information.

The Chair: Mr. Mason, please, followed by Ms Woo-Paw.

Mr. Mason: Thanks very much, Mr. Chairman. I'm looking at your 2007-08 annual report, the Alberta lottery fund financial statements on page 83, notes to the financial statements. There's a line here indicating the transfer under the horse-racing and breeding renewal program. In 2007 it was \$41,767,000, and for 2008 it's \$35,709,000. Can you please explain the purpose of this program and how it came about and what we can expect in the next several years?

Mr. McLennan: Yes. The horse-racing renewal initiative program is a government program that was set up to assist and benefit the horse-racing industry in Alberta. The funds for this program are a result of racing entertainment centre licences that are handed out in the province. At the present time there are three: Edmonton, Grande Prairie, and Lethbridge. Of the revenue of the slot machines, 15 per cent of that money goes to the operator. The 85 per cent goes into the Alberta lottery fund. From the Alberta lottery fund 51 and two-thirds per cent goes back to the breeding initiative through Horse Racing Alberta to spend it on those programs. That money is managed by Culture and Community Spirit. We administer the lottery fund. We put the money into the lottery fund, and we then give it to the different departments to use. We don't control that money.

With regard to the reduction in revenue from 2007 to 2008 it's a result of horse racing at the Calgary Stampede ceasing and fewer slot machines and less revenue.

Mr. Mason: It seems that horse racing as an industry has been in decline for some number of years, and I'm just wondering if there are goals and objectives of this program that can be, I guess, quantified.

Mr. McLennan: That would be Culture and Community Spirit. They would respond to that. Our job is to license the racing entertainment centres. We own the slot machines. We transfer the money to the lottery fund, and then it goes to the other departments. So I can't respond to that question.

Mr. Mason: Thank you.

The Chair: Ms Woo-Paw, please, followed by Mr. Kang.

Ms Woo-Paw: Thank you. I see that the funds allocated to different ministries vary from year to year. I'd like to know: what is the process used to determine the allocation?

Ms Hammond: Every year AGLC co-ordinates the allocation of the lottery fund money through the different departments. It's sort of an iterative process. We ask the departments to identify which programs they see as being primarily community focused and which ones they would like to use lottery funds towards. That information comes back to us. We have a look through it and ensure that the program is, in fact, suitable for lottery funding money. The amount is completely up to the various departments as long as we have room within the lottery fund to allocate the money. As you know, of course, some programs receive greater overall funding in some years and less in other years, so the departments may choose to increase or decrease lottery funding for those particular programs as well.

Ms Woo-Paw: The major criterion is community focused.

Ms Hammond: Right.

Ms Woo-Paw: Thank you.

The Chair: Thank you.

Mr. Kang, please, followed by Mr. Quest.

Mr. Kang: Thank you, Mr. Chair. On page 62 of the AGLC report, other income of \$15.7 million: this amount is not clarified in notes 9 or 11. Can you provide the breakdown of the source of this \$15.7 million under other income, please?

Ms Hammond: The \$15.7 million is under the budget column. The actual for the year is \$20.8 million, and the details are provided in note 11. It indicates that other income is made up of interest revenue, licence fees, some miscellaneous revenue, gains on the disposal of property, liquor levies, those sorts of items.

Mr. Kang: Thank you, Mr. Chair.

The Chair: Thank you very much.

Mr. Quest, please, followed by Mr. Chase.

Mr. Quest: Thank you, Mr. Chair. Just looking at page 69, a note under other income, the very bottom line of the first statement is fines and violations. From 2008 to 2009 there's been about a hundred thousand dollar increase, fairly significant, \$144,000 to \$240,000. I'm just wondering what an example of those fines and violations would be.

Mr. McLennan: Yes. As mentioned earlier, we have our inspectors as well as the different police agencies going through the bars. A good example: our inspectors went into licensed premises and found a minor consuming in the licensed premises. The first offence of the

licensee would be a \$2,000 fine. Then it progressively goes up from there. From \$2,000 the next fine would be \$4,000, and after that we'd be looking at either suspension or, if it's serious, a cancellation of the liquor licence. Overservice of liquor, again, is a serious offence that there would be significant fines for as well.

Mr. Quest: Is the number of violations increasing or the amount of the fines increasing?

Mr. McLennan: Two things. The number of fines has definitely gone up. Ourselves and our board take the issue of violations, of offences, under both the liquor and gaming sides to be serious. Sometimes you can work with licensees, and they will work with you to prevent these things from happening. Other times you have to fine people to get their attention. We find that in the majority of our experiences once these people get significant fines or suspension, they conform to the rules and regulations.

11:40

Mr. Quest: Okay. Thank you.

The Chair: Thank you.

Mr. Chase, followed by Mr. Benito.

Mr. Chase: Thank you. The Auditor's recommendations from October 2008 to design and implement a comprehensive IT change-management policy have been a concern. Mr. Wylie indicated that the recommendations have now been accepted. I've got that correct, do I?

Mr. Wylie: The change management has been implemented, yes.

Mr. Chase: Okay. There's a significant gap or difference between accepting the Auditor General's recommendations and actually correcting the accountability problems pointed out. Mr. Wylie, because you introduced it, when will your department be able to verify that your recommendations have not only been accepted but effectively implemented?

Mr. Wylie: Well, just to reiterate, we had two recommendations. The change management has been implemented. We report that in this October report. The IT control framework: as was indicated, AGLC has started some work with Service Alberta, who has taken a leadership role in working not only with AGLC but other organizations. If you'll recall, our IT framework recommendations encompassed a number of departments and a number of agencies. Given the similarity in issues, Service Alberta was taking a lead role on that, and I know AGLC and others have come onboard in working with Service Alberta.

With respect to the specific timeline . . .

Mr. McLennan: I could certainly elaborate on that. This is a huge program. There are about 45 or 50 different areas to look at. Our staff are evaluating each one, going through, making changes where necessary. This program will take a number of years to develop. In the meantime, we're very confident that the controls that we have in place meet the needs of ourselves and Albertans so that our revenues are protected. However, we are working with Service Alberta and working on our own to improve these controls.

Mr. Chase: Thank you. Possibly, Mr. Dunn or Mr. Wylie, you may wish to respond to my supplemental or not. Previously it has been noted that almost one-third of the audits that the AG wished to

conduct were either delayed or cancelled due to lack of government funding. Are you concerned that your department's financial oversight has been compromised?

Mr. Wylie: With respect to AGLC, which I'll refer to today, no. We are doing, in our view, sufficient work to issue an opinion on the financial statements. We have undertaken significant work in the area of contracts back in 2003-2004, I believe, and presented a number of recommendations relating to contract management, which have been acted on by management. We are conducting a full audit, and it has not been hindered in any way.

Mr. Chase: Thank you.

The Chair: Thank you.
Ms Woo-Paw, please.

Ms Woo-Paw: Thank you. We are pleased to learn about the Alberta Safer Bars Council, and there will be an accreditation process happening – right? – fairly soon. Ensuring safety in these bar establishments is certainly very important, but ensuring basic respect and equal treatment for all patrons I think is equally important. Given the issue of racial profiling that has happened in some of our cities in the province and also that the city where I come from is now the fourth most racially diverse city in the country, I'd like to know whether the accreditation process would include the element of cultural competency.

Mr. Verlik: What I can tell you is that in our ProTect door security staff training program, with door security being the people who typically screen patrons at the door, we have worked with the Alberta Human Rights Commission to include information on exactly how to do that appropriately within that training program. I believe we've addressed it in that way.

Ms Woo-Paw: Thank you.

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

Mr. Mason: I'll pass, Mr. Chair.

The Chair: You want to pass? Okay.
Mr. Benito, proceed.

Mr. Benito: Thank you very much, Mr. Chairman. I've recently spoken to one high roller who plays the slot machines in Las Vegas, and she told me that she also visited Richmond, B.C. Her experience that was mentioned to me was that slot machines in Canada give more money compared to Las Vegas. When she played in Richmond, B.C., she was able to win \$162,000 tax free. My question is: in Alberta how much does every machine give to consumers? What per cent?

Ms Grimble: Per cent? Basically, in our slot network the average for the entire network is just over 92 per cent. There's a variety of percentages, but overall, out of all the terminals, it's about 92 per cent. In our video lottery network, for example, they're all the same. They're all set at 92 per cent.

In Las Vegas you might have a range, as you may or may not know. You know, I think they have to at least be 80 per cent, and you'll see slot machines at 104 per cent. They have a different strategy, of course, than we do in terms of our environment. All of

our slot machines on every property would run the same. We don't have some casinos that have a higher payout on the exact terminal than others. If you have a terminal named XYZ, it's the same payout for that machine in every one of our properties, and 92 per cent is the average.

Mr. Benito: Yeah. Thank you very much for that very important information.

I guess my last question for this meeting is very important for me. You might see this as just a normal question or a not very important question, but what is your organization's vision for the next 10 to 12 years? How do you see the gaming climate in this province for the next decade?

Ms Grimble: That's a great question. Obviously, we spend a lot of time looking at our industry and looking at the sustainability of a healthy industry in Alberta, you know, for the balance between the social responsibility and revenue generation. Certainly, enabling technology is very intriguing to us. I guess the way we would speak to it is in terms of providing an entertainment experience for our customers. We recognize that things like demographics change and people's interests change and their exposure to different things changes, and we would suggest that our industry should also be looking down the road, just like any other industry, to determine how those changes affect our consumer and that we should be prepared to position ourselves for the future. So it's a great question because there's lots of interesting innovation going on in our industry to provide more of an entertainment experience, and we're looking at that and trying to position ourselves to be ready for that, to sustain our industry.

Mr. Benito: Thank you very much.

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

Mr. Kang: Thank you, Mr. Chair. My question is about people who just buy lottery tickets: 6/49, Super 7, and now there is a max something.

Ms Grimble: That would be Lotto Max.

Mr. Kang: Lotto Max. Okay. You know, I think we have been focusing on people who go to the casinos or play VLTs. I'm sure that definitely there's addiction there, too, for the people who go buy lottery tickets. Have we been targeting those addicts as well from the AGLC point of view? Is there a number we have got on those people? Is that a problem you see that when it's \$10 million, \$15 million, or \$30 million, people just go crazy buying lottery tickets?

Mr. Verlik: Well, I think all forms of gaming have some level of risk, but I think that with respect to lottery products, it's probably the least likely to create problem gambling. It's a more benign product. With that said, we do provide information to our retailers about responsible gambling in their training programs. We also have information available at most of our retail premises. We're doing what we think is appropriate in that particular venue, but naturally as you move into forms of gambling that seem to be more problematic, our efforts do intensify accordingly.

Mr. Kang: Yes. The reason I ask the question, too – I do buy lottery tickets myself as well. I mean, everybody does, I believe. But I haven't seen anything on those lottery terminals saying, "okay;

this could be addictive,” or “you may get carried away buying lottery tickets.” You know, there should be some kind of education program for those people as well, and I haven’t seen anything. That’s why I brought the question up.

11:50

Ms Grimble: I think we do have – I mean, as Kent mentioned, not as strong as messaging, but we talk in any kind of advertising or discussion about lottery to play responsibly, so it’s really the same message in the same venues. We also talk to our retailers about the fact that, you know, you should be aware. Again, it’s proportionate to sort of the risk element, but there certainly is an overall awareness. It just grows depending on the venue and the product.

Mr. Kang: Yeah, but if we do, then I think we should blow up the fine print, so everybody can see it.

Ms Grimble: Sure. We’ll take a look at the font size.

Mr. Kang: Yeah. You know, look at the font size, please, so there’s some awareness out there on that.

Ms Grimble: Okay.

Mr. Kang: Thank you.

The Chair: Thank you.

Ms Woo-Paw, followed by Mr. Chase.

Ms Woo-Paw: Thank you. My questions are around some of the data you track. First, the level of application from schools over the past five to 10 years: has it increased or decreased or stayed the same?

Mr. McLennan: We don’t license schools. We license friends of the schools, or parent associations. Those numbers up until about a year ago were fairly constant. However, as a result of some decisions made by bishops of the Catholic church that they don’t want their parishioners to receive gaming funds, it has and will over the next number of years reduce the number of parent advisory groups, et cetera, that are choosing to earn funds from gaming.

Ms Woo-Paw: Secondly, whether you track the demographic information of that 1 per cent of the people who have problem gambling.

Mr. Verlik: I’d have to refer back to the 2002 study. I’m not sure, specifically, if cultural ethnicity is collected, but I do know that certainly age, income levels, the basic level of demographic information is collected.

Ms Woo-Paw: So is there a stereotype that Asian Albertans tend to have a problem with – because that’s the perception I have, you know, of someone of Asian descent, that there’s a problem in the community.

Mr. Verlik: You know, I think I’d refer that one to the Alberta Gaming Research Institute to address. I know they’ve done studies looking into those things, but I’m not familiar with any key findings there.

Ms Woo-Paw: Thank you.

The Chair: Thank you.

Mr. Chase, please.

Mr. Chase: Thank you. Battle River-Wainwright MLA Doug Griffiths has been taxed to go around the province and conduct community reviews as to the idea of the distribution of lottery funds, gambling revenue, et cetera. I look forward to the conclusions of that review. I would have liked it to have been an all-party committee, but so be it.

Recently Rocky Mountain House held a plebiscite which confirmed the town’s desire to keep VLTs out of their community. Is the responsibility for determining the number of VLTs left up to communities to decide?

Mr. McLennan: The number of VLTs in a community, first of all, depends on applications from licensed premises as to whether or not they apply for them. Second, the numbers of VLTs that are in each location are based on player demand.

The issue with regard to if you would like to have a plebiscite to remove VLTs is up to the municipality. They will have a plebiscite. If it passes, then the town council or the city council of the area, if they so choose, would write a letter, in our case to the Solicitor General and Minister of Public Security, asking that the AGLC or the government remove VLTs from the community. That would be a ministerial decision. In the past the ministers of the day have honoured the request from the municipalities and removed VLTs from those communities.

Mr. Chase: You’ve three-quarters answered this question: does your department have a requirement, or does it provide a regularly scheduled review or evaluation of the communities? You’ll know, obviously, that each community has so many VLTs. Now, is there a specific time other than a municipal election for a review of the number of VLTs either to be added or subtracted?

Mr. McLennan: We review that on a quarterly basis to determine the player usage in each facility. If it warrants it, we will remove VLTs from a premise. If it calls for additional machines, if we do have them available, we’ll add additional machines to that licensed premises.

Mr. Chase: Thank you.

The Chair: Thank you.

We have two members indicating they still have questions. In light of the time, if we could read them into the record, please, starting with Mr. Sandhu, followed by Mr. Benito.

Mr. Sandhu: Thank you, Chairman. The annual report, page 133, schedule 6, related party transactions. I don’t understand. It says, receivable from AGLC \$288,738,000. I need to know: what does that mean? If you look at the year 2008, it’s \$297,271,000.

Mr. Benito: Thank you very much, Mr. Chairman. My last question is about your communication strategy and communication action plan with reference to the enforcement aspects and social responsibility initiatives. Would you be able to tell us if you have a year program for this or a three-year program so that you can communicate to the people of Alberta your enforcement aspects and social responsibility initiatives? Thank you very much.

The Chair: Thank you. Are there any other questions from any of the members? Seeing none, I would on behalf of the committee like

to thank the delegation here this morning. We appreciate your time, and we appreciate your respect for the public accounts process. When you were asked to appear before the committee, you responded quickly, and you co-operated with the researchers in providing the necessary information. On behalf of the committee I would like to express our gratitude to you again and wish you all the best in your endeavours.

Thank you.

Mr McLennan: Thank you, Chair.

The Chair: Oh, excuse me, please. We will take a break, and we will resume at 1 o'clock in this room. Our meeting will continue with officials from the Agriculture Financial Services Corporation.

Thank you.

[The committee adjourned from 11:57 a.m. to 1 p.m.]

The Chair: Good afternoon, everyone.

Mr. Denis: Hello, Chair.

The Chair: Hello, Mr. Denis. How is the weather in Calgary?

Mr. Denis: It's always beautiful in Calgary-Egmont, and you can quote me on that.

The Chair: Yes. Thank you for that update.

I would like to call this portion of our meeting to order and welcome officials from the Agriculture Financial Services Corporation. We look forward to discussing your financial statements. The committee acknowledges the distance you have travelled today to meet with us, and we appreciate this. Also, on behalf of the committee and the research staff I would like to express our gratitude to you for your co-operation in appearing before the committee today. One agency, board, and commission that was invited to participate in these out-of-session meetings refused to accept our invitation. But you and your office have been diligent in providing information to the researchers as requested, and your appearance today we appreciate. Thank you.

Now, I would like to note that you do not have to touch the microphones. Our *Hansard* staff will turn them on and off for you. I would also like to advise that legislative committee meetings are now being audiostreamed for listening on the Internet.

We'll quickly, as is our custom, go around the table and introduce ourselves, starting with Mr. Quest.

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

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

Mr. Jacobs: Bryce Jacobs, Cardston-Taber-Warner.

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

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

Mr. Kang: Good afternoon. Darshan Kang, MLA, Calgary-McCall.

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

Mr. Benito: Carl Benito, Edmonton-Mill Woods.

Mr. Bell: Rick Bell, AFSC in Lacombe.

Mr. Klak: Good afternoon. Brad Klak, president of AFSC.

Mr. Jacobson: Merle Jacobson, vice-president of risk management.

Mr. Krishnaswamy: Krish Krishnaswamy, VP finance, AFSC.

Ms White: Ronda White, office of the Auditor General.

Mr. Dunn: Fred Dunn, Auditor General.

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

Mr. Sandhu: Good afternoon. Peter Sandhu, MLA, Edmonton-Manning.

Ms Woo-Paw: Hello. Teresa Woo-Paw, Calgary-Mackay.

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

Mr. Johnson: Jeff Johnson, Athabasca-Redwater.

Mr. Olson: Hi. Verlyn Olson, Wetaskiwin-Camrose.

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

The Chair: Hugh MacDonald, Edmonton-Gold Bar.

I understand, Mr. Klak, that you have a brief opening statement regarding your 2008-09 annual report and your consolidated financial statements. Please proceed.

Agriculture Financial Services Corporation

Mr. Klak: Thank you, Mr. Chairman, and good afternoon to all the members. We're pleased to be with you today to discuss the 2008-2009 annual report as well as the Auditor General's recommendations related to AFSC.

The team here has introduced themselves. The only title that wasn't introduced is that of Rick Bell, who is our vice-president of lending. Along with myself they look forward to answering any questions that the committee has for us.

As you're probably aware, AFSC delivers a number of risk management programs: agri-insurance, straight hail insurance, wildlife damage compensation, agristability, agri-recovery, cattle price insurance, which is a brand new program for us that we call CPIP, and of course ad hoc programs as they are given to us by the government. In terms of the AgriInvest program we also support the federal government in that initiative.

AFSC also delivers lending programs in conjunction with the risk management side of our business. Their core purpose is the provision of better access to capital for primary agricultural producers, agribusinesses, value-added industries, and rural businesses. AFSC offers supplementary lending products to address market gaps in commercial lending. So our focus, a little bit unlike other banks and financial institutions, on the lending side of our business is to offer longer term, fixed interest rate loans to agricultural producers to mitigate the risks of inherent variability and to provide and source capital for new and expanding commercial value-added industries who are normally considered a high risk by conventional lenders.

Today, just in terms of a snapshot of the corporation, we have 50

local offices all across Alberta, from Fort Vermilion in the north to Cardston in the south, approximately 700 staff, 211 commissioned hail agents. In 2008-2009 we had approximately \$1.3 billion in annual revenue. Our carry-over surplus in our crop insurance account was roughly \$925 million.

Again, just a few of the highlights for the past year. We insured 13,000 producers who carried crop insurance on 12.5 million acres of annual crops. That has been going up. The number has stayed relatively the same in terms of the number of acres, but we have seen consolidation in terms of that land base, with fewer farmers. That roughly equates to 70 per cent of seeded crop acres in Alberta being covered in 2008.

The increased commodity prices in 2008 resulted in an underlying risk or liability that we insured of approximately \$2.7 billion. The value of that crop has continued to increase quite dramatically when you think that in 2006 that underlying potential liability was \$1.6 billion. By 2008 it had increased by approximately \$1 billion, which reflected some really steep increases in commodity pricing, which has somewhat mitigated over this past year.

We had record hail damage in 2008-2009, that resulted in a total, if you include both parts that you can have hail insurance under – a straight hail program as well as a hail rider on our multiperil program – of over \$250 million in hail damage, which was an all-time record since we started offering hail insurance 70 years ago.

We introduced individual coverage last year for producers, which based yield coverage on a producer's actual yield history. It promotes and rewards best practices. It was strongly supported by our clients in moving in that direction. We delivered the agri-recovery program along with the federal government: \$16 million to seed potato growers who had been affected by the potato cyst nematode. A big challenge for us but something that we were proud of is that we delivered \$300 million in government of Alberta funded benefits through the AFRP 2, or Alberta farm recovery plan 2 program, in conjunction with and supporting the Alberta livestock and meat strategy.

Our total lending for last year was \$282 million and has steadily been increasing. Five years ago it was \$180 million. Last year it was \$282 million, and for the first six months of this year we've already breached \$200 million.

Our financial results, again, very quickly. We had revenue of \$1.3 billion, expenses of \$1.13 billion, a surplus of \$163 million. As I said, our lending for this year has already eclipsed – I think we can probably talk about that maybe in some of the questions, but our lending is already very strong, probably due to the economic circumstances that our key clients find themselves in.

We have a network of internal controls and systems to ensure program integrity and effective use of taxpayers' dollars. I think I'm a little wary because the Auditor General is right to my right, but AFSC does have, in my opinion, an excellent track record of minimizing the number and seriousness of recommendations from the Auditor General and also acts on audit recommendations aggressively. Our goal is to not have any audit recommendations repeated from one year to another, so when we accept a recommendation, we do something about it.

Perhaps in the questions we can get into and talk about how we ensure program cross-compliance and how we go after people who are abusing our programs: what we do if we think that there are problems in terms of the activity of some of our clients, what we do about them and their agents.

Mr. Chairman, I could go into some of our feedback on the recommendations from the Auditor General, but perhaps I'll wait for questions on those.

Maybe I'll just close by saying that we're proud of the work we

do across Alberta to assist farmers, agribusiness, and small business to manage those risks that they face and also to serve their financing needs. If you went through our annual report, you'll see that our three main themes are to continue to be a provider of choice, a partner of choice, and an employer of choice. I think we made some significant progress last year and into this year. Again, I look forward to your questions and feedback on that.

Once again, it's a privilege and an honour for us to be in front of this committee, so we look forward to your questions. Thank you very much.

The Chair: Thank you very much.

We have a list. Mr. Chase, followed by Mr. Olson, please.

Mr. Denis: Can I get on the list, please, Mr. Chair?

The Chair: Yes, sir.

Mr. Dunn: Mr. Chairman, do you want Ronda White to read in our report?

1:10

The Chair: Oh, I'm sorry. I'm getting ahead of myself. Yes. Please proceed.

Ms White: Mr. Chairman, the results of our audit of the corporation start on page 168 of our October 2009 report. This year we made three recommendations to the corporation. The first one is that the corporation needs to complete an IT risk assessment and implement controls to mitigate the risks identified. The risk assessment needs to be linked to the corporation's business plan. This is particularly important because the corporation relies significantly on information technology to deliver all of its programs and services. Without a complete IT risk assessment and control framework the corporation may not be able to rely on the completeness, accuracy, and validity of all its information.

We've also recommended that the corporation perform an analysis of potential debt restructuring opportunities and quarterly reviews of the market value of its investments portfolio. Both of these recommendations are important to improving the financial management and reporting practices of the corporation. The committee may want to ask management, as Brad has referred to, about their plans and timelines to implement these recommendations.

On page 169 we also report that the corporation has implemented our prior year's recommendation to improve its controls over the use of wireless technology, and on page 337 we have identified that the corporation still needs to complete implementing our recommendation to improve its loan loss allowance methodology. Again, the committee might want to ask what steps have been taken and what the status of the implementation of this recommendation is.

Those are my comments, Mr. Chairman. I'd be happy to answer questions.

The Chair: Thank you.

Any questions for the office of the Auditor General at this time? Okay. We will proceed. Mr. Chase, followed by Mr. Olson.

Mr. Chase: Thank you. I'm very aware during these recessionary times of having to pinch every penny and make it go as far as it can go. We've lost \$80 million in Education and Children and Youth Services. I'm a former teacher and a grandfather. As it says on page 20 of the report, the Alberta farm recovery plan 2 paid out \$282 million in claims in 2008. I have no doubt that the recipients were

very grateful for the compensation for either lost cattle or lost crops and so on, and I'm sure it's very deserving. Rather than a question, it's kind of a request. Can the department provide a breakdown of approximate payment amounts and how many producers received the various amounts? I'm not looking, you know, into the specific privacy issues, but what I would like would be a chart provided of ranges of payments and how many claimants fell into each of those categories, just a way of sort of displaying and accounting for that money.

My second question: what is being done to mitigate the potential of overspending on AFRP phase 2?

Mr. Klak: Thank you for the question. On the first point I think that as long as it was compliant with freedom of information and protection of privacy, no problem. We could provide that for you, and we can do it in such a way – there was a tremendous amount of challenge in going through AFRP 2. One of them was that we had a discrete amount of money to spend, a maximum of \$300 million. In order to do that and to be open ended so that producers – we were using the CAIS or the agristability database that we have, but the government also asked that producers that did not participate in agristability could also participate in AFRP 2. So, you know, you make estimates as to how many producers are potentially not participating in your programs, and you put some contingencies together.

This is getting into your second question, with regard to overspending. What we did, really, to mitigate it – and that was part of what we worked on with the government – is that we said that it's going to go out in two tranches. With the first tranche there was some compliance that the government applied to it as well. It's probably the first time in my experience that the government tied the second part. So we judged \$150 million; I think we went closer to about \$180 million in the first tranche because, again, we were sort of getting a feel for how many. We found that there were almost 5,000 producers – and these are livestock producers – that were not participating in the agristability program.

So we learned from the first tranche, and then what we did on the second side to keep us within that spending envelope was to pro-rate the second payment. Some of the producers were not pleased about that because our goal was to roughly do it on a 50-50 basis for those producers that complied, and the compliance was around age verification and premise identification. But we thought it was probably the most prudent way to be able to maintain that because, quite frankly, if it wasn't for that, the program expenditures would have gone, you know, not significantly, but tens of millions of dollars over the \$300 million.

Mr. Chase: Thank you.

The Chair: Thank you very much.

Mr. Olson, please, followed by Mr. Kang.

Mr. Olson: Thank you. Thanks for being here today to provide us with this information. I'm interested in your commercial loan portfolio. On page 16 of your annual report you talk about how it has grown to \$198 million. I think I saw somewhere that that's a \$50 million increase. Regardless, I wonder if you can talk just a little bit about the commercial loan portfolio, what makes it attractive to commercial entrepreneurs, and what the considerations are that go into that program in terms of putting you in competition with other traditional lenders.

Mr. Klak: I'll ask Rick Bell to answer that question if that's all right.

Mr. Bell: In terms of the competition with other lenders we prefer to see ourselves as a partner. We tend to take a chunk of a larger project, but the bank wants to take on so much risk and have asked us to take on, you know, another portion of that risk. We don't tend to see ourselves as competitive with other financial institutions. We like to see other financial institutions use us as a referral agency for loans or deals that they feel are too risky or just loans that because of economic conditions or other conditions, because of being in certain segments of the industry, they're not interested in right now. That's business that AFSC should do.

Our interest rates are not overly attractive. They're competitive with other financial institutions right now. I think it's probably the terms and conditions and the types of loans that we make that make it attractive for clients to come and do business with AFSC.

Mr. Olson: Could I be permitted a short supplemental? Thank you. Can you talk a little bit about the type of enterprises that you'd be lending money to? Like, does this support diversification and value add in the agricultural community?

Mr. Bell: Absolutely. We actually introduced a program in September of 2007 – it was the value-added and agribusiness program – to basically address those clients that could access that program. I can tell you that this year we've done \$30 million worth of business under that loan program. In terms of the types of businesses that we do business with: food processors, manufacturing industries, retailers, wholesalers, hospitality, accommodation, food services, construction, everything but oil and gas exploration or development and the residential housing industry, of course, which is the bank's business.

Mr. Olson: Thank you.

Mr. Kang: My question is: what best practices are used by the AFSC to determine which livestock producers qualify for funding through AFRP? What are the criteria, or what is the best practice?

Mr. Jacobson: Thank you. There were three main eligibility criteria. First of all, they had to actually be operating a farm in Alberta in 2007. The second part, then, was that they had to identify their premise. They had to register their premise identification and register the age of their animals. Those are the three criteria that producers under the Alberta farm recovery plan had to complete in order to be eligible for the payments.

Mr. Kang: My supplementary question is: how many, if any, claimants were refused funding or did not qualify for the funding, and what were the reasons for denying? You know, are those the only reasons, or were there some other reasons?

Mr. Jacobson: Out of the producers that received the first payments – that's where they had to be farming in 2007 – there were about 600 producers that did not either ID their premises or age verify their animals, so they did not receive the second payment.

Mr. Kang: Thank you.

1:20

The Chair: Thank you very much.

Mr. Jacobs, please, followed by Mr. Chase.

Mr. Jacobs: Thank you very much, Mr. Chairman. Gentlemen, the subject of crop insurance is certainly an important consideration for

most producers in Alberta, and I think most producers, the vast majority, subscribe to some kind of crop insurance. One of the issues that's always out there with producers is yield and establishment of yield and condition of the crop, et cetera, because that relates to the payment they receive. On page 15 of your report you state that you implemented some changes to the method for setting yield coverage, and this new method resulted in 80 per cent of producers receiving the same or higher coverage. Are there some crops that are benefited more from these changes, or is it across the board to all crops?

Mr. Klak: It was really across the board to all crops. It was something that we had been working on for probably three or four years, to move to individual coverage. Essentially, what it does is that rather than producers being able to set their coverage based on the area yield, we actually set it based on their own performance. Producers have been asking for that for many years, especially to incentivize the best, not the lowest common denominator but some of the best producers. They said that, you know, they really deserve to have coverage set based on their own results, not on what was happening in their area, which is one of the reasons why we are a technology or an IT dominant organization now. We needed to have the technology to be able to do that.

It wasn't so much that the crop mix has changed, which it has done, as you've seen, especially the emergence of canola – and you've seen some of the risk areas and the crop production in those areas change – but it was more a recognition of the fact that producers were asking for their coverage to be set based on their own results. We do have a methodology for new producers or producers that don't have historical yields so that we'll give them the area average, and then we'll cushion them into their own yields as well.

We were worried, as we always are. We say that 80, 85 per cent set the same or went up. That means that we've still got 15 per cent or so that would have gone down. I think we heard from some of them – we go out and hold fairly substantive discussions, as you're probably aware, through our input advisory group meetings out in the country – but the vast majority of the feedback that we got was almost unanimous that this was exactly what producers were looking for, and I think that's even showing up now, you know, even in some harder times. Last year was a bit of a different situation for the producers. This year, being a much more challenging year for them, I think a lot of producers are happy with the way that they're setting their rates.

Mr. Jacobs: A supplemental if I may, Mr. Chairman. You mentioned that you have a different or a special formula for new producers or those who may be starting out farming. Could you be more specific as to how that works? It seems to me that that would be a real challenge for a new producer moving into an area or a son taking over a farm or whatever. Although there would be historical data there, it could be that it's different management. So how do you actually work or what formulas do you use to help new farmers get into the program?

Mr. Klak: I'll let Merle answer that one.

Mr. Jacobson: On the first part, if the second generation was actually involved in the management, the historic yields, then, would actually flow through to them. But if you have someone that's brand new or just starting out – another change when we put individual coverage in is that previously we had the province divided into 21 kind of risk zones, so extremely large areas. The yields were all

averaged throughout those risk zones, so you had some tremendous leveling happening. When we put individual coverage in, one of the areas that we examined was for new people coming in, to make it much more responsive and reflective of the production capacity capabilities of the area. So we went down to a township, a six mile by six mile area, and established what is an expected yield for all the crops in that township. That, then, is for someone that's new. They would actually receive that as their starting number for coverage. Then after a five-year period they would actually be on their own yields. We wanted to make it much more responsive to the area that they were in.

Mr. Jacobs: Thank you.

The Chair: Mr. Chase, please, followed by Mr. Denis.

Mr. Chase: Thank you. I'm referring to page 16 of the Agriculture Financial Services Corporation annual report 2008-09. When so many ministries are facing major cutbacks, a billion-dollar deficit in health, cuts I mentioned previously to education, a nurse shortage all of a sudden turning into a nurse surplus, I note that the report states that AFSC has a surplus of \$163.5 million in 2008-09. It states, "Mainly due to lower crop losses than premiums for the year" and that "the surplus balance carried over increased to \$925.6 million." In 2005 the surplus reported for AFSC was \$287 million. It has more than tripled in just four years. Therefore, my question: why does the budgeting for AFSC continue to result in such significant surpluses? What is being done to improve budgeting practices when so many other ministries by comparison are hurting?

Mr. Klak: There are two sides to that. It's a challenge to try to explain as an insurance company and as a consolidated entity within the government of Alberta. When you look at the surplus, you can say: well, is that a matter of poor budgeting? We work very closely, as you know – the federal government actually contributes about 60 cents out of every dollar to everything from our administration to all of the significant programs, the AgriStability and the crop insurance programs.

We set it on a methodology that from an actuarial standpoint, which is sort of a very, very technical math standpoint, it looks at being at zero over a 20-year period. What we've seen is really almost unprecedented. We totalled the fund. In the droughts of 2001 and 2002 we actually wiped out all the fund balance, and we had to borrow money from the government of Alberta because, again, we had almost back-to-back once in a hundred years events. What the actuaries will tell you is that in order to defend yourself against adverse circumstances – you know, the once in 50 years or the once in 60 years events – you need approximately two to two and a half times premium value in your fund to be able to do that. Our premiums are approaching around \$500 million, so that would equate to a fund balance of somewhere between a billion dollars to \$1.5 billion. If we operated like a private company, which we do in some respects, it's a healthy balance for us to face years like this, which will likely be a year where the fund tips over and pays it out.

It's not so much a matter of fine-tuning our budgeting so that, you know, we get to zero. What we do is that we try to make sure that we're not – and the other side of the equation as producers because producers say, as Mr. Jacobs and others over there will say, that if you've been able to build a fund balance from zero in 2002 to almost a billion dollars in 2009, you're charging me too much. The reality is that we almost had unprecedentedly good crops after those droughts until this year. It came back faster than anyone and the model would – and the model responds, again, over a 20-year

lifespan. We have seen producer premiums ratchet back, but we saw a significant increase just to deal with the fact that the fund was gone. So it's a bit of a challenge in terms of accounting practices and understanding, but that fund balance isn't a result – I wouldn't want to leave you with that impression – of poor budgeting practice. We budget in order to withstand sort of the vagaries of the risks that our producers face.

Mr. Chase: Well, I want to credit you on using mathematical formulas, on using actuarial details so that you can compensate from year to year the years of plenty and the years of few. Unfortunately, when it came to education this year, there was a potential 11 per cent clawback of school board budgets, so I wish the same type of reasoning was applied to other ministries so that the years of plenty and the years of scarcity were balanced.

Anyway, back to the question with regard to the billion-dollar surplus. If there were lower crop losses and premiums in 2008-09, which is the reason given for the surplus, why did the amount of loans and funding provided by the AFSC increase? You've partially answered this: why didn't you redirect the funds from the almost billion-dollar surplus? It seems to be a very large surplus to be carrying even based on actuarial details. Will we sort of cap it at that point, or can we expect similar growth in the next four years?

1:30

Mr. Klak: As I mentioned, it's hard to keep up when you've seen the underlying risk increase at the levels that we've had. This year we're underwriting over \$3 billion worth of potential loss out there, you know, from a potential loss standpoint, and this year is still in the works. What you're going to see again is the efficacy of being able to have that fund balance, which I think you referenced.

I should be clear. The lending side of the business and the insurance side of the business: there's a wall between those two sides, and there has to be. The one is a public-private partnership, really. It's tripartite between the producer, the federal government, and the provincial government. We have to account for that. We have to account for the administration of the fund very differently. The lending side of our business – this is always a challenge because I get arguments between my executive team – really pays its own way. The rates are set. We may offer rates that are below market, but because we borrow from the provincial government, we attach to their borrowing rate, which is probably one of the best in the world, so all we do is put a small administrative load on top of that, which makes us able to offer, you know, our lending services out there.

You've seen the growth on the lending side completely separate from the other side, but the circumstances are the same. You see farm land continuing to increase in value. You see a lot of consolidation going on in agriculture. You've seen the need for, you know, an appetite for risk, really, in agriculture almost fall right off of the map with the financial crisis. So that's what's been driving – I think last year there was some of that starting to show up in our portfolio. This year it's absolutely there due to the fact that we're all in agriculture. I think, again, the efficacy of having an organization like AFSC to be able to constantly provide those types of products and services is there.

The Chair: Thank you very much.

Mr. Denis, please.

Mr. Denis: Thank you very much, Mr. Chair. Mr. Chase has actually asked most of my inquiries, but I just have one further question. I'm wondering if you could talk about the set procedure

for how you use surplus funding. Is this on an annual basis? Do you do it on a rolling average? Basically, how do we get to a situation like we've had here today?

Mr. Klak: Just a clarification. Is that with regard to the accumulated surplus?

Mr. Denis: Yes. The surplus on page 25. Mr. Chase has asked most of my other questions, so feel free to abbreviate a response.

Mr. Klak: I'll have Mr. Krishnaswamy answer that one.

Mr. Krishnaswamy: The surplus of \$925 million has been built over a period of time, as Brad has explained. Most of the surplus is out of the insurance programs, and in a year where you have a loss that's less than the premium, the amount of surplus is set aside for paying claims in a record year. This surplus of \$925 million is not actually calculated as a targeted surplus, as normally happens in kind of a private company. This surplus comes about because the losses are lower than what we anticipated.

In terms of how the losses are budgeted for, we take a long-term, historical loss-to-premium ratio and budget for the losses for the year relative to the premium. The actual loss in a particular year is dictated by the weather conditions, and if your losses are lower, they'll roll over to the carry-over surplus. The carry-over surplus is invested by the corporation through AIMCo, or Alberta Investment Management Corporation, and the income derived from the investments is rolled back into the crop insurance operations.

I hope I answered the question.

The Chair: Mr. Denis, do you have anything else?

Mr. Denis: Just a supplemental here. Like, is this done on an annual basis, or is this done on a rolling basis over a number of years?

Mr. Krishnaswamy: It's on a rolling basis over a number of years.

Mr. Denis: How many years?

Mr. Krishnaswamy: For actual calculation purposes, as Brad was telling us, over a period of 20 years, but this \$925 million has been built up over a period of seven years now.

Mr. Denis: Thank you.

The Chair: Thank you very much.

Mr. Kang: On August 6, 2008, it was announced that the province would be committing \$9.4 million with the help of the federal government contributing an additional \$14.1 million to help Alberta seed potato growers affected by the potato cyst nematode. How many growers received this funding, and what was the breakdown, like, per grower, and what was the average payout?

Mr. Jacobson: I know there were 39 producers. I don't have offhand what the breakdown was. They were spread out from north of Edmonton all the way south to Lethbridge. There is an area northwest of Edmonton that has actually been restricted from growing potatoes because of the potato cyst nematode.

Mr. Kang: Okay. Were there any follow-up measures, you know, in place to ensure that the funding was appropriately used and all the funding was effective? Did this funding work?

Mr. Jacobson: To answer the first part of the question, to actually verify if the payments were correct, we did two processes. One was we went out and actually measured the seed potatoes that producers had in storage that were going to have to be destroyed. We actually measured: what was their volume? Once they had actually destroyed them, we went and confirmed the method and how much they had destroyed, and then the compensation was based on that. So we actually did two on-farm inspections to verify the amount of potatoes destroyed before we made the payment.

The Chair: Thank you.

Ms Woo-Paw, followed by Mr. Chase.

Ms Woo-Paw: Thank you, Mr. Chair. My first question is on the outstanding recommendation that has been there since the 2006-2007 report, which is to address the loan loss allowance methodology and process. I'd like to know whether you have any plans or processes in place to address this.

Mr. Klak: With regard to that, we should almost get the Auditor General's office to speak to that as well. You can read it from a variety of angles. What we want to do is make sure that it's accurate. We've been working closely with the Auditor General to ensure that the security values reflect realistic values. I think we've made significant progress. We're on track to have that recommendation removed this year. I think that would be fair to say, Auditor General's office.

Ms White: Well, we have assessed that some of the changes in terms of the historical loan loss and updating the methodology have occurred. There's been progress. From the last status report it looks like the majority of those issues should be resolved this year.

There is one outstanding item that I think will take more time, which is to get historical loan loss experience going over a number of years, to factor that into the methodology. That's my understanding.

Mr. Klak: The historical data for linking causes for loan losses is in the process of being collected. Again, because we've got to correlate that to current data, it's going to take us several years to do that. I think there's recognition that it's going to take us some time, but we're in the process of gathering that.

Ms Woo-Paw: Thank you.

The Chair: Thank you.

We'll move on to Mr. Chase, followed by Mr. Sandhu, please.

Mr. Chase: Thank you. I'm referencing page 17 of the Agriculture Financial Services Corporation's 2008-2009 annual report. I'm specifically talking about some of the difficulties associated with the CAIS program, that the province administers on behalf of the federal government. Going back to 2003 and the BSE crisis, large American slaughterhouses with significant feedlots received a terrific amount of the CAIS payments, whereas small producers received considerably less. In a lot of cases the average seemed to be about \$1,600. On page 17 it states that due to incorrect information there was overpayment to some CAIS-AgriStability participants. What was the total amount of overpayment to the CAIS-AgriStability participants in the 2008-09 fiscal year?

1:40

Mr. Jacobson: In 2008-09 there were just a few million dollars of

overpayments. The majority of overpayments, like you said, occurred previously. Most of the ones that occurred in 2008-09 were related to the hog industry, where we had made advance payments under AgriStability to the hog producers. Then when the government took and implemented the Alberta farm recovery plan 2, which basically increased their revenue, in lowering their AgriStability payment we did incur some overpayments from that.

Mr. Chase: Right. I'm very aware that this year was the hog equivalent of BSE, with H1N1 and so on and the false blame attached. My concern is that when people are at their lowest financial circumstance and they receive the cheque that gives them hope, and then they find it's an overpayment and they're required to pay it back, just the effect on the family, not on their finances but on their psyche, must be tremendous.

How much was recovered by the AFSC, and what were the reasons for any overpayments that are still outstanding?

Mr. Klak: The biggest reason for overpayments really relates, as you referenced, back to the BSE years. We implemented a program then – you talk about hope and despair – and it was sort of at the trough of the cattle price. So we expedited some payments, and we did what we call an equity advance at that point in time. We were asked to do that in order to try to provide some support in the country. What ended up happening from the time that the payments were made is that markets responded, things did come back up – that was under the CAIS program, not under AgriStability – and when we reconciled it, we had, oh, I think at the time maybe \$150 million worth of overpayments to all – large, small, you name it – producers. We tried to do as you said. In collecting that, we made a conscious effort. I think our collections now of that are probably \$34 million still outstanding dating back to that era. Now, there has been some accumulation, but we do try to do our best to mitigate it. Those were the circumstances that caused it.

We also gave producers an interest-free period. We were trying to be as generous as we could to give them an opportunity to build back their operations before we were going to ask for it back. Many of those producers had probably four years or so of interest-free cash available to them. As you said, it was really through no fault of their own that they got into the program, so we in the government of Alberta supported that type of a collection process.

Mr. Chase: Well, thank you for spreading it over four years. That's very helpful.

The Chair: Mr. Sandhu, please.

Mr. Sandhu: Thank you, Chair. Looking at the annual report for 2009, page 130, the cash flow indicates that borrowing from the province of Alberta has decreased from \$791 million in 2008 to \$113 million in 2009. It seems like you're doing a very good job on that part, and I just want to know: what does decrease borrowing activities?

Mr. Krishnaswamy: You're referring to the cash flow statements of borrowing?

Mr. Sandhu: Yes.

Mr. Krishnaswamy: We borrow through the government of Alberta only to the extent it is required to breach the gap between the repayments of loans on the existing portfolio and the new lending. The amount that has been changing here – in this year particularly

the cash flow has been higher because we had a portfolio of 7 and a half per cent interest rates. Market rates are still a lot lower than that. A lot of people are paying back those loans. We don't have any prepayment penalty on the loan portfolio, so there are a lot of payments coming back. So the need to borrow through the government of Alberta has been much lower than in previous years. That is the main reason why it has been lower from the previous year.

Also, in the case of borrowing we borrow on what we call bullet terms, where the total principal repayment is due in a particular year. If in a particular year the total repayment is due and we will not be able to collect all the money that is required to pay back the debt, we may have to borrow more in that year to pay back the debt. In a year where there is not a huge principal repayment due, you will find that we borrow less. It's kind of matching the cash flows.

Mr. Sandhu: Thank you.

The Chair: Thank you very much.

Mr. Kang: Page 21 of the 2008-09 report shows substantial decreases in the losses seen in satellite yield insurance, Agri-Insurance, from 118 per cent in 2007 to 19.8 per cent in 2008, and in moisture deficiency insurance, pasture, from 130.9 per cent in 2007 to 71.3 per cent in 2008. However, there was no major difference in the number of contracts. What was done to achieve these numbers in such a short span?

Mr. Klak: It rained, quite honestly. Producers took the program, but in 2007 we were still recovering, and we had some very, very dry areas, especially down in that southeast corner, which was still recovering from drought. We had good moisture conditions. That's the reason.

Mr. Kang: So you pray for rain.

Mr. Klak: That's why there are so many churches in rural Alberta.

The Chair: Mr. Dallas, please, followed by Mr. Chase.

Mr. Dallas: Thanks, Mr. Chair. I'm looking at page 32 of the report, specifically note 4, a discussion of accounts receivable. The areas that I'm interested in are in the receivables on premiums, and I note that there's some change in the production insurance program receivable, a smaller amount in the hail insurance program but a large jump in terms of receivable. First off, I wonder if you could explain the reason that we run receivables to this degree on an insurance product. Secondly, I can't tell what the loss experience is at because it's cumulated with the doubtful accounts. If you can talk about some of the loss experience on the premium receivables alone.

Mr. Klak: I'll ask Merle to do that.

Mr. Jacobson: Sure. When you see that production insurance went from 8 and a half million dollars to about \$9.4 million, there wasn't a significant increase in the number of accounts. There was an increase, though, in probably the average amount of premiums that there were per individual, so that's where the increase would have come from. At this point here, the end of March, it represents about - 99 per cent of the accounts have been collected, and there's about 1 per cent or less that we have to take and carry on. Through that we have several methods that we use to collect, everything from a lien on grain to, you know, legal action against those individuals.

In the end our actually writeoffs of premiums - you know, our

premiums range between \$450 million and \$500 million. Our annual writeoffs are between \$500,000 and \$1 million worth of uncollectable accounts either through bankruptcies or other proceedings that they can do. At the end, you know, I don't know if you can calculate quite to the decimal place as to how small the actual writeoffs are.

Mr. Dallas: Mr. Chairman, if I might supplement, then. That does sound like a reasonable number. I guess if you could just quickly describe if in the insurance premium business it's normal to provide that service on a receivable basis and if you deem that writedown percentage to be an acceptable budgetable business expense.

Mr. Jacobson: Sure. I would say that most insurance premiums are payable up front. Within Alberta we've taken the position to take an offer of credit to producers for their premiums, knowing that any time you offer credit, there's a risk of uncollectable accounts. At the end of the day, given all the tools that we have in place to do the collections, we feel that the writeoffs that we have are very manageable and very, very consistent, so we're able to properly budget that, and it actually gets included in the actuarial calculation as well so that we're making sure that over time we have premiums that are able to offset said losses.

Mr. Dallas: Thank you.

The Chair: Thank you.

Mr. Chase, please, followed by Ms Woo-Paw.

Mr. Chase: Thank you. While I had a challenge with math 30, I do have a reasonable understanding of actuarials and mathematical hypotheses, and I appreciate the fact that you haven't sown asset-backed commercial corn. I'm referring to page 26 of the Agriculture Financial Services Corporation's 2008-2009 annual report, which states that the 2009 actual amount spent on indemnities is more than double the 2008 amount, increasing from \$421,204 to \$974,870. Can you explain the substantial increase? Maybe it's rain to drought.

1:50

Mr. Klak: That jump was caused by the ad hoc programs, by AFRP 1, Alberta farm recovery plan 1, and Alberta farm recovery plan 2. That's what makes up that difference.

Mr. Chase: Okay. Then this is probably the same part of the answer. What accounts for the 2009 actual of \$974,870,000 being so much higher than the projected budgeted amount of \$657,665,000, the determinant factors within phase 1 and phase 2 that led to that significant jump?

Mr. Klak: The situation was that by the time the budgets were set, the government was working on what it termed the Alberta livestock and meat strategy. The livestock and meat strategy was put in place sort of after the budget, and Treasury Board in that determination came afterwards. So when we take a look at where we were from a budget, we weren't anticipating that level of ad hoc assistance at the time. That's why you've really got an unexpected jump in terms of that number.

Mr. Chase: Thank you.

The Chair: Thank you very much.

Ms Woo-Paw, please, followed by Mr. Kang.

Ms Woo-Paw: Thank you. My question is from page 44 of your annual report. I see that there was a substantial increase in two expenditure areas. One is advertising, and the other is equipment rental and maintenance. Could you please explain what the purpose was of these increases?

Mr. Krishnaswamy: Mr. Chairman, the increase in advertising is because the corporation actually embarked on a marketing strategy in the 2008-09 year in terms of program promotion and so on. That's the reason why there is a substantial increase in advertising.

In the case of equipment rental and maintenance, we have an equipment rental and maintenance contract that comes for renewal once in three years kind of thing, and a new contract had been signed: a number of multiple-function photocopiers and fax machines and all that stuff. There has been a substantial increase in rates for those. That is the main reason why this equipment cost has gone up.

Ms Woo-Paw: My supplemental. Given the current economic situation would you continue to expend at this level in terms of the advertising costs, or are you exploring other communication media to reach your intended audience?

Mr. Klak: You have to balance it with the times, right? What we're trying to do with our advertising – we need to promote. We've got some new products and services, like the cattle price insurance program, and we need to be able to promote them so that producers understand them. Going into sort of austerity budgeting, everything that we have and all discretionary expenditures are under review for upcoming budgets. We try to stay current, and we try to be appropriate. For example, rather than going through the expenditures of printing paper copies of the annual report, we do it on the website, we do it through CDs. So, you know, we try to be as reasonable as we can in terms of it, but we have a mandate to go out there, and we need to inform our clients of what the changes are with our products and services so that they can take advantage of them. We just try to find the most cost-effective ways to do it.

Ms Woo-Paw: Thank you.

The Chair: Thank you. Mr. Klak, you can see if you look out the window that your prayers have been answered again.

Mr. Klak: Not if it hails, Mr. Chairman.

The Chair: It's too late in the year, hopefully.

Mr. Kang: On page 22 of the report it states that AFSC facilitated 26 capital sourcing projects with a total investment value of \$13 million. What are these projects, and what kind of role did the AFSC play to facilitate them, and how much funding, if any, was given to each of these?

Mr. Klak: Capital sourcing is a fairly new service for us, and we charge a fee for this. What we say is that if you're a rural business and you're looking for capital, it might be appropriate for AFSC to play a part, but it might be that in terms of magnitude or in terms of risk sharing we'll want to find other partners. So we'll enter into a capital sourcing arrangement with that company or with that entity and try to find them capital elsewhere.

I'm not sure. I think Rick could probably give you a couple of quick examples of the types of projects, but it's really dependent on the businesses that come to us and ask for that service. Again, we

charge a fee for that, and it's based on the amount of financing that they're looking for.

Do you want to give them an example?

Mr. Bell: That's right; it could be just about anything. We could have a client that comes in that owes us a particular amount of money that might be reaching our lending limit, and they need more money. It could be anything. It could be hospitality. It could be manufacturing. It could be food processing. So we'll actually go out and talk to other lenders and try to arrange the lending for them on their behalf. As Brad said, we do charge a fee for that.

Mr. Kang: So you're like CMHC or GE, then?

Mr. Bell: No. We're probably a bit like a broker when it comes to comes to those kinds of things.

Mr. Kang: Okay. My supplementary is: what competition or bid processes are used to determine which projects receive funding? Are there any criteria that you have for those businesses?

Mr. Bell: Well, a lot of it depends, you know, on the value of the project. I mean, if it's a substantial project that is beyond the amount of money that we would be able to lend, we will go out and we will try to find them the best deal. We'll contact various financial institutions, and we'll put together a proposal to take to them. We'll try to find the money for the client, you know, at the best deal for the client.

Mr. Kang: Will AFSC be on the hook in some way, shape, or form?

Mr. Bell: No, not at all, not unless we're involved with any partnership lending or direct lending on behalf of that client. There's lots of capital sourcing where we don't lend them any money at all.

Mr. Kang: So you're just like a mortgage broker. You get your fee.

Mr. Bell: Absolutely. Yes.

Mr. Klak: We want the business to flourish. We want it to be established, so we'll provide that service if we think it fits our mandate.

Mr. Kang: Okay.

The Chair: Thank you.

Mr. Benito, please, followed by Mr. Chase.

Mr. Benito: Thank you very much, Mr. Chair. Thank you very much to AFSC for coming this afternoon. Your time is appreciated.

I'd like to refer you to your 14th annual report, dated March 31, 2009, specifically to the waterfowl loss, page 21. Page 21 of the annual report states a significant decrease in waterfowl loss from \$2,323,000 in 2007 to \$975,000 in 2008. Can you please explain what contributed to this decrease?

Mr. Jacobson: Sure. The main risk around wildlife compensation is an extended harvest. So if the crop is still out in the field when the wildlife, especially waterfowl, starts migrating, that's when most of the losses happen. In 2007 it was exactly that. There was an extended harvest, so there was a reasonable amount of damage that happened, especially from ducks and geese. In 2008 there was a lot

more timely harvest. Most of the harvest in 2008, in fact, was done prior to any migration happening, so there was a significant reduction in the amount of claims that were filed by farmers for duck and geese damage.

Mr. Benito: My second question is about ducks. There is an industry that I know of. These ducks produce eggs, and these eggs can be produced into salted eggs. The question is directed to the lending division. Providing access to capital for farmers and agribusiness plus value-added operations is an important aspect of your being. That's the reason why you're in existence. By any chance, are you aware of any organization that applied for a loan from you for the salted egg industry and distribution?

Mr. Bell: Not that I'm aware of, no.

Mr. Benito: A follow-up question on that if I may. The mushroom industry in Alberta is a \$30 million industry. Is there any lending that you have provided to this industry that you are aware of?

2:00

Mr. Bell: Again, not that I'm aware of.

Mr. Klak: Not currently. I mean, they'd be eligible. In the past we have participated in lending to at least one mushroom operation that I'm aware of, but they're no longer in business, so they're no longer a client.

Mr. Benito: The tilapia industry also. It's a booming industry because it's very staple to the Asian community. Is there any lending that you're aware of that you have given to this?

Mr. Bell: Yes. We are involved with some aquaculture, fish-farming operations, and we are aware of a couple of clients that produce tilapia.

Mr. Benito: Yeah. The elk industry also. From a sustainable resource ministry going to agriculture, are there any members who are applying for any loans from your organization?

Mr. Bell: Not currently. We probably have some older, existing clients that still do business with us. We do have farmers that raise elk.

Mr. Benito: Thank you very much.

The Chair: Thank you, Mr. Benito.

Mr. Chase, please, followed by Mr. Bhardwaj.

Mr. Chase: Thank you. Mr. Benito's questions on eggs and mushrooms make me hungry for an omelette with a wild game barbecue on the side.

Referring specifically to note 13 on page 37, there was an increase in legal actions from \$180,000 in 2008 to \$880,000 in 2009. What accounts for this 400 per cent increase in anger?

Mr. Jacobson: Yeah. This increase relates to the number of legal actions that were taken against clients mainly around the Agri-Stability program, where we have a separate unit that completes compliance. There they'll examine all the source documents, information reported to one program versus another. If we're unable to come to repayment terms with the particular client, then we take legal action against them.

Mr. Chase: So it was government-initiated in terms of reclaiming overpayments?

Mr. Jacobson: AFSC initiative.

Mr. Chase: Right. Okay. Are you able to, without getting into specifics, talk about the generic nature of the legal actions? It all had to do with the overpayment reclamation?

Mr. Jacobson: No, they're different overpayments. These are where we've initiated an investigation into the particular client, where we believe maybe the information wasn't accurate or representative of what their operation was. So we took the action against them to verify whether what they had given us was correct or not, and in these ones we believe the information was incorrect and then are taking direct action, either civil or in some cases criminal action, against the particular clients.

Mr. Chase: And because I don't have an agricultural base . . .

The Chair: Thank you. We're going to move on, Mr. Chase.

Mr. Chase: Oh. Sorry.

The Chair: Mr. Bhardwaj, please.

Mr. Bhardwaj: Thank you very much, Mr. Chairman. Part of my question has been answered already. On page 44 of your annual report accommodation costs have increased by \$1.2 million. Could you explain that? The office accommodation is what I'm talking about.

Mr. Krishnaswamy: Mr. Chairman, AFSC has 50 offices throughout the province. Most of the locations we rent from the government, and we pay a rent that is set by the government, which is, I would say, perhaps, very concessional related to the market rates.

In some locations we have been asked to vacate because the government provides more priority to the departments or the ministries per se over the Crown corporations, so as a Crown corporation we've been asked to vacate a number of locations. Once you have to vacate a government building and go into private lease, the market rates prevail, and we have to pay in some cases three to four times the charge that we used to pay to the government. That is the main reason why the accommodation cost has gone up. I think it's likely to go up in the future as more and more government departments are demanding more space and locations and, being a Crown corporation, we are not given the same priority as others.

Mr. Bhardwaj: I think you might have answered part of my follow-up question, and that is: why is it budgeted to see a decrease in office accommodation costs in 2009 when the actual is more than 40 per cent higher than budgeted? So that could be part of the reason?

Mr. Krishnaswamy: Especially, yeah, same thing. In some cases the government gives us adequate notice of at least a year or two. In some cases they give a month's notice for vacating, and we have to somehow find some private accommodation and move out. So those cannot be budgeted for. We usually budget for the known stuff.

Mr. Bhardwaj: Okay. Thank you very much, Mr. Chairman.

The Chair: Thank you.

Mr. Kang: Referring to page 42, there was an increase in expenses for the AgriInvest and AgriStability programs from \$149,000,000 in 2008 to \$657,000,000 in 2009. What accounts for this increase, and why wasn't it anticipated in the budget?

Mr. Klak: Again, that was similar to my previous answer. That was the AFRP, farm recovery plan 1 and farm recovery plan 2.

Mr. Kang: Oh, I thought it was rain again.

Mr. Klak: No rain.

Mr. Kang: Okay. So how were these additional funds allocated?

Mr. Klak: Well, those additional funds were allocated specifically to those two programs. Again, it was after the budget had been set that the government decided the industry merited some ad hoc assistance. We worked on the design of it. We helped put the program parameters together. Then Treasury Board actually gave us the money, so that's where the injection came in. That's where the increase came from.

Mr. Kang: Thank you.

The Chair: Mr. Jacobs, please, followed by Mr. Chase.

Mr. Jacobs: Thank you, Mr. Chairman. Gentlemen, I wish I had the specific financial information I need to ask this question, but I don't, so I'm going to ask you to provide the information for me. The background of my question will be centred around AgriStability and going further back into CAIS programs, which are rather complex and, in my opinion, don't really at all times cover all the fair bases that should be covered. In talking to people – producers and accountants who do AgriStability and CAIS reporting information and applications for clients – I am told that there's a perception that certain types of agricultural operations receive higher amounts of funding proportionately than others do. I will make my question specific for you. Can you give me the information on how much money was allocated under CAIS or AgriStability in the last four or five years that was paid to feedlots over 5,000 head versus that paid to producers of cow-calf operations who are backgrounding operations of less than 500 head?

Mr. Klak: Mr. Chairman, probably not right now, not at this point in time, but we can certainly get to that level of granularity through our database and provide that. Especially if it was sort of in aggregate, we could provide that.

If I might add, though, on your first comment, you know: perceptions. One of the principles that the government of Alberta has continually had – and this is not necessarily common across the country – is that CAIS or AgriStability should be an economic program; it shouldn't necessarily be a social program. So the caps in Alberta have been widened. For example, in all other provinces, I believe, there's a \$3 million cap on AgriStability. In Alberta it's \$5 million to try to recognize that whether an organization is, for example, a large feedlot or a small cow-calf producer, they're economic entities. I think that's been a government decision that's been put forward or a principle that's been put forward.

We are working to try to resolve some of those challenges that we've heard of out in the country. We're working with our minister to try to work on those, but it's a federal-provincial process, and it takes time.

Mr. Jacobs: Thank you. If you could provide the information, I would appreciate it.

Mr. Klak: I shall.

Mr. Jacobs: Thanks, Mr. Chairman.

The Chair: Yes. If you could provide it in writing through the clerk to all the members. Thank you very much.

Mr. Chase, followed by Mr. Quest.

Mr. Chase: Thank you. I'm referencing page 337 of the Auditor General's October 2009 report. Why are there still outstanding recommendations from 2006 regarding loan loss allowance methodology and process?

2:10

Mr. Klak: I think that's the same question that another member asked. It really deals with the fact that we have to be able to establish a historical basis. We're working to be able to do that, but the only easy way to establish a historical basis is that it takes a little bit of time. So we've accepted that recommendation. We're working to have it removed, but the nature of the recommendation is such that I think the Auditor General will be comfortable – I'm careful again – with the general direction we're moving in. But we have to establish some time to be able to build it.

Mr. Chase: Okay. Maybe I should ask the Auditor General, then. Putting yourself in the role of a teacher or a principal, when do you expect this homework assignment to be up to date?

Mr. Dunn: Actually, the whole point was related to the financial institutions in Alberta, so it also pertains to ATB as well as AFSC. What we were looking at at the time we did the loan loss provision work was to make sure that they do have a way in which they can relate their current-year provisioning – how much do you set up for allowance for delinquent accounts? – based upon a historic trend basis and the causes of the trends, so the nature of the business, the nature of the challenges that the businesses are going through. We looked to both of the financial institutions to build up, we'd like to think, a 10-year history on this.

I think you got started a couple years ago, so we're a few years away from it, because although I think ATB was able to look back a little bit more, AFSC wasn't quite able to get as far back into their history. But that's what the expectation is, that there will be a 10-year trend analysis, thinking that could get you through your cycles. Thus, when you do your current-year provisions in the future, you'll be able to relate it to past issues or practices or causes. That was the purpose behind that. So we expect it will be three to five years, if I'm bold enough to put words in your mouth.

Mr. Klak: Exactly. Just to supplement that, we're also gathering information on why these things occurred. We want to be able to have not just a quantitative but some qualitative analysis of that and be able to include that in the model.

Mr. Chase: From a teaching point of view a major homework extension.

The Chair: Thank you.

Mr. Quest, followed by Mr. Kang.

Mr. Quest: Thank you, Mr. Chair. Just looking at some of the

summaries here, page 20, back to crop insurance payouts. Mr. Klak, you mentioned at the beginning that there were some significant payouts and there had been a lot of hail damage in '08 versus '07. I'm just looking at the total number of contracts. The actual number of contracts with losses was down, but the amount of the payouts was up substantially. I'm just wondering: why the difference? Was it higher value? Was it higher potential yield per acre? Why such a substantial increase on a reduced number of contracts?

Mr. Klak: Probably the simple answer is that we had some tremendous hailstorms in the south in that Bow Island area, especially, right in the heart of our specialty-crops zone, some of the highest value crops that we had. We had two storms; one was July 10 and, I think, the 15th. Those two storms alone were probably \$125 million worth in damage, which affected both our straight hail as well as our multiperil. That coupled with, again, one of the most outstanding years we had ever seen for hail is really what reflects that increase in terms that you reference.

Mr. Quest: Okay. So there was no change in the formula, the calculation, year over year? Same deal, just more damage.

Mr. Klak: No. And we even go out and reinsure. In order to backstop some of our positions, we reinsure. Constantly when we deal with – and these are global reinsurance companies. We have to show our methodologies; we have to show our adjusting procedures and that there are no significant changes to that so that they're comfortable in actually underwriting some of our potential losses. No, there wasn't a change to the methodology. It was just really, hopefully, a freak year.

Mr. Quest: Great. Thank you.

The Chair: Thank you.

Mr. Kang, please, followed by Ms Woo-Paw.

Mr. Kang: Thank you, Mr. Chair. Repayment of borrowing from the province of Alberta as listed on page 27 of the Agriculture Financial Services Corporation's 2008-09 annual report shows a significant decline in repayment from \$718,660,000 to only \$40,000 in 2009. Why is this?

Mr. Krishnaswamy: Mr. Chairman, it's the same question that we had before. We borrowed through the government of Alberta, and the payments are due in a particular year, what we call bullet payments, whereas the repayments from the borrow years are evenly spread out throughout a period of 20 years. In years where we have heavy repayments coming up, we have to perhaps borrow more in order to repay the amount that is due on a particular year. In the previous year, in 2008, there were heavy repayments due, so we had to borrow in order to repay the amount due, and the amount of repayment that is coming from the loan portfolio was not adequate to make the full payment that was due in the particular year. In this particular year there are not heavy repayments due on the principal side on the borrowing, and that is the reason for the different cash flow.

So we mention the cash flow in terms of borrowing and lending, but in the case of borrowing, the amount borrowed, the debt, is due in a particular year. If you borrow for 10 years, it is due in a particular year. The entire amount has to be paid in that year, and we may not be able to collect the entire amount from the portfolio.

Mr. Kang: I think I'll just take it further to query. I know where

you're coming from, sir. The previous year's repayment of borrowing almost matched the borrowing from the province. You have partly answered my question, but especially given the large surplus reported by AFSC, why are we not repaying this?

Mr. Krishnaswamy: Brad has talked about that. We borrow only for lending operations. The surplus that we generated is in insurance operations, which are treated separately because insurance operations are funded by the producers, the federal government, and the provincial government whereas lending operations are supported by the borrowers and the government of Alberta. They are treated separately. We don't borrow money from insurance operations, nor do we use the surplus from the crop insurance for lending operations. So because we have a \$975 million surplus, we cannot use that money for lending operations. Under lending requirements we have to borrow, or we have to use the money that we collect from the existing borrowers.

Mr. Kang: So are you saying that you will be making money by lending, not making repayment? AFSC will be making money? They've got the low-interest loan from the government, and they will be lending it on higher interest.

Mr. Krishnaswamy: No. In the case of insurance operations any surplus that is generated by insurance operations is governed by the federal-provincial agreement. The federal-provincial agreement requires us to invest money, and we cannot use that money for any other purpose.

Mr. Kang: Thank you.

The Chair: Thank you.

Mr. Dunn: Mr. Chairman, maybe we'll help a bit here on the matching of the loan portfolios.

Ms White: Yeah. Actually, if you just want to turn to page 39 of the annual report, in the financial statements, note 14. Just to give you an example, this schedule shows the timing of the loans coming in and then how much money has to be repaid to the province of Alberta. You'll see a gap there, and you can see that in one to five years there's going to have to be some additional borrowing to meet the \$126 million required, which will not come in until the next term. So it just gives you an example. Within one year there shouldn't be a significant amount of borrowing. In the next one- to five-year period AFSC will need to borrow some money to match the appropriate loan to make their payments to the province on their notes. Does that help? Okay.

The Chair: Thank you for that.

Ms Woo-Paw: My question is on page 45 of the annual report. I see that there have been some adjustments to salary for management as well as the chair, between \$30,000 to \$60,000. I'd like to understand the rationale for those increases and what was used to determine the amount.

Mr. Klak: I think that from the chair's standpoint it was that we'd actually had some interim chairs. We had a position where we actually were on an interim basis and not on a full chair basis, so I think that probably makes up the difference on the chair's side. In terms of overall compensation, I guess, this is as a result of previous to this year that the corporation was treated differently by the

government. My position was seen as being a senior official, and it was actually an appointment by order in council. Then I was appointed to the board – it's a little convoluted – by ministerial order.

2:20

The board did a full review of, basically, the act and its responsibilities under the act. What it realized was that in order to comply with the act, it wasn't appropriate to have the president and CEO as a senior official. So, actually, the order in council was rescinded. I'm not on a list of officials, and the board was instructed to put together a contract. The board did their own compensation work, and this was the first year of a three-year contract that I signed with the board of directors.

That reflects some of the differences and the work that the board did. I'm not sure, but I think the Auditor General reviewed some of those, not specifically but in terms of some of their processes, when they were looking at some of their practices. So we've had some review of it. I think the board did a very comprehensive job in terms of compensation strategy. There is a compensation strategy for the corporation.

Ms Woo-Paw: Thank you.

The Chair: Thank you.

Mr. Chase, followed by Mr. Olson.

Mr. Chase: Thank you. I'm referencing the Auditor General's October 2009 report, specifically page 168. The Auditor General has pointed out that several ministries have had trouble recognizing IT risk-assessment problems, so you're not the only child out in the hallway or with your nose in the corner. I'm just wondering why this implementing of the risk assessment hadn't been done at the point that the Auditor General pointed it out?

Mr. Klak: I'll ask Krish to speak to that.

Mr. Krishnaswamy: Mr. Chairman, the IT risk assessment has been done, and I think that has been acknowledged by the Auditor General. The overall risk assessment and identifying the risks has been done. This is a work-in-progress. It is going to take some time, more than just one fiscal year.

What the Auditor General was saying is to expand the IT risk assessment to include the business perspective as well and work on some of the actual high-risk items in terms of how to mitigate those risks. So it's a work-in-progress. Some progress, some work has been done in the fiscal year 2008-09, and some more work needs to be done. That's what I've been identifying with the auditors. We are still working on those, and we ought to complete some of the high-risk factors and mitigating action on those high-risk factors by the end of this fiscal year.

[Mr. Quest in the chair]

Mr. Chase: That is very much appreciated. I do note that you went from \$180,000 detection to \$880,000 detection, so obviously you're headed in the right direction because you've gone from, you know, a sort of starting speed up to 400 miles an hour. It makes you wonder. The question would be: do you think you're just catching the tip of a fraudulent iceberg, or do you think you've got that iceberg in tow at this point?

Mr. Klak: We like to believe, and I think as we go through – our

electronic systems in terms of being able to red flag issues are much, much greater, and they've grown tremendously. In 2003 when we brought in, you know, especially the CAIS program, we really didn't have the systems, the capabilities. So if I were to answer that question then, in all honesty, I probably couldn't answer it the same way I am now.

As you've referenced, we've been able to come an awful long way. We do some of the traditional things. We have a tips line if people want to call in. We have a cross-compliance group that is led by our former internal auditor, and she has a tremendous wealth of understanding of the interrelationships of the programs. I do believe that, first of all, the vast majority of our clients are doing their best. Even when we find things, a lot of it is a complex program. I'm sure the MLAs hear about this all the time. There are a lot of people who just don't, you know, understand the impacts of structural change or how it should be related. There have been so many amendments to this program, to be fair, good efforts, but I think we've probably caused as many of these concerns as there is fraudulent activity.

One of our commitments is that if we find fraudulent activity, we prosecute to the absolute full extent of the law in order to make sure that we have integrity in the country. If we don't have that, then I think it probably just encourages – and in a difficult economic environment, when people are struggling, be it in the hog sector or others, you don't like to believe it, but there is probably an extra level of diligence that needs to be applied due to the fact that there is more opportunity for moral hazard when people are desperate. We want to be fair and reasonable, but in order to maintain that integrity, we are fairly zealous about it.

We also go after agents, so accounting firms or agents that we can find fault with, and the Auditor General in private sort of referenced that. There are some activities going on with some of those agents right now to ensure that, you know, the message is clear that you have to be complying with the terms and conditions of our programs.

The Deputy Chair: Okay. Thank you.

Mr. Olson, please, followed by Mr. Kang.

Mr. Olson: Thank you. I've been looking at the comments in your annual report on page 19 regarding community investment. Coming from a place that has an AFSC office, I can certainly speak to the benefits of what having an office and having those employees there does for a community. They're a great asset to the community as volunteers and just good citizens. But as I look through the comments – and maybe it's staring me right in the face, and I'm just not seeing it – I don't see any actual numbers. It speaks to the support of various service clubs, 4-H clubs, seniors, all of those types of causes, but I haven't been able to find the numbers in terms of what you're actually spending over and above just your staff volunteer time and so on. So one question I have is if you can just direct me to where I would find that.

Following up on that, obviously, we have other government departments that support those same kinds of initiatives: service clubs, community clubs, and so on. I'm wondering if there's any sharing of information, collaboration that goes into decisions as to whom you support. You know, of course, what I'm thinking of is efficiency and just the biggest bang for the buck. If you could speak to those things, please.

Mr. Klak: With regard to your second point we try to work as closely as we can with the ministry. If we can maximize activities with the department of agriculture or work with the Alberta Live-stock and Meat Agency or other entities within the ministry – we communicate very closely with them. We share all of our planning

and the activities that we're investing in. We try to do our best. It's not completely without overlap, but we want to be on the same page. We're probably doing a better job of that. We've consolidated what we call our community relations activities under one individual. All of our communications and our community work is done through one desk now. This is the first year that that's happening, so hopefully we'll see some efficacy from those efforts.

On the first question a lot of it is volunteer staff time. The only significant area that we would be spending – I mean, there are bankers' breakfasts. We could roll up and could probably give you a rough number, and I can provide to you what it would be. As a Crown corporation we tend to feel that, you know, it's probably wrong for us to be too much like a private entity out there in terms of our sponsorships. It tends to be smaller things, where our clients are. So you'll see us in curling rinks and hockey rinks across rural Alberta. You won't see us at – I still call it the Coliseum – Rexall Place. Yes, our clients go there, but that's not what we can afford to do. It's probably appropriate for some of our sister organizations like the ATB to be there.

We let our employees have time off in order to volunteer. It's the 4-H one that's our biggest corporate sponsorship. We contribute direct dollars, but we also support our staff taking a day off. A lot of them go and do judging, or they do activities around the 4-H movement.

The Deputy Chair: Thank you.

Mr. Kang: I'm referring to page 37, note 13. There was a substantial increase in the reinsurance, from \$9,229,000 in 2008 to \$23,090,000 in 2009. What is the reason for this spike?

2:30

Mr. Jacobson: I'll speak to that one. This year is the commitment rate, what we had committed to in 2009. We were just disclosing our intention that we were going to spend more on reinsurance. A couple of reasons for that, and it's all related around multiperil crop insurance and straight hail.

First was on the straight hail program, where, coming out of 2008, all of our operating reserves had been eliminated because of the past few years of hail damage. To properly protect ourselves, with a low fund balance, we placed more of that risk with the private reinsurance market. So that related to the straight hail side.

The large increase, though, is on the multiperil side, where we looked at the exposure that the fund balance was creating for the province of Alberta and the risk to ourselves through, you know, almost \$3 billion of liability and felt that we needed to do a complete review of how we were actually placing our reinsurance. So together we actually did a much more comprehensive range of coverage this year just given the exposure that was there. We went forward into the budget process in Treasury Board for approval to actually expend more of the premium dollars on reinsurance premiums and buy a substantial increase in the protection that we had through that.

Mr. Kang: Thank you.

The Deputy Chair: Thank you.

Mr. Drysdale, please, followed by Mr. Fawcett.

Mr. Drysdale: Thank you, Chair. I had a couple of good questions, but they've already been asked.

I see that on page 11 of your annual report it discusses four coverage levels of 50, 60, 70, and 80 per cent. What level is most popular among agricultural producers?

Mr. Jacobson: Our average coverage level is about 74 per cent, so between 70 and 80 per cent is where most people participate.

Mr. Drysdale: And is that certain types of crop? You know, is that coverage level based on certain crops having certain levels?

Mr. Jacobson: Yeah. All crops have 50, 60, 70, and 80, and sugar beets have 90. There's an actuarial formula that comes in based on what the historic loss is if you can go up to the 90 per cent level. Sugar beets is the only crop that qualifies for the low risk to allow us to do that.

Mr. Drysdale: Okay. Thanks.

The Deputy Chair: Okay. Sorry. I just changed the order up a bit there. I missed Mr. Chase.

Mr. Chase: Thank you. You've mentioned the difficulty with CAIS complications, that even within the Agriculture Financial Services Corporation there are complications. My question is – and this is maybe policy; I'm not sure – do you believe that we need to put back the agricultural district representative offices in the rural areas to provide advice both on best practices and loan insurance applications? Like, for these people, the offices were closed, and the advisers were cut back. There was some thought that IT would make up the difference, but it hasn't.

Mr. Klak: Not wanting to tread into areas that aren't my responsibility, but one thing that I'm very proud of with AFSC is that we've maintained our footprint. What we've tried to do is not to close our offices but to maximize the usefulness of those offices. In many cases when the department shuttered its offices, we became the only place in town where people could gather, could gain information. We try to continue to sort of backstop that. If you go into most of our offices, you can find information on, you know, a variety of different government programming. As well, they can come in and talk about our program. So we've tended to have our staff backstop that effort. I think it has worked.

What we've also tried to do is to use our offices not to say that we'll consolidate everything in Lacombe, for example, which is our largest office – Edmonton and Calgary are very small offices for us – but what we've said is: why don't we use technology differently? So, for example, when we've got a Bow Island that gets hailed out and we get inundated by producers looking for inspections on their crops and maybe it's nice up in the Peace Country, we can seamlessly through computers transfer those files and that information or those individuals because in many cases our clients are looking for a live voice. They're looking for somebody that understands, who can quickly bring up their file and can give them straight answers as to when they're going to see an adjuster, how it's going to impact them because they're in a real-time situation to make decisions. So that is our philosophy. You know, without commenting on the department's, our philosophy has been that that is one of our key resources, and we'd like to maintain it.

Mr. Chase: So you've got that footprint, that foothold, that face-to-face advice.

Again, this may be something that you're not able to answer, but I'm concerned and I'm wondering about it. Are you concerned about the growth of corporate farms at the expense of the family farm? My concern is that a lot of the larger organizations have benefited from CAIS, the large feedlots, but when it gets down to the cow-calf or the small family farms, because of the smaller scale of

the operation, the subsidies or the loans just aren't large enough to accommodate or to keep them on the farm.

Mr. Klak: Maybe I'll answer that by saying that if you look at our lending products, you know, probably 80 per cent of our lending is into primary agriculture, so of that \$1.3 billion book, a billion of it or more is into primary.

We've been focused on doing intergenerational transfer not just to allow the farms to get bigger but to allow some ease in terms of transferring that property, especially father to daughter or within families. It's challenging because of the nature of the business and because in many cases that land base is the asset value. We've got a variety of programs that can help to do that and still provide a revenue stream to one generation while allowing the other generation to go forward. A lot of our producers are working off-farm. That's the reality of today, so the downturn in the energy sector is a risk for us. Our farm arrears are 1 per cent or almost lower than 1 per cent, I think, right now, but they've been making those payments with off-farm income.

I would answer your question by saying that on the risk management side we want to make sure that whatever programs we're putting out there are as pertinent to the 35,000-head feedlot as they are to the cow-calf producer. With things like the cattle price insurance program, we started off with it being for fed cattle, but the feeder operator really doesn't have many places to pass costs on down. We are aggressively working with the Alberta Livestock and Meat Agency to have the companion program in place, hopefully sometime in either late 2010 or 2011, which will allow those sizes of operations to still have some risk management tools. If they don't want to sell out but they want to be able to maintain for a variety of good reasons that presence in the community, maintain viable business operations, they've got some tools that don't just work for, you know, the more corporate farms but that work, really, for a smaller size operation. We're dedicated to doing that.

Mr. Chase: Thank you.

The Deputy Chair: Thank you.

Mr. Fawcett, please, followed by Mr. MacDonald.

Mr. Fawcett: Yeah. I guess that here in the province we always talk about diversifying our economy, and a big portion of that is providing value-added business opportunities to our primary resources. I noticed that on page 13 of the annual report it talked about the value-added and agribusiness program. I'm just wondering if you could share what the success of this program has been over the last couple of years.

Mr. Klak: That's an excellent question. That's one of the ones that I'm most proud of. What we were facing when we put the value-added and agribusiness program together were circumstances that have probably diminished a little bit, but they're going to come back. Food processors, manufacturers, were saying that they were looking at a par or greater than par dollar, and they were looking at commodity costs no matter what they were working with – flour, potatoes, canola oil, whatever – that were just escalating. That's when we were reading about the end of cheap food pricing. A lot of the investment in technology and in productivity had not happened for the industry because, really, their competitive advantage, if you look at it, had been a 65-cent Canadian dollar and cheap commodity pricing.

The Alberta Food Processors Association came to us and said: we need to work together to try to bridge this gap. We put the value-

added and agribusiness program together. What it really is targeted at is to allow food processors to be able to bring in new equipment, bring in different ways, different technologies that are going to increase their productivity. We'll fund that, a fixed rate, terms, for up to 20 years. We'll do it for the likely life expectancy. We'll pay for the training and the installation of that equipment.

I think, Rick, we've got 143 loans now that we've done under that program. I think direct lending is around \$50 million.

2:40

Mr. Bell: Yeah. Actually, currently on our books we have 143 loans outstanding under the program, for about \$46 million owing. This year alone we've done 49 projects, totalling about \$30 million in direct lending. That represents about \$60 million worth of projects just in this year alone. We introduced the program, as I said, in September 2007, and initially we had a good run on the program. We did run into some challenges with policies, but this year it's been – we expect this program, aside from our Alberta farm loan program, to be our most successful program.

Mr. Klak: If you talk to the Food Processors Association, they'll tell you, I think, that it's the most meaningful thing that the ministry has done for the food processing industry in a long, long time because it's giving them the tool they need to be able to deal with the challenges they face.

The Deputy Chair: Very good.

Mr. MacDonald, please, followed by Ms Woo-Paw.

Mr. MacDonald: Yes. Thank you. I have a question from page 36 of your annual report for 2008-09. At the bottom of page 36 it is indicated that for Agriculture Financial Services Corporation's share of the supplementary retirement plan for public service managers, you cannot determine what your surplus or deficiency is for that pension plan. I would like to know why you cannot determine what your share of that would be.

Mr. Klak: The Auditor General might have something to add on that as well. This was the same question that came up at our audit.

Mr. Krishnaswamy: I think the Auditor General perhaps would be able to address this situation because as a Crown corporation we are relatively very small in terms of the number of participants in the pension scheme. We have about 400 to 500 staff participate in the pension plan out of 25,000 to 30,000 that participate in the program government-wide, and we have been told that it cannot be determined individually for entities as to what our unfunded liability portion is. I think that in one of the previous sessions the Auditor General responded to that question, and perhaps he may be able to come and supplement that.

Ms White: We can supplement. This disclosure is consistent with the disclosure that all entities that are part of these pension plans include in their financial statements. Really, what it's saying is that it's not possible to subdivide the deficiency of each of those onto each of the entities. For the amounts there, those liabilities are actually recorded in the government of Alberta's financial statements as being the employer.

Just to help you there, Fred may have some additional.

Mr. Dunn: Again, for members' interest, this has been raised at different sessions about where the pension plans are in Alberta. The public-sector pension plan is quoted here for a deficiency of almost

\$1.2 billion. Just to let you know, it was funded by about 80 per cent. It obviously had a significant impairment in assets in the 2008 year. It came down from 98 per cent funded to 80 per cent funded as a consequence of the financial meltdown. MEPP itself does produce very good financial statements. MEPP has a deficiency of I think it's \$568 million. It's 78 per cent funded at the end of 2008 but also down from what it historically had been: close to 100 per cent. In 2007 it was 97 per cent funded.

You'll get an update on all the pensions which have a December 31 year. You'll get an update on that. We'll be doing those audits in January and February, and it'll be going to the various plan boards in March of 2010.

Mr. MacDonald: On page 45, the schedule of salaries and benefits, other noncash benefits, there's a list there. The supplementary retirement plan would be in the third column. Am I right?

Mr. Klak: I believe so, yes.

Mr. MacDonald: Yes. Okay. That contribution is made by the corporation, and there is no contribution made by the employee of the corporation, correct?

Mr. Krishnaswamy: The employee also makes a contribution.

Mr. MacDonald: To the supplementary retirement plan?

Mr. Krishnaswamy: Yes.

Mr. MacDonald: Okay. Thank you. I appreciate that.

The Deputy Chair: Very good.

Ms Woo-Paw, followed by Mr. Kang, please.

Ms Woo-Paw: Thank you. The insurance program responded to a high hail damage claim year, and the fund is down to \$3 million. My question is: is there a risk that the corporation may not have sufficient surplus to meet incoming claims?

Mr. Klak: There was a risk, and as Mr. Jacobson explained, that's why we really did a complete relook at our reinsurance, especially with regard to straight hail, because the fund was essentially at a limit that could have put us into danger. So we did a far more significant reinsurance buy on straight hail this year than we've probably ever done, recognizing that circumstance. I guess we're reconciling that right now against this year's results.

We did treat it as 1 in 75 years. We like to call everything 1 in 100, but it's not. The actuaries will tell you that it's 1 in 60 or 1 in 75. But it was still a very significant outlier in terms of our experience, so I think we were very cautious. We spent money prudently to be able to protect that almost zero fund balance position. What we're seeing now, likely, in terms of the results is that we'll be getting back at least some sort of buoyancy in our fund this year. We did have some bad hail but nothing to the extent that we saw in 2008.

Ms Woo-Paw: Thank you.

The Deputy Chair: Very good.

Mr. Kang, please, followed by Mr. Jacobs.

Mr. Kang: Thank you, Mr. Chair. On page 16 it discusses AFSC's enterprise risk management plan. Can you provide details on this

plan and describe which best practices were incorporated into the plan to properly identify and mitigate the risks? I don't see anything there.

Mr. Klak: I think we were pioneers, really, in terms of enterprise risk-management strategy, and I believe we worked closely at the time with the Auditor General's office as well. We've tried to take it from being almost a shopping list of every potential risk that we see out there to what are the meaningful risks – what is meaningful in terms of political risk, reputational risk, financial risk – and quantify it.

What we do as an organization now is that the board of directors really owns that document. It's management's responsibility to put it together, but the board of directors has subdivided that risk management plan to all of its committees. So, of course, for example, financial risk would go over to our audit committee. A lot of our lending risks would be attached to, again, our lending committee of the board.

In terms of their board plan, they review it. They make sure that it continues to be relevant. We just had a meeting two weeks ago or last week where the board reviewed it again. It's about a 12-page document now that I think probably aligns itself very nicely to something that's practical. Yes, it reaches on best practices. A number of years ago enterprise risk management was very popular in terms of corporate governance. We haven't tried to go with the trends, but we've tried to use it as a working tool, really, to be able to check in when we're putting business plans or long-term strategic plans together to say: are we cognizant of the risk, and do we understand the risks that exist out there? We get a lot of support from our board of directors in putting that together.

Mr. Kang: I think that answers the second part of my question, but I'll ask it anyway. What are the qualifications for the management involved in identifying the risk; that is, what financial or other credentials are they required to have in order to qualify them to identify the risk and implement risk-mitigation strategies?

Mr. Klak: I think I've probably touched on some of that in my past answer. It's owned by – for example, the vice-presidents take those responsibilities seriously from a management standpoint. They report and work with their various committees of the board. Then the full board, ultimately, you know, has to be held accountable for that document and for living that document, not just putting a plan together but checking on it on a regular basis.

Mr. Kang: Thank you, sir. Thank you, chair.

The Deputy Chair: Very good.

Mr. Jacobs' questions have been answered, so, Mr. Benito, do you have questions?

2:50

Mr. Benito: Thank you very much, Mr. Chair. The policy in terms of the interest rate you are giving to your clients: is it a floating rate, is it prime plus a certain percentage, or is it just like a loan right from ATB? What is it? Please explain.

Mr. Bell: Our rates are all based on the cost of our borrowing, so once we find out what the cost of our borrowing is, we mark up from there based on the type of loan program that we offer. Our loans to our primary producers receive, you know, our best rate, which is basically the Alberta provincial borrowing rate plus 175 basis points, and then we mark it up from there. On our commercial loans we

will charge 4 per cent above the cost of our borrowing. They're not floating rates. These are fixed rates. We'll offer terms anywhere from one to 20 years, and we will allow the clients to choose the term that they want.

Mr. Benito: Thank you. My second question. In 2008 your organization was named in *Alberta Venture* magazine's Alberta's top 40 employers for 2009 and best overall workplace in Alberta for 101 employees to 750. Are you still hiring employees?

Mr. Klak: Well, we come under the government hiring freeze. We are specifically listed in the government hiring freeze. So at this point in time any vacancies or any changes we have to be able to fill internally. It is my hope that once the hiring freeze – it will affect our abilities to be able to go forward. We recognize the position of our owner, but we also are trying to do our best to operate the business.

My hope, probably, is that we're out of the hiring freeze sooner rather than later, not so that we can go and hire a bunch more staff. I think one of the big reasons why we became one of the top employers in Alberta was not just because of all the benefit plans or the things that we do at AFSC. It's also because we've really tried to bring in a performance management culture, not a bonus culture but a performance management culture where people have a clear understanding of what their job is and what's expected of them. They get regular performance feedback, and their performance is very transparent to them. The employees have responded really well to that. We've also put long-term succession plans together for all of our staff so that we know where they fit. We want them to develop careers in our organization, which is good for the circumstances that we face right now. We have a tremendous amount of resiliency to go through hiring freezes like we're facing right now, but if it's held over time, then I would be misleading you if I didn't say that it'll affect our operation.

Mr. Benito: Thank you very much.

The Deputy Chair: Okay. Very good.

Mr. Chase, please, followed by Ms Woo-Paw.

Mr. Chase: Thank you very much. To your credit you've done a great job in answering the questions that we've put forward to you today, and I'm hoping that I'm not repeating one that's previously been answered. If I am, you can simply dismiss me.

I'm referring to page 16 of the report, which states that AFSC provided 197 commercial loans totalling approximately \$50 million. I'm continuing on my Goliath versus David scenario. What proportion of large farms versus smaller farms received a loan? I'm aware that you could have one gigantic loan for a commercial Agricore outfit, and it would equal 150 small farm loans, but if you could give me a sense in terms of the balance between the Agricores and the family farms.

Mr. Bell: Well, under the commercial loan program, essentially, there wouldn't be any real farm numbers included in that total. They would be included under the farm numbers. You know, our average farm loan would be around the \$200,000 amount for last year. The average commercial loans would be in the \$250,000 to \$300,000 range. The commercial loans that were reported there would be in the areas of, well, just about everything. I mean, we would cover forestry; we would cover construction, manufacturing, wholesale trade, retail trade, hospitality, transportation. That's kind of the bulk of our commercial category. Again, if it was a large corporate farm operation, it would be included in the farm totals.

Mr. Chase: Okay. I know farming is like gambling; you don't know whether to put another chip down and extend your loan a little further in the hope that this year the crops are going to come in. But what were the reported losses or defaults on the commercial loans for the 2008-09 fiscal year?

Mr. Bell: For 2008-09 we would have had commercial arrears . . .

The Deputy Chair: Mr. Bell, if I could just get you to keep this one fairly tight. We've got one more question, and then we need to wrap it up. Thank you.

Mr. Bell: Sure. Our commercial loan arrears were about 3.1 per cent at the end of the year versus under 1 per cent on the farm side.

Mr. Chase: So 3.1 per cent of the \$50 million, approximately.

Mr. Bell: Of the total portfolio of \$240 million.

Mr. Chase: Okay. Thank you.

The Deputy Chair: Very good.

Mr. Kang, we can take yours live instead of reading it into the record if you can keep it brief.

Mr. Kang: Just a comment. Are you competing with ATB at all? I know you aren't now, but in the future will you be having your own territory marked out?

Mr. Klak: It goes back to one of the other questions that was asked with regard to: are we duplicating services? A lot of the deals that we're doing, ATB is walking them across the street to us and saying: would you like to participate? They're a full service bank; we're not. We are a non deposit-taking institution, so they can provide an awful lot more. We actually see success. We don't want to hold onto a loan forever. If we can take an entity that has a hard time getting a regular financial institution interested and we can work with them for a number of years and then, as we call it, graduate to ATB or to another institution, we call that success because they're a viable Alberta business. That's different from the banks, but we think it's a pretty critical role, and this year is proving that.

The Deputy Chair: Very good. Thank you very much. On behalf of the committee, gentlemen, thank you so much for coming up and joining us this afternoon. If the wind comes like it's supposed to, it'll be both hands on the wheel driving home. Again, thank you on behalf of all of us.

If there's no other business, just a reminder that we meet again tomorrow morning at 9 o'clock with the WCB.

Mr. Chase: Just one point of other business, if I may, and I don't want to be holding you fellows up. Thank you for coming.

Mr. MacDonald, I think the response was posted on the website, but if you could remind us as to why Health Services in response to your request to appear before this parliamentary committee declined our offer.

Mr. MacDonald: Well, we had worked at this all summer to get these out-of-session meetings teed up. If you remember, I believe on May 27 there was a motion that was passed unanimously by the committee to delegate to the subcommittee the organization and the dates, everything involved with the out-of-session meetings. We attempted to do that. We met on a number of occasions. We had

correspondence with this group, with the WCB, and also with the Alberta liquor control commission. No one seemed to have any issues.

On the 22nd of July through the clerk we sent a letter to Alberta Health Services. We had originally proposed a date with Alberta Health and Wellness together with Alberta Health Services which was not acceptable. We went ahead with the invitation to Alberta Health Services. We didn't hear back from them formally until I believe the 16th of September, but I did through a phone conversation realize the first week of September that there seemed to be some issues around this. Someone in the office indicated that there was a meeting with the Premier on the 7th of October or there was a scheduling conflict. There was a series of correspondence, which is available to the members on the website. You can read it yourself.

This morning it was decided by the majority of the committee members, all of whom were present, that we would ignore that, and there was a new motion passed to have a meeting on Monday, October 26, the day session starts, for an hour and a half with both Alberta Health Services and Alberta Health and Wellness. The meeting that was scheduled for the 28th of October, the first

Wednesday, with Alberta Health and Wellness is cancelled as a result of that motion, and we're going to get this organized through the clerk. It's all we can do.

3:00

Mr. Dallas: I appreciate the explanation here. It's unfortunate that Mr. Chase was unable to be at the meeting on time this morning. In fact, my recollection is that there were no opposition members here at the time of that meeting. Perhaps you could rehash this at caucus as opposed to using the committee time.

I would move that we adjourn.

Mr. MacDonald: Well, he has every right, sir, to ask that question.

The Deputy Chair: All right. We've got a motion to adjourn, and we're a minute after we were supposed to. All in favour? The meeting is adjourned.

[The committee adjourned at 3:01 p.m.]

