Legislative Assembly of Alberta

The 28th Legislature
Second Session

Standing Committee on Resource Stewardship

Ministry of Treasury Board and Finance
Consideration of Main Estimates

Wednesday, March 19, 2014
3:30 p.m.

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Standing Committee on Resource Stewardship

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Calahasen, Pearl, Lesser Slave Lake (PC)
Casey, Ron, Banff-Cochrane (PC)
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Hale, Jason W., Strathmore-Brooks (W)
Johnson, Linda, Calgary-Glenmore (PC)
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Also in Attendance

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Hehr, Kent, Calgary-Buffalo (AL)
Kennedy-Glans, Donna, QC, Calgary-Varsity (Ind)
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Standing Committee on Resource Stewardship

Participant

Ministry of Treasury Board and Finance
Hon. Doug Horner, Minister

3:30 p.m. **Wednesday, March 19, 2014**

[Mr. Khan in the chair]

Ministry of Treasury Board and Finance
Consideration of Main Estimates

The Chair: I think we're going to get started. We want to start right on time, so I'd like to call this meeting to order and welcome everybody here today. The committee has under consideration the estimates of the Ministry of Treasury Board and Finance for the fiscal year ending March 31, 2015.

What I'll ask is that we go around the table. All the committee members can introduce themselves, and then what we'll do, Minister, is that we'll come to you and ask if you could be so kind as to introduce the gentlemen at the table and the members of your team.

Please note that the microphones are operated by *Hansard*, and we'd ask that BlackBerrys, iPhones, et cetera, be turned off or set to silent or vibrate and not placed on the table as they may interfere with our audiofeed.

We'll start with our deputy chair. Mr. Anglin, if you'd be so kind.

Mr. Anglin: Joe Anglin, MLA, Rimbey-Rocky Mountain House-Sundre.

Ms Calahasen: Pearl Calahasen, Lesser Slave Lake.

Mr. Goudreau: Good afternoon, everyone. Hector Goudreau, Dunvegan-Central Peace-Notley.

Mr. Xiao: Good afternoon. David Xiao, Edmonton-McClung.

Dr. Brown: Neil Brown, Calgary-Mackay-Nose Hill.

The Chair: Mr. Anderson, we'll proceed with you, and then we'll come back to the minister and his team.

Mr. Anderson: Okay. Rob Anderson, MLA, Airdrie.

Mr. Hale: Jason Hale, Strathmore-Brooks.

Ms Kubinec: Maureen Kubinec, MLA, Barrhead-Morinville-Westlock, sitting in for Linda Johnson.

Mr. Casey: Ron Casey, Banff-Cochrane.

The Chair: Thank you.

Minister, you may proceed with an introduction of your team.

Mr. Horner: All right. Do you want me to just go right into my comments and introduce them, the whole nine yards?

The Chair: Actually, if you want to do an introduction, then I've got a little bit of housekeeping, and then we'll throw it back to you for your speech.

Mr. Horner: Fabulous. Well, first of all, Doug Horner, MLA for Spruce Grove-St. Albert and Minister of Finance. I have with me at the table Deputy Minister Ray Gilmour and assistant deputy minister, budget development and reporting division, Aaron Neumeyer.

My team is behind me. I'm not sure whether I should think that the huge horde behind me is here because they don't think I can answer the questions or if it's because I have such a great team and they wanted to hear all of the answers to the questions. I'll leave that to your imaginations. But I am very proud of the group behind me. They've done a lot of work, Chair, around a whole raft of issues that are facing Albertans today and are very proud of their work, and I'm very proud of them.

I'll start with Rod Matheson, who's the assistant deputy minister of treasury and risk management . . .

Dr. Brown: Could they identify themselves, Mr. Minister, when their names are called, please?

Mr. Horner: Okay. Wave your hand when I call your name.

. . . Stephen LeClair, ADM, economics and fiscal policy division; Bruce Perry, ADM, strategic and business services; Mark Prefontaine, ADM, financial sector regulation and policy division – Mark is also the superintendent of pensions, insurance, and a whole raft of other things that he does – Richard Isaak, executive director of financial services; Chris Bourdeau, director of communications; Darwin Bozek, Controller, office of the Controller; Gill Hermanns, chief financial officer and vice-president, corporate services, AGLC; Bill Robinson, president and CEO of AGLC; Marguerite Trussler, the chair of the AGLC, is with us as well; Shakeeb Siddiqui, director of financial planning and budgets, strategic and business service; Craig Johnson, manager, financial planning and budgets, strategic and business service; Sonya Johnston, executive director, financial accounting and standards, office of the Controller; Neil Palesh, manager, financial accounting and standards, office of the Controller. Jessica Jacobs-Mino is a press secretary. Monica Barclay is my chief of staff. We also have Dan Stadlwieser, the corporate internal auditor, and Kate White, who's the chief economist for the province of Alberta and very in demand on the speaking circuit these days. I think I've got everybody.

The Chair: Thank you very much, Minister, and thank you to all the members of your team for attending today.

We have a few more folks who have joined us, so we'll come back to the table for some introductions. We'll start on my left.

Mr. Hehr: Kent Hehr, MLA, Calgary-Buffalo.

Ms Kennedy-Glans: Donna Kennedy-Glans, Calgary-Varsity. I understand I won't be able to ask questions, so I'm here to observe. Thank you.

The Chair: Thank you. You're more than welcome to observe.

Hon. members, as you know, the Assembly approved amendments to the standing orders that impact consideration of the main estimates. Before we proceed with consideration of the main estimates for the Ministry of Treasury Board and Finance, I would like to review briefly the standing orders governing the speaking rotation.

As provided for in Standing Order 59.01(6), the rotation is as follows. The minister may make opening comments not to exceed 10 minutes. For the hour that follows, members of the Official Opposition and the minister may speak. For the next 20 minutes the members of the third party, if any, and the minister may speak. For the following 20 minutes the members of the fourth party and the minister may speak. For the next 20 minutes a member of any other party represented in the Assembly or any independent member and the minister may speak. I don't believe we have an independent member here today, so we'll just bump through the rotation and move forward. For the following 20 minutes private members of the government caucus and the minister may speak.

Mr. Anglin: A point of clarification, Mr. Chair.

The Chair: Certainly.

Mr. Anglin: I'm under the impression that we do have an independent member here.

The Chair: We do, and she's welcome to observe. Unfortunately, we needed to have 24-hour notice that Ms Kennedy-Glans would be here to speak as an independent. Is that correct, Chris?

Well, I do have some marvellous news from our clerk. I stand corrected. Thank you for that point of clarity, Deputy Chair. If our independent member chooses to ask questions, she has 20 minutes in which to ask the questions, which is fantastic news.

Ms Kennedy-Glans: Well, thank you.

The Chair: You're more than welcome.

Thank you for the clarity, Deputy Chair. We've got a great Deputy Chair, don't we?

For the time remaining, once we have gone through that rotation, we will follow the same rotation to the extent possible. However, the speaking times then are reduced to five minutes and five for a total of 10 minutes.

Members may speak more than once; however, speaking times are limited to the 10 minutes at any one time. A minister and a member may combine their times for a total of 20 minutes. For the final rotation, with speaking times of five minutes, once again a minister and a member may combine their speaking times for a maximum total of 10 minutes. I will be asking the members prior to asking the questions how they want the time allotted.

The chair acknowledges that this is a new procedure, and if members have any questions regarding the speaking times or the rotation, please feel free to send a note or speak directly with either the chair or the committee clerk about this process.

Three hours have been scheduled to consider the estimates of the Ministry of Treasury Board and Finance. With the concurrence of the committee, I'll call a five-minute break near the midpoint of this meeting.

Committee members, ministers, and other members who are not committee members may participate. Ministry officials may be present, and at the direction of the minister officials from the ministry may address the committee. Members' staff may be present and, space permitting, may sit at the table or behind their members along the committee room wall. Members have priority for seating at the table at all times.

If debate is exhausted prior to the three hours we have scheduled, the ministry's estimates are deemed to have been considered for the time allotted in the schedule and we will adjourn. Otherwise, we will adjourn at 6:30.

Points of order will be dealt with as they arise, and the clock will continue to run.

Any written material provided in response to questions raised during the main estimates should be tabled in the Assembly for the benefit of all members.

Vote on the estimates is deferred until consideration of all ministry estimates has concluded and will occur in Committee of Supply on April 16, 2014.

That is all of the business I needed to take care of.

At this point in time I would like to turn it over to the Hon. Doug Horner, Minister of Alberta Treasury Board and Finance, for his opening comments.

Mr. Horner: All right. Thank you, Chair. Good afternoon, everyone. As I said, I am pleased to be here to share the Ministry of Treasury Board and Finance's business plan and estimates. These documents are found in Budget 2014. It was developed in consultation with Albertans and builds on much of the groundwork that we laid out in last year's budget.

I was pleased to announce that Budget 2014 on a consolidated basis was fully balanced, with an operational surplus of $2.6 billion and a consolidated surplus of $1.1 billion. That was not an easy feat to accomplish. I am grateful to the staff of Treasury Board and Finance for their work with the departments to balance the budget while meeting Albertans' expectations to deliver priority services. I was very pleased to introduce them today, including the AGLC, as I said, with the board chair, Marguerite Trussler; the CEO, Bill Robinson; and Gill Hermanns in attendance with us.

Before I talk about the specifics of our business plan, I would like to remind members of this committee of the context my department is operating under with Budget 2014. We are in a much better fiscal position this year, with increased revenue due to a healthy return on our investments, a lower Canadian dollar, and increased tax revenue, but there is justification for caution as we move forward. Nonrenewable resource revenue still accounts for 21 per cent of total government revenue, so we still feel the impact of energy price volatility. It is crucial that we continue to show fiscal restraint. We're not opening up the spending taps. For the second year in a row we're keeping operating expense less than population growth plus inflation.

3:40

Budget 2014 also implements a renewed purpose for Alberta's savings. Two new endowments within the Alberta heritage savings trust fund will encourage social and agricultural innovation. The heritage scholarship fund is being enhanced to support students in the trades. We also have the new Alberta future fund to respond to future strategic opportunities that will benefit Albertans and the Alberta economy.

All of this work comes back to what we've been saying, that our population growth is the story. Alberta's population surpassed 4 million people, and we have to plan and build for when we reach 5 million in the next decade or so, probably less. This is why we're investing $19.2 billion over the next three years on essential infrastructure and why building Alberta will continue to be our focus. It means we are investing in families and communities, living within our means, and opening new markets for our resources. The Treasury Board and Finance 2014-15 business plan supports this focus.

My department's business plan fits under the theme Securing Alberta's Economic Future, outlined in the government of Alberta's strategic plan. This theme is woven through all of our work. My department's first goal is strong and sustainable government finances. We continue to monitor the competitiveness, economic efficiency, fairness, and revenue stability of Alberta's tax system. As you know, we have one of the most if not the most competitive tax systems in North America. If Alberta had the tax system of any other province, Albertans and Alberta businesses would pay at least $11.6 billion more in taxes each year. We have no sales tax, no health premiums, and no capital and payroll taxes. Our tax system is also very progressive. We have low personal income taxes with the highest basic and spousal amounts in Canada. That's for you, Brian. This allows people to earn more before they pay tax and attracts skilled labour.

Low corporate income taxes also attract investment and help Alberta businesses to compete in the global marketplace. Our tax and revenue administration division moved to enable corporate taxpayers to file electronically in 2011. TRA also is promoting the use of e-payment. We're reducing the cost of business in Alberta, improving productivity and competiveness, and reducing the burden on Alberta corporate income tax payers. We're also modernizing technology for the gaming industry to sustain lottery fund revenue while ensuring benefits for charitable gaming are distributed effectively to support worthy causes.

I would like briefly to speak about our economic forecasting, which falls under this goal. Last year we hosted two economic summits and two forecasting summits. We tapped into the expertise of leading economists from Canada's top banks to help us get the most accurate forecasts we could. The economists were all very positive about where Alberta is headed.

The next goal deals with policy and regulatory oversight for the financial, insurance, and pension sectors. We work to ensure fair and effective policies and regulations, and there is significant work happening in these areas. Treasury Board and Finance's automobile insurance review is under way. We have also been active on the pensions file, as you know. We passed pooled registered pension plan legislation last spring, and we're also continuing with our reform of the four Alberta public-sector pension plans to ensure the long-term sustainability and affordability of these plans. We also continued to collaborate with other provinces to improve securities regulation in Canada. I'd also like to mention that we will be reviewing how we regulate the financial sector in Alberta as part of the results-based budgeting process, which brings us to the final goal.

Goal 3 is about ensuring effective and efficient government. The results-based budgeting process is obviously a big part of this, and we are continuing our review of every government program and service. Each cycle involves the participation of government and nongovernment people. Front-line workers participate in the review of programs and services while government MLAs and members of the public participate in challenge panels to ensure that the reviews are rigorous and that recommendations emerging from the reviews support our goal of working better to meet the needs of Albertans. We are finishing up cycle 2 right now. Cycle 3 will begin this spring and is scheduled to be completed by November.

We're also strengthening accountability by working with ministries on financial reporting, including work on some of the government's performance measures. Some good things have been happening with official statistics, including releasing more materials in open-data formats, and this supports the government's commitment to openness and transparency. We will also be working to strengthen accountability of the ministry's agencies to government policy.

Now that I've gone over our business plan, I'd like to provide you with some of the highlights from our estimates. Our revenue is forecast to increase by $2.42 billion from Budget 2013. This is largely due to increases in corporate and personal taxes as well as from investment income. Other revenue increases are related to the Canada social transfer increases due to Alberta's increasing share of national population, net income from commercial operations due to increased income from the Alberta Gaming and Liquor Commission and Alberta Treasury Branches, and AIMCo revenue received from clients outside of the ministry.

The department's operational expense decreased by $40 million from Budget 2013 as a result of a $41 million decrease in debt-servicing expense offset by a million-dollar increase in program expense.

Ministry capital plan spending has decreased by $2 million as AIMCo's innovations project nears completion, offset by an increase for Alberta Pensions Services Corporation's next generation project.

So that brings me to the end of my presentation of Treasury Board and Finance's business plan and estimates. I am very proud of what the team behind me, Mr. Chair, has been able to achieve with Budget 2014. As I've said over the past few weeks, I do believe that we are turning the corner; I don't believe that we are around that corner yet. We are cautiously optimistic about what we will see when we get around the corner, but with Budget 2014 we're preparing for growth and for success with a plan that will benefit Albertans today and tomorrow.

With that, Mr. Chair, I would like to thank you and the members for their time and look forward to their questions.

The Chair: Thank you very much, Minister. I very much appreciate your opening remarks.

At this point we will begin our speaking rotation. Again, my word of caution and advice to our committee is that this is not Public Accounts, and this is not question period. This is budget estimates, and as such all questions should be relevant to our 2014-2015 business plan or the budget estimates. So in the context of your questions if you can make sure you're referring or citing relevance to budget-related or ministry-related Finance documents, that would be very, very much appreciated by the chair.

First up in our rotation we have Mr. Anderson. You have your first segment of 20 minutes. How would you like to proceed? Would you like to do 10 and 10, or would you like to have a dialogue with the minister?

Mr. Anderson: I think we'll do 10 and 10.

The Chair: Very good. Please proceed.

Mr. Anderson: First of all, my reference document will be the entire budget. That makes it kind of easy since Treasury Board does kind of cover most of it.

This budget adds over $5 billion in debt. The total amount of government debt by 2016-17 is projected to be $21 billion, almost an all-time high. This alleged consolidated surplus of $1.1 billion does not include, of course, any expenditures on capital. It does include capital grants, MSI grants, things like that, but it does not include capital investment such as provincial roads, bridges, health facilities, schools, et cetera. Therefore, the real deficit is closer to $3 billion. We have it at $2.7 billion; there are other organizations that have it higher.

I'd like to start by referencing what the minister has said about debt and about why we should be taking on debt and get a clear explanation from him on that. I often hear the minister talk about debt being like a home mortgage. I'd like him to explain to me why he uses this comparison, particularly given the differences between government debt and a home mortgage, number one being that mortgages usually are attached to or secured by an appreciating asset that's worth generally more than the value of the loan because of the down payment that's put in place and because of the appreciation of the asset. Government assets, of course, depreciate and are worth less than the value of the loan almost immediately. A home, obviously, is quite easy to sell on the open market; government assets are not.

There's also a comparison to business assets. Maybe you could address that, of course, a business asset actually produces income; government assets, generally speaking, do not produce income. They're investments in education and so forth, but they're not income generating.

Of course, people are responsible for their individual mortgages whereas the politicians that take out debt for the government, of course, have no liability in the issue. So I'd like him to address that comparison, being somewhat ridiculous as it is, and why he continues to use it.

3:50

Alberta, of course, will always have the need, but we won't always have record revenues, and interest rates won't always be at record lows. So what is this plan, the Finance minister's plan, for when we don't have record revenues and when we need to refinance things at higher interest rates than the average of whatever it is now, 3.7 per cent or thereabouts?

Also, this issue that's being brought up about – you said that one of the reasons you continue to give, Minister, is that we have so many Albertans moving here that we need to borrow in order to build. I'd like you to explain, first off, why you don't seem to understand that Albertans that come to this province do not bring their roads and bridges, but they do bring their taxes and their GDP output. They actually pad our bottom line. They're one of the biggest reasons for our growth in revenues.

Also, I'd like to understand why you feel that we need to borrow in order to build at this time because we're in a high-growth period. By that logic, of course, we have been for quite a while now in a high-growth period with the exception of a bump a couple of years ago. The projections are that we'll be in a high-growth period for decades, possibly. So if we have record revenues now and we're borrowing at a record rate to cope with this growth, what about in two, three, five, 10 years when the growth continues and all of those new people will need their roads and bridges and schools, et cetera, et cetera? What do we do at that point? Do we just continue to borrow indefinitely? Do they not need the roads and bridges as well? What makes right now so important that we are spending record amounts of money in order to build infrastructure every year when we're probably going to have to do that anyway? At some point aren't we going to have to do so within the confines of our budget so we do not have to borrow?

When growth slows down and we have a problem with our economy and people stop moving here, are we going to be in a better position at that point to stop borrowing? At that point wouldn't it be more difficult to pay for the interest charges that we have when we have a slower economy? The logic doesn't add up, and that's why I think you see that your budget isn't being accepted by Albertans, why you see 19 per cent in the polls. I think one of the reasons you see that is because people think that you've completely lost command of this budget and the finances of this province. I guess I could be wrong. We'll certainly see in a couple of years, but I think that's a huge indicator of a problem, and it goes well past other issues. So I'd like to understand that.

I'd like you to just basically speak on this idea – and I've heard you say it many times – that you want to build Alberta, and it's either borrow and build or don't borrow anything and balance the budget. Can you please comment on the fact that a lot of people would say that a competent government could take $44 billion and find a way to build what we need without going into debt, that we could build and balance, in fact? Most people would say that that's a reasonable expectation of a government taking in record revenues of $44 billion. So please, please . . .

The Chair: Sorry to interrupt, Mr. Anderson, but the deputy chair is having a difficult time. Folks, if you need to have conversations at the table, could I ask you to step outside? Thank you.

Mr. Anderson: I stopped at 6:40. I stopped the clock. So I'll restart it.

All right. So those are a couple of the issues that I'd love for you to address.

The other issue – and it's related to this – is the issue of the debt ceiling. Obviously, there's legislation now in place that talks about the debt ceiling, and it's based on the amount of debt-servicing costs as a percentage of your total operating revenues, and we've gone through that. Now, based on the predicted operating revenues on page 133, line 6, of the budget document and a 3.7 per cent average interest rate for borrowing for infrastructure – I have the document from your website outlining that that's the average for your borrowing on your capital plan. Debt-servicing charges this year, of course, cannot exceed $1.2 billion, and then all the way up to '16-17 $1.33 billion would be your limit.

Now, this means that the government allowable debt would therefore be roughly 33 and a half billion dollars in '15, all the way up to $36 billion in 2016-17. I'd like you to make it clear what the debt ceiling is. Is $35 billion the debt ceiling? Since we're already going to be halfway there by 2017, is there a plan to curtail debt financing even if you keep your capital build at a high level of $6 billion, $7 billion, whatever you're going to be spending in the future? What is the plan to wean ourselves off the need for debt financing, for the reasons I've stated?

What protections do you have with regard to rising interest rates? At $21 billion in debt, once we reach that in 2017, if interest rates even approach 6 per cent, you would break your debt ceiling if you had to refinance at 6 per cent. Now, let's hope we don't have to refinance at 6 per cent, obviously, but that's the danger that we find ourselves in.

Going to that, there was a debt risk analysis from the Macdonald-Laurier Institute last year, authored by Marc Joffe, who's an MBA from NYU, a manager and consultant in the large banks of New York and London, et cetera. It was endorsed by Don Drummond, of course, economics adviser for TD, whom we all know well. Jim Dinning, of course, sat on the advisory council of the paper when it was released, et cetera. It said:

> Interestingly, Alberta, despite its current net asset position, has the highest long-term default probability . . .
>
> The most vulnerable in the 10-20 year window [in Canada] is Ontario, due to its large annual deficits. Alberta has the most risk at the 30 year threshold as its annual deficits swing its net financial position from a surplus to a large debt. Alberta's risk is attributable to high deficits, the fact that its population is expected . . . to age more rapidly than other provinces and because it is heavily exposed to volatile energy revenues.

With all of this volatility I guess the question is: how have you put in place a plan to make sure that our debt is manageable over the long term? When are you going to stop borrowing?

So if you could address those debt questions to start, that would be great, Minister. Thank you.

The Chair: You have three more seconds, Mr. Anderson.

Mr. Anderson: I will give those three seconds to the minister.

The Chair: All right. I just did not want to . . .

Mr. Anderson: I ran a balanced surplus of time there, you know.

The Chair: Okay. Minister, the next 10 minutes is yours.

Mr. Horner: Thank you very much. Hon. member, you mentioned that your calculation of the consolidated surplus does not include the capital investment, and I guess I want to put that right on the table. Public-sector accounting rules would require you to do so as they do with all of the other provincial jurisdictions as well as the federal government. So to suggest to anybody who manages the financial statements of any jurisdiction that that would be different would be contrary to the actual accounting rules.

The second thing I'd say is that when you say that other organizations say that it's higher or lower, I know of only one other organization, and it's basically a subscription-driven organization that is not preparing their numbers in an accounting fashion either.

You mentioned a home mortgage as not an appropriate analysis, I guess. I would agree, and I would also disagree. I agree, on the one hand, in that we don't borrow like a home mortgage because for us to do that would be rather expensive because of the way that they're structured. They're usually a higher interest rate. They're not structured so that you can have the security of that interest rate for the entire term or maturity of the debt instrument you're using. So we don't actually do like a home mortgage. We actually go to the bond market, the capital markets in a very similar fashion that other corporations of our size would do because that's where you're going to get the best rates. That's where your triple-A credit rating is going to give you the best rates in terms of that cost of borrowing.

You mentioned that we're not securing it by an appreciating asset. The only reason that they don't appreciate is because we don't put them to market value on our books. We keep them at what our cost of the asset was. I can give you an example. The MacEwan University is about to undergo a fairly significant expansion of their downtown campus, and they're going to do that by selling two of the buildings that they currently own as assets. They're going to make, probably, a return higher than what they have on their books. The assets have appreciated.

4:00

I can point to numerous government buildings and facilities where perhaps when they were built, the asset was put on the books at cost. Today, if we were to take them to market, they would certainly be more than the value of the asset. The federal government actually found this out some years ago, which is why you don't see a lot of capital investment or capital assets on their books, because they sold them. You know, a perfect example of that is Canada Place right here in Edmonton. The federal government actually built it and put the money into it and then sold it and leased it back on a long-term lease. Why did the Conservative government do that, hon. member? They did it because it made financial sense for them to get their cash out of the building.

To suggest that they're not easily saleable is simply incorrect. To suggest that they simply depreciate and don't appreciate is, again, not correct. To suggest that they're not income generating: I would suggest to you that if you don't build these assets and this infrastructure, the income that you're generating from your tax base, the infrastructure from the economy – being able to get to work, being able to school your kids – it means you will have a direct impact on the tax base that you have in the province. They generate income for us because they're there. Similarly, in my business in my previous life I had a warehouse, a very large warehouse. In fact, I hated putting money into the warehouse. Why? It didn't generate income, but I had to have it because if I didn't have the warehouse, I didn't have a place to store the product to sell to my clients.

There are assets that you have to build that would facilitate the economic activities that are in the province. In essence, those in the public sector are probably the majority of the assets you're going to build. However, we do also have assets that are generating revenue, and we could actually build assets like toll roads or those sorts of things that would generate revenue. Maybe one of these days we'll do that.

Interest rates won't always be cheap. I agree with you. Interest rates probably aren't going to be where they are at today. I mean, we're close to 50-year lows. Certainly, all of the municipalities in our province are taking advantage of those 50-year-low interest rates through the Alberta Capital Finance Authority. I would also remind hon. members that you and the province of Alberta and taxpayers are all liable for that municipal debt – it comes on our books – as well as the receivables. That's why we're going after those rates as we do today. We are locking in term debt interest rates up to 30 years, so we're reducing that refinancing by locking in the interest rates on . . . [An electronic device sounded]

The Chair: Ms Calahasen is dialing in to join the meeting.
Please proceed, Minister.

Mr. Horner: Okay. Hi, Pearl. That blew me away because her name tag is over there.

Okay. Where the heck was I? The idea is that we are mitigating some of that risk because we're actually putting these long-term rates in place for a long period of time. They're not going to fluctuate once they're in the books. We are setting aside money each and every year based on the maturity dates of those debt instruments that we're taking out. So if we take out a five or a 10 or a 20, we will actually set aside cash every year in the debt repayment account. I would point you to page 149, which actually has those tables in it. In this way, we will have cash available to repay that maturity when it comes due. We don't have to do that. Most corporations don't do that. We're doing that because it's the right thing to do to show Albertans that there is a debt repayment plan. We are setting that money aside.

I agree that as you look into the future, no one can predict what our GDP or our growth output is going to be, but having net assets, as we do, and building those net assets to some $49 billion over the course of this business plan is also protection against future issues around the risk of our economy.

High-growth period: why now? Well, because if you don't now, you're just going to create an even bigger infrastructure deficit than what we currently have today, and we do have an infrastructure deficit today. You need go no further than out your door and door-knock in your own constituencies to realize that Albertans are telling us: "Where is the school? Where is the road? Where is the hospital?" In the House today your own members, from your side, were asking us where these various hospital projects were, where the various school projects were. If you don't do it now, they're going to cost you a lot more in the future, not to mention the fact – and I agree – that when new Albertans come, they bring their production, and they bring their taxes. The simple truth, though, is that that's at the end of the year. They expect the school here when they come.

We're creating more jobs in this economy than anywhere else in Canada; 85 per cent of the jobs created in Canada were created in this province last year. If you want to fill those jobs, you have to attract people. If you don't build the infrastructure today, you won't attract the people. If you don't attract the people, your economy suffers, and then you will do exactly what you're worried about. You'll crater your economy and the income taxes that you're going to generate.

You mentioned that the budget wasn't accepted by Albertans. I would hazard to argue with you on that one because I've actually been in many communities in the province since the budget was tabled. I've talked about the budget. It's actually getting quite a positive response from Albertans across the province, including the chambers of commerce, including various groups that I've spoken with: the financial analysts in Calgary, the chambers of commerce in Calgary, Edmonton, the Alberta Chambers of Commerce. Many of the postsecondary institutions have already talked about how this is the type of budget they needed to see.

You mentioned that you could build and balance. I'd love to see that, hon. member. I'd love to see the $50 billion in your party's plan which is separated out of the operating. I haven't seen the cash flow that you would use to do that and what you would cut to make it happen. It would be substantial cuts to the operational side, and I think you're aware of that, which is why you won't put it onto a piece of paper or financial document.

The other thing that I would talk to you about is that in terms of the debt ceiling piece, if you go to page 149, we actually are very open and transparent about not only how much we're borrowing but also how much the capital assets will be at the end of the day, what the liabilities are for those capital projects, including the refinancing that we're doing to achieve the maturities that we're looking for as well as the alternative financing P3s amounts, which go all the way back to Premier Klein's time, and the additional budget items.

You mentioned, too, the capital plan debt-servicing costs. They're itemized there in the second table on page 149. We are well underneath the 3 per cent limit that we've imposed upon ourselves through legislation. I think you'll see that in the out-years, in fact, we are going to be maintaining that because we're also reducing the direct borrowing in the out-years. In this particular plan, the three-year business plan, nearly one-third is cash; two-thirds are alternatively financed. That's either by P3 or by capital debt. Again, it's not that we're borrowing a hundred per cent for all of these things. What we're doing is that we're making sure that we're fitting the right financing to the right project over the right amortization period at an interest rate that is reasonable for today's marketplace.

You mentioned the Macdonald-Laurier Institute report that came out more than a year ago, when there was not as good a prediction for Alberta's finances as there is today. Part of the risk assessment that I think they used in that thing was the fact that our economy is very much energy based and that we have a significant amount of risk, if you will, based on the industry that we're in, not based on the fact that we were going into capital plan deficits or debt. I would suggest to you that those . . .

The Chair: Thank you, Minister. Unfortunately, we're going to have to stop you there.

Mr. Horner: Okay. I'm sure I'll get another opportunity.

The Chair: I am most certain you will.

Again, I just want to urge anyone in their line of questioning to cite our financial documents as the context. I know our deputy chair did a remarkable job yesterday. He set the bar very high, so I'll be holding everybody to an equally high standard.

Mr. Anderson, you have 20 minutes. Do you wish to do . . .

Mr. Anderson: Ten and 10.

The Chair: Thank you. You may proceed.

Mr. Anderson: All right. Again back to page 149, which outlines the debt. Minister, I will concede that some – some – government assets do appreciate, an office building, for example. Granted, the building we're in right now is apparently going to be demolished, so there's an example of a depreciating asset, I would say. There are some assets that do go up in value, but they are the minority. It's not even close to a majority or a even a substantial amount. Roads, bridges, hospitals, schools: we don't have plans to sell these things – I hope not – at least not a majority of them. Some of them, absolutely, but not a majority of them, I would think. Again, I don't understand how we can use that as an excuse.

You didn't answer the one question, which is: when does the borrowing stop? When are you going to stop borrowing and start paying for things with the money that's coming in? The growth isn't going to stop. Alberta's growth for the next 10, 20 years is going to keep going, so we're still going to need more roads, bridges, schools, hospitals, et cetera. So when does it stop?

I still challenge you to do both. I've never accused you of being an incapable individual.

Mr. Horner: Yes, you did.

4:10

Mr. Anderson: Did I once? Well, I must have been really mad. Really, in my heart I don't feel that way. I think that you are a capable individual, and I think you can with $44 billion find a way to build what we need without going into debt, and I think that the majority of Albertans feel that way. It's not an either/or proposition; we can do both.

Yes, you're right. That might mean spreading out the capital budget over an extra year or 18 months in some cases for certain projects, but that's governance, and that's okay. We can do that. It's a matter for you, who has all the data on what is a top priority and what's a number 2 or 3 or 4 priority, to determine which projects could be delayed and which ones can't. I challenge you to do that. I think you're completely capable in order to do that, and if you're not, then I'm more than happy to give it a go myself one of these days.

Mr. Casey: You'll have to cross the floor.

Mr. Anderson: Yeah. That's one way. There's a lot of that going on, that's for sure.

I would like to go on to principal repayments. You did mention that you're setting aside money. You are. In last year's budget it worked out to be $34 million, and in this year's budget you're saying that it's $106 million and then in 2015 $210 million, in 2016 $290 million. Well, even if we went with the number $290 million, starting in 2016, when the debt is going to be up to $21 billion, even if we went there, it would take roughly 80 years to repay the debt if you don't put away more than $290 million a year, and that's if you don't borrow anything after you get to $21 billion.

Again, I would challenge you to stop borrowing and thus necessitating the need to put aside money to pay for your borrowing eventually. We need to put in a plan. It would be nice to have from you a debt repayment plan. Is this going to go on forever? Are we going to continue to amortize all assets over 30 years? In other words, are we going to be borrowing for another 25 years or something until we've got all of our assets financed, and then there's a payment plan? What is the plan, or is it just, you know, to hope that we can build enough by 2017 that we don't have to borrow anymore?

This debt repayment plan that you have listed here on page 149 doesn't get us there. At the rate that you're going this year, at a hundred million a year, it would take 217 years. I mean, I'm assuming it won't be that long. I'm hoping. Take the fear away from me in that regard. Please speak peace to my soul, and tell me that there is a plan to repay this so that my children don't have to repay it along with millions of others' kids.

Air services. Now we're going to go from big picture to a slightly smaller picture but still important. Obviously, there was the capital spending. I believe it was up last year, $945,000 over the budgeted amount, which was curious because I would assume that you would know that there was going to be a move from the City Centre Airport. Why were you over budget on that? On budget page 228, line 9, air services operational spending is slightly up, $15,000.

Here are my questions on the government fleet, one of our favourite subjects, Minister. First off, every province in Canada except us manages to serve their people without a government fleet of airplanes. [interjection] Okay. Well, tell me. If there's an exception to that, please do say. [interjection] Saskatchewan and Manitoba, you say, have government planes? Let's put that on the table. How many do they have? Do they have one? Do they have three? Do they have five? What have they got?

Wouldn't it save money, though, to simply sell the government fleet and charter out when it's necessary to charter, drive when we can but, if it's a long ways away, fly commercial to Fort McMurray, Grande Prairie, those centres, Medicine Hat, Lethbridge, et cetera, and then, when we have to get up to Fort Chip and places like that, use charters or things like that? Wouldn't that simply save the government money? I think it would as long as we were prudent with our travel in general.

Wouldn't it save money to have a travel policy where MLAs and cabinet ministers took economy class as a rule with exceptions for charter aircraft or special circumstances in remote locations? Wouldn't it save money to ensure that MLAs and cabinet ministers use government or charter planes at the same time, should they even be required to use a government or charter plane, so that they don't have this double-flight fiasco we saw in recent weeks, where two government planes are going to the same place hours apart? Wouldn't it save us money in this line item here to ensure that spouses and family members of MLAs and cabinet ministers pay their way, at least the cost of a commercial flight?

I think we've all – I know I once had my wife join me on a flight to a conference. Maybe it's time to think about, you know: is there really any reason for our spouses to come to these things, that they can't just pay their own way, specifically on a commercial flight, flying economy? I think it would send a very good, reasonable message to people, especially since for most spouses, when we fly business in other jobs around the province, I don't think the company generally pays. I mean, maybe your company did, Minister; I don't know how flush you were. But it is possible that we could do without that.

Would it be reasonable for government planes to not be usable by MLAs and cabinet ministers when the destination and time of the flight coincides with partisan fundraising activities, perhaps with the exemption of return-to-base flights to Edmonton? Perhaps, you know, in order to raise the bar, why not just say that we're not going to schedule on the day of PC Party fundraisers? They don't happen every day. I mean, there are only five or six of them in remote locations across the province. Maybe you could just say that we're not going to use the government plane to go to that community on those days just to be above board and make sure that it's clear because it kind of looks like you might be scheduling events coinciding with fundraisers for partisan reasons to save the party money from having to charter a plane. That's what it looks like to severely normal Albertans out there. If you could maybe comment on that policy, if there's any way that we could do that to save some money there.

What is your plan to institute this policy? When is it going to roll out? I know that part of it has been referred to the AG, but you've said that you're going to look at it as well. I'm a little confused about where that policy is at. What's the timeline? This is something you would think could be done in a week. It's not an overly complicated analysis. Are we talking about weeks here? Are we talking about months or years, decades, centuries? What is the time frame?

I will leave it there. I still have a minute, so maybe I'll put a couple more things on the dashboard for you. No. You know what? I'm not. I'm going to run a surplus of 40 seconds and let you go ahead and spend 10 minutes. Go ahead, Minister.

Mr. Horner: Well, thank you very much, hon. member. First of all, on your debt repayment piece, you talked about the idea that, you know, not all of our assets are saleable. In some respects I would say that there are some assets that we have on the books similar to what the federal government has on their books, that they have put on as assets. They have not done anything different than what the accounting rules say we should do. Probably not. But we also have close to $61 billion worth of liquid assets, financial assets, that aren't actually roads, buildings, or hospitals. They are assets that are of a valuation that would be fairly easy to liquidate.

The other thing: when would we stop using the capital markets for amortization of long-term assets? When it no longer makes financial sense. Just because of an ideological view around debt financing, it doesn't mean that that's the right financial decision for Albertans or corporations, for that matter. They don't do it just because. We do it because it makes good financial sense to amortize those assets over their lifespan. In many cases we're not even going anywhere close to their lifespan, but we are managing the financial picture of the province so that we maintain a net asset position.

As far as the annual amounts that we set aside over time, the simplistic view of taking $290 million and saying that, well, you'll have $22 billion and it'll take you 80 years is a very simplistic view because, again, it's not a mortgage. It's based on the maturity values of those debts. The building up of the capital debt repayment account and setting those funds each year in that account is almost like – I call it a hybrid sinking fund application. We're going to follow a schedule that's similar to what you might have for the principal amount of a mortgage, but we're also going to continue to increase that because the structuring of the annual borrowing is that these amounts will continue to increase each year. So there's a compounding effect on the amount that we're going to be setting aside, which you're actually seeing in terms of the first three or four years of this business plan.

4:20

I don't know, Mr. Chair, if we can make copies of this for folks, but this would be part of what that would look like on annual basis if you were to graph it out. Going out, in terms of the annual payments that we have, you can see that it drops down to zero because at that point in time all of the debt is paid off. That's basically going out on an average 30-year amortization. So to suggest that it would go past 80 years is simply not understanding the financial markets in terms of the capital borrowing piece that we have.

Let's go to air transportation services. The $945,000 for capital: that was the replacement of two of the engines on the Dash. The Dash is well utilized. We do move a lot of our employees, as you know, back and forth from Edmonton and Calgary, the energy sector. It's not all MLAs. There are also government employees that use it because it is a very cost-effective way to have those folks go back and forth between Edmonton and Calgary as well as others around the province. We used it a lot in the disaster around the flood. We moved a lot of people all over the place because in a disaster the number one priority for plane usage is to whomever is in charge of that particular disaster. In the case of our government it is the Minister of Municipal Affairs.

The operating allocations, $15,000: as you said, there is a minor increase in that. You did mention that you thought no other province has owned government planes. I can tell you that Saskatchewan and Manitoba, to my knowledge, both have jets. I'm not sure what other planes they have.

You also mentioned that you would look to getting chartered aircraft and to fly commercial and to do all of these things. Our current policy around flying economy class: if you were flying inside Alberta, you would be flying economy class. That is the policy.

When you talk about the charter piece, 90 per cent of the communities in our province are not served by commercial aircraft. So if you wanted to fly to some of the areas in Alberta that don't have commercial aircraft service, you would be utilizing a charter aircraft. We do that a lot. We fly a lot to these individual communities because people want to see us out there. They want to see their government in their communities. The Auditor General did a review of some of that work back in '04-05. There is considerable value in our being able to get to those places that are not served by commercial aircraft.

There's also the concept of the security, consistency, and safety in the scheduling flexibility. You mentioned that we had a couple of planes that went out at very close to the same time. I agree. The reporter – I don't think it was a newspaper reporter; I think it was an online reporter or researcher, whatever. What they thought was 10 instances actually turned out to be nine because in one of those instances the planes actually didn't go to the same places. So nine out of 4,000 different flight legs. Do I think that nine out of 4,000 is good? I'd like it to be zero, but there are times when scheduling conflicts or changes in people's agendas mean that the flights are going to be leaving at close to the same times because of appointments that ministers or the Premier have made.

We try to do the best we can. We've got a number of people, you know, for whom it's almost their full-time job. It's almost like a scheduler on top of a scheduler trying to make sure that we don't have that happen and that we have people utilizing the flights. There have been many times and to some people in this room when I've said that the plane won't go because there are not enough people to go on the plane, and they've had to find a different way to get there. There have been times when ministers have requested a plane and I've said no because there is no value to having one person on the plane if there's a commercial application that they can use. We have asked them to do that as well.

You talked about the double-flight fiasco. Yeah, we had a few, and I fully take responsibility for that. We do our best to try to schedule these things so that we don't have that problem.

You talked about spouses and family members. The Auditor General actually suggested keeping it to spouse. The Premier of the day, actually, and Premiers after that also talked about that if there's an empty seat, rather than a spouse, it could be a child that is going to a function that they've been invited to attend. We did change the policy a little bit to say, you know, that if there's an empty seat and they've been invited to a function that's government business, why not allow them to go with it? We do believe that there are a lot of people in the province that would like us to have our spouses accompanying us for that event, whatever it is that we've been invited to.

Just as an aside, in the corporations that I either owned or worked for previously, if my spouse was invited to a company event, if I was being asked to go with my spouse, they did indeed pay for my spouse. If I was just bringing my spouse along because it was a nice place to go, then she paid. That's the same policy that we follow with the government flights.

Return-to-base flights: well, that kind of goes without saying.

In terms of the scheduling around, you know, party functions, there are party functions going on in this province all the time. Your party has them; our party has them. You have MLAs that are probably charging mileage to some of those functions, possibly to yours, possibly to ours, but they might be doing MLA business at the same time. The flights are no different. They are a form of transportation.

I know for a fact that the PC Party does charter flights for those Premier's dinners and that there are flights available for MLAs who are not doing company business. So it isn't that they're going to get a benefit by doing something on the plane; it's the fact that the flight is there. They're going to do company business. They don't necessarily need to schedule anything because they can hop on the plane, go for the dinner, and come back on the PC Party plane. I don't have it with me today, but I did happen to check that we did have PC Party flights booked for those dinners and had MLAs who were not on government business using those flights, and the cost was paid for by the PC Party.

I still have another minute, but I'm going to stop with a surplus, too, of 50 seconds.

The Chair: Surplus is the order of the day.

I'll remind you that you have an hour; you can use that surplus at the end of your questioning.

Mr. Anderson: Okay.

The Chair: Are we going 10 and 10?

Mr. Anderson: Well, 10 and 10 or 11 and 11, I guess, since we both have a surplus.

The Chair: Please proceed.

Mr. Anderson: I'm pretty sure it was just an operational surplus, though, Minister.

Mr. Horner: No. My net worth didn't go up.

Mr. Anderson: You talked about the ideological reasons for staying out of debt. I've even heard comments from the other side, from you and from others, indicating that that's an extreme view to have. I would note that your Premier did promise prior to the election that she could provide all the services that Albertans needed without going into debt and that she was committed to that, and you all ran on that.

The Chair: If we could please tie the context to the line of questioning. Thank you.

Mr. Anderson: That's right. Debt, page 149.

With regard to the commercial airplane line item I understand that 90 per cent of communities aren't served by commercial flight. For example, Airdrie is not served by commercial flight, but you can take a commercial flight to Calgary and then drive to Airdrie. Milk River is not served by commercial flights, but you can take a commercial flight to Lethbridge and drive. I mean, I would say that it's actually a very small number of communities where you would need a commuter aircraft in order to access it reasonably. There are some, for sure, Fort Chip and many others, but we're talking, actually, about a relatively small number of communities where that would be the case.

Commercial flights, I think, are the way to go if possible and then, in rare circumstances, charter flights when you absolutely need to go to a different community. The point is that we shouldn't be using these as campaign vehicles.

Mr. Horner: We're not.

Mr. Anderson: I think a lot of people feel that you are. So I hope you can look at that when you look it over.

Now, Budget 2014 is setting up, of course, in the budget documents to be a record year for revenue, and it's expected that the operational revenue of the Alberta heritage trust fund will also have a good year and will be $1.6 billion. The net operational result of that account, however, will only be $97 million. The majority of that money will be transferred to general revenue, with the rest going to various other funds.

So only 6 per cent will be retained in the actual account, which is, by the way, about 36 per cent less than what we pay in management fees to manage the heritage fund. I think there's an old saying by Albert Einstein that the biggest power in the universe, or something to that effect, is compound interest. I would say that we need to use compound interest a little bit more in the heritage fund going forward by leaving the money alone in the account.

4:30

Now, I know that you've said with regard to when you passed Bill 12, the financial management act:

> The government will commit to a plan which ensures the growth of Alberta's long-term savings over time through retaining the Alberta heritage savings trust fund's income within the fund, something Albertans have been asking for for some time. We're going to make it law.

And

> We're going to ensure that the heritage fund income is retained [in the fund].

Well, that's great. The only problem now is that you've just passed a bill that will essentially carve out a huge chunk of principal from the fund and set it aside, and then you will use the interest of that fund for some very vague purposes. Really, I'm not going to put words; I'm just going to say what the quote was from Ms Kennedy-Glans, that it's essentially a slush fund.

I want to know why you're not leaving the interest alone in the fund. Minister, we could have spent every last drop of income from oil and gas revenues that we received on whatever we wanted to: buildings, roads, et cetera. If we had just left the interest alone, if that was all we had done from 1986 on, our fund would be worth today about $150 billion. We would not be reliant anymore on oil and gas if we had just left the interest alone to compound.

I'm hoping that you're moving towards that, but we need get going on this, and it's not going to help if you keep carving out sections of the fund and then using the interest as a slush fund to give to various people who want it, even if it's for good purposes. At some point you've just got to leave it alone. When are we going to be able to come here and say that you're going to leave all the interest in the fund to compound with interest? What is your goal in growing the fund? How large do you think it can get in the next 10, 20 years if we were to leave it alone and make investments in it?

Other identified items from the budget. I want to talk slightly about, of course, the business plan, goal 3. Priority initiative 3.1 talks about results-based budgeting. We went through full-time equivalents throughout your different ministries. In most cases – not in all cases but in most cases – these are not front-line workers. Your full-time equivalents across the board have gone up this budget year from last budget year. The only exceptions are Education, which went down – this doesn't include teachers in the classroom – from 649 FTEs to 648; and Service Alberta, 1,372 to 1,370. Everything else has gone up, including yours. In Finance you've gone from 1,390 to 1,473 from last year to this year.

Now, if you were doing an effective job at this so-called results-based budgeting, wouldn't FTEs be going down because we would be figuring out more efficient ways to deliver these program services? I don't see any indication that those efficiencies are being made, certainly not from the FTE perspective. At some point the bureaucracy has to shrink if we're ever going to, you know, get it under control with regard to the size of our bureaucracy, which is the largest in Canada.

Also, if you go to line 1.5, why does the ministry need $990,000 for communications, which would be in addition to the Public Affairs Bureau? You raised it 4 and a half per cent last year. Why do you need that money at all? Why can't we cut that and just let the PAB handle your communications in that regard?

Line 1.4. Strategic and business services are up 4.8 per cent over last year's budget and forecast and 17.7 per cent over 2012-13. Why? Why the dramatic increase? Now, I don't want to say that you've done an all-bad job on that. I do notice that your overall office budget has stayed consistent. Good. That's fantastic. But I think it could be lowered if you would find some of these efficiencies, as I've pointed out.

Line 4 is in regard to investment, treasury, and risk management, and in there it's increased $4.1 million. Between 2013 and '14-15 the budget for this line item is increasing by another $19.3 million. That's a 16 per cent increase from what was budgeted for this line item in 2013-14 and then the forecasted actual for 2013-14. Why is this item growing so rapidly? Is the financial situation of the province in a place where we need to invest an extra $20 million in risk management? Is that because of all the new debt that is being taken on? So is this $20 million – why are we spending this extra money?

I've got a couple more minutes. I want to get through a couple more things on the record here that hopefully you can help me with.

An independent budget office. We talked about that, obviously, in the House. I don't want to talk too much about the way you break down your budget. I mean, we're just going to have to agree to disagree, obviously. We've kind of been at each other for a couple of years on that. But don't you think that an independent budget officer, if we took the people that put together the revenue projections, the expense projections, these types of things, the budget document – what if we essentially took those folks out of Finance and put them in an independent budget office so that we could all have confidence that these numbers are legit? Yes, that would mean that you would need to move, and I understand that, but that's okay. That's okay. You would be independent, completely independent. You wouldn't even get a brown look for saying something that was uncomfortable for government.

I think that that's something to look at, and I wish you would do that, especially since it would also give us the opportunity to perhaps get some good cost estimates for different projects, initiatives, et cetera, that are independent of government. So, yeah, that's another issue I'd like you to address. I know that Ontario is setting one up right now. I know that the federal government does it, the U.K. does it, all 50 states do it, the U.S. government does it. I just think it's a natural progression for our province to make that an independent budget office so that we can all have confidence in those numbers.

Just a last point, Minister, in the last minute that I have here is that . . . [A timer sounded] I still have an extra minute.

The Chair: Actually, you can speak for 10 minutes, so your 10 minutes are up. We'll let the minister speak, and any residual time is back to you.

Mr. Anderson: Okay.

The Chair: Minister, you may respond.

Mr. Horner: Okay. Jumping down a little bit here – if I miss something, you can come back to me on it, Rob – basically, I'm going to talk first about the heritage savings trust fund, the retained earnings. If you go back to the FMA, by '17-18, the third year in this business plan, a hundred per cent of that investment income is retained in the fund, 50 per cent in '16-17, and in '15-16 nearly 30 per cent. As well, if your nonrenewable resource revenue exceeds the $10 billion mark, which it might – you never know – 25 per cent of the next five goes into that fund as well as the entire retained earnings.

I did, Mr. Chair, pass out another graphic, that I think helps explain it for the hon. members, around the total savings that are expected to be reached by 2016-17. Of the three funds, you can see there that the heritage savings trust fund does indeed grow as well as the endowments and the contingency account. This is indeed with the endowment funding that is patterned after the Lougheed model. The Lougheed model, the Alberta heritage fund for medical research, was 4 and a half per cent of whatever the fund's value is. All of the interest earned that comes into the fund: as an example, this year it was 11.6 per cent. We don't take 11.6 per cent out; we take the 4.5 per cent to maintain the principal and inflation-proof the fund and, in fact, to build the fund. As the funds grow, obviously, so will the 4.5 per cent amount that's going out. Again, $86 million or thereabouts in terms of the heritage fund for medical research is now being used.

You mentioned that you thought the hon. Member for Calgary-Varsity had talked about a slush fund, and I answered this question in the House today. This is a fund that is notionally set aside in the Alberta heritage savings trust fund at $200 million a year. However, you can't access it unless you have the vote in the House. If the vote in the House says, "No, we don't want to do it," you don't access the funding. It has to be for something that is transformational and province-wide, something that's for the future benefit of Albertans.

If you go back in *Hansard* – and I would encourage you to do this, all members – to 1976, I think it was in April or May, to Premier Lougheed's original speeches when he introduced the heritage savings trust fund and the intent of what that fund was for, there was a lot of intent in that fund to actually use the money, once it was in the account, for the benefit of Albertans for the day and for the future and to build on economic activity. So utilizing the interest portion, if you will, of what those endowments have is actually more than what Premier Lougheed envisioned. He actually envisioned using the principal balance, and in fact, you'll recall, we actually did that.

4:40

It wasn't until, I believe, transferring over to Premier Klein's period of time as the Premier that we actually stopped using the principal balance of the fund to build assets like air terminals in Medicine Hat or grain cars or, you know, lending money to grain terminals and started doing proper investment management, utilizing cash managers like the AIMCo group and others, that we pay fees to, to generate that income and generate a much higher return than what fixed assets would do.

In fact, 20 per cent of the fund's original intent was for nonrevenue-producing assets, which even I thought was quite interesting because, you know, if I was in the Legislature of that time – I know I had a family member there – I'd have probably voted against that piece because I don't agree with that either. However, I digress.

The other thing, too, is that it was Premier Klein that actually used interest from the fund to help him balance his budgets in those years as well. We're not going to be doing that. In 2017-18, as I said, a hundred per cent of the fund's investment income will be staying in the fund.

You mentioned the FTEs, and the FTEs are indeed going up. Ninety per cent of the FTE increases are nonmanagement positions. They are front-line positions. We are adding sheriffs, police, front-line people to provide service to Albertans. In the Finance department, as far as the department itself goes, we are adding two because we're doing some good work there. The Alberta Securities Commission and you and I are going to be having a meeting about some of the things that the Securities Commission is dealing with these days. They need additional people. They're going to be adding some people. AIMCo is also adding people to their group because it's cheaper for us to have them have the experts than to have them hire the experts to do the management of those funds, which I'll get to.

Also, on the operational side you rightfully pointed out that, yes, we did have a bit of an increase on line 1.4, and there is strategic communications in there, but over the last two or three years, as you rightfully pointed out, our budget for the operation of the department has remained quite steady, and in some areas has actually gone down. Well, in other areas we have moved some dollars around to get better effect and better operations and efficiencies in our operation. We are doing more with about the same amount of money, and that does mean that you're going to have some ups and downs in other areas.

In terms of line 4.1 the increase is in investment management fees charged to the department by AIMCo, because we do put money in with them on a short-term basis, and they manage that for us. So, in effect, we've kind of paid ourselves because that would be part of the return that goes into the AIMCo portfolio as well.

You talked about the independent budget officer being able to do the projections and forecasts on an independent basis. I would challenge you to ask Kate, here, or Stephen if she feels that I have any input into the forecasts or estimates that she gets from the banks, from the industry.

Most of our energy forecasts we actually get from the industry. We don't come up with them. There are a number of pieces of data which we have which industry does not want to be made public, which we receive because, obviously, we have a royalty arrangement with them, and we have to have an understanding of what the volumes are, those sorts of things. We have through that agreement the ability to utilize that data to make those projections. I would suggest to you that there are people in the industry who use our forecasts rather than, perhaps, some of the ones that they'll get from the banks because they know that we have some knowledge that other groups would not have.

I would also suggest to you that our forecasts are very independent. We did last year bring in, similar to what B.C. does, the banks – in fact, the forecasters were on their way to B.C. to do exactly that with the Minister of Finance in B.C., Minister de Jong – and interestingly enough they made the comment that they had not done that for Alberta in some period of time. But you'll recall that in Budget 2013 we did make the commitment that we would utilize experts from outside of Alberta and, in fact, had the Conference Board of Canada hold a forecasting summit for us and sponsor that forecasting summit, to suggest that this is how we should come up with these forecasts, and vet what we do.

Again, we also sent our forecasts out, the assumptions we made, in January, when we were getting close to locking down what our numbers were going to be. The problem is that it doesn't matter whether you're the independent budget officer, whether you're the chief economist for the bank of Nova Scotia, or whether you're the chief economist for the government of Alberta; the day you make the prediction, the next day it's wrong. That's simply the way these things work.

No one can predict with 100 per cent accuracy what the Canadian dollar is going to do. Look at what happened when the federal Minister of Finance resigned. You know, maybe there were some in this room who could have predicted that, but I don't think anybody predicted the dollar would go down a penny, which it has just about done.

You have situations that are happening in Europe right now that are quite serious. We're watching it very closely because that, too, may affect some of our changes.

But having said that, what we have in place to manage and mitigate some of that risk is the contingency account. The contingency account is not necessarily a savings account; it is there to be used as a reserve. We have utilized it on several occasions when we've either had a revenue issue or we've had a catastrophic event like we did last year, which was the flood. It was very fortunate that that contingency account was there.

Under the FMA rules that we passed last year in the Legislature, any additional surplus from the operating side must first go into that contingency account to bring it back up to $5 billion. Then there's a choice between the capital or the savings account for any additional surplus. You will note that we are putting it into the capital account because we are having a balance of cash and financing go into that capital plan.

Did I miss any of those, Rob? Oh, commercial flights. The only thing you'd have to consider on that is that if you fly into Calgary, I'm assuming the employees would have to rent cars and they'd have to potentially have hotel rooms if you're losing a day or two in there. But I will say this on the ATS side of it, that the letter the Premier wrote to the Auditor General is quite comprehensive in terms of its scope. We fully anticipate that the Auditor General will look at the value in how we are operating the ATS and those planes. I'm quite confident that the Auditor General will show that there's value there, but I'm also open to suggestions from the Auditor General.

The Chair: Thank you, Mr. Minister.

By our account, Mr. Anderson, your surplus is about 28 seconds.

Mr. Anderson: Twenty-eight seconds. Oh. Well, that's great. Quickly please answer the question, if you can, with regard to when you are going to stop borrowing. Saying, "when it makes sense," is a little vague. Can you please give us, you know, at what billions of dollars we are going to stop borrowing. Please find a way to balance our budget. Stop borrowing, and still build what we need because we're going to be in a high-growth situation for decades, Minister.

The Chair: Thank you, sir.

Mr. Horner: Do I get to respond?

The Chair: According to our rules perhaps within another line of questioning you can reply to that. I'm certain Mr. Anderson will have, in the 10-and-10 section, an opportunity to ask that question again if he wishes.

At this point in time, folks, I suggest we all break for a quick five minutes to stretch your legs, a little biobreak. We will resume in a prompt five minutes.

Thank you very much.

[The committee adjourned from 4:48 p.m. to 4:54 p.m.]

The Chair: All right, folks. If you could all take your seats, we'll resume our meeting.

At this juncture we break into our 20-minute segments. Mr. Hehr is up for the Alberta Liberal Party. Again, Mr. Hehr, it's not question period, and it's not accounts.

Mr. Hehr: Well, I think hon. Minister Horner and I can go back and forth. I'm not going to say anything shocking to him.

The Chair: Fantastic. If I could just ask you, please, to make sure you're citing as reference the financial documents of 2014-2015. I'm sure it'll be a wonderful conversation. You may proceed.

Mr. Hehr: Well, thank you. Clearly, it will not shock the minister when I suggest that I've been fairly clear about the fact that I find the last 25 years of practices in this province – and in fact what I find going forward – the complete opposite of being fiscally responsible. May I enlighten – he probably knows where I'm coming from here, but I'll just make it clear.

I find the fact that if we come to this, where we are here at this budget debate in 2014, and haven't looked at what has transpired over the last 25 years, which has found us in a position of spending all of the nonrenewable resource revenue inside of that time frame as well as finding ourselves in a place of being close to $21 billion in debt four years from now, and we haven't come to the conclusion that at least a large portion of that is the fact that we are by $11.6 billion the lowest taxed jurisdiction in Canada, well, then I'm not sure what will wake us up to that eventuality. My greatest fear is that we are destined to then just repeat the cycle of this happening sometime into the future and that despite the fact that revenues may look better, you know, three or four years from now, then we're just going to be back in this place again some 20, 30 years down the road, with no ability to then correct the course.

I think the minister knows that that's my concern, but I'd just like to hear what he says about that synopsis, where I'm wrong that that is what has transpired, and how this has been a great way to be fiscally responsible over the course of the last 25 years.

Mr. Horner: Is that it? Okay. Well, let's look at the facts of where we are today in Alberta. Number one, we are the only jurisdiction in Canada that has net assets of $45 billion. To take the full calculation into account, we'll have $49 billion by the time we get to 2017-18. We will have $26 billion worth of cash assets, basically, that no other jurisdiction in Canada could say they have. We are the only jurisdiction that has a sovereign wealth fund. Many of the comparators that are made to other jurisdictions are made because they are a country, not a state within a jurisdiction. Fifty-five per cent of the actual valuation that we get out of our energy resources actually accrues to the federal government, which then accrues to the rest of the country, and through the transfer system we've been considerably helping in that sense across our country.

The other thing that I would take issue with is that when the hon. member says that we have squandered the resource by spending it, it's almost as if he doesn't believe that the services that we've delivered to Albertans had any value, and I believe that they've had a tremendous amount of value.

Could we have raised tax? Absolutely, we could have raised tax. Would we then be the number one economy in the country? Would we be growing by faster growth than the United States, Canada, or any one of our partners? Would we be creating the number of jobs that we are, as I said earlier, more jobs than any other jurisdiction? Eighty-five per cent of all jobs created in Canada last year were in this province.

There is a reason why the Canadian Federation of Independent Business has said that this is the best place to start a small business, to build that business, and to build that business into a future for your family and for generations to come. The stability of our tax structure is often cited as one of the reasons why companies will come to our province and locate and potentially build head offices here. There's a reason why 105,000 people moved into our province last year, and we believe that we're going to have maybe not as high as that this coming year, but it's certainly going to be three to four times that of any other jurisdiction in Canada.

To suggest that because of a tax policy that you disagree with we're now at the worst of places, I would take some umbrage with. To suggest that Albertans don't have value from the resource revenue that has been created: I would also suggest to you that we have done a tremendous amount of investment in education, in health care, in all of those things.

Mr. Hehr: I get that. I know where the money has gone. Thank you, Minister.

I'll just leave one point so that you don't think it's just me that's being crazy. Frankly, every economist over the last 20 years and the last four Finance ministers I've talked to – Mr. Jim Dinning, Shirley McClellan, Mr. Ron Liepert, and Ted Morton – all have suggested we have a revenue problem. So call me crazy, but . . .

Mr. Horner: I see Jack Mintz said that his proposal was revenue neutral.

Mr. Hehr: I don't know. Well, Jack has never been a Tory Finance minister, I don't think.

Mr. Horner: But you said every economist.

5:00

Mr. Hehr: Nevertheless, I'll stand by my point. In any event, we all must do what we must.

Nevertheless, getting into some real questions today, I note that in the Financial Administration Act and today's order in council, the Treasury Board and Finance minister has been allowed to borrow up to $7 billion in Canadian dollars or its equivalent in other currencies. This is a change from the $5.1 billion in new capital debt that I believe it said was available for direct borrowing. Can you comment? Is this an alternative to P3s that were planned for schools? Can you tell me what this change is in today's order in council and the like and how this may affect our budget documents, that I think just came out a week and a half ago?

Mr. Horner: Actually, it's right in line with the budget document because the $5 billion or so that we're looking at direct borrowing for capital is only one part of borrowing that we do. This is the thing that people seem to be forgetting. We also borrow for the ATB, we also borrow for Ag Financial Services, and we also borrow for a whole raft of other groups with regard to the borrowing that we do. If you go to page 144 of the tables, you'll see that there is term debt for, as I said, Ag Financial Services, the Alberta Capital Finance Authority, which is the municipalities. Your city that you live in borrows for capital and for other issues, mostly for capital because ACFA will only borrow – but we actually do that borrowing for them.

ACFA has been in place since 1952 and has been a hundred per cent guaranteed, for that matter, by the province of Alberta since then. To suggest, by any party, that we've not had long-term capital liabilities and obligations would be untrue. We have both through the Ag Financial Services Corp., which used to be ADC, Ag Development Corp. – I think that's what it was called when my dad set it up – as well as through Treasury Branches. The Petroleum Marketing Commission is also in there, and then, of course, you have the direct borrowing for capital purposes. This actually doesn't include any of the P3 obligations that we would be putting in.

Mr. Hehr: Okay. Just wondering on pension liabilities. I have some questions in regard to the approach being taken in terms of the pensions with the AUPE and otherwise. Why do you not accept the numbers put forward by that organization and others that the pension is not sustainable in the long term and that normal fluctuations in pension contributions and market rates will not rectify the pension relatively shortly?

Mr. Horner: Well, if that were true, then you wouldn't be sitting with a 7 and a half billion dollar unfunded liability today. Let's take the PSPP plan as an example. The actuarial analysis that was put forward – I think this is the one that you're referring to – suggested that you would have a growth in contributors of 2 per cent per year over the next 20 years. By doing that, obviously the number of contributors increases. You can handle the retirees that are coming out. That's the assumption. The problem is that the reality is different than that assumption.

In the PSPP plan, as an example, in 1993 there were 40,000 contributors to the plan. In 2013 there were 40,000 contributors to the plan, but the number of retirees had close to doubled. You take the LAPP plan. The number of contributors in that plan actually has doubled, except the number of retirees has tripled. That's the first problem with a lot of the actuarial reports that are out there. If you give them the wrong assumptions, you'll get a different answer.

The other piece that was in a lot of these actuarial reports. They came out at a time just prior to when the Canadian Institute of Actuaries, which are probably a bunch of really exciting people, came out with new mortality tables that would speak to the fact that – you know what? – we're living longer. We're living a lot longer. When these plans were established in the '50s and '60s, the average life expectancy after retirement was less than 17 years. It's considerably longer than that now, so to use the wrong actuarial analysis doesn't make a lot of sense. To use common sense when you have fewer contributors, more retirees, you've got to change something. Remember, too, that what we're giving them is the flexibility to preserve the plan, not to get rid of the plan.

Mr. Hehr: Well, I'll disagree with that approach. Nevertheless, it's your answer, and people can judge it for what it is.

My question is that I fundamentally see the needs of retirees, not only in this province but throughout Canada, growing over the course of time.

Mr. Horner: I agree.

Mr. Hehr: Largely, this government has stood in the way of CPP pension reform.

Mr. Horner: I disagree.

Mr. Hehr: Well, that's what it is. That's what the reports say, and that's what . . .

Mr. Horner: If I could, I could answer that one.

Mr. Hehr: Just let me finish.

Nevertheless, you know, you guys have been on the wrong side of this pension reform, from my perspective. As part of a stopgap measure, which you guys have instituted as sort of adding to people being able to save for their own pensions, you brought in a bill last time, called the Pooled Registered Pension Plans Act, that was supposed to be a panacea for all things for saving in the private sector, pension plans that allow more companies and individuals to save. I frankly didn't think it was much, but the government seemed to proclaim it as being a solution to pension woes. Yet 10 months after it has been passed, why hasn't it been proclaimed, and why haven't we seen it out there?

Mr. Horner: We're working on the regulations under which we'll be able to get the harmonization with the federal act and the licensing of the plan. We are drafting those regulations as we speak. We're also working with some of the other jurisdictions to establish the agreements for facilitation of the licensing, the registration supervision of the plans across Canada.

I want to come back to your statement that Alberta stood in the way of CPP reform. That's false. The last Finance ministers' meeting, last December, that we were at, Alberta was on record both publicly and in the meeting as saying that we want to continue to discuss options that are out there for CPP. In fact, Saskatchewan, British Columbia, and ourselves talked about the need to add some flexibility into the CPP plan and maybe even use the pooled registered pension plan as an add-on to what CPP is doing, maybe blending some of those things together, maybe providing individuals with the opportunity to add onto their CPP should they so choose.

The topic of CPP changes was not shut down by the Alberta government. In fact, all provinces agreed that we should continue to move forward. However, there is a voting structure there that allows the federal government to say no. The federal government chose to say no, which is the same voting structure that they were talking about putting in place for a national securities regulator, which is also the reason why Alberta is saying no to that particular piece.

On the pooled registered pension plans, we do agree that there is an opportunity for Albertans to get more interested and get more people involved in a pension plan involving their employer and employability. We view the PRPs as a way that employers can become more competitive with their offerings to future employees.

When you talk about a defined benefit plan, there's probably not going to be too many of those created in the country anymore. When you talk about the fact that we are trying to preserve the defined benefit plans for our public-sector employers, it isn't just AUPE. There are 500 employers there. When we're talking about trying to support the DB, it's for exactly that reason of being competitive in the marketplace, ensuring that those employees have that retirement. I doubt that you're going to get anybody to start a new DB plan.

Mr. Hehr: Well, maybe, maybe not.

Of the $7.4 billion that the government claims is unfunded liability faced by Alberta's four major public pension plans, what is the province's share, and how much are the employees on the hook for? What is the municipalities' share of this unfunded liability?

Mr. Horner: On page 144 you have the total liabilities listed. It's a little less than half, probably about $4.3 billion. I can get you that number.

Mr. Hehr: Okay. My follow-up question. We seem to subtract when it comes to debt. The government is careful to distinguish municipal debt from its own, but it's quick to count the municipal share of the $7.4 billion in unfunded pension liability as its own. Can I ask you why you don't distinguish it similarly in both cases?

5:10

Mr. Horner: Just the consolidated financial rules would be my first answer, accounting rules, which is why we pull it out of the financial asset piece as well. It's an in-and-out entry.

Mr. Hehr: Allegedly, that's a simple answer, so I won't even try.

We'll go from there. I would like to follow up on some line of questioning that the Wildrose Finance critic did. One of the government's goals was a 10 per cent reduction in the number of government managers. Budget 2013 included plans to reduce the size of management by 10 per cent, or close to 500 positions, over three years. By our count, however, the number of full-time equivalent positions in the public service has actually increased by 936, or 3.2 per cent, over the last year. Do you want to comment on this? Is our math correct, or are we missing something here?

Mr. Horner: It's probably not something that my department would be in a position to answer across government. I can tell you that of the new FTEs that are totalled, 90 per cent of that is not management; it's front line. So you may have some additions in there, but overall the objective is still to reduce by 10 per cent over three years in those management qualification areas.

Mr. Hehr: I guess one of the areas that I'm interested in – and I know the federal government did talk briefly about this in the budget – is looking at national flood insurance programs. They talked about it briefly. It didn't sound like there was an overall commitment to it, and I would doubt, frankly, that it's going to get done any time soon. I do note that 56 per cent of disasters that have happened throughout Canada, who tap into the national funding, emanate from Alberta. I was wondering if your department has worked up plans to look at whether Alberta could go it alone, should go it alone and devise one of these plans. Even in the eventuality that the national government eventually runs a program, wouldn't we just dovetail into that if and when that would happen?

Mr. Horner: Well, first of all, in essence, we are going it alone right now because we're picking up a big part of that tab. The idea that you would have an insurance program – you need to be able to spread the risk. I've said this publicly before. I think that there should be a national program. I think that we should have that discussion. Interestingly enough, the Insurance Bureau of Canada and the head of that group has been in discussions with the federal government about, you know, the what-ifs: could we have a private-public solution to this? We are engaged but not this ministry because the disaster mitigation measures fall under the Ministry of Municipal Affairs. He would be probably in a better position to respond to that, but I can tell you that both the minister and I have had meetings with folks who are involved in that discussion. I think we're probably going to pursue that.

Mr. Hehr: Okay. Fair enough. I'm good.

The Chair: Terrific. Thank you very much, Minister. Thank you, Mr. Hehr.

We will proceed with our next round of questioning from Mr. Mason. Mr. Mason, are you ready to go?

Mr. Mason: That was really quick.

The Chair: That was. And fascinating. Yes.

Mr. Mason: Thank you. Yes. It's not like sitting through the Wildrose questions for an hour.

I'd like to go back and forth. Now, if the minister sort of respects my time and we don't get into too much rhetoric, you know, I'm really happy to . . .

Mr. Horner: It goes both ways, Brian.

Mr. Mason: No, no. I've got real questions.

The Chair: Just a gentle reminder to make sure, Mr. Mason, that you're referencing our financial documents as they pertain to Treasury Board and Finance. Please proceed.

Mr. Mason: I just have one thing I want to get out of the way quickly. The revenue in the budget from gaming is projected at $2.228 billion. That's an awful lot of money. Now, there are some new regulations that change the hours that are worked by casinos. The casino program was established as a way to provide funding to charities and community organizations. Now, a number of these organizations are starting to realize these changes and are contacting me. They're essentially going to have to start two hours earlier on the tables in the morning and an hour later at night, till 3 o'clock. Because of the set-up time and so on, a charity or community group will have to supply people from about 8 in the morning until about 4 in the morning. They're very concerned that they'll be unable to find enough volunteers and that eventually they're going to get squeezed out.

Is it your intention to move away from the charitable model for casinos that we now enjoy in the province? I'd really like it if you could provide me with a list of the groups that were consulted because nobody seems to be able to find out who was consulted.

Mr. Horner: About 60 per cent of the charitable organizations that take casinos – I'm pretty sure that's the number that was consulted as part of their process. It's not mandatory, number one, and each casino can do it either by their own option, if you will . . .

Mr. Mason: But the casino management decides, right?

Mr. Horner: Yeah. The casino management would make that call.

I can tell you that I've also heard those calls. We've been talking to a number of these casino groups, casino operators. Sixty-one per cent of them answered yes when asked if the casino table games should mirror those of the casino slot machines because that's the timeline on both.

Mr. Mason: Yeah. I understand.

Mr. Horner: The advisers, obviously, about 86 per cent of them, were not in favour of increasing the hours because it means they've got to work longer. A lot of these charities hire the advisers. So they're raising a bit of a stink because they're going to have to actually work a little longer. The charity itself won't actually lose anything here.

Mr. Mason: No. But they're really worried they won't be able to handle the longer hours with the volunteers.

Mr. Horner: The advisers won't be able to.

Mr. Mason: Well, the community groups have to supply the volunteers to work the casino, right?

Mr. Horner: And they pay for the advisers.

Mr. Mason: Yeah.

Mr. Horner: Their advisers are part of that.

It's not necessarily a budget item, Mr. Chair, but I do want to ensure that all members around the table know that I did ask the chair and the CEO to meet with a number of the groups that have been fairly vocal in their concern, and that did happen last night, as I understand. I think there was some very good dialogue going back and forth. If there's further concern as it relates to that, we're certainly going to be looking at how – maybe we don't change the policy, but we're going to follow up with those guys.

The Chair: Thank you, Minister.

We'll give you a little bit of latitude there, but again, Mr. Mason, if we can make sure we're referring to the financials of Treasury Board and Finance, 2014.

Mr. Mason: Yeah. Well, I did; $2,228,000,000 in revenue there.

Mr. Horner: He does that in the House, too. He can relate anything to anything.

Mr. Mason: I can even relate to you.

Okay. So pensions now. I have three questions, and maybe we'll do a little follow-up, depending on what you say.

Mr. Horner: Sure.

Mr. Mason: My understanding is that the pension boards that are in place that represent both employers and employees have in place plans to make these pension plans fully – is the word "solvent"?

Mr. Horner: To deal with the unfunded liability.

Mr. Mason: Yes. To deal with the unfunded liability.

Mr. Horner: That currently exists.

Mr. Mason: Yeah. That currently exists, and they're going to be restored to that position in about seven years. That's, really, the question I have. I mean, are you just basically saying that the pension boards are working from incorrect assumptions and that they're wrong? I'd like to know that.

The second thing – and this is a real concern – is that it really seems to me that you have incentivized people to leave the plan so that they leave before the deadline and get their full benefits. I'm really worried, and I think many of the organizations representing employees are worried that this is going to create a real run on the plan and jeopardize it.

This leads me to the third one, and that is that by reducing the benefits of these plans and reducing the ability for early retirement and reducing the payments for inflation once the person is retired, there's a real concern that it might create a downward spiral, that employers currently invested in these plans might withdraw and create a real difficulty for the plans.

Mr. Horner: I'm sorry. I didn't catch that last one, Brian.

5:20

Mr. Mason: There's a worry that because of the reduced benefits of the plan, employers might opt out – there are multiple employers in some of these plans – and find some other retirement package for the employees, and that would create a downward spiral in the plan. That is a concern.

So those are the three things I'd like to raise about pensions.

Mr. Horner: Oh, I wrote five. Anyway, let's go with the pension boards in place. What they have is a plan to pay off the 7 and a half billion dollars, not any future liability that may be incurred by anything that might happen into the future. For many years they have all expressed concerns about the sustainability of the plans, and one of the problems with what they've done is that we're now at probably some of the highest contribution rates in the country. Those high contribution rates are to pay for the unfunded liability of the past, not any unfunded liability that may occur in the future. Then what happens? That's the first thing.

I didn't say that they were making the wrong assumptions about their unfunded liability. I said that there were wrong assumptions produced under an actuarial plan or report that was put in place to make the case for no change needing to happen. The problem is that change does need to happen. Many of the plan members in other jurisdictions that are working with defined benefit plans, including New Brunswick, where the unions basically said, "Yes, we have to move in this area to save defined benefits," are saying that you need to have the flexibility to work. If you don't have a lever other than contributions, contributions just keep going up. If you can't adapt on the future guaranteed pieces – and I encourage you to read a book by James Leech, *The Third Rail*. It's a very good book. It talks about the protection of defined benefit plans. When I first picked up the book, I thought it was about getting rid of them. It isn't. It's about protecting them. The way to protect them is to give them the lever they need.

When you look at incenting the people to move out – no, you're not because the way we've crafted this is that we've said: "All of your service up to 2015 is on the old rules. If you stay, you're not losing anything. You're continuing to gain that benefit of the defined benefit plan." Remember, the promise of a defined benefit plan is not to retire early, not to get guaranteed COLA. The promise of a defined benefit plan is to receive a percentage of your salary, probably your highest salary, for the rest of your life. That's really the defined benefit promise. Defined contributions: the only thing you're guaranteed is how much money is in that contributing pool, right? If my RRSP is $300,000, that's it. When it's done, I'm done. Defined benefit means if I made $100,000 a year when I retired, then I'm going to get a percentage of that, based on my years of service, forever, and my spouse might, too.

Mr. Mason: Yes. Well, for the rest of your life.

Mr. Horner: For the rest of my life. Not true in a defined contribution.

Mr. Mason: No. I understand the difference.

Mr. Horner: But many people who think that we're taking this away are saying – well, some of them even said: go to a DC. We asked the plan boards, all four of them: do you want us to look at a DC? You may even recall back in July 2012, the first meeting I went to, that they were all walking around with: save our DB. This is to save the DB. The unfunded liabilities that they have today, right now, probably are not going to be paid back until 2026, not seven years.

Mr. Mason: Why are you second-guessing them?

Mr. Horner: I'm not. We're not changing that piece.

Mr. Mason: But they say seven years.

Mr. Horner: The earliest date that they could become fully funded, based on the superintendent of the pensions, is 2026. That's the actuarial result that is out there right now.

Mr. Mason: Is his report available?

Mr. Horner: All of the plan boards have their own.

Mr. Mason: Yes. I'm getting a nod.

Mr. Horner: There's probably one there. There might be seven.

Mr. Mason: The superintendent of pensions, that one. Can I have that report?

Mr. Horner: It's not necessarily a report of all four. It's a report on each one. So we'll get you some information on that.

Mr. Mason: Sure. I'd like to see that.

All right. Well, let's move on. I want to talk a little bit about the . . .

Mr. Horner: Just before, why would an employer opt out?

Mr. Mason: Well, maybe they can find something better somewhere else.

Mr. Horner: Better than a defined benefit plan? The employer?

Mr. Mason: If you reduce the benefits of your plan.

Mr. Horner: Why would the employer opt out?

Mr. Mason: Well, because they don't like it.

Mr. Horner: They could do that today.

Mr. Mason: I know.

Mr. Horner: Okay.

Mr. Mason: All right. I want to talk about, you know, the overdependency on nonrenewable resource revenue for program expenditures. About 30 per cent of our program spending is funded from nonrenewable resource revenue, and almost all of the nonrenewable resource revenue is going into the general finances of the province. I think that that's quite a bit different from what was intended. I know you've talked about a fixed amount of royalty revenue going into the heritage fund, but when Lougheed set it up it was 30 per cent, and I think your target is probably about half of that. Lougheed also talked about retaining all of the interest in the plan. I noticed you sort of reached in and scooped out a whole bunch to create this social infrastructure fund, the endowment. There's nothing wrong with the endowment, but I just wonder why it had to be taken out of the heritage fund as the basic source.

Anyway, my concern is that we don't have enough reliable revenue sources to pay for our program spending on an ongoing basis, to the point where the price of oil and gas goes down and we have to lay off teachers and nurses. It's really been a cycle that I think is not healthy, and it is the thing that former Finance ministers have commented on. I just wish we could get one to take that position while they're still in office, but they seem to take that position outside.

I guess the concern that I have is that changes to the tax structure in Alberta that were made when the price of natural gas was sky-high by the Klein government have left us with insufficient fiscal capacity to pay for the ongoing programs that we need to support in this province and at the same time have meant that instead of saving more of that revenue for future generations, we're spending it on our current needs. In my view –

and this is just a philosophical thing – that's really stealing from our future generations because all of these, of course, resources belong to future generations as well as us. So I don't think we should be spending. Ideally, we shouldn't be spending any of it on our current program needs, and I'd really like us to move in that direction, but it really means to sort of face up to the revenue side.

It was pretty clear as well from the first economic summit that the Premier organized in Calgary that the various panels of experts agreed with that and had identified that. Now, their favourite remedy seemed to be a sales tax, but there was general agreement that, in fact, we don't have enough reliable tax revenue to afford the present level of programs.

Now, the Wildrose doesn't want to make any changes to taxes and doesn't want to borrow a dime, which means that there would be massive cuts under a Wildrose government, billions of dollars in reductions, whereas the . . .

Mr. Hale: Have you read our plan?

Mr. Mason: I debated your leader eight times on college campuses. I know what your plan is.

Mr. Horner: Tell me because I can't figure it out.

Mr. Mason: Well, they're not really being that forthcoming at the present time, but they learned that from someone else.

You know, I guess the question is – I mean, there's only three choices. You can either raise your revenues, you can borrow money, or you can cut program spending. Our preference is to raise the revenues by a fairer tax situation.

I just want to leave you with one point. We did a little research on the flat tax, which is a big part of the problem. An Albertan with an income of $70,000 will pay $1,434 more in provincial income tax than they would in British Columbia and $919 more than they would in Ontario. So that's at $70,000. If you make a million dollars, you pay $41,095 less than you would in B.C. and $75,157 less than you would in Ontario. So there's a huge deficiency in terms of the yield from a flat tax as well as inherent unfairness. I guess, Mr. Minister, is there any chance that you're willing to look at a different income tax structure?

5:30

Mr. Horner: I'm not sure where to start. Where did we start on it? Oh, that the Wildrose was misrepresenting what their plan was.

Mr. Mason: Royalty revenue, overdependence on that . . .

Mr. Horner: Oh, right. Sorry. I forgot about that one.

Mr. Mason: . . . insufficient savings, you know, all of that stuff.

Mr. Horner: Let's go to the royalty revenue piece. Royalty revenue right now is about 21 per cent of our overall revenue. That's down, as a percentage. Actually, income tax and tax revenue are closing in on 50 per cent. That's a very positive change in the direction.

I haven't been an elected official as long as the hon. member. Twenty-five years this year, you said?

Mr. Mason: Yes, this October. Yeah.

Mr. Horner: Congratulations.

Mr. Mason: Thank you.

Mr. Horner: I don't know how anybody stays that long. I shouldn't have said that.

Mr. Mason: Eternal optimism.

Mr. Horner: Changing royalty to tax, in terms of percentages, is one of the things that we're trying to do with enhancing the economy, changing how our base economy operates. We're getting more manufacturing taxation, more movement in areas of nonroyalty revenue pieces, and I think that's very positive – $9.2 billion this year – and that is moving in the right direction.

When you talk about the flat tax versus, say, B.C.'s multirate tax system . . .

Mr. Mason: Progressive tax.

Mr. Horner: . . . the progressive income tax system that is claimed there, basically, if we adopted B.C.'s base multirate PIT system, if you exclude the temporary two-year tax rate increase, the province would generate roughly $400 million in additional revenues, not the billions of dollars that others seem to think that we would raise. I think the other thing that they need to understand is that we have some of the highest deductions underneath that 10 per cent of any province in the country, so there is progressiveness underneath the 10 per cent.

Also, going back to the hon. Member for Calgary-Buffalo's comments around: why would we have this kind of tax regime? Well, I think when you look at the type of economic growth and activity that we've had in the province, the job creation growth that we've had in the province, that is one of the reasons why we want to maintain the tax policy that we have. It is actually generating a considerable amount of economic activity. It's generating a considerable amount of job creation.

The hon. member mentioned that we're not generating enough money to pay for our goods and services, and I would argue that we are because we're going to have an operational surplus of $2.6 billion, a consolidated surplus of $1.1 billion. We're in the black, and . . .

Mr. Mason: But that includes the royalty revenue.

Mr. Horner: It does include the royalty revenue.

Mr. Mason: Of course it does.

Mr. Horner: It also includes the savings, the $26 billion, and the $49 billion worth of net assets that we're going to have. So there's a balance in there of maintaining the strongest financial position in North America, one would argue, maintaining savings and building at the same time, and ensuring that we are getting value for the nonrenewable resource revenue.

The hon. member mentioned about utilizing the investment income from the heritage savings trust fund. We are also, by '17-18, as I said earlier to another question, going to have 100 per cent of that investment income retained in the fund, other than, you know, there's going to be some, as I said earlier in terms of the endowments, going to things that the hon. member has supported in the past: medical research, scholarship funds. Trades funding, I would think, would be high on the hon. member's agenda.

Mr. Mason: Of course.

Mr. Horner: All of that stuff is part and parcel of utilizing the savings in the nonrenewable resource revenue in a positive and prosperous way.

Mr. Mason: Yeah. Well, okay. That was a . . .

Mr. Horner: That was an answer.

Mr. Mason: It was an answer, yes. You know, you can pick B.C. You can cherry-pick, and so could I, but we both know that the flat tax costs us revenue.

The Chair: Mr. Mason, I'm very sorry, but your first 20 minutes is up. I know it went very fast.

Mr. Mason: I know it does.

The Chair: Thank you very much.

Next in line for questioning – and you have 20 minutes, should you wish to use the full 20 minutes – is Ms Kennedy-Glans. Ms Kennedy-Glans, how would you like to proceed? Would you like to split your time, or would you like to have a dialogue with the minister?

Ms Kennedy-Glans: I think I'll start, and then allow the minister to respond, so I'll do 10 and 10, but I won't be 10.

The Chair: Okay. Thank you.

Ms Kennedy-Glans: Thank you for the opportunity to ask questions. I've got some questions that relate to my constituency, but I think they'll be illustrative for other communities as well.

The first one is around the 3Ps. You've got quite a bit of information in your material about 3Ps. In particular, I wanted to talk about the relationship of 3Ps to the Calgary cancer centre. I went to a meeting last week with Infrastructure and with several stakeholders, including municipal, around the Calgary cancer centre and how it was going to be set up, and the community was at that time informed that it would be a 3P model. I'm quite excited about that, as you know, but there were a lot of questions in the community about whether that would mean the hospital construction, maintenance, operations. How would updating in the hospital be done? It actually caused a fair amount of nervousness in the public, what this would look like. My first question is: how will you participate with Infrastructure in communicating to communities about 3Ps when they're done?

My second question is in the same vein of 3Ps, and it relates again to my community. I've had a lot of interest as an MLA in expansion of the Alberta Children's hospital mental health facilities from philanthropists, corporate and personal philanthropists in the community, in the city of Calgary, in fact from the people who championed the building of the Children's hospital in the first place. They are looking at 3P models for how to bring alongside some of that positive energy and want to direct it into accelerating an already approved priority within Alberta Health Services for the mental health facility. It's a specific question about 3Ps. It will help my community, but there may also be lots of other learnings from other practices.

My next question relates to what role the Minister of Finance and Treasury Board has in evaluating opportunities for accelerating value-add opportunities, so economic development. I've seen a lot of that in results-based budgeting. I know that with the North West upgrader there was a lot of discussion about whether we provided loan guarantees or what we did, and I know that with other investments we've invested money up front. We've invested incentives in people who wanted to invest in upgrades to natural gas for ethane. I'm just wondering – and I'm hoping that your ministry is very involved in those assessments of how we create incentives for this kind of economic activity, and I am particularly focused on natural gas value-add right now, so tax credits, incentives. I think the public would like to know a little bit more about your role in those assessments. I think they're actually really important.

The fourth question I have relates to governance, and this is a question I get a lot in my constituency. You're responsible as minister for the Alberta Public Agencies Governance Act and responsible for assuring that we have evaluations of boards and directors and of their expertise and their independence. I know you answered a lot of questions with respect to the Alberta Petroleum Marketing Commission at the time that came up, but there are a lot of agencies in government where I think – I'm getting questions in my constituency all the time about the roles that they play. If you would give an update on the status of those reviews. You don't need to do all of this. You can undertake to give it to me later. I just need to give it to my constituents.

The fifth question I have relates to the one – it's a follow-up to the question I had today about the consultation with Albertans about the Alberta future fund. I think my constituents actually hope that there's further consultation with respect to the heritage savings trust fund because they have a lot of ideas, and I would love to see who you did consult with in more detail. If you have a list of the consultations that were hosted to discuss that particular question or where this idea came from, I will be able to answer my constituents' questions.

Thank you.

Mr. Horner: Thank you very much, hon. member. On the P3s, on the Calgary cancer piece there is a line item in the capital plan because we have actually said that we're going to move forward with that proposal, but there's no guarantee that it's going to be a P3. What we do, first of all, is figure out what it is we're going to build. There is, as you know, the health group, and they're all talking about: so what is it that we're going to do? All of the P3s that we do – it doesn't matter whether it's the cancer centre; it doesn't matter whether it's the Stoney Trail or whether it's the Anthony Henday – go through a public-private comparator model that we have within the department, that actually has outside financial eyes looking at it.

5:40

Basically we would do up the bid ourselves in a separate way, what it would cost for us to do it. Our net present values are calculated in, how much the maintenance is going to be. What is the term of the build/maintain? Is that what we're going to go with? Then the decision is brought to Treasury Board. As you would know from your history at Treasury Board, the public-private comparators and the numbers are compared, and if it makes value for taxpayers, we'll say yes. If it doesn't make value for taxpayers, we'll go back to a more traditional model.

In this particular instance I do know that there are also philanthropic pieces that come into the P3, and that adds another kind of context to it. That's kind of one of the things that we'll have to deal with as we move forward.

Now, there was something in there on the mental health piece, and I'll come back to that. But the role of the Finance department in opportunities for economic development or those sorts of things: if there's a tax credit proposed, if there's a loan guarantee proposed, in terms of the financial impact of that that's our job. We will do the financial analysis for the recommendation for cabinet or Treasury Board. We'll prepare those documents that say: here are the pros, here are the cons, here is what the impact to our balance sheet is, and here's the impact to our income statement. The end decision on those sorts of opportunities is going to have to be brought forward by the ministry in charge of that budget. So it could be Energy; it could be Health; it could be Infrastructure. In the case of the Calgary cancer centre, because we've already decided that we're going to go forward, that would be Infrastructure because it's now their role.

The Alberta agencies governance act is now with Executive Council, so we don't actually have that in our portfolio anymore. It was moved out last year, I believe.

Ms Kennedy-Glans: Sorry. It does show up on your website still.

Mr. Horner: Oh. Well, we'll have to deal with that. Thank you for pointing that out.

In terms of the Alberta future fund I would also say that it's the same consultation we did to get the scholarship fund, the ag innovation fund, and the social endowment fund. All of them came out of the tour that we did last year with our public consultations around the province. We had 11 communities. We did all of the chambers – well, I wouldn't say all of the chambers. We did the Alberta chambers: the Calgary, the Edmonton, the Red Deer, Lethbridge, Medicine Hat, Taber, and there were a number of others. [interjection] Barrhead. Yes, we were in Barrhead as well. In fact, the scholarship one I think actually came out of Lac La Biche or Barrhead. I can't remember which.

All of them suggested to us that there needed to be a way, that you shouldn't just lock the money away, all of it, that you needed to be able to have access to it should something come up that is of a transformative nature for the province as a whole. That's where we said: okay; we'll make it available but only make it available if there's a vote in the House that says it can be available, and it has to be something that is brought to the Legislature and voted on in the Legislature.

The vote that we did in Bill 1 does not authorize expenditures from the Alberta future fund. What it does authorize is that $200 million of the money that's in the fund every year will be set aside under that parameter and could be utilized. Currently we have no methodology to actually take money out of the fund. That was part of the issue that came out of the round-tables that we had across the province.

Will there be more consultation and discussion? I certainly hope so because the whole idea is to get Albertans talking about: so what are the could-bes? In my term in this Legislature we have actually canvassed Albertans on what to do with the heritage savings trust fund numerous times. Numerous times. The problem is that every time it comes back to it, it's: well, we don't know what we want to use it for, but we're pretty sure there'll be something coming.

That's the kind of thing you could look at. If you think about some things that have happened in our history like the Calgary Olympics, the '78 Commonwealth Games, those are two things that were transformational for our province, not just for the cities that they occurred in but transformational for the province. People talk about high-speed rail or the corridors, you know, the kinds of things that would be transformational in their scope and ability. Those are the kinds of things that they're out there for.

The Chair: Thank you very much, Minister.

No further questioning?

Ms Kennedy-Glans: No. That's good. Thank you.

Mr. Horner: Thanks, Donna.

The Chair: Thank you.

I understand that there are just a very few questions left from PC caucus. It's possible we may even be adjourning the meeting early if the minister is succinct in his comments.

Mr. Horner: I will be succinct.

The Chair: With that, I'll turn it over to Dr. Brown. Dr. Brown, I understand you have . . .

Dr. Brown: Two small questions.

The Chair: . . . two small questions. How would you like to proceed? In an exchange, or would you just like to ask the questions?

Dr. Brown: I'll just ask the two questions, and then I'll permit the minister to respond.

The Chair: Please proceed.

Dr. Brown: My first question, Minister, is regarding the monopoly that we have for liquor distribution in the province of Alberta, Connect Logistics. It's operating out of a centre that's 45 minutes from the Edmonton International Airport. I want to know why we don't have a second liquor distributor in Alberta to introduce some competition into the marketplace. I'd like to know what per cent of liquor imported into the province of Alberta comes through Calgary. I would suggest that it would be appropriate to have a second liquor distributor in the south half of the province. I'd like you to respond to that. I'd like to know, also, what the status of the warehouse is, which we own and apparently lease to Connect Logistics, the liquor warehouse, and whether or not the fact that they're leasing that has anything to do with the fact that that's why we're maintaining that monopolistic relationship with Connect Logistics.

The second question I have is with respect to the line item in the budget which is the $455 million estimated for the teachers' pre-1992 pensions liability funding. I'd like to know when, if ever, that's going to be paid out, whether it's going to be amortized over a certain number of years or whether or not we simply wait until the obligations under the pre-1992 pension are exhausted.

Mr. Horner: Until they're exhausted. It is until they're exhausted, Neil, on that last one just as a quick answer to that.

On the other one there was a PricewaterhouseCoopers analysis of the business case for warehousing in the province in terms of the distribution to try to get the best value for taxpayers because, obviously, there's part of that that goes into our margin, right? Connect, or whoever is doing the distribution, is actually paying the lease cost to AGLC for the use of AGLC's warehouse. Connect doesn't own the warehouse. The contract with Connect expires in 2018 and goes up for an RFP for anybody to bid on. We want to get the best possible utilization of the warehouses that we have today and that we're building.

I don't have and I would hazard a guess that the staff behind me probably don't have how much comes through Calgary in terms of the importation, but I will certainly get that for you. I'll also get you the finer points of what the PricewaterhouseCoopers thing was so that you have some comfort there. I do know that when we did that, it was actually a number of years ago, and there was a fairly exhaustive discussion about: should we have two, or should we have one? At the end of the day, for the taxpayer value, we went with what the consultants, the financial guys, told us was the best value. We'll make sure we get you some numbers.

Dr. Brown: Okay. Thank you. Those are all my questions.

The Chair: Thank you very much, Dr. Brown.

Thank you, Minister.

Are there any other members wishing to speak or ask questions at this point in time?

Seeing none, then pursuant to SO 59.01(8) the estimates of the ministry of Treasury Board and Finance are deemed to have been considered for the time allotted in the schedule.

I'd like to thank Minister Horner and his team for a job very well done. I'd like to thank all of the members of the committee. I'd like to thank our pages, our security, and, last but not least, our clerk for a job exceptionally well done.

I would like to remind committee members that we are scheduled to meet next on Monday, April 7, at 7 p.m. in committee room A to consider the estimates of the Ministry of Transportation.

This meeting is now adjourned.

[The committee adjourned at 5:49 p.m.]

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