

Legislative Assembly of Alberta

Title: **Wednesday, April 9, 2003**

1:30 p.m.

Date: 2003/04/09

[The Speaker in the chair]

head: **Prayers**

The Speaker: Good afternoon.

Let us pray. Our Father, keep us mindful of the special and unique opportunity we have to work for our constituents and our province, and in that work give us strength and wisdom. Amen.

Please be seated.

head: **Introduction of Visitors**

Mr. Jonson: Mr. Speaker, I'm pleased to introduce to you and through you to members of the Assembly His Excellency Aydemir Erman, ambassador of the Republic of Turkey. He is joined today by his wife, Gulen, and Mr. Turgay Ogut, consul general responsible for Alberta. Mr. Erman only recently presented his credentials as Turkey's ambassador to Canada; in fact, it was just in February of this year. He is making his first visit to our beautiful province, and I would ask that our honoured guests please rise and receive the traditional warm, warm welcome of this Assembly.

head: **Introduction of Guests**

The Speaker: The hon. Member for Spruce Grove-Sturgeon-St. Albert.

Mr. Horner: Thank you, Mr. Speaker. It is indeed my pleasure to introduce to you and through you to all members of the House today 121 visitors from Spruce Grove and the St. Marguerite Catholic school. They are a bright and enthusiastic group accompanied by teachers Miss Nicole Harrington, Mrs. Livia Tambllyn, Mr. Denis MacNeil, Mrs. Deloyce Hanna, and Mr. Sean Daly and parent helpers Penny Scheibelhofer, Marilyn Wensley, Heather MacDonald, Candis Mathieson, and Ken Knuff. They are seated in both galleries, and I would ask that they rise and receive the traditional warm welcome of this House.

The Speaker: The hon. Member for Edmonton-Meadowlark.

Mr. Maskell: Thank you, Mr. Speaker. It gives me great pleasure to rise today and introduce to you and through you to members of this Legislature two guests today who are seated in the members' gallery. My first guest is Jean Grand-Maitre. He's the artistic director of Alberta Ballet. Jean assumed the artistic leadership of Alberta Ballet in July 2002. For the past 12 years he has worked internationally as an independent choreographer, creating works for the most important ballet companies in Canada and Europe. Born in Hull, Quebec, Mr. Grand-Maitre began his dance training at York University in Toronto and continued at Montreal's École Supérieure de Danse du Québec, where he presented his earliest ballets and school performances. He performed at the Theatre Ballet of Canada, Les Ballets de Montréal Eddy Toussaint, and Ballet British Columbia, developing his choreographic talents by participating in creative workshops.

My other guest, Mr. Speaker, is Ann Lewis, executive director of Alberta Ballet. Ann assumed the administrative leadership of Alberta Ballet in January 2002 after serving and organizing for six years as a fund-raising board member and board chair.

Would my two guests please rise and accept the warm and generous welcome of this Legislature. Thank you, Mr. Speaker.

head: **Oral Question Period**

Provincial Fiscal Policies

Dr. Nicol: Mr. Speaker, yesterday's budget was one of misplaced priorities, with plenty of money but very little of it for all Albertans. Even though high energy revenues mean government coffers are flush with cash, classrooms and health care programs will continue to suffer. What's fair about this budget? To the Minister of Finance: what's fair about a budget that does include a 12 percent increase in funding for the horse racing industry and only a 2 percent increase in classroom funding for Alberta students?

Mrs. Nelson: Well, Mr. Speaker, the budget we delivered yesterday, I believe and our government believes, is a budget that places Alberta again in the lead in this country. It deals with the priorities that Albertans have expressed to every member of the government caucus throughout this year. It deals with the issues in health care, it deals with the issues in Learning, it deals with the issues in transportation requirements, it deals with the issues in Infrastructure, and it does all that in addition to dealing with issues in Children's Services and in agriculture without raising any taxes and no increases in health care premiums.

Dr. Nicol: To the minister of education: what's fair about postsecondary students having to pay 6 percent more for their education next year through higher tuition when this minister has only increased his contribution to advanced education by 2 percent?

Dr. Oberg: Mr. Speaker, I would really appreciate it if the hon. member would read the budget. What you have seen in our budget is a 4.1 percent increase for postsecondary education. In his previous question he stated that it was a 2 percent increase for the classroom. It's very plain to see in the budget that there's about a 4.9 percent increase in my total budget directly to the classroom, directly to the school boards. The Edmonton school board will receive 3.7 percent. School boards such as Christ the Redeemer will receive over 11 percent in this budget.

Dr. Nicol: To the Minister of Energy: did this minister double his department's communication budget this year because his department has failed to keep angry and confused Albertans with their skyrocketing utility bills?

Mr. Smith: Mr. Speaker, as we go through the budget debate, we'll be able to talk on the line items of each budget, but I think it's very easy to say that we're responding to their very own requests, put forward by the opposition party, and those are to communicate the changes that are being made: the passage of Bill 3, the passage of Bill 19, the move to a fully deregulated competitive market structure in electricity in light of natural gas changes. We are just carrying on business as usual and reflecting that in the budget documents of the day.

Infrastructure Projects

Dr. Nicol: Yesterday the government promised that \$5.5 billion will begin to flow through to communities to address the backlog of infrastructure project needs, but what is missing from the budget is a plan of which projects will get the green light. To the Minister of Infrastructure: will the minister release the list of capital projects with the priorities so that Albertans can see the priorities that their communities put on those capital requests?

The Speaker: The hon. minister.

Mr. Lund: Thank you, Mr. Speaker. We are currently working our way through the number of projects that we had before us. Just as an example, in the capital plan that was submitted to us by the school districts, the school boards last year, there were somewhere around 450 projects totaling about \$1.4 billion. So we are currently working through the process of which projects we can start, and those will be public as soon as we are finished this process of putting the whole package together.

Dr. Nicol: To the Minister of Infrastructure: did you say that you would release the entire \$1.4 billion with the community project priorities on them when you're finished making your choices?

Mr. Lund: Well, Mr. Speaker, I wish we had \$1.4 billion to spend just on schools. The fact is that there isn't that much money, so we do have to prioritize. The projects that are approved to go ahead will be public, but certainly I can tell the hon. member that we go very, very close to what the school boards recommend, and they have to prioritize them. They prioritize them, then we fit those prioritizations on the provincial scale to determine which projects need to go ahead.

Dr. Nicol: To the Minister of Infrastructure: will the minister release projects in total that are approved so that Albertans can judge all the projects together, rather than having them dribbled out and having to look at them one at a time when it's expedient for you?

1:40

Mr. Lund: Well, Mr. Speaker, certainly we will not be in a position to say that every project that will be done in the year 2003-04 will be issued at one time. Last year, for example, within the department we had some 1,200 projects. Certainly we don't put them all out at once, but we will have a number, particularly the health and the school projects, that will be starting immediately. Yes, those will be out.

The Speaker: Third Official Opposition main question. The hon. Member for Edmonton-Mill Woods.

Education Funding

Dr. Massey: Thank you, Mr. Speaker. The real story in the Learning budget this year is yet to come. Two percent more in instructional budgets will result in larger classes, fewer teachers, and fewer classroom resources in Edmonton public classrooms and others across this province. My first question is to the Minister of Learning. Given that salary grid creep alone amounts to almost 2 percent, where is the money for other instructional costs to be found?

Dr. Oberg: Mr. Speaker, the Edmonton public school district is going to see approximately a \$17 million increase in their budget this year. Percentage-wise this is 3.69 percent.

The Speaker: The hon. member.

Dr. Massey: Thank you. To the same minister: why is there no relationship between the 2 percent instructional budget and the actual costs that schools have to pay? There's no relationship, Mr. Minister.

Dr. Oberg: Well, Mr. Speaker, this hon. member knows full well

that there is a thing called a funding formula, which is an allocation model on how the dollars are given out. Included in this year's funding is a 2 percent basic instructional grant increase; there's a 3 percent transportation grant increase; there's an 8 percent increase for special-needs education; there's \$20 million that is utilized for textbooks; plus, plus, plus. All of these things are rolled into the amount of dollars that the school boards receive. Edmonton public, which seems to be the hot topic of the day, will receive about 16 and a half million dollars more this year than they received last year.

The Speaker: The hon. member.

Dr. Massey: Thank you, Mr. Speaker. Again to the same minister: given that the minister's budget flexibility is akin to inviting 10 guests to a sit-down dinner when you've only got five chairs, when can the parents expect budgets based on actual school costs?

Dr. Oberg: Mr. Speaker, when we did the flexibility component of the funding formula, we sat down with the School Boards Association, the school business officials, as well as numerous other representatives from the school partners. They determined – they determined – in conjunction with me that approximately 90 percent of the funds that they received would be flexible.

What is not flexible is the administration component. I will not change the cap on the administration so that the dollars can be increased to the administration. The two other elements that are included in the nonflexible portion of the funding formula are, one, student health, which is very, very important to our students; two, the Alberta Initiative for School Improvement. Everything else that is included in the funding formula is in the form of flexible funding. So they are allocated out according to models, but the schools and the school boards have the ability to use those dollars as they see fit.

The Speaker: The hon. leader of the third party, followed by the hon. Member for St. Albert.

Dr. Pannu: Thank you. Mr. Speaker, for months school boards, teachers, and parents have been urging this government to do the right thing and avert a financial crisis in our schools. Sadly, yesterday's budget did no such thing. The Public School Boards' Association is saying: "Tuesday's budget will doom other boards across the province to Edmonton Public's fate of deep cuts to teachers and programming." My questions are to the Minister of Learning. Why doesn't the minister come clean and admit that school boards are headed for crippling budget deficits and program cuts as a result of yesterday's budget?

Dr. Oberg: Charlie Koester, chair of the Edmonton Catholic school board, said that this is a very good budget, Mr. Speaker.

Dr. Pannu: To the same minister, Mr. Speaker. Given the severe financial pressure the minister knows that school boards are facing, why was the minister unable to deliver anything more than the already planned 2 percent increase in per pupil grants?

Dr. Oberg: Well, Mr. Speaker, I was going to say that the coalition troops are really in Baghdad.

The increase, Mr. Speaker, to the Edmonton public school board is 3.7 percent. When – when – will this opposition party learn how to read the budget?

The Speaker: The hon. member.

Dr. Pannu: Thank you, Mr. Speaker. Given that the minister's predictions have a worse track record than a TV psychic, why should Albertans accept the minister's bland assurances rather than the serious concerns being raised by people on the front lines of education?

Dr. Oberg: Mr. Speaker, I feel that the hon. member may just have come from an information session that was over in Iraq.

Mr. Speaker, there is a lot of money. There's \$231 million that has been added to my budget. There's \$191 million that has been added to the budget of the K to 12 system. There's been around 5 percent added to the K to 12 budget. There has been a huge amount of dollars added to my budget this budget.

The Speaker: The hon. Member for St. Albert, followed by the hon. Member for Edmonton-Gold Bar.

West Boundary Road

Mrs. O'Neill: Thank you very much, Mr. Speaker. The city of St. Albert is moving ahead with its plans to construct a bypass on the west side of the city or, as we call it, the West Boundary Road now. The proposed roadway will cross the Sturgeon River downstream from the Big Lake natural area, which is protected under the special places program. I understand that the project is moving forward while determining what impact this project will have on the surrounding environment, so my question is to the Minister of Environment. Will the minister please explain why the province is not conducting its own environmental impact assessment for this project?

The Speaker: The hon. minister.

Dr. Taylor: Thank you, Mr. Speaker. The construction of the St. Albert bypass falls under the Water Act code of practice, so a provincial EIA is not necessary. However, under the Alberta/Canada agreement for environmental assessment and co-operation the federal government through the Department of Fisheries and Oceans is doing an EIA.

Mrs. O'Neill: My first supplemental then: is Alberta Environment involved in the federal government's environmental impact assessment?

Dr. Taylor: Yes, Mr. Speaker, we are involved fully in the environmental assessment that the federal government is doing along with Community Development and Sustainable Resource Development. All three departments are making sure that Alberta's concerns are addressed, and our concerns, quite rightly, with the project centre around the potential effects on the Big Lake natural area the member has quite clearly identified. We want to know what those effects might be as part of this assessment and what the city of St. Albert will do to mitigate any effects.

Mrs. O'Neill: My second supplemental, then, would be with respect to the circumstances under which a provincial EIA would be required.

Dr. Taylor: Mr. Speaker, certainly provincial EIAs are required in a number of cases. They are required largely where major projects are going forward: mines, oil sands plants, big electrical projects, and so on. In other cases where one of our directors of the Department of Environment feels that there's not enough information on a

certain development, he can call for an EIA, and as he monitors that situation and determines whether an EIA is necessary or not, he can call for an EIA.

The Speaker: The hon. Member for Edmonton-Gold Bar, followed by the hon. Member for Drayton Valley-Calmar.

Support for Low-income Albertans

Mr. MacDonald: Thank you, Mr. Speaker. The shameful place that Alberta's poor and marginalized have in the priority list of this government is just wrong. It is poor public policy. This government places the same dollar value on the horse racing industry as it does on Alberta's poor. The racing industry renewal and the supports for independence program each received \$4 million more in yesterday's budget, but the horse racing industry actually received a 12 percent increase over last year's budget, which had doubled, while Alberta's poor only received 1 and one-half percent. Alberta's racehorses get more oats while some Alberta children do without winter coats. [interjections] Groan if you want. My questions today are to the Minister of Human Resources and Employment. Why did the horse racing industry get a 12 percent hike while Alberta families on supports for independence have to subsist on a 60-cent a day increase in their benefits? That's shameful.

1:50

Mr. Dunford: Well, math is always an interesting situation. We all hear about statistics and how they can be manipulated. One of the reasons that the percentages are as dramatic as what he's talking about is the fact that, of course, we're working from different-sized budgets. We provide somewhere in excess of \$800 million to needy people here in the province, and we have a number of programs that we're trying to deal with in the sense of moving people from support into independence.

Of course, what he's not relating to the people here are the other support systems that we have in place that don't relate in terms of actual income but are the kinds of things, Mr. Speaker, that you need to provide for your family, that all of the members here in the House have to provide for their families. We do this, then, for families that are part of our jurisdiction and part of our responsibility.

Mr. MacDonald: Again to the same minister: given that a \$20 a month raise won't make much difference to supports for independence recipients, why were racehorses and horse races chosen for a 12 percent raise again when the severely handicapped got nothing? The severely handicapped are still waiting while racehorses get a bigger feedback. Explain that.

Mr. Dunford: Well, it's nice and dramatic and it might play well where he goes, but for somebody to try to draw a relationship between a horse and a person that we're trying to look after I think goes beyond . . . One of the things that I think we made clear some time ago certainly in public and I believe maybe even on the floor of the House here – but if it wasn't here on this floor, I'll make it clear now. We are very concerned, Mr. Speaker, about the sustainability of the assured income for the severely handicapped program. I have been invited to a number of meetings. I've had stakeholders that are involved with this particular group. I've met them here at the Legislature. I've met them elsewhere here within the city of Edmonton, and I'm asking them and we're going to work closely with them to see what we can do about the AISH program as far as making it more sustainable.

Now, as far as this past budget was concerned and in terms of

policy, one of the things that every MLA here in this House has had a concern about is the relationship between the income support program for AISH as it relates to the Canada pension plan. Because CPP is indexed by the consumer price index, we actually have had situations where people could get as small as perhaps a \$2 a month increase, that actually removes them from the AISH files. While that might not seem significant at the time, Mr. Speaker, it is incredibly significant, because when they go off the AISH files, they lose the medical card. So what we've done as a matter of policy – and I hope that the hon. member would share his support for this move – is the fact that we're now going to carry on that medical card much longer into CPP earnings.

Mr. MacDonald: Again to the same minister. Government policy is more interested in sustaining the horse racing industry than they are in looking after the poor, and the minister knows it. Now, since this government has chosen not to increase spending substantially, wouldn't it make more sense to give more to the programs that affect the well-being of people instead of entertainment for the elite?

Mr. Dunford: My mandate, Mr. Speaker, is to cover Human Resources and Employment, and of course we provide, then, a major part of the social safety net that we have here in the province for Albertans. I would ask my hon. colleague from Gaming to supplement, you know, so he can show the concerns that perhaps they have there.

Again, what we have in this situation, what he's not talking about, is the full extent of what we did yesterday. He knows full well that there's an increase in the income for people that are under our supports for independence program if they have children and that it is coming in two phases. We have the cash increase that he's talking about now, but he knows full well that in August we will flow through the federal program and not draw back on it as we have in the past.

The Speaker: Hon. ministers, we've spent six and a half minutes now on this series of questions, and I know that on the Order Paper the estimates for Gaming are designated for April 10 and the estimates for Human Resources and Employment are designated for April 15. They'll be ample opportunity.

The hon. Member for Drayton Valley-Calmar, followed by the hon. Member for Edmonton-Glengarry.

Elective Surgery Wait Lists

Rev. Abbott: Thank you, Mr. Speaker. With wait times already long Albertans scheduled to have elective surgery find it very frustrating to learn, often at the last minute, that they've been bumped from having the procedure. This very thing has happened recently in my own constituency. My questions today are for the Minister of Health and Wellness. What are the criteria for bumping someone from scheduled elective surgery, and will the new increase in Health help offset this?

Mr. Mar: Mr. Speaker, let me say, first of all, that I understand the frustration whenever a surgery is bumped from its scheduled time, and the decision to change someone's scheduled surgery is not one which is taken lightly, but it does occur from time to time when another patient requires an emergency surgical intervention and has to be treated immediately. These are often circumstances in the life-or-death category.

Mr. Speaker, resources within the medical facility where the surgery would be done have to be redeployed to accommodate the

emergency. Those resources, of course, include the surgeon performing the operation, the nurses assisting the surgeon, and a bed for the patient's postsurgery recovery. When an individual patient is bumped to accommodate an emergency, then it is rescheduled as soon as possible.

Whether or not the additional moneys that have been allocated in the budget to regional health authorities will help alleviate some of this remains to be seen. We'll see what regional health authorities in fact do with the increase that they receive.

The Speaker: The hon. member.

Rev. Abbott: Thank you, Mr. Speaker. My only supplemental is to the same minister. Hon. minister, who makes the decision to bump one patient in favour of another, and how far are they bumped?

Mr. Mar: Well, Mr. Speaker, the decision is made by the surgeon performing the procedure in consultation with the physician who's in charge of the emergency room, and it's as simple as that.

As far as how long it will take before they can be rescheduled, that depends on a facility-by-facility basis, as I said, on the basis of the resources that are available to that particular place, but they are scheduled as quickly as possible.

Infrastructure Capital Plan

Mr. Bonner: Mr. Speaker, the capital plan for 2003-2006 shows nearly \$1.4 billion allotted to alternative financing. Alternative financing is just another way of saying public/private partnerships, or P3s. Why don't they say P3s? It's because Albertans know that P3s are nothing but a government plan to sell out taxpayer interest to the private sector. To the Minister of Infrastructure: what is fair about a program where infrastructure is built not where it is most needed but where it is most profitable?

Mr. Lund: Mr. Speaker, that preamble is just unbelievable. I just can't get over it. I mean, it's hardly worthy of even a response, that kind of drivel and that kind of nonsense coming from that member. The fact is that while the budget says that \$1.4 billion may be required by alternate financing, it does not say that that is all going to come through P3s. P3s are only one tool in the toolbox. There are a number of other ways that we possibly can move forward with projects. Just to deal a bit with P3s, there will be scrutiny on all P3s that will indicate that it's a good deal for the government, it's a good deal for the taxpayer, and of course there's going to be something in it for the developer, the person that puts it together, but that doesn't mean to say that we're not going to be the greatest benefactor. Certainly, when you look at some situations where we may have a facility that can be used sooner by going through a P3 project than by doing it ourselves, I would think that the hon. member would be happy with that.

2:00

Mr. Bonner: To the same minister, Mr. Speaker: the figure in your budget, Mr. Minister, was not \$1.3 million; it was \$1.3 billion. Just a little correction there.

What is fair about a program that makes Alberta taxpayers pay more for their infrastructure to subsidize corporate profits?

Mr. Lund: That is so ridiculous. I don't know where the member has been.

If he's right about the first little part of his preamble that I said \$1.3 million, I'm sorry. It is \$1.4 billion, and I think that's what I said, but if that's not what I said, that's okay.

This is so ridiculous that you would think that we were going to just be going out and providing a profit for the private sector when in fact one of the things that the project will have to go through is a complete life cycle cost, and then we bring that back to current-day value, and we compare that with what it would cost us to do it. There are a whole host of advantages to a P3, and if he ever wants to really understand this thing, I would be only too happy to sit down and slowly, slowly go through it so that he can understand it.

Mr. Bonner: I think it's the minister that requires a refresher course.

To the same minister: will this minister admit that his alternative financing plans are nothing more than a cover way for this government to go into debt to pay for infrastructure?

Mr. Lund: Mr. Speaker, there are so many projects in this province that we are investing in that are returns for the province. If the hon. member thinks that building a school is simply an expenditure, then I totally disagree with him. That is an investment in the future.

I hope that the folks over at the university are listening to him because we just last night met with the deans of medicine from both Calgary and Edmonton, and they talked about what a tremendous investment these centres of innovation are going to be. They're going to be an industry. An industry can be built on it. We're going to have leading scientists come from all over the world to be in these facilities. And then that hon. member criticizes that we're going to do it? I can't believe it.

Mr. Speaker, these projects as far as he says are going in debt? You tell me one major private-sector company that doesn't borrow so that they can have return in the future. They do that. They constantly do that. Furthermore, if you want to look at what is a debt and what isn't, if you have a capital asset on the books and you have something that's a liability over here, they cancel. That is not a debt.

The Speaker: The hon. Member for Whitecourt-St. Anne, followed by the hon. Member for Edmonton-Riverview.

Pork Industry

Mr. VanderBurg: Thank you, Mr. Speaker. Many hog producers in Alberta could be out of business over the next few months due to high input costs and uncertain market pricing. The producers in Whitecourt-St. Anne have been calling me to advise me of this difficult situation, and it's very serious. My question is to the Minister of Agriculture, Food and Rural Development. Have you been made aware of this serious situation that Alberta pork producers are facing today?

Mrs. McClellan: Mr. Speaker, I have been made aware, first of all, by a number of rural members from the government caucus who have brought the concerns of their producers to my attention. Secondly, I met with the Western Hog Exchange and the Alberta pork producers some weeks ago and met with them again as recently as March 18. So we've been made aware of the situation and have been given some indication of what those groups feel could help.

Mr. VanderBurg: Well, since you've met with them, what are you prepared to do to help them?

Mrs. McClellan: Mr. Speaker, there are a number of options for the hog industry which are available not only to them but to all of the commodity groups. The first is the farm income disaster program. That, of course, has been in place for some time. Our indications are that it will respond fairly significantly to that industry this year as

well as perhaps to some other areas. The second is, of course, our farm disaster loan program, which, again, has been in place for some time, and I must say that during this downturn it appears that many of the hog producers in the province are taking advantage of that.

Mr. VanderBurg: My final question to the same minister: given that this help is on the way, is this going to be soon enough to help this industry?

Mrs. McClellan: Mr. Speaker, there are certainly immediate and urgent concerns from the industry, and we feel that we've made some changes to our loan program that will assist in the short term. We've increased the lending limit to \$200,000 from \$100,000, and of course then the maximum available to an entity that has more than one owner rises to \$600,000. We've also increased the quick cash injection loan, which was at \$20,000, to \$50,000, and that's available to producers on a promissory note, so that can be handled very quickly.

But I think even more importantly, Mr. Speaker, is that in the discussions with the industry are some areas that we could respond to that would deal with this on the long term. The hog industry does often experience an upswing in prices and can take a very sudden downturn, and input costs, of course, can vary and cause them problems. So we've been talking with them about some long-term strategies, whether it be in a stabilization account, an insurance program that could deal with their problems, but right now we're trying to respond to the very urgent problems they're facing as well as looking at the long-term situation.

Postsecondary Education Funding

Dr. Taft: Mr. Speaker, this government seems determined to continue its policies of saddling postsecondary students with ever increasing tuition fees and bigger and bigger debts. At the same time many postsecondary institutions are facing major cutbacks. The government is off-loading its debt onto the backs of overburdened students and overstretched universities. To the Minister of Finance: how does she justify increasing grants to universities only 2.3 percent while subsidies to prop up the horse racing industry soared 12 percent this year and over 100 percent the last two years to \$37 million? Is it all just good lobbying?

Mrs. Nelson: Mr. Speaker, I think that it's important to get the facts on the table. I'd ask the Minister of Gaming to respond to the question that's been raised a couple of times in this House today that hasn't been thoroughly answered.

Insofar as the funding for postsecondary education I believe that the Minister of Learning has already answered that question, so I'd ask that the Minister of Gaming supplement the other part of it.

The Speaker: The hon. minister.

Mr. Stevens: Thank you, Mr. Speaker. The line item relative to horse racing is a commitment that this government made to Horse Racing Alberta in 2001, so it's a fulfillment of an obligation that we have to that particular industry. The hon. members opposite, if they had been paying attention, might remember that the commitment that we made was to assist the industry through racing entertainment centres that were connected with racetracks throughout the province.

This particular increase in this particular budget relates specifically to Northlands park, located here in the city of Edmonton, and should be familiar to the members opposite. Last year – that is, during the fiscal year ended March 31, 2003 – the number of slot machines that were at the REC at Northlands was increased. So this

particular year the \$4 million will reflect the fact that those increased slot machines will be at Northlands park, Spinners, for a full year as opposed to a portion of a year.

2:10

Dr. Taft: I'll bet Edmontonians would rather have their money in schools than at the horse track.

Is it fair . . .

The Speaker: Please. Please. Let's get to the question without preambles. I'm going to repeat again: designated tomorrow, April 10, are the estimates for Gaming. We'll have a full two hours.

Please proceed.

Dr. Taft: Thank you, Mr. Speaker. To the Minister of Learning: is it fair that this government's solution to soaring tuition fees is to change the rules to allow students to go ever deeper into debt?

Dr. Oberg: Mr. Speaker, I'd like to thank the hon. member for that question because what is included in this budget is, yes, a 2 percent basic increase to the postsecondaries, but there's also a \$10 million performance fund that will go to the postsecondaries, or roughly 1 percent. There's also another \$10 million access fund that will bring the total to very close to 4 percent. There's also another \$12 million that is being put into apprenticeship.

The hon. member made reference to students. Included in this budget is an increase in student loan limits to \$11,300, Mr. Speaker, as well as a \$2,100 moving allowance for rural students. A rural student, for example, for those of us who are from rural Alberta, can receive \$13,400 for their first year coming into Edmonton or Calgary. Interestingly enough – they're talking about debt – also included in this budget is a \$32 million provision for paying off student debt as soon as they receive it.

The Speaker: The hon. member.

Dr. Taft: Thank you. To the same minister: can the minister explain the rationale for the 2 percent increase in the operating grant to universities and table the analysis that was used in setting it?

Dr. Oberg: Well, first of all, Mr. Speaker, it was not a 2 percent; it was a 4.1 percent increase going to postsecondary education. I really wish that these people would learn how to read the budget. The performance fund is there, the access fund is there, the apprenticeship fund is there – 4.1 percent increase – and there's also been huge increases to student finance.

The Speaker: The hon. Member for Edmonton-Highlands, followed by the hon. Member for Edmonton-Norwood.

Education Property Tax

Mr. Mason: Thank you very much, Mr. Speaker. In September of 2000 the Tory government promised to cap school property taxes at \$1.2 billion a year, a promise repeated during the 2001 election campaign. Now for the second year running the government has broken this promise. Yesterday's budget hikes the school property tax revenues while cutting corporate taxes. The Tories are robbing Martha and Henry to pay Syncrude and Shell. My question is to the Minister of Finance. How can the government claim that there are no tax increases in the budget when the average homeowner and small business will see a hike of 5.8 percent in their school property taxes this year?

Mrs. Nelson: Mr. Speaker, we made a decision to freeze the mill rate for school property taxes. That is reflected in the budget that we presented yesterday. What we have done is we've recognized that there's been growth within this province, and we're capturing the growth to put it into the classroom with the kids where the money is needed. Now, this hon. member objects to funds flowing to the classroom, where it belongs, to reflect the growth. You've heard us talk about people coming to our province and they don't bring their roads or their schools or their hospitals with them. You have to realistically capture growth. That's what's happened. We froze the mill rate. We kept our commitment to freeze the mill rate. That's all that's happened. Please read the document.

The Speaker: The hon. member.

Mr. Mason: Thank you very much, Mr. Speaker. Well, given that a government news release from the year 2000 says that education property taxes will be reduced by \$135 million and frozen at \$1.2 billion, can the minister explain why this change of policy and why it means a significant increase to what people actually have to pay in their property taxes, 5.8 percent?

Mrs. Nelson: Mr. Speaker, when we put that 2000 press release out, we took a position of reducing the mill rate. You know, the collection of school property tax used to be 50-50. We reduced it so that there was a lower tax collection from the property owner that would be picked up by the province. We then said that we'd freeze the mill rate, and we have done that. In fact, last year we actually lowered the mill rate. But the reality, as I said in my first answer, is that we've had growth within this province, and you have to somehow capture that growth and put the dollars into the education system. That's exactly what we have done.

The Speaker: The hon. member.

Mr. Mason: Thank you very much, Mr. Speaker. Why is the government using a \$64 million hike in school property tax revenues to help offset the \$94 million cut in taxes paid by corporations, many of whom are enjoying record profits thanks to high energy prices?

Mrs. Nelson: Well, Mr. Speaker, you know, it's really hard to continually go by the analogies that are drawn by members opposite. They don't like something that's good for the province. They don't like the fact that we're capturing growth and 80 percent of the revenue we're capturing for education is going into the classroom. They don't like the fact that we're dealing with small business pressures by reducing the tax load on small businesses. They don't like any of those things because they're positive, and they can't deal with things that are positive. One of my colleagues said yesterday: there's the difference between a cup being half empty or half full. He's working on three-quarters full and looking for the opportunity to fill it the rest of the way. That's the difference between their side and our side.

The Speaker: The hon. Member for Edmonton-Norwood, followed by the hon. Member for Edmonton-Centre.

Untreated Storm Water

Mr. Masyk: Thank you, Mr. Speaker. After a long winter with a lot of snow Edmontonians are finally experiencing pleasant, warm weather that comes with spring, and as the snow melts and the water drains through our storm water system, there is a very real perception

that months of dirt and grime and salt and oil collected in the streets are making their way into the waterway systems including the North Saskatchewan River without being treated. To the Minister of Environment: please tell us what your ministry is doing to mitigate the environmental damage that occurs when untreated storm water is discharged into the waterways?

The Speaker: The hon. minister.

Dr. Taylor: Thank you, Mr. Speaker. We at Alberta Environment are very concerned about untreated storm water entering our rivers. It is a significant issue because, you know, as we all water and fertilize our lawn, when you get a rain and that runs off, those residues certainly go into our rivers. The way it works right now is that Alberta Environment does have regulations around the storm water systems. We regulate the construction of storm water systems as they move into our rivers.

The Speaker: The hon. member.

Mr. Masyk: Thanks, Mr. Speaker. Again to the same minister: are you aware of any low-cost or any cost-effective, environmentally positive ways to deal with storm water?

Dr. Taylor: Well, as I said, Mr. Speaker, we are very concerned about the issue. In Calgary and Edmonton they're actually causing storm water catchment ponds to be constructed in the new development catchment areas. In Calgary, for instance, any new development since I believe 1998 has to have a storm water catchment area. So what happens is that the storm water runs into the catchment, they plant the appropriate grasses and weeds, it takes about a week for the water to move through the catchment pond, and when it comes out the other end, it's clean and can go directly into the river. Certainly, this is one example of a good program. Edmonton is conducting similar programs. It's still in the experimental stages, but it appears to be working.

The Speaker: The hon. member.

Mr. Masyk: Thank you. My final question to the Minister of Environment: does the province's draft water strategy propose methods to deal with the treatment of storm water before it is discharged into local waterways?

Dr. Taylor: Pollution prevention has always been and must always be the prime foundation in any water quality program. That's why Alberta Environment monitors all the watersheds, and we will continue to monitor the watersheds. Mr. Speaker, as I say, pollution prevention – that is, preventing the pollution from getting into the water – is certainly a prime focus of the draft water strategy.

The Speaker: The hon. Member for Edmonton-Centre, followed by the hon. Member for Edmonton-Rutherford.

Police Services

Ms Blakeman: Thank you, Mr. Speaker. Yesterday the government was touting their budget as fair and balanced, but the Solicitor General admits that there is little increase for policing aside from salary and minor adjustments. Urban and rural Alberta have requested help to prepare for antiterrorism initiatives, training, and basic police funding. My questions are all to the Solicitor General. How is this budget fair and balanced to Edmonton and Calgary when

the province hasn't paid anything for any policing services in these cities since the mid-90s?

2:20

Mrs. Forsyth: Well, Mr. Speaker, under our government unconditional grants the municipalities that the hon. member is referring to, Edmonton and Calgary, get \$16 million, and then the budget is determined by the cities on where the dollars should be spent.

Ms Blakeman: It's not for policing.

Given that the Solicitor General has stated that municipalities now have access to a \$60 million unconditional fund which can be used for any number of municipal services, does this now pit smaller communities against larger ones for their share of the fund?

Mrs. Forsyth: No, Mr. Speaker, it doesn't. And it wasn't \$60 million; it's \$16 million under the unconditional grants.

We're also working with municipalities across this province. As the Solicitor General I fully understand that communities in this province are facing problems with policing. We had a policing committee that went out in this province, who were very competent and very hard working, and brought forward recommendations, and we are working through those recommendations to try and ease the policing burdens in this province.

The Speaker: The hon. member.

Ms Blakeman: Thank you, Mr. Speaker. How is it fair and balanced that rural communities with 2,499 people get their policing costs completely paid for by the province, but communities with over 2,500 people have to pay the lion's share of their policing services themselves?

Mrs. Forsyth: Well, Mr. Speaker, what the hon. member is referring to is clearly spelled out under the Police Act. Municipalities under 2,500 people get their policing paid for. Again, this is one of the things that the policing committee that went around and provided me with a supplement is addressing. They've worked hard, and we're working through the process right now.

The Speaker: The hon. Member for Edmonton-Rutherford, followed by the hon. Member for Red Deer-North.

Calgary Diversion Project

Mr. McClelland: Thank you, Mr. Speaker. My question is to the minister of health. In November 2001 a pilot project was launched to provide treatment for mentally ill Albertans who might otherwise be jailed for minor offences. By many accounts the Calgary diversion project has been successful, yet media reports indicate that the program may not be expanded. My question: is that true?

Mr. Mar: Well, Mr. Speaker, I want to say first of all that like the hon. member I have read initial reports from the diversion project in the city of Calgary, and it has been, from initial results, successful. It appears that it does not make any sense to have people placed in jails when they should instead be receiving proper treatment for their mental illness. So far, of the 50 referrals that the Calgary diversion project has had, where people who have had mental illness have gone on to treatment instead of going through the judicial system, the rate of recidivism has been zero. None of them have been repeat offenders. Many people deserve credit for the success of this program: everyone from the police to social services agencies and

the judicial system. Everyone has worked very co-operatively, but I wish to make note of one individual, His Honour Judge William Pepler, in particular, who initiated this project.

With respect to whether or not this program will be expanded, we haven't made a decision to do that yet. There is a commitment to continue the funding for the Calgary project in the amount of \$1.4 million to the end of March of 2004. We've recently announced that a similar project, based on the interim results from Calgary, will take place in Edmonton, and the details of that will be coming shortly.

The Speaker: The hon. member.

Mr. McClelland: Thank you. My supplementary, then, is to the Solicitor General. From a law enforcement perspective, has the project been successful?

The Speaker: The hon. minister.

Mrs. Forsyth: Yes. Thank you, Mr. Speaker. I'd like to add my support and recognize the people in Calgary on this particular project. The police play a very important role in ensuring that the people that they are dealing with get appropriate treatment as opposed to being circulated through the justice system. The police are often the first contact with mentally ill people, and therefore they're in the best position to decide where these mentally ill people should be placed. The project that has been referred to by the minister of health has been hugely successful. He's indicated that he's going to be expanding it to Edmonton. I support that, and I also support expanding it through the entire province.

head: **Recognitions**

The Speaker: The hon. Member for Spruce Grove-Sturgeon-St. Albert.

Spruce Grove Junior B Regals

Mr. Horner: Thank you, Mr. Speaker. Today it is with great pleasure that I rise in the House to bring recognition and congratulations to the Spruce Grove Junior B Regals hockey team. On the weekend of March 29 the Spruce Grove Junior B Regals won the provincial title for a second consecutive year. The tournament was hosted in Okotoks this year, and our team played the final game against Fort St. John, British Columbia, for the win.

As I've said in the past, I'm a parent of a young hockey player with whom I share a love for the game, and I can truly imagine how proud the parents of these young folks are. I would like to congratulate their coach, Cam Aplin, and all the volunteers who have worked hard to ensure that this team has the opportunity to play to their ability and represent us so proudly. The pride does not only come from the win, Mr. Speaker. This group of young men are considered great young gentlemen on and off the ice.

As we speak, the Junior B Regals are traveling to Portage La Prairie, Manitoba, where they will represent Alberta in the Westerns and defend their 2002 silver win, hopefully with a gold. Whether they receive the gold at this competition or not, our community shall always consider them winners.

I want to extend my constituency's pride and also the province's as they have represented Alberta well as great Alberta ambassadors in the sport of hockey. Thank you, Mr. Speaker.

Dr. Yoshio Senda

Mr. McFarland: Mr. Speaker, I'm pleased to rise today to congratulate

late Dr. Yoshio Senda from Lethbridge, who received a volunteer recognition award from the Minister of Community Development at the Alberta Sport, Recreation, Parks and Wildlife Foundation awards banquet last week. Dr. Senda has dedicated his life to building the sport of judo in Lethbridge and all across Canada, including work with Judo Alberta as secretary, as president, and as provincial coach. He served Judo Canada as the first vice-president and national coach, and he founded the University of Lethbridge Judo Club in 1967 and the Lethbridge Judo Club in 1952. Because of his leadership and success Dr. Senda has received numerous awards, including induction to the University of Lethbridge Athletic Hall of Fame, the Alberta Amateur Sports Hall of Fame, election to the Canadian Amateur Athlete Hall of Fame. He's also received the Alberta coach of the year award.

On behalf of the hon. Member for Lethbridge-West and the hundreds of individuals who have benefited from his mentoring, please extend our warm wishes. Thank you.

The Speaker: The hon. Member for Edmonton-Mill Woods.

Michael Kostek

Dr. Massey: Thank you, Mr. Speaker. Today I recognize the work of Michael Kostek. Mike celebrates his 50th year of service with the Edmonton public school board this year. Mike is the public school board's Mr. History. Besides writing two books on the board's past, the restoration and relocation of the Edmonton 1881 schoolhouse and the restored McKay Avenue school and archives owe much to his work. Mike is a past member of the city of Edmonton Historical Board and the Historic Sites Board and the Names Advisory Board. He received a heritage preservation award from the city of Edmonton and the Alberta achievement award for excellence.

Mike has taught, served as principal, consultant, director, and finally as the executive director to the superintendent of schools before his retirement to McKay Avenue school, where he is now paid the generous stipend of \$1 a day for his services. In 1994 the school board honoured Mike's work by naming a school after him. The Mike Kostek school holds a birthday party for him each year. This year the party will be very special.

Congratulations, Mike, on 50 years of outstanding service to public education.

The Speaker: The hon. Member for Cardston-Taber-Warner.

Stirling High School Lakers Basketball Team

Mr. Jacobs: Thank you, Mr. Speaker. It is a pleasure for me to rise in the Assembly today to recognize another outstanding boys basketball team from Stirling high school, the Stirling Lakers. This team is comprised of Courtney Clawson, Shawn Nelson, Chris Hotton, Rocky Big Smoke, Wes Walk, Kris Clark, Jorden Clark, Scott Erickson, Darcy Steele, Cam Toth, Cory Edwards, Josh Day Chief, Ray Walk, and coach Darren Mazutinec.

This team had an outstanding season and displayed remarkable talent and skill. They played in two leagues during the year: the River Ridge League, where they captured first place, and the Deep South League, where they shared the first place title with Picture Butte. The Stirling Lakers, Mr. Speaker, then went on to win gold at the provincial finals of the 1A boys provincial tournament.

Mr. Speaker, I know this team and their coaches and the members of the community, and they worked really hard to make this achievement. As you know, it takes a lot of work from a community like this to achieve at this level. Therefore, I congratulate all the members of this team and their community and parents for their

achievement in this year's provincial finals and an exceptional season of basketball.

Thank you.

The Speaker: The hon. Member for Redwater.

2:30 Radway and District Friends of STARS

Mr. Broda: Thank you, Mr. Speaker. Today I would like to recognize Maurice Kruk and Chris Dowhan, co-chairs of the Radway and District Friends of STARS fund-raiser 2003, for a job well done. Thank you to all volunteers, donators, participants, and surrounding communities. Thank you to emcee Kerry Smith from CFCW and auctioneer Joe Dobyanski.

All catering, food, hall rentals, and proceeds were donated to this worthwhile cause. The community may be small, but it's big in heart, raising \$40,000, and in the last two fund-raisers they raised \$66,000, Mr. Speaker. I ask all members to congratulate Radway and surrounding communities.

The Speaker: The hon. Member for Calgary-West.

Alberta Seniors' Week

Ms Kryczka: Thank you, Mr. Speaker. Seniors' Week is a wonderful time for all of us to celebrate Alberta's seniors, 320,000 of them and growing, to recognize their accomplishments, and to highlight the positive contributions they make in their communities, and it is also a time for us to have fun with them. Since 1986 the Seniors Advisory Council for Alberta has annually spearheaded this special week by encouraging volunteer organizations, service clubs, businesses, communities, schools, and all levels of government to plan celebration events. The theme for Seniors' Week 2003, Vital, Active, Involved, recognizes the energy and enthusiasm of our seniors population and also the 65-plus seniors, who log more hours than any other age group.

Over 3,000 Seniors' Week packages have been mailed to Alberta communities and MLA constituency offices to assist in organizing special events. In 2002 there were 227 Seniors' Week events registered with the council, and I suspect that hundreds more occurred. As MLA for Calgary-West and chair of the Seniors Advisory Council I challenge all of my colleagues in this Legislature to promote and also attend Seniors' Week 2003 events from June 1 to 7. Your time recognizing seniors will be well spent.

Thank you.

The Speaker: The hon. Member for Edmonton-Gold Bar.

Calgary Humane Society

Mr. MacDonald: Thank you, Mr. Speaker. Today I would like to recognize the Calgary Humane Society not only for its efforts to protect vulnerable animals but also for its strides to educate Albertans about the link between violence against animals and violence against people. As Mohandas Gandhi astutely observed: the greatness of a nation and its moral progress can be judged by the treatment of its animals.

The society is developing a program to train staff, veterinarians, teachers, and child care workers to recognize the link between animal cruelty and domestic violence. The program is partly based on American studies that firmly established a connection between animal cruelty and family abuse. A similar study surveying women staying at Calgary's women's shelters in 2001 found that one in four women delayed leaving an abusive situation out of concern for the

animals that would be left behind. Many murderers also have a history of animal abuse.

Thank you to the Calgary Humane Society for its unwavering commitment to all living beings.

Thank you.

Speaker's Ruling Exhibits

The Speaker: Hon. members, it's never been my purpose in life to interfere or interrupt an hon. member when they're participating in either Recognitions or Members' Statements, but the hon. Member for Calgary-West clearly knows the rule with respect to exhibits and props in the Assembly. Her smiling companion from Drayton Valley-Calmar should by now have noted this because I do recall on a previous occasion having drawn it to his attention. So one might suggest that one shouldn't have to do this more than one time, two times unless there's something that would require further investigation by the chair.

head: Tabling Returns and Reports

Ms Calahasen: Mr. Speaker, I have five copies of the Métis Settlements Appeal Tribunal annual report. They've taken a different tactic in terms of being innovative, hopefully to clarify activities to the public, and I now present them for tabling.

The Speaker: The hon. Member for Wetaskiwin-Camrose.

Mr. Johnson: Thank you, Mr. Speaker. The Alberta Alcohol and Drug Abuse Commission, as an agency of the government of Alberta and reporting to the Minister of Health and Wellness, contributes in a major way to the health of individuals, families, and communities in this province. Today it's my pleasure to table the 2003 to 2006 business plan of the commission. This business plan outlines the goals and strategies of the commission in providing alcohol and other drug and gambling information, prevention, and treatment services to the people of Alberta over the next three years.

The Speaker: The hon. Member for Olds-Didsbury-Three Hills.

Mr. Marz: Thank you, Mr. Speaker. I have 26 letters to table, all addressed to the minister of health, asking that the Calgary regional health boundaries be adjusted so that the Didsbury health service region is within the Calgary health authority.

The Speaker: The hon. Member for Calgary-Fort.

Mr. Cao: Thank you, Mr. Speaker. I would like to table a report with the title Generation Debt: An Investment in Education is an Investment in Alberta's Future. The report was given to me yesterday at a meeting with the representatives of the Council of Alberta University Students. It contains solution proposals for issues that students are facing.

The Speaker: Hon. Member for Calgary-West, did you want to table your sign?

Ms Kryczka: I'd love to.

The Speaker: You need five copies.

The hon. Member for Edmonton-Riverview.

Dr. Taft: Thank you, Mr. Speaker. I have four tablings today. They

are all expressing concern about the state of education in Alberta. The first is from an Elizabeth Miller of Edmonton giving the government an F in listening.

The second is tabled with permission from a Margaret Ritchie expressing her concerns about the overcrowding of classrooms.

The third is with permission from Sherry Norris expressing concern about the current situation regarding funding of public schools.

The final one today with permission is from Mr. and Mrs. Hoffpauir. They are expressing their desire for properly funded public education.

Thank you.

The Speaker: The hon. Member for Edmonton-Strathcona.

Dr. Pannu: Thank you, Mr. Speaker. I've got two tablings today. Both relate to the crisis that the school boards and the schools face with respect to funding. The first one is a letter from a parent by the name of Sharman Armfield, who has a child enrolled in the Edmonton public school system, and he registers his worries about the possible loss of reading recovery programs and other early childhood educational experiences that he finds so valuable for children's learning success.

The second one, Mr. Speaker, is copies of a news release by the Public School Boards' Association of Alberta called FASTreport. Under a heading of "Provincial budget dashes expectations, raises flags for public school education" what's noted here is that the educational shortfall for K to 12 education base funding continues to hover at \$250 million after the presentation of this budget.

Thank you, Mr. Speaker.

The Speaker: The hon. Member for Edmonton-Highlands.

Mr. Mason: Thanks very much, Mr. Speaker. I have two tablings today. The first tabling is a letter from Lynda Wignall and Colleen Huston, and they are asking the Provincial Treasurer: "What happened to immediate rate increases to Alberta's poor?"

The second is a government of Alberta news release dated September 13, 2000, the former Provincial Treasurer Dr. West promising that education property taxes will not only be reduced by \$135 million in 2001 but also frozen at \$1.2 billion. This Provincial Treasurer obviously knew the meaning of the term tax freeze, Mr. Speaker.

2:40head: **Orders of the Day**

head: **Committee of Supply**

[Mr. Tannas in the chair]

The Chair: We'll call the Committee of Supply to order.

head: **Main Estimates 2003-04**

Offices of the Legislative Assembly

The Chair: Standing Order 58(8) indicates to us that the estimates of the Legislative Assembly, as approved by the Special Standing Committee on Members' Services, and the estimates of the Officers of the Legislature shall be the first item called in the Committee of Supply's consideration of the main estimates and the Chairman shall put the question to approve the estimates forthwith which shall be decided without debate or amendment.

Agreed to:

Offices of the Legislative Assembly

\$61,233,000

Revenue

The Chair: Are there any comments or questions to be offered with respect to this? The hon. Minister of Revenue.

Mr. Melchin: Thank you, Mr. Chairman. It's an honour to be able to be here today and present, I guess, the third annual estimates of the Department of Revenue for the years 2003-2004.

Before I start, I'd like to make some introductions of a number of individuals that are in the members' gallery. I would compliment them for being some of the best and most outstanding employees of the government. They do exceptional work. We're fortunate to have such professionals with the provincial government. I'll start by introducing Bonnie Lovelace. She's the corporate secretary for Alberta Revenue. Beside her is Juliette Blair, manager of strategic and business planning for Alberta Revenue. Beside her is John Osborne, who is the director for portfolio analysis and research for the investment management division of Alberta Revenue. Beside him is Christine Oness, manager of budgets and business planning for Alberta Revenue. Beside Christine we've got Barry Meilleur. He's the analyst in budget and business planning for Alberta Finance. Behind them is Lukas Huisman, our assistant deputy minister of tax and revenue administration, Alberta Revenue. Beside him is Glenn Shepherd, my executive assistant. So very appreciative of having them here today and thank them for so much of the work that really goes behind the preparation of the estimates that are before the Legislature today.

With respect to our Department of Revenue Premier Klein over two years ago in the creation of the Department of Revenue mentioned that as a result of the growing complexity and size of the revenues of the provincial government, this department was created so that we could direct our attentions and as a ministry focus much more on the strategic policy and operational issues that affect the revenues of the province not just today but well into the future so that we might have a long-term focus in ensuring that the revenues and investments of the province are in good stead and that they're organized and that they anticipate those needs of the future to serve Albertans in the best way possible.

Last year the tax revenues for this province were over \$9 billion, a very substantial amount of money that was collected through this Department of Revenue out of a total revenue of \$22 billion for the government. The Revenue department also manages an investment portfolio of \$35 billion, investments of the province. Those would include the endowment funds, the heritage fund and all the other endowment funds, some of the short-term cash flows of the province as well as many of the public-sector pension funds that are administered and invested on behalf of the pensioners.

Alberta Revenue's vision is

a province where government revenue policy and administration reflect the values of Albertans, balance present and future needs, and contribute to a stable environment for the generation of wealth for all Albertans.

We've heard many recommendations in public consultations, that could be things such as the Future Summit, including recommendations of the Financial Management Commission that emphasis ought to be placed upon long-term strategic planning. As a result of that, four of the strategic priorities that we have in our department have to do with the long term, not just a three-year but a long-term plan.

The first of our strategic priorities has to do with the revenue management framework. In that framework our priority is to continue to focus on revenue to enable this government to make

decisions that will benefit Albertans over a long time. We do this in consultation with all the departments. We as a department only specifically direct the policy of taxation with respect to personal, corporate, and fuel tax, tobacco tax, hotel room tax, but we co-ordinate and work with all of the other departments, be it Energy or Gaming, health care premiums, to ensure that there's a correlated approach to what revenue streams we ought to count on in the future. How can we ensure that there is that predictability, that we have the right amount of revenues for the needs of the government, and also that we ensure that we have a bearing upon that the government does have upper limits, that they ought to be cautious about how much revenue they collect to ensure that we do preserve the Alberta advantage that we have in this province?

Dr. Taylor: Why didn't you reduce taxes then?

Mr. Melchin: With respect to that comment it's an excellent suggestion. Part of this budget does actually contemplate – and we'll talk about that – the corporate income tax rates being reduced from the general rate of 13 percent to 12 and a half percent and the small business rates being reduced to 3 and a half percent and the small business threshold being increased to \$400,000. So we are continuing on those promises that we have made to Albertans that we would continue to lower those corporate business tax rates, following up after already reducing taxes with respect to personal income tax, that was incorporated a couple years ago.

Another strategic priority of ours is with respect to the endowment funds. That's not just the Alberta heritage fund, but that would include the investment of the Alberta Heritage Foundation for Medical Research, the Alberta heritage scholarship fund, the Alberta heritage science and engineering research endowment fund. One of the things that we did conduct last year, that everybody's fully aware of, was the survey Looking Forward, a survey of Albertans, asking for feedback on the direction of the Alberta heritage savings trust fund. We felt it really important that we clarify the reasons why we should be saving for the future, that our investments be properly structured so that we can ensure that they're there for the reasons anticipated for those future times necessitated by the purposes of savings.

From that, we have known and we hear it reaffirmed again that Albertans do value that we should save, and it is a strong commitment of this government to continue to save. One of the strategic focuses of this upcoming year will be to assess and address: how do we strengthen the mandate of the Alberta heritage savings trust fund? How can it operate, the preference as responded by Albertans, as a long-term endowment, that its value can be protected over time? So we'll bring forward in our initiatives further recommendations on that fund through this year.

2:50

We will also want to see that we've got the right governance in place for those funds with respect to not just the governance of the heritage fund and its policy directions but also with respect to the investment policy and direction of the other endowment funds: the medical fund, the science and engineering and scholarship funds.

A third key initiative, which I somewhat touched on already, has to do with our investment organization. We have many challenges facing the current market environment. As we know, this past year we've had a marketplace where we've seen one of the deepest recessions or declines in the market since the crash in the '20s, and it's been the deepest since 1937 and '38. We continue to see uncertainties in the world with respect to the investment climate, partially maybe due to the wars, some of it with respect to investor

confidence, some of it with respect to economic slowdown in many of the countries of the world.

Investment organization structure is a key priority of this department to ensure that we have the best governance to maximize the returns for those pensioners, for all Albertans with respect to their savings. We have the fifth largest organization in Canada, with over \$35 billion of assets being managed. Our costs continue to climb with respect to the administration of those funds, but they remained the lowest cost provider in the industry. In fact, we save over 10 basis points inside by managing our funds internally versus outsourcing any of those funds. We continue to provide a very strong investment community here in Alberta with respect to the administration of this fund.

A fourth key initiative that we have is with respect to securities regulation. We are strongly committed to the efforts to increase efficiencies in securities regulation and promote the Alberta capital market and to ensure that we have markets which are efficient and which protect and promote investor confidence and safety and that also attract the accumulation and investment of capital in Alberta. The Alberta Securities Commission has separate legislation and governance and falls under the Department of Revenue, and its regulation is through the Securities Act.

A number of significant issues are being led by our own Securities Commission. One of the uniform securities legislation projects that's been working with the other security regulators is being led by our own Alberta Securities Commission, and they will continue that work with those other provinces. Part of the legislation before us today in the House has been with respect to starting to harmonize those rules.

A very significant initiative which started last fall when we met with our counterparts in the province of British Columbia was to find what common grounds there could be to improving national regulation of securities. From there, we met with the provincial ministers of Quebec, Ontario, and British Columbia to assess if there was likewise common ground to find resolution in improving the efficiencies of national regulation of securities given that it's still a provincial constitutional authority. We have created an initiative from those four provinces where there'll be a steering committee now of five, Manitoba joining with us as part of the steering committee, and all of the provinces and territories joining the initiative. So we have unanimous consent of all the provinces and territories to proceed with a project that will provide a working plan, to conclude by this September 30, of an outline of what we can implement to improve the regulation of securities in this country.

One of the ideas which we are studying – we've chosen that we'll study two issues – which has the greatest degree of acceptance at this stage, would be a passport approach, where those companies, for example, that would be registered or operational here in Alberta would work with the Alberta Securities Commission, obtain all the clearances for regulatory approval, which would grant them the authority and the ability to raise that capital throughout the country without having to go through further vetting by other security regulators in other provinces. All of the provinces are unanimously in agreement to studying this issue, working to promote that that would be at a minimum adopted as a working plan by this September 30.

Furthermore, we will study what we've called a national/provincial/territorial regulator model to assess if there's methodology other than just a passport approach that would still preserve the jurisdiction of the provinces to retain responsibility for regulation of securities in the country yet improve that regulation throughout the country.

So we're pretty excited about this. This is the first time an

initiative of this magnitude has happened among all the provinces. The marketplaces are becoming more and more intertwined not just nationally but internationally, and it is important that we improve that access to capital and interface with other provinces and other countries of the world to both assure and protect investors, ensure that there is confidence in the markets while also improving access to capital.

Our business plan outlines a number of programs. Managing tax and revenue programs is one of the key programs of the department. Our goal is to continue to focus on fair and competitive and efficient tax programs. The overall operating increase in our budget is close to \$1.9 million, and those increases would include manpower in the audit area due to a reduced vacancy factor. The vacancy discount in 2002 was high due to difficulties in recruiting qualified staff, and we are and have been successful in recruiting a number of staff to add to our audit area. The Canada Customs and Revenue Agency tax collection agreement for tobacco products and an increase in vouchers to the Alberta Indian tax exemption retailers, technology improvements, salary adjustments, and employer contribution costs form part a bill that's before the House already as to improving the efficiency of our tax collection.

Another of our main programs is to manage and invest our financial assets. In that area of our business our overall operating increase is approximately \$2.2 million for the investment management division. That will add an additional eight full-time equivalents, and this is to strengthen the governance, the management, and the resourcing of our investment operation. Contract services for the introduction of new investment products, risk management software, and endowment assets in management consulting are part of the inclusion of that increase in the budget.

It's important to note that a hundred percent of the investment management division's budget expense is recovered from the investment funds it manages. In fact, over three-quarters of that is recovered from outside clients such as the other pension funds which we administer.

A third area of business focus in our department has to do with managing risk associated with the loss of public assets, our risk management and insurance division. It administers a program to protect, secure, and preserve public assets against risk of significant accidental loss. In today's climate with, you know, increasing premiums for insurance coverage, this aspect of our risk management has proven very successful, very cost-effective and efficient at managing the risk and ensuring that we have the right insurance coverage and in some cases ensuring that our limits are at the right thresholds. That we can self-insure the lower amounts of deductibilities and reduce the cost of premiums has been a cost benefit for our government.

The fourth area, which I touched on already, was to regulate and foster the capital market. I just thought I would mention that the revenues are budgeted for \$2.7 million from the 2002-03 year. Part of that fee increase is for prospectus and financial statement filing fees and exemption applications, a proposed fee increase that's gone to stakeholders for consultation that would be effective July 1, and an overall operating expenditure decrease of \$645,000, and that's due to some nonrecurring expenses for the closure of the Edmonton office that happened last year.

This is just a quick overview of our department's responsibility with respect to its various core businesses, and I'd be delighted to answer questions this afternoon as they come forward. Thank you.

3:00

The Chair: The hon. Member for Edmonton-Ellerslie.

Ms Carlson: Thank you, Mr. Chairman. Happy to be able to participate in the debate this afternoon on Revenue as a part of the

overall budget presentations made by the government. I'd like to thank and welcome all of the staff that are here to support the minister in this afternoon's debates. We know that you make him look good. We don't necessarily appreciate that, but I'm sure that he does. It's been my experience with this particular minister that he's very good at answering questions that we ask of him or getting back to us in the near future on those that he doesn't have the detail for, and we certainly appreciate that.

My understanding of this process this afternoon is that we have two hours for debate. The first hour is for the exclusive use of opposition asking questions of the minister back and forth. The second hour is then opened up to the entire Assembly, if any backbenchers want to ask questions at that time. [interjections] We would appreciate the Minister of Environment not participating in debate in the first hour because he's cutting into our time.

My process this afternoon will be to ask a question and ask the minister at that time to respond. I expect to take about the first half hour of time, if that's okay with other members here. Then I'll do some cleanup afterwards, after everyone else has had an opportunity. So now I need to ask some questions.

Mr. Minister, I'm just going to ask you some introductory comments to get some definitions of some of the terms in your business plans first, and then I'll get into some of the detail of the other things I want to talk to. When we take a look at your business plans – I'm on page 328 – under the first of the key strategies goal 1.1 is: "A revenue structure that meets Alberta's needs and is consistent with Albertans' values." You talk under Key Strategies about developing and maintaining a long-term revenue management framework. We want some detail on what that framework is. Do you have something written down that's available for public consumption, or can you just give us some more detail on that right now? [interjections]

Mr. Chairman, if the noise level is really high, I'm not going to be able to hear him.

Mr. Melchin: I don't have a document at this stage that's publishable for public consumption, but I can tell you that the realm of that discussion gets into looking at identifying all of our revenue sources today, the long-term projections and scenarios for each of those revenue sources over the years, not just the tax policies but even looking at working with, say, Energy on what would be the long-term revenue scenarios from oil and gas revenues so that we can be clear about how much you can rely upon each of those. It would be looking at growth factors that are implicit in how they're structured. Take personal income tax, for example. Because it's a rate of tax, 10 percent, it does capture all the growth in the economy, employment, so they have various factors of growth rate or not. A fixed flat fee doesn't capture any increase in inflationary growth, so we have to look at those types of factors. Are they revenue sources that grow or not? We will examine alternative sources of revenues that are used by other jurisdictions so that we're understanding the nature of opportunities for revenues and the right structures and to then assess whether they should apply to the province or not.

One area has to do with the size, answering the question of size. How much revenue is needed not just to service the programs, but what might even be an optimal size of revenue so that we can both fulfill the needs of the various programs to provide funding for health and education and all the programs of the government but also ensure that you're not taking too much revenue out of the economy so that it becomes a deterrent? So there become thresholds where if you take too much out, it chases away capital investment, creation of new jobs and opportunities.

I would say, for example, anecdotally that one of the things that

does happen in Canada – when you look at our other provinces, we have only two provinces presently who are net contributors to all Canadians. All the other provinces are net recipients of the economies of Alberta and Ontario in transfer payments in taxation that the federal government takes versus what is brought back to our province. So I would hope that we could continue ensuring how we grow and create the right climate so that more opportunities can grow in revenue for everybody. When persons succeed, when businesses succeed . . .

Mr. Doerksen: Especially for innovation and science.

Mr. Melchin: Including all the innovation and science opportunities of the future. Correct. When they succeed, we all have more for our needs personally, for business, for family, and for the government.

There's only one taxpayer. It only comes from one source, so part of that is to ensure that we get the right balance in assessing the size. That'll be looking at even a competitiveness question. How do we rank with respect to other provinces? How do we rank with respect to other countries? Specifically and probably most importantly, how do we rank in our overall tax burdens with respect to the United States, being our largest trading partner, but clearly also to the world? So that'll address that one aspect: size and overall need and optimal size of government. Second is to look at the sources, the mix, the types of revenue sources we ought to rely upon, identifying and being really clear about what policies are in place on our existing revenue structure, to see how that will roll out in long-term scenarios and then to look at what might be the optimal sources of revenue for the longer term planning. That's the basic structure of a revenue framework.

The Chair: The hon. Member for Edmonton-Ellerslie.

Ms Carlson: Thank you. When you have something that is available, we would certainly appreciate a copy of it.

Given what you've said now about growth factors and how much is too much revenue to take out of the communities – and I'm thinking more in terms of consumer spending than commercial types of revenue when you talk about thresholds – I want to talk for a moment about gambling revenue and the amount of revenue this province receives now from gambling. It seems to me that the numbers look like what we get from various lotteries is now greater than what we're receiving from oil and gas revenues. If that's incorrect, if you could correct that for me. Do you factor that in? What is the growth anticipation? What are the growth factors you're looking at for gambling revenue? Have you determined that there is a threshold where the amount that consumers spend on gambling on an individual basis is actually too much to be taking out of the economy in that capacity and not leaving them enough for general day-to-day expenses? If you could give me your views on that and how they fit in with the government's overall strategy.

The Chair: The hon. minister.

Mr. Melchin: Thank you. One of the things I did mention up front: we will work with the other departments. The Revenue department doesn't have specific responsibility for policy in some of these areas. You mentioned two of them, gaming versus energy. Just in the budget I might comment for your purposes. I know it's been mentioned that gaming is higher than the crude oil royalty. In that one line item that may be true, but our oil and gas revenues clearly far outweigh in magnitude and amount that we continue to collect, even now and into the foreseeable future, versus gaming.

As to what are the growth factors, we will work with the Department of Gaming with respect to those questions. They will develop the policy. We will work with them on the kinds of questions you posed. How much should we rely upon any of these sources for our long-term planning? You have very good questions. How much do we want to see come from gaming? As you would say, to what extent are there thresholds that are beneficial or not beneficial for our province? I think they are very good questions with respect to gaming, including when you look at energy or any of the other sources of revenue. They will all have inherent similar types of questions.

3:10

Rate structures. You know, what are royalty rate structures? With the expansion of, for example, the oil sands up in the Fort McMurray area, how much will come from those vast amounts of reserves in our royalty rates and structures for that in the long term? Those will be policy decisions of the Energy department, that will work with it and build in the scenarios that they'll provide to us as to the right mix. But it will be part of ours to make sure that we've questioned and put back some of those specific questions that you've just said. I don't have the specific growth factors we have for those two here. That will be developed in conjunction with those departments.

Ms Carlson: Mr. Chairman, to the minister: will those factors ever become public?

Mr. Melchin: I can't commit to what extent or how much of the revenue framework will be a public document or not. I haven't contemplated that specific question but would be happy to respond. I do view that with this document and the work that we've been doing actually for quite awhile now, much of that, if not coming out as a document, i.e. a revenue framework, will certainly start coming out through policy directions in a lot of revenue sources over time.

As to the publishing of a revenue framework, it wasn't intended to be a public document, though we may find part of that tool very useful to put out for public feedback and thought and process on it. I don't have a specific answer as to what would be public at this stage though.

Ms Carlson: Mr. Chairman, to move on to the next page. The minister talked about performance measures, and one of them is that Alberta's provincial tax load for a family of four is indicated as being the lowest in Canada, and that's the projection for the next few years as a target, but it seems to me that this clearly doesn't include user fees. Can you explain to me the philosophy where you would make these projections? It seems somewhat misleading to me. If we're talking about tax burden or tax load on a family, then that includes user fees. There have been many definitions by many different organizations within this province that would indicate that a user fee is a tax by any other name. Can you explain to me the philosophy whereby you would not include user fees here, and do you do that anywhere internally to see what exactly the average kind of load between pure taxes, as you call them, and user fees would be for the average family in this province?

Mr. Melchin: Well, I would first like to mention that we are pleased to continue to have our performance measure as the lowest in Canada. Whether or not that specific formula includes every fee or fine or penalty that could ever be included, we are still substantially ahead of all of the other provinces, and even the inclusion of those, I would suspect, would still keep us the lowest in Canada.

But there is still a difference in the sense that many of these

revenue sources are compulsory by nature; taxes are. We set out a rate, and all those that earn income will be compelled, required to comply with the Income Tax Act and pay their tax. So when we look at things such as personal income tax and all the taxes that we have in place and even health care premiums in that bundle of tax load, it's because of the compulsory nature of all those taxes that that's our performance measure that we're specifically comparing to the other provinces.

Ms Carlson: Mr. Chairman, I'd now like to talk a little bit about the heritage savings trust fund. That's a fund, as this minister knows, that was started at the same time the Alaska fund was started. However, the Alaska fund has significantly grown over years. I understand that it's perhaps close to \$30 billion now. It has paid out over time, the time being the same length of time that the Alberta heritage savings trust fund has been operational, over a billion dollars to its residents. We haven't seen those same kinds of dividends here in this province. As part of the review that you've undergone and some of the initial comments that you have made, Mr. Minister, do you anticipate seeing not only inflation-proofing that fund in the future but taking a look at significantly growing it for whatever long-term benefits you determine there to be?

Mr. Melchin: I've been informed that there are others listening for this answer, equally waiting to understand what that might be.

I want to first mention something about the heritage fund versus the Alaska fund. We have examined, actually, as part of our review this past year a number of funds throughout the world. Many of them are oil and gas kinds of funds like the Norwegian fund, the Alaska fund, and the heritage fund. The heritage fund in its creation actually had a different mandate from day one than the Alaska fund. It was actually created in 1976 to do a multiple of things. It had a source of revenue from oil and gas that would be put into it annually, which would then partially be saved for the future. It would then also be for social and economic benefits. It would be for capital projects. It would be for economic diversification. So this fund actually served a variety of purposes. It was never in its inception intended to be just a growth fund that paid out a dividend, whereas the Alaska fund was created for a different purpose and structure.

However, saying that, the heritage fund has benefited Albertans substantially over that time, over \$25 billion of income that has helped a variety of things: our programs, tax structures being lower, and the repayment of debt. So it has benefited Albertans but maybe in a different way than how Alaskans chose to use their own fund.

With respect to our survey that we put out last year, it once again reaffirmed that the high priority of Albertans out of all the options of saving would be to save it for the future: keep it and let it grow as an endowment. So inflation-proofing, I think, when you look at an endowment fund, that's a very significant question we need to bring forward, and we intend to address that question, as I said, over this next year with respect to: how do we get a proper structure of an endowment fund so that you can preserve its value over the long term? And that does mean inflation-proofing in some factor.

As to allowing it to grow, those would be policies of a budget, priority decisions of a budget as you go forward, because there are many options for increasing assets. One way of increasing the net assets of the government is to pay down debt. Another is to increase the heritage fund. Through the 1980s and the early 1990s the governments throughout Canada – and Alberta was also one – accumulated significant amounts of debt, unlike, potentially, the Alaska one. The differences, without going through their budget – we accumulated up to \$23 billion of operating debt, and therefore our priority and Albertans' priority continues to say: get rid of the

debt. We're almost there. We've made substantial progress, coming from \$23 billion down to just about \$4.8 billion of our debt remaining. So we've come a long way.

That's why we also started in timing: let's start planning now for what is the heritage savings trust fund's purpose in the future. We are clarifying that it is an endowment structure, that it should be held for the long term, that it should be allowed as an endowment, I would say, to retain its real value. Then as you have surpluses in the future, you will have the opportunity to allow those to either grow or go to other priorities, but that's something that will have to be decided among future budget considerations.

Ms Carlson: In terms of the long-term endowment, then, you must have some initial steps that you're putting in place right now to help determine the direction that it'll go in the future, because to just say that, yes, the fund will continue to be a long-term endowment and that we're going to put the right governance framework in place means nothing if we don't see some of those details. What have you got as a starting point in that regard?

3:20

Mr. Melchin: Well, actually as a starting point it has been and will be retained. Clearly, the principal of that fund will be retained and going for its structuring so that just under \$12 billion has an opportunity to grow with real value. That'll be a budget consideration, but it's also a policy discussion that we haven't completed. Therefore, I can't tell you specifically what that means. There are various options that we are considering in light of the survey results. Yes, we've done much work on that. We're close to bringing that back for some proposals for caucus, cabinet, and our standing policy committees' approval, and we'll bring that forward in this next year for approval and then presentation back to the Standing Policy Committee on the Heritage Savings Trust Fund.

Ms Carlson: Fair enough, Mr. Minister. Your projections for this year with that fund are to see more than \$400 million coming back in revenue either to the GRF or retained. I'm not sure that that's determined. Given the uncertainty you have in terms of where you're going, where do you expect that revenue to come from? Is it all going to be generated from the mutual fund investments and so on that are currently existing?

Mr. Melchin: I'm not certain if I fully understand. You're talking about the \$426 million in the estimate of income and where that's coming from. Our investment policy asset mix is still the same as the business plan of the heritage fund, so it will come from equities, real estate, fixed income. So it's going to come from a diversified portfolio. This year even that number we expect is truly not the optimal level that it will get to. We expect there's still a lot of volatility left in the marketplace, and as such our forecast for this year is actually still quite low. It might be high given the economic climate, but we expect long-term returns to be actually higher than that just even with the diversified portfolio. But this year out we expect returns to be lower than what would be normal.

Anything that we would contemplate in terms of the growth of the fund, be it inflation-proofing or otherwise, has to come for policy approval and then also budget discussion and deliberation. Therefore, this budget doesn't incorporate any such projected changes since that policy is not before the Legislature.

Ms Carlson: Mr. Chairman, staying with the heritage savings trust fund for just a moment longer, I'd like to talk about the investment strategies themselves. I would like to see the portfolio mix change

slightly in terms of ethical investing and green investing. If we take a look at where the market is going globally in these areas, many investors and large investors are taking a look at avoiding unethical investments and taking a filter that talks about investments that have not only adequate financial returns and that are secure, which of course would be a basic minimum for anyone, but also that are ethical in terms of avoiding causing illness or disease and death, those kinds of investments such as tobacco companies, avoiding destroying or damaging the environment, and avoiding treating honest people with disrespect or disrespecting people's basic civil rights. We've had some of these discussions with regard to some of the investments like Talisman that the heritage savings trust fund has had.

I would like to add to that: taking a look at companies that are green. Companies that outperform on the environment traditionally, if you take a look at them individually, also outperform financially, and we are seeing globally progressive investors draw on world-class sustainable investments, that have become very positive. That ties into other requirements we have on the environment side. When you talk about the changes that are happening in terms of energy sources, we're seeing some of these new companies and solar and wind growing at phenomenal rates, and we will see those financial returns. I'm wondering what it's going to take for the government to take a look at this as a philosophy change, instead of giving no direction to the capital managers, to lead the stage in terms of provincial dollars being invested, to have a heavy focus in these areas. So if you could comment on that.

Mr. Melchin: I'd be happy to bring back to the all-party Committee on the Alberta Heritage Savings Trust Fund discussions that might be very helpful, I think, on those and other investment policies. We have examined specific ethical or green, as we used to call them, investing policies. I would say, too, that in the investment community, though there are some small targeted funds and amounts that are being put towards those specific categories of investment, truly when you look at an ethical investment policy, I would counter that we do have an ethical investment policy, that we do invest in companies even by our natural selection of – take the Standard & Poor's 500, for example. These are companies that have gained a reputation not just for success but because they meet and abide by the laws of the land, they are successful in employment practices, investing practices, business practices, and they gain the support of the communities.

Standards of ethics are really the purview of Legislatures such as ours to pass those things which are acceptable in our societies, those being all the laws that we pass. The business communities are very ethical by nature. They need to attract clients and customers and serve them well, and by their nature they're driven, even though there are some bad apples in anything, to having an attitude of serving their customers well and having a high ethical standard of behaviour and performance. So the standard of the securities regulation ensures that there's a compliance factor to that, and one of the best things we can do is enforce the violations. That would be a very high ethical standard so that if there is an abuse, such as the Enrons of the world – and the marketplace is quick to pass judgment on those things – prior to those even getting that far, we have the right standards for companies if they want to have people invest in their companies.

So the securities regulation, ensuring that we've got the right laws in place for securities monitoring and investor confidence, the right accounting principles in place so that disclosure requirements are there: all these things will provide a common standard to say that they comply with the laws of the land, that they do meet a very high

test of success. Then you and I are free to judge and all our investment funds are free to judge the likelihood of their success given their business plan scenarios, which are subject to a very high standard of investment judgment.

So I would counter that it is ethical to invest in public companies because they meet a high standard already. They have gone through very rigorous scrutiny to ensure that they're qualified, that they abide by the laws, and that they're very prudent in their business practices. I would be pleased to bring that back for further discussion specifically related to the pros and cons of that green or ethical investment strategy.

The Chair: The hon. Member for Edmonton-Ellerslie.

Ms Carlson: Thank you, Mr. Chairman. Mr. Minister, I certainly look forward to that debate in the committee because I think we need to raise the bar a little higher than what it is right now.

My last question at this time is on the 3.6 percent growth you project. We'd like to know what you're using for prediction models for the oil and gas prices, where you get them from, and what those are based on. If you have any actual documentation that we could review, we'd appreciate that.

Mr. Melchin: With respect to the 3.6 percent growth, is that with respect to the overall, total, revenues? Is that with respect to some tax revenues? Is that with respect to energy?

Ms Carlson: I think just oil and gas.

Mr. Melchin: I'll have to defer that. Even though we do work closely with the other departments, those specific criteria they're forecasting would come from the expertise in that specific section of the Energy department. They would be the ones that even we would go to as a Revenue department to find out those same answers. It will be more applicable when their estimates come forward to address that specific question to Energy.

3:30

Ms Carlson: Okay. Thank you.

The Chair: The hon. Member for Edmonton-Centre.

Ms Blakeman: Thanks very much, Mr. Chairman. Many of my questions regarding the budget for Revenue are pulled from comments made by the Auditor General, so I'm looking for in a lot of cases status and updates on status. In some cases I'm continuing themes of questions that I've had with the minister previously. In particular, I'd like to talk a little bit about forgone revenues, which has been a theme of my questions to you in the past.

Now, you were looking at doing some improvements around valuation, value for money, from forgone revenues, and during your appearance almost exactly a year ago before the Public Accounts Committee you and I had a couple of exchanges about forgone revenue. My question is: have you been successful in updating or achieving the level of information that you wish to have? You used the example of the TEFU, the tax exempt fuel use program, a couple of times, and I'm wondering if you were successful in achieving a better indication of what you were getting. What kind of value were you getting for that forgone revenue outside of that one program that you talked to me about before? I'm looking for that discussion around those improvements.

There was also a discussion around uniform practices for fuel and tobacco tax, so I'm looking for an update on that status: consistency

of looking at the treatment, control of uniformity of standards, and consistency with regard to smuggling and to the use of those taxes as well.

I have some questions around the royalties and the amount of not royalty holidays but royalty reductions and how that's figuring into, again, forgone revenue. How are we getting value for money? What is the scrutiny of that essentially lost revenue? I may not be perfect on my examples here, and feel free to correct me. My understanding is that in Syncrude right now we are either taking zero or 1 percent royalty off of everything that's produced there while they are involved in their expansion plans. So that's a lot of money not to be bringing in. What's the judgment? How are you able to satisfy the questions of myself and other Albertans that this is a good use of that forgone revenue? What are we achieving from that, and how are you measuring that? Are you able to measure it? Perhaps you can't. Perhaps you're hoping to be able to do this in the future. If so, fine, but let's hear it.

Moving off of forgone revenues, but just a question. There was a lot of talk about the hotel room tax, and I don't see that it . . .

An Hon. Member: The hotel?

Ms Blakeman: The hotel room tax. Yeah. That, in fact, was under this minister – I'm assuming it's still under this minister – and I'm wondering what happened there, because there was some chatter in the newspapers, and I'm pretty sure I heard certainly the Minister of Economic Development personally talk about that, yet I didn't see it. So did I miss this? Did I have two pages glued together, and I've missed this? I guess if there was a decision not to raise it, then what's the reasoning behind that decision not to raise it? Of course, this is of interest to me with Edmonton-Centre as my constituency and the number of hotels that are in it, but certainly the hotel industry was lobbying to have the government back away from collecting that tax, leave it essentially in place, and then they could use the money for tourism and other improvements that they needed. So did I miss it, and if I didn't miss it, what was behind the decision not to put it in place? I apologize for speculating here, but I didn't open the door to this speculation; colleagues to the minister did, so I feel free in asking that question.

We have not had the pleasure of having the Minister of Revenue back before the Public Accounts Committee on the '01-02 budget. The last time we talked to him we were examining the public accounts for the 2000-2001 budget, so I'm looking for some updates based on the recommendations coming from the Auditor General from essentially the previous fiscal year.

There continues to be a reservation of opinion for capital assets, so once again I'm asking for the minister to defend that choice of not capitalizing and amortizing those expense acquisitions under \$15,000. That's a fairly standard comment from the Auditor General, and every year I'm going to hold the minister to account for his choice in not implementing that.

They repeat their recommendation that

the trustees of the Alberta Heritage Foundation for Science and Engineering Research . . . request clarification over the meaning of "real value of the Endowment Fund over the long term" in its legislation.

This is pretty detailed. I'm expecting to receive the answers in writing from the minister, but for his department staff's use I'm looking at the Auditor General's report, page 233. Actually, the minister has done quite well, and those are pretty short Auditor General's comments, much shorter than what I'm used to seeing. Mind you, you don't have that many expenses in your department. So those are the two questions that arise out of the Auditor General's report.

Perhaps I'll sit down and I can get what answers I can from the minister, and then I can add a few others that I've got to ask as well. Thanks, Minister.

The Chair: The hon. minister.

Mr. Melchin: Thank you, Mr. Chairman. I don't actually have with me today all the responses to the Auditor General, and some of this I will provide to you with follow-ups, with some answers. I'll comment on a few of them generally that I have the knowledge of in front of me.

Most of our debate today really is on the estimates, and therefore the Auditor General's report hasn't brought that material as far as a debate on estimates. I would say this on forgone revenues: I do actually concur with the Auditor General's recommendations on the cost-benefit analysis of forgone revenues. Therefore, we have been working on both quantifying and identifying specifically in our own department – not all of the forgone revenues are within the Department of Revenue – and we are focusing in on programs like TEFU, that you'd mentioned, and we can quantify how much tax is forgone. We know that amount. It varies. Around \$130 million annually is actually the amount of forgone revenue on TEFU in specific, \$130 million, \$135 million, in that range.

This past year with respect to TEFU we have undertaken actually quite a consultation with industry itself about what options we could take; i.e., maybe eliminate the program altogether under some cost neutral basis if there's another way that we could provide it to them. We weren't looking for more ways to bring in more revenue, but there are some ways: is this program really needed? So in that discussion we haven't finished that. We're actually still in the middle of that, trying to find out to what extent this program is really benefiting the industries to which it's targeted. We're accumulating some of that material right now so that we can be more clear as to the benefit of such a program.

3:40

Also, at a minimum one of the outcomes we're attempting to then do is to ensure that it's simplified and easy to understand and enforce, not just from the company's perspective as to their applications and getting refunds but also from the department's and the company's perspective as to making it simple and understandable so that there's a way to ensure a higher level of compliance. We are looking to simplify that program at a minimum. We're in the middle of that, and we will bring forward some conclusions about what we view as easier to quantify: the costs forgone, the revenue forgone. A little harder to make sure you substantiate what are the benefits that are realized.

That one has been our main one. That's been the largest one that we've looked at. There are others, actually, some of them outside of the purview of our department, that are large in scope that we are working on with other departments, and you'd need to specifically speak to those departments at that time, though we will continue to address the ones inside of ours. I don't have any specific numbers for you as to the cost benefit of the TEFU program right with me.

I wasn't quite clear what she'd asked on the uniform practices of fuel and tobacco taxes, so I might ask for a further clarification. You mentioned also something about smuggling, and I'm not certain if that related to your comment on uniform practices or on another area.

Royalty deductions was a question you raised. That one you'll have to address to the Department of Energy since royalty policy and revenues flow through the Department of Energy. For example, you mentioned Syncrude. We do have a royalty policy of 1 percent until

they get a payout, until they've recovered their costs, at which time it increases to upwards of 25 percent of royalty rates for the oil sands projects up north. But as to what it's achieving, that'll have to be specifically addressed to the Department of Energy.

There have not been any changes in the hotel tax that you mentioned. There has been, as you mentioned, much discussion on the topic as to a number of things. Do you leave the tax in place and then flow through the money for tourism? You can ask the Minister of Economic Development when his budget comes up for estimates review. There were also discussions about a levy, maybe eliminating the hotel tax altogether and letting industry raise a levy. There are a variety of options that have been considered. Nothing has been finalized. There are no changes in the tax structure of the hotel tax in this budget. It's still as it has been in the past and is still being collected as it has been in the past, though that topic with respect to that policy of funding for tourism and whether or not that ought to be dedicated from hotel tax would have to go back to the Department of Economic Development in their estimates.

Our present policy has been that we don't take our taxes as dedicated revenues. We want to preserve a broad base of taxes and sources of revenues to finance the highest priorities of government such as health and education and those areas so that you don't get into dedicating every tax into other specific areas and don't have the flexibility to offset. When one revenue source is high and another is low you need the balancing of the two in an overall revenue structure, and that's why there hasn't been a specific dedication of a hotel tax for any specific purpose. If there was a desire to increase the funding for tourism, that would have to be a question separate from the revenue taxation policy. If there were any changes in that policy in the future, it likewise could be addressed then. But you didn't miss anything. There have been no changes in this budget. It is pretty well the same status quo with respect to hotel tax.

Updates with respect to Auditor General comments. We will provide you with an update on any of the comments. There have not been many, actually, with respect to the Department of Revenue as you appropriately suggested. That's because our group is doing such an outstanding job. They're complying and meeting the Auditor General's expectations and seeing that all of those things are met. In fact, our department does work very closely with them by the nature of the work they do.

Not capitalizing expenses under \$15,000. In any of these things there are policies which are not clearly in accounting policy black and white; i.e., it has to be one way or the other. When you look at a policy of what it is that you capitalize, you usually pick a threshold of expenditure that makes it simple so that you're not trying to capitalize everything because it stays on a balance sheet to be amortized over a lengthy period of time and makes it difficult both for an administrative practice and even for the public to understand accounting rules and principles and amortization. So you usually take a threshold of saying a certain dollar amount below which it isn't material enough to capitalize everything given that our budget is a certain amount. The dollar amount you pick is kind of the arbitrary rule because it is an arbitrary number that you're picking given how large your budget is, the size of the government.

So \$15,000 on budgets of hundreds of millions is part of that question of materiality. Is it really worth the extra effort to capitalize and amortize? Does it add any real new information or value to the public? Is it material enough to do that? That's part of the judgment you use in applying accounting principles. As such, that's why in the past it has not been the practice of the government to capitalize items under \$15,000, and there's been that discussion going back and forth: is that the right number?

I don't have a latest update if there is a latest update. Other than that, we'll provide you that one as well.

You've mentioned also the science and engineering fund, and my good colleague the Minister of Innovation and Science is going to have an opportunity to likewise respond to that in his estimates.

Mr. Doerksen: Tonight.

Mr. Melchin: Tonight. Oh, yes. He's ready to go, and he'll remember this and can supplement with . . .

Mr. Doerksen: What are you talking about?

Mr. Melchin: We're talking about the science and engineering fund, the ingenuity fund, which it's now called, that one of the requirements is to maintain the real value, and given that unfortunately the \$500 million that was put into the fund – timing for investment purposes couldn't have been worse really. In the last two years the markets have dropped substantially, so the real value of that fund has dropped below \$500 million. So the question to the Auditor General is: with our legislation do they have the spending authority?

It was anticipated that that fund would earn a certain amount of income every year, of which most of it could be spent for science and engineering research and then retain an inflation-proofing so the real value of the fund was kept. But from day one the markets went down and the investments lost money; therefore, that needed to be clarified. There was, actually, in this budget a top-up of \$22 million coming in this year for the science and engineering fund to put that book value – in the estimates of Science and Innovation tonight that should probably be more fully explored – back to the \$500 million, which doesn't necessarily fully answer that question, but it does address one of the problems that we have heard from the Auditor General.

Some of the specific questions we'll provide also back to you in writing. Thanks.

The Chair: The hon. Member for Edmonton-Centre.

Ms Blakeman: Thanks. The minister started out by sort of saying: well, we're looking at the estimates here and not at the Auditor General. In defence there I think it's important that we do always look at those two hand in hand because if we're not going through into a new budget with some of those recommendations from the Auditor General about the budgeting process and the accounting process and the performance measurement process of government, if we're not including that and moving forward with it, we're in trouble. So I'm always going to bring this up and query everybody on it.

3:50

I'm wondering if the minister is able to give us a list of the number of forgone revenue programs that he is currently overseeing in his department. He keeps mentioning the one, and I keep probing to see how many are being overseen here. I understand that he's only willing to talk about the ones in his department. That's fine, but I'd like to get the list.

I find it interesting that the minister is not keen on assigning sort of dedicated taxes, and I find myself agreeing with him because I think it takes away the flexibility of government to assign that money. I'll give you a specific example. You work yourself into a position where you're having to raise a tax to satisfy the demands of the group that is receiving the tax. I know that in the States, for example, the snowmobile clubs down there do very well because they are assigned a certain percentage of the gasoline tax. But as they expand their operations and want to do more, they're looking

for more and more of that money, so they want more and more of that tax collected so that they, in fact, get more for themselves. To my mind, the purpose of levying that kind of tax is not to become a revenue stream for very specific groups. So I'm agreeing with the minister there.

I have to argue a bit with the minister – this is an ongoing battle between the Auditor General and almost every ministry – about capitalizing and amortizing these costs of \$15,000. I don't want to let the minister's comments go by in *Hansard* without challenging them. I mean, yes, it's one thing to say that \$15,000 for one item is not worth going to all this effort for, but when you've got departments that spend that \$15,000 on a hundred items, you've now spent far more than \$15,000. You've spent \$15,000 for every one of those hundred items. That now becomes a significant amount of money. The fact that you're saying that we just dropped \$14,500 on a whatever – car, computer, whatever – and its value is used up inside of one year is simply not accurate. It retains a value beyond that year, and we're losing the sense of the value of those assets. So I'm just arguing back with him there.

[Ms Graham in the chair]

Now, he was asking about: what was this uniform practice? I'm, in fact, looking for a status update because I'm reading through the questions and comments from the minister's appearance on April 17, 2002, before the Public Accounts Committee. There was a question asked by the Member for Calgary-Bow, and I will just quote it for you. She's referring to the Treasury annual report. That would be for 2000-2001, page 41.

It's reported that "Alberta Treasury commenced working with industry and other governments across Canada to set standards and to seek uniform practices" with respect to the taxation of tobacco and fuel. What are the benefits to Alberta from participating in the fuel tax and tobacco tax uniformity projects, and does Alberta retain its sovereignty over fuel and tobacco taxes?

And in the minister's response, he talks about addressing the smuggling. That's where that's coming from.

So if his staff wants to go back and look at those comments from that Public Accounts meeting, which is Hansarded, I'm looking for the status update on where you're at with that. The minister does say that the uniformity project is helping; if it's harmonized; tobacco smuggling is important; looking at methodologies, et cetera, et cetera. My point is: where are you with this? You were asked a question. You sort of said: we're getting to it. Where are you? We're now actually two years past what we're talking about here. So there's the reference for him or for the staff to go back and look.

The issue around the 1 percent royalties for Syncrude. I think what bothers me about that and what bothers me about whether we're looking at examining the value, the cost-benefit analysis on that forgone revenue is that that's 1 percent of everything that Syncrude produces. We're not talking 1 percent from that section or 1 percent from, you know, that process. We're talking 1 percent of absolutely everything that they are processing up there. That's a lot of forgone revenue in support of a new section being built. The minister minimizes that, and I think he's wrong to do so, and I think we need to look at whether we really are going to be getting that out. [interjection] Right.

I don't really need responses at this point to the points that I've raised. I've given you the reference documents for the staff to go and send me the responses in writing, and the rest, I think, was really just comments back and forth.

Thank you very much, Madam Chair.

The Acting Chair: Thank you.

The Member for Calgary-Currie.

Mr. Lord: Thank you, Madam Chair. I would also like to rise to ask a few questions of the minister on his report. I am very pleased, in fact, to hear some of the comments that the minister has made, particularly in regard to the interprovincial initiative to start a committee to start looking at national harmonization of our security regulations. In my view, this is one of the largest and most important issues in our country and not just from an economic development perspective but also from a national unity perspective. I have for years felt that the lack of harmonization between our security regulations across this country has been a significant deterrent to creating venture capital, to creating new companies and just a host of other issues and problems that it has created.

Now, there have in the past been attempts made to do this. There have been other committees that have looked at it. It has not been successful to this point and thus the questions that I have for the minister. I'm wondering if the minister could elaborate for the Assembly here on how this committee would be sort of structured. Who would be sitting on this committee? How would they be selected? Are they appointed? Is there any opportunity for public input, scrutiny? Is it an open process? How would the committee membership be chosen, I guess, is sort of the first question.

The second question: considering the importance of this initiative to economic development, is the minister's department working closely with the Economic Development department to ensure that there is a full breadth of input into this process and that this time hopefully it will succeed where in the past it has not? So I'd appreciate if the minister could comment on that.

Mr. Melchin: I'm glad you raised this. Too often I would say it maybe doesn't catch the highlight because it isn't health or education, but it's critical, if we want to improve the capital markets both for investor confidence and safety and the willingness to invest, to improve our regulation of securities in Canada and throughout the world. It can be a foundation for us. You mentioned national unity, which is another great by-product of this, but it can be a foundation for us in ensuring that the Canadian markets grow, that we have more access to capital over time versus other countries, especially like the United States, who has such a large share of the world markets.

With respect to this committee's structure, its structure, we thought, is important enough that we were going to leave it as a ministerial committee. So rather than appointing and delegating it like the federal committee which is also out – the federal minister put out a wise persons' committee and nominated some people from various provinces. But, ultimately, it still has to come back to us as legislators in each of the provinces to assess what we are going to do. Given that it's a provincial jurisdiction, we're going to have to address these questions provincially, and therefore we felt that as provincial ministers we would steer this committee. In fact, I chair the committee of ministers from across the country and the territories, and all of us have unanimously concurred that we want to provide by September 30 a working plan for regulation of securities nationally.

4:00

That said, we are going to work towards providing a document for public input. You talked about public input. We will meet as provincial ministers over conference calls each month, but by the end of June we're going to meet together after more work has been done by our departments, by the securities that we are asking as resource groups to this. We are inviting a variety of people that have expertise in this industry to be resources to us. Our departments, from deputy ministers on, will be providing resources. All the

securities commissions will be providing resources. Our own Alberta Securities Commission will be a resource to us as well as industry individuals. We have written to and asked for the input of all stakeholders in the industry, in the investment community, so they have been informed of this initiative, and we will be providing a document to them by July for their public feedback.

Our working plan will not solve all the details of implementation by September 30, but we're going to get a commitment from all of the provinces and territories for an outcome. One really is to streamline a national approach to regulation of securities so that a company has a one-window approach to approval, not having to deal with 13 regulators to get something done, where rules are different in each province, where the regulators have different sophistication and interest in each of the provinces. So it's going to put some requirements on all of us to come together and work in a national interest on solving these problems.

We're thrilled with this initiative. We'll be reporting back periodically as to the progress. September 30 is a tight deadline. We do not want to give it a lot of time. We want some action. We want to start driving a commitment by all of the provinces to resolve this issue. It will help resolve some of the uniform securities legislation across all the provinces. It will help resolve issues of access to markets. It's a one-window approach rather than a 13-regulator approach. It will address questions and even access when dealing with other countries. What is our international presence and a way we can promote ourselves internationally and represent ourselves internationally as a country even though it's provincially regulated?

Thank you.

The Acting Chair: Thank you.

It's the Member for Edmonton-Highlands.

Mr. Mason: Thank you very much, Madam Chairman. I have just a few questions for the minister today, and the first one deals with some Auditor General recommendations in some of his previous reports in which he asks the government to determine the objectives that are supposed to be met by tax decreases for the corporate income tax. Now, I know that many people believe that cuts to corporate income tax are beneficial, but it always seems to be the corporations that say so. Similarly, cuts to the personal income tax of high-income earners have their partisans too, but they're mostly to be found among those who have high personal incomes and not amongst those who have low personal incomes. So the question really is: what is the objective of the four-year reduction in the corporate income tax rate? Has that been defined? Will it be defined for the Auditor General in a way that will be satisfactory to him, and if it has been defined, what is the objective? Since we are now partway through that program, what has been accomplished with it so far?

Secondly, the reduction in the last couple of years has been less than initially indicated in the year 2000. I think it's another half percent instead of a 1 percent reduction this year, and I think it was much the same last year. So what is the reason for the reduction in the reduction, if you will, from the original four-year plan?

My next question has to do with the school property taxes, and this is expected to grow by \$64 million this year because of growth in the assessment base. The mill rate is not being changed, but as anyone who's been involved in municipal government can tell you, the best way to get a tax increase without anybody really knowing it is just to leave the mill rate the same and have the property values increase either through new properties being added to the base or through an increase in the relative value of the properties themselves.

This is similar to bracket creep on the income tax side, and the government has taken some credit in the past for eliminating bracket creep, so the question is: why not eliminate it here? When did the decision to go away from capping the total revenue from the property tax to simply capping the rate take place? When did that policy decision get changed and why?

The other question has to do with the heritage savings trust fund, and I'd like the minister to comment on the decision to change the balance in the fund to a more aggressive one, increase the proportion of equities, and why that was done at a time when the market was at or near its peak and had been long overdue for a correction and what the justification of that is in light of the losses of the fund subsequent to that and whether or not the minister plans to revisit the mix between equities and bonds in the fund.

Those would be my questions for now, Madam Chairman. Thank you.

The Acting Chair: Thank you.

The hon. Minister of Revenue.

Mr. Melchin: Thank you, Madam Chair. The first one was the objectives to be met when you cut taxes. The objective is that we want to ensure that we retain a climate where people will want to come and live, where opportunity for jobs can be created, and where it can attract capital. If we're at the higher rates of tax burden, then you become a significant deterrence for people wanting to live here. Look at the many people that choose to move to Alberta, even for reasons such as taxation. Look at the many companies that choose to come here for reasons of the Alberta advantage, of low cost. If you want to formulate capital and grow and create jobs, you need to retain money, dollars.

[Mr. Tannas in the chair]

I'll give you just another. It's anecdotal. Last year we were in New York visiting with a number of large fund managers, and it's their opinion, but I said: here you are sitting in New York; tell me what your view of Canada is. I asked a similar question to a number of the different fund managers. This is where really 50 percent of the capital markets are coming out of the world, and they're looking at placing funds and investing money in the world. "So tell us about your view of why you would invest in Canada." They do say a lot of great things about Canada because we have much to be pleased with in our opportunities in Canada in relation to the world, so there are many great, complimentary things to say. Yet when you look at cost, they said: your tax rates and the amount of the tax you take in Canada is too high versus what happens in the United States; we actually get a better return by investing our money in the United States than what we get for a return on our money if we invest it in Canada, in the companies in Canada. It's that type of an approach that I find unacceptable. If you want to increase the wealth so that we would have more even for government and its services, how do you grow the economy? How do you grow the opportunities? How do you encourage that to flourish? So it is important that we set thresholds of being competitive vis-à-vis the other provinces and especially with our largest trading partner, the United States. So that tax business component is a very important component of that mix.

4:10

When you look at our heritage fund investment objectives, our own investments – and these are scaled down given the marketplace – our assumptions in our heritage fund business plan for return on our own investments in companies in Canada in the equities is 7

percent versus companies in the United States, where it's 8 percent. When the markets were more at their peak, it was 9 percent in Canada and 11 percent in the United States, you know, a spread of 10 to 15 percent difference in return in investing your money in companies on our own fronts. So why is it that individuals like you and I that invest for our future in our savings, in our RRSPs and our pensions and so forth are asking for greater foreign content in our RRSPs? We're asking to invest more of our money as Canadians outside of Canada. Why we ask that is because we actually get better returns on our money if we don't be so punitive to us in formulating capital and clearly for all the diversification of risk factors. So it is important for us in Alberta – we're a small population of 3 million people in a vast world, with a neighbour to the south of 300 million people and 30 million people in Canada – that we make this an attractive place for people, that they can save their money, that they can take care of their own individual needs, that they can plan for their future, that they would be prepared to invest their money here, that they're prepared to attract more money from the world here. It's that that creates more opportunity for all of us. It is precisely for those reasons that you do not also get punitive to the high income.

Our cuts, for example, to personal income tax that happened before – you didn't hear the complaints when the temporary surcharges on the high-income earners were placed in place to deal with the deficits. Those were temporary surcharges, and when you try and remove it, all of sudden you're favouring the rich, whereas it was temporarily punitive to them. Our tax policy even there will facilitate not being punitive and penalizing those that want to work – and it doesn't matter how much income they're making – and save that bonus for their personal needs rather than it always having to come to the government. It is an essential component, I would say, to our framework in the Alberta advantage.

When you look at the revenue structures of high taxation, look at what's happened in Canada as examples. Of our neighbours to the west and east of us there are only two provinces now, Ontario and Alberta, that are actually contributing in excess of what they give back. We are helping all Canadians because of what this policy has done for us. We don't make any apologies for it. It has worked well. It has created an opportunity where people want to move to Alberta. They're moving here in great numbers. Our corporation base of taxation is improving. Even with lower numbers, lower rates of tax it's increasing. More companies are moving to Alberta. More opportunities continue to expand, and it's been evident just by what we've done.

I'll have to defer the school property taxes. My hon. colleague the Minister of Municipal Affairs actually has education property taxes in his budget. The education property tax, the school property tax, is actually in Municipal Affairs and therefore not in my estimates. I could certainly give some comments, but I'd ask you to maybe defer the comments for when he is here to talk specifically on his estimates.

The Alberta heritage savings trust fund decision. When did we change the diversification? The only other survey done of the heritage fund was back in 1995 or early '96, and it asked some questions of Albertans about the purpose of the fund. Should we make a long-term decision now or wait until budgets were balanced and so forth? Albertans said at that stage: retain the heritage fund; wait until you've balanced your budget and started to pay down the debt before you actually make the more longer term decisions about the heritage fund. But they did also give the feedback to keep it structured as an endowment fund. Within that survey the context of public policy and legislative changes were brought forth and introduced, to start with the 1997 year, that changed the structure of that fund, when it was divided into a transition portfolio and an

endowment portfolio, where the funds were being taken out of the transition, which was all a fixed-income portfolio, and gradually being moved over into an endowment. So it actually goes back six years in direction and policy, and we've benefited through a lot of those years, too, in the markets. As they continued to improve in the early years, so did our income stream do very well during those years in our investments.

Are we going to revisit the mix? We're constantly revisiting our asset mix and policy investment decisions. In the heritage fund business plan we've actually changed a component to put more into absolute return strategies, to increase that to 5 percent of the mix, and to increase private equities to 5 percent of the mix, both to help diversify the risk but also to maximize the long-term yield.

It's impossible, I would still say, to choose the peaks and the valleys of any investment. Take a bond today. We have a policy of 35 percent of our portfolio in bonds. Our portfolio is actually potentially exposed to some capital losses, so there's no such thing as no risk in bonds. If interest rates go up, the value of your bond will go down. If you can get today a bond for, say, 4 percent and tomorrow you can get a bond for 6 percent, you're not going to pay the same money for that bond at 4 percent that you would pay for a bond at 6 percent. So with the value of your bond that you hold at the lower rates and with interest rates at historical lows, in the bond markets it's very questionable as to the risk with those even. Our portfolio could suffer substantial losses if we only choose bonds when interest rates are coming maybe back and start escalating. It's been the last 20 years that bond markets have rallied because we've had historical high interest rates, and it made maybe more prudent sense then to take that strategy. High interest rates, that were double digit at the stage, have been gradually declining to the point now where bond interest rates are once again at historical lows.

So the long-term strategy is what we're looking for with the heritage fund. Albertans said: a long-term strategy. They want the fund here for a long term. That was reiterated again in our survey this past fall. What I would say is that if you're looking long term, just a couple of statistics for you. We looked at this. In 67 of the last seventy-seven 10-year rolling year periods equities outperformed bonds. In 10 of those years bonds outperformed equities. If you look at a 20-year rolling period, equities have always outperformed bonds. Always. So the longer your time horizon the less risk you have. If you're prepared to say that your investment strategy is a long-term horizon, then your risk is diversified by a portfolio balance and also by a time horizon.

Our heritage fund is not a short-term fund. This is a long-term endowment, and if you want to maximize returns and still diversify and manage the risk component, you will diversify, and therefore I would say to you: you're still going to want an equity component in a long-term strategy. If you need to exit for retirement reasons or for some reason in the next one to five years, then don't go into equities: too much volatility, especially in today's market. But if you're prepared to be patient in the long term, you will outperform bonds. And to not put all your eggs in one basket: that's why we diversify. That's why you do say that bonds have an important component of it. So does real estate. That's why we have actually diversified our portfolio into up to 10 percent of real estate over the past couple of years so that we're getting a better blended mix of risk and return strategy in our portfolio. Our managers of the fund are doing an exceptional job. We've got some tremendous professionals that know the industry well, and we're very pleased with the oversight of that fund despite the difficulty in the world markets today.

4:20

The Chair: The hon. Member for Calgary-Currie.

Mr. Lord: Well, thank you, Mr. Chairman. I did have a few more questions on the national harmonization of security regulation initiative, and I certainly appreciated the minister's answers on the previous questions.

Of course, the minister did allude to the difficulties here of getting into this issue, and of course it's a little bit too technical, I think, to attract general interest. In fact, it seems to only attract the interest of former stockbrokers, like myself, and people who have been around this issue for some years. But I was not kidding when I said that I felt that this is one of the largest issues holding back the Canadian economy in the world and holding back provinces within Canada. That's why I mentioned that it's very important, I think, for not just economic development but in fact even national unity. So I'm very concerned and very interested in this review going forward.

The minister has answered how the committee will be struck. I guess sort of the first question I'd like to know about is whether or not there are going to be web pages, some publicity, some press releases, et cetera, outlining this as it goes forward so that stakeholders that might be affected will be aware and will be invited to have public input.

This has been a long, difficult, and contentious issue for many, many years. It's been ongoing for many years. People who have been involved in the industry have been complaining about this problem for many years. Of course, it's very difficult to address parochial viewpoints and interprovincial trade barriers and so on. What I would like to hear the minister discuss is: how would this review be different from anything that has occurred in the past? How will this be different this time in terms of committee makeup, for example, the types of expertise and the type of experience and, I guess, the types of industry interest that will be represented on this committee that would be different from previous efforts to address this issue? For example, will there be small business entrepreneurs on this committee or allowed to be involved in the votes on this? Obviously, that's a critical stakeholder in the entire issue, and in trying to raise venture capital, they are in fact the people that are most affected.

I guess that if the minister could address those two issues, I would certainly appreciate it, Mr. Chairman.

The Chair: The hon. minister.

Mr. Melchin: Thank you, Mr. Chairman. We're glad we have someone, the hon. member, with his background in the stock market industry. I'd agree that this is a critical issue for unity. In fact, it's really been interesting thus far as we've talked. You might say what provinces might be really against this, and you could certainly take Ontario, where the largest capital market of Canada still is. They might have a different interest in saying: yes, let's nationalize and put it all in Ontario. They might come from that perspective. Or you might say Quebec. You know, have they looked at this differently as wanting to participate with the rest of the country? Do they even want to be tied in with the rest of the country?

But without exception even those two provinces as well as when we talked with the Maritimes or the territories and clearly our prairie provinces, all of the ministers have acknowledged that maybe it's timing, that it's a critical question for us nationally, that we do expect and take seriously our provincial responsibilities, that we can find practical solutions to still live within our constitutional jurisdictions yet solve the 13-jurisdiction regulatory difficulty that the small businesses in particular, when you're raising small amounts of capital, find extremely burdensome and almost preventative in accessing capital markets. Absolutely correct. The formulation of that capital and venture capital under a small amount of money

becomes prohibitive. So in the simplification of that approach to regulation and accepting of the standards, the interprovincial trade barriers need to be removed.

What's different this time? You're absolutely right. You would know better than maybe many that this has been studied by many other committees before. It's been attempted and failed time and time again. This is the only time that I'm aware of that all of the provincial ministers have agreed at the onset that there is at least one objective that we can get to, and that's the passport approach, and we want to accomplish that. We've already assessed: is there something that, if this is not the best model, at least practically can attain most of the objectives that we'd like? So we've come to agreement on that.

It's going to be difficult in the details maybe, but we're committed to drive this through legislatively and in support of the provincial legislative processes in all the provinces, which has never happened before. In the past they put out, like the federal government did today, a wise persons' committee, and they put out a committee of experts in the industry. Then all of a sudden they come back at the end of the day and they put it back on the provincial regulators, expecting to somehow come onside with answers that may not be politically acceptable; i.e., a national, federally regulated model that is not acceptable to any of the provinces. That's what happened in the past: they kept coming back to turning it over to federal jurisdiction. We're not going to wait for how many decades or lifetimes to open up constitutional questions. We can solve these practically and efficiently and still be very responsive to our provincial questions. So the commitment of all the provinces, of the ministers to specifically stand by and lead this process and ensure by the tight deadline of September 30 that it doesn't get studied forever – that doesn't mean that all the details will be sorted out, but it will mean that an action plan can be put in place to get us there.

You've made some great comments about: how do more people get involved? Web sites, press releases raise the profile. We're early into this process, and I will take those recommendations as solid ideas that we will need to do. We've done a number of press releases, but you've got to continue to keep that awareness more and more. We have written a fairly lengthy stakeholder list already, and we'll continue to broaden that. We're asking all the provinces for a good stakeholder list that we can advise and update. We're developing a background paper on this that we'll put out for public discussion for the first part of July so that through the summer months and through the beginning of September we can get that public and stakeholder feedback and conclude at least the outline of the plan for an action plan by September 30.

Involving small business entrepreneurs: I like your idea on that. We will ensure that that's a stakeholder group that is represented and ensure that their ideas are on the table and facilitated.

Thank you so very much for your comments.

The Chair: The hon. Member for Edmonton-Highlands.

Mr. Mason: Thank you very much, Mr. Chairman. One last question to the minister. A number of commentators in the United States and elsewhere have predicted that we in fact may be entering a period of deflation in the economy. I'd like to know if the minister has considered that possibility, how seriously he thinks it may affect us, and what steps he has taken to insulate the heritage savings trust fund from a threat of deflation, what strategies the government has in place to protect the fund if in fact that comes to pass.

Mr. Melchin: Very good questions. You know, the challenge with economists – and it's heard many times. The economists have

predicted 10 out of the last three recessions, and that's the problem. I don't know how many times every economist you choose is going to have the crystal ball of the future. None of them really know. They can take the models and project. There is a case to be made: are we going into a period of deflation? We've heard that. I would say that there's always a risk of some of those factors. We've seen a softening in the economy certainly to the south of us, in the United States, but even many of the economists in the United States are saying quite the opposite, that the United States will yet pull out of this and improve.

Your question is very good, but in not knowing if it is one of those times or not—I clearly can't guarantee those future events; you don't know what impacts of world events could combine to create a deflationary period—how do you insulate any investments? You know, I guess it gets back to, in a long-term view, that you have to have a diversified portfolio, then, because how do you pick any one scenario as being the only scenario or the best scenario given that you can't guarantee the future? So if you picked any one investment strategy, you might win big or just totally lose everything if you invested everything in one portfolio, and it wouldn't matter which one you picked, including bonds. You can lose a lot of money if interest rates all of a sudden escalate like they did in the '80s, and you've got bonds at 5 percent interest and all of a sudden there are double-digit interest rates.

4:30

So there's no such thing as investing with no risk. That's not the case. But you do make a prudent investment rule that you would invest as a prudent investor would invest. If it's a long-term strategy, you'd be prepared to invest through cycles, not just trying to pick the highs and lows. If it's long term, which the heritage fund is, you'd be prepared to invest with long-term thinking and be patient with your strategy because the diversified portfolios of equities and bonds, real estate, and so forth are just that, to diversify and hedge against a variety of these problems, be it deflation or any other investment challenges that arise in the market.

Thank you.

The Chair: The hon. Member for Edmonton-Glengarry.

Mr. Bonner: Thank you very much, Mr. Chairman. It is a pleasure to rise this afternoon and participate in discussions on estimates for Revenue. Just a few comments before we start. A number of people have been talking about our heritage savings trust fund, and it is one of those funds that are under the Ministry of Revenue. I had the opportunity to read a book called *Simple Wealth, Inevitable Wealth*, and it's just a beautiful little book. Certainly, it focused on equities. It traced the record of equities back to 1926. One of the encouraging things that all members should know is that since 1926 equities have averaged 9 percent per year. So I think it is a prudent choice that we have in the heritage savings trust fund, particularly when we're looking at long-term investments, that we have invested in equities. So I have great faith that they will come back. Now, I don't know if it will be in my time. It's a crazy world out there right now. One of the stats that was brought out in the book was that even after the Great Depression, five years after the big crash came, 95 percent of all those equities had regained their initial value at the time of the crash. So I do have a tremendous amount of faith in our endowment portfolio in the heritage savings trust fund.

One of the other examples that was cited in this particular book was about Warren Buffett. Warren Buffett is also big into equities, and he had a paper loss of \$6.5 billion which he recovered in three months. Now, we're not doing that right now, but in the long run I know that we will.

I was also very interested in the comments by the minister regarding why people will come to Alberta. Certainly, right now we are doing a lot of good things in this province to pick up our economy and whatever.

Another interesting book that I was reading was *Road to Growth*. Tax structure to turn economies around is a very, very important issue, but one of the other factors in turning around economies is the downsize in governments. Now, I know that we have some work to do here. We went from 18 ministries to 24, and perhaps the minister in his wisdom and if he follows the examples of economies that he had cited, whether it be the United States, whether it be Ireland, whether it be the Dutch miracle, whatever—in all of these the other component to reducing taxes was to downsize government. So I think we do have some work to do there in Alberta.

Now, then, as well as the heritage fund being part of the responsibility of the ministry, we also have the Alberta Heritage Foundation for Medical Research endowment fund, the Alberta heritage scholarship fund, the Alberta heritage science and research endowment fund, the Alberta risk management fund, and the Alberta Securities Commission, so a very, very important ministry and a very complex ministry with all these various funds to oversee.

[Ms Graham in the chair]

Now, then, as well, one of the major roles of the ministry is to manage our investments in the province, to develop tax and revenue policy within the province, and to administer tax programs and minimize the risk of loss of public assets. In looking at this year's budget, the government is requesting \$45.3 million to operate four core programs, and these are broken down by the ministry's support services at \$3.962 million, revenue collection and rebates at \$21.439 million, investment at \$15.408 million, and risk management and insurance at \$1.039 million. I have a few questions for the minister. What kinds of rebates does his department issue? How do they vary from year to year? Is the government planning on following the same investment strategy for the various funds that they did this year? So if the minister could answer those for me, please.

The Acting Chair: The hon. Minister of Revenue.

Mr. Melchin: Okay. Well, first off, I appreciate actually the comments you made back on heritage fund investing in equities long term. Thank you for your comments on it. It's nice to hear that there is support for some equities, and I know that's been true, too, from the participation of the members opposite on the all-party Alberta Heritage Savings Trust Fund Committee when we analyze policy and investment decisions. It's hard and it's always difficult to have to stand up and be a year that's comparable to the crashes in the 1920s and the other significant downturn in the 1970s and have to be the third worst in that last 100-year period. It's never easy to want to be patient and prudent through that time, but I would concur with your analysis that patience through this will prove very beneficial for all Albertans and that we still continue a diversified portfolio to include equities as well as bonds and real estate.

The *Road to Growth* and downsize government, cut taxes. Well, glad to hear you commenting on those and advocating those. We take those in context. We'll remember to quote you, though, on those two comments quite often. Thank you.

Let's see. The rebates. I've got to get the line item. Maybe I'll have you comment again where you got that. I missed your comment on the rebates. If you could just let me know what that is, I'll get back to it.

Mr. Bonner: I will get those back to the minister.

On page 328 of the Department of Revenue's business plan for 2003-2006 the department indicates that it will "develop and maintain a long term revenue management framework." This is the same performance measure that was used last year, so my question is in regard to this. What kept the department from meeting this goal when they first established it last year? My second question in regard to this is: when does the department plan to have this framework in place? If the minister does have a target date, could he share that with us?

Mr. Melchin: I'm sorry. I've got to ask for your reference again. You said page 328?

Mr. Bonner: Yes. Of the business plan.

Madam Chair, for the minister that would be goal 1.1, the first bullet under Key Strategies.

4:40

Mr. Melchin: Okay. Goal 1.1, key strategy, development of "long term revenue management framework." You were asking – and I've got to clarify this again – which of the performance measures we did or did not meet. Is that what your question was?

Mr. Bonner: It was the same goal you had last year. Was the goal met last year, and if not, why not?

Mr. Melchin: Okay. With respect to this one I do see that this "develop and maintain a long term revenue management framework" isn't so much of a project that's completed and finished in one year. We have always thought of it being an ongoing part of the work of our department, that we will continue the research I would say continuously on options, on long-term scenarios, on alternatives for long-term planning of revenue sources. So in that respect we have met many of our objectives.

One of our first things was to make sure we do a proper inventory of what is, working with all the other departments to establish and understand better what their revenue sources are, what their policies behind that are, and how that will affect the long-term streams of revenue. So on that part much homework has been done, not necessarily complete but great progress on that front. Our development now of long-term strategies is becoming more of the focus for our next year coming up. I would say in that respect that this is one of the key works that's ongoing. It's not so much a project having been completed and finished, but it will be ongoing work with which we've made great progress, and we'll continue to do so going forward.

The Acting Chair: The Member for Calgary-Egmont.

Mr. Herard: Thank you, Madam Chairman. I wasn't going to get up and raise this, but I was looking at your goal 1.1, "a revenue structure that meets Alberta's needs and is consistent with Albertans' values," and goal 1.2, "fair and competitive provincial tax and revenue systems."

I just want to share a little story with you. A good friend of mine loves a great cigar, and recently he confessed to me that he hasn't bought a cigar in Alberta for months and months and months. In fact, he can get cigars sent to him out of Manitoba, pay the freight, and they're still less than half of what he has to pay for them here. So I thought I'd better look into this because I didn't realize that that's really what took place with respect to the change in the tobacco tax.

It turns out that I have a tobacco store in my constituency, so I went over and had a chat with the owner. I didn't even know that this store was there, but the first thing that impressed me was the significant investment that this businessperson had put into controlling the humidity and the temperature and all of that for the product.

An Hon. Member: A humidior.

Mr. Herard: Humidors? Thank you, hon. member.

But this is not a small investment, so I asked him what the impact of this tax had done for him, and the bottom line is that he is finding it extremely difficult to stay in business.

So when I look at goal 1.1, I don't think that it would be within Alberta's values to have a tax system that would force somebody out of business. That would not be an Albertan value, I'm sure, but it would certainly be consistent with goal 1.2 to have "fair and competitive provincial tax and revenue systems." It looks to me like this is really not a policy issue, because I'm sure we didn't go out there and create this policy that would in fact be detrimental to one particular sector of the economy, so it must be an administrative error. So if it's an administrative error, then would the minister consider fixing that administrative error so that we don't in fact discriminate against certain vendors?

Mr. Melchin: Thank you for raising such an enjoyable topic. You piqued the interest of a few people. You have a friend who loves a cigar. Well, I appreciate that you do.

Now, last year in our budget, as you know, we raised tobacco taxes not just a nominal amount but a 125 percent increase in the rates, and that 125 percent increase was on the cigarettes, loose tobacco, cigars, and everything. One of the first things you talk about is: what value structures are we incorporating by raising taxes so much? I would say that it's a great lesson on taxation. What does taxation do to economic activity, especially when you go to certain thresholds? What values are we supporting by raising taxes so high that we do cause a problem to a business segment? Myself not being a smoker, I'm not certain why it is that the public has chosen a value set lately, which I support, of antitobacco. You know, the health risk factors have become a factor such that we said that our policy was to reduce consumption of tobacco.

[Mr. Tannas in the chair]

So think of all the business vendors out there that are now selling tobacco products, cigars also included. Our policy is going to have an impact of reducing their sales, and what has happened, for example, just to give you some information, is that cigarette consumption has been down close to 20 percent in this past year, volume reductions. Cigar taxes actually have only been down about 5 percent. I've been surprised, given that actually there is a difference in the calculation of tax on cigars versus cigarettes. Cigars are on a percentage of the manufacturer's suggested sales price versus cigarettes, a flat amount per carton. With the tax on cigars versus cigarettes the question is: is it an administrative oversight? You might recall that we actually had a discussion on this. We brought it back and had some discussion on the differences, and this has been our policy. Now, what is different about the two of them is this. [interjections] I appreciate the support. You know, it's nice to have the support of your caucus with you on your new policy. Thank you, team. It's nice to have you right there behind me when I really need it. They're all quite aware of a discussion we've had in cabinet, caucus, and so forth on this topic.

Ms Haley: Amazingly enough, it wasn't in the newspapers.

Mr. Melchin: It wasn't reported before we even had the discussion. I appreciate that support when the time counts, you know, that when we stand up to defend it here as the minister, everybody is solidly behind you. So I thank you again as a caucus.

But here's the issue again. There is a difference and always has been a difference, so it's not necessarily new, though when we raise taxes, it now shows the magnitude sometimes of the problem. When you apply a tax, a flat rate on cigarettes is one thing, but on cigars being a percentage of a sales price, the tax component is quite heavy on a low-end cigar. That's a true case. On the higher end cigars it's actually less because we have a cap of \$8 on any one cigar.

An Hon. Member: What?

Mr. Melchin: Yeah. It's only \$8 for one cigar on the high end. Doesn't that make you feel good about tax content?

Anyway, what I would like to say is: it has been the policy that because the products are sold differently, different methodologies of taxation have been applied to cigars and cigarettes over the past. That methodology has been the policy of our government. It does create a reduction in sales. Cigarettes are actually down more than cigars. So if you're looking at what it's done to the marketplace, our policy has been to see that we work towards tobacco cessation, reduction in consumption. That's been our policy.

[Two members rose]

The Chair: Okay. The hon. Member for Edmonton-Centre.

4:50

Ms Blakeman: I think we're probably up on the same thing, and I'll repeat the question.

An Hon. Member: You're a reformed smoker.

Ms Blakeman: Well, yeah. Okay. I am a reformed smoker. I don't care about people smoking cigars. What's striking me about this is that there is such a differential on the increase of the tax for cigars. I listened very carefully to what the minister said, and I appreciate that he's feeling that wind whistling behind him where nobody is standing anymore, but what I'm questioning is: why aren't you fixing this? Obviously, it sounds like you didn't intend that there be such a differential in the increase. Okay. We wanted to increase or the government wanted to increase the tax on cigarettes by 125 percent, but what if the increase on cigars is like a thousand percent. I mean, the difference is just staggering. So why aren't you fixing it, or are you happy to leave it at that kind of, frankly, discrimination? How are you justifying this, or do I hear the argument that it's a health thing and that if you smoke a cigar, well, you're just discriminated against even more? I'm wondering why the minister isn't fixing the discrimination when they are so far apart.

Mr. Melchin: Let's first off say that this isn't an issue of discrimination. A tax policy has been designed for a long time about how you price tax on different products. Last year we chose and we uniformly increased taxes by 125 percent, approximately that number on all tobacco products across the board. Our tax content went up a substantial rate by policy, and it was designed to reduce consumption of tobacco so that we would have less health problems resulting from tobacco consumption. So that's been a uniform policy applied uniformly across all of the products.

Mr. Herard: I take it, then, that the minister will get back to us on the fairness issue.

The Chair: Okay. The hon. Member for Edmonton-Glenarry.

Mr. Bonner: Thank you very much, Mr. Chairman. Some excellent questions by the Member for Calgary-Egmont, but I'm sure the minister realizes now what Churchill had said in the Commons one day when he said: my opponents are opposite me; my enemies are behind me.

The minister had asked for a reference earlier when I asked the question: what kinds of rebates does the department issue? This is found on page 304 of the government and lottery fund estimates for Revenue under equipment/inventory purchases where we have Revenue Collection and Rebates. That is where that is found. If the minister wishes to answer that a little later, that's fine.

I did have other questions. On page 328 of the Department of Revenue's business plan 2003-2006, goal 1.3, Key Strategies, bullet 1 indicates that the government is planning on implementing the ministry's e-strategy "to improve client service, including the electronic filing of corporate income tax returns." A few questions on this particular initiative. When will this e-strategy be operational for Albertans? If the minister could please indicate how much it will cost to implement this strategy. Has this amount been budgeted for this year? What is the plan for Albertans who do not have Internet access, and have there been improvements considered for them?

Now, as well, on page 328 of Revenue's business plans for 2003-2006 it indicates that the department is planning on addressing issues "related to the underground economy." I found this under goal 1.3, Key Strategies, the second bullet, and I have a number of concerns and questions regarding this particular bullet. If the minister could please explain what these issues are, what plans he has on addressing these issues, what costs will be associated with addressing these issues, what indicators the minister does have that there is a vibrant underground economy if we are putting this into our business plans. How large does he think that underground economy is, or what are projections on how large it is? Finally, is the minister going to work with the Solicitor General to solve this problem as it could involve law enforcement as well?

Thank you.

The Chair: The hon. Minister of Revenue.

Mr. Melchin: Thank you. With respect to the first question we'll get you a written response because I still, once again, missed your reference by the time I got there.

Your second one was with respect to the e-strategy to improve client service. Great progress has been made with this, and it's primarily due to corporate income tax. Most corporations actually are pretty well tied into the web, and in that respect they're driving, wanting the service more than the paper filing. You can still file in the traditional method. It's not to prevent that, though in our transition it'll make it a lot simpler and more efficient for the filers and for us – for compliance purposes, for review of it, for refunds and the like – to process them on a more timely basis. It hasn't yet been finalized, though much of that's already at work now. Much of it's actually being implemented, and much of it's actually functioning for Alberta filers today.

We've got some more work left to complete that, so I'll get you a more detailed plan of the stages of where we're at in response to that question. Our budget does accommodate that as ongoing work. It isn't a new budget item for us, so it's not going to be additional costs other than in the sense that it's part of our ongoing work of continu-

ally trying to upgrade our systems. So that will help improve our efficiencies over time.

The underground economy. I guess that if we really knew how large it was, you would have probably been able to identify it and prevent it long ago. The cost of it no one really knows. We do know this, and that's part of the reason for us having hired even in our last year's budget and through this year to see that we had additional full-time equivalents added to the department so that they could do the compliance work. Your real work is to ensure that it's level and there's a means to make sure that those that are offenders are caught, that there's a fairness approach put to them. They should comply with paying taxes. That's why there are penalties for not having filed.

Our tax systems in Canada are very much voluntary. You know, you might not think of it that way, but our filing is a voluntary compliance methodology. If people all of a sudden come into the province and you're not aware of them and they don't take measures to declare themselves one way or another, it may take you some time before you're aware of both their residence and maybe if they have started a company. But there are many ways that we work with the various departments. You know, we would clearly work with the Solicitor General if there were criminal kinds of activities and charges. When it gets into smuggling types of activities, you work quite a bit with Gaming, with the Alberta Liquor Control Board. A lot of their enforcement in the gaming industry also facilitates their investigation with respect to the tobacco taxes and collection. So it's a constant challenge. Any time you implement a tax, you drive some activity underground, and with the voluntary compliance of filing, that's why you want to improve the efficiencies and the ease of filing and also why you want to ensure that your tax policy is simple, that the rates aren't too high, because the higher the rates, the higher the compliance problems you'll have, the more underground economy you'll create. I can't really give you any great numbers on the size of it. They're all estimates, and they're anybody's guess really.

5:00

The Chair: The hon. Member for Edmonton-Glengarry.

Mr. Bonner: Yes. On page 330 of the business plan, core business 2, Manage and Invest Financial Assets, I'm looking at goal 2.2, "An effective management organization," the first bullet under Key Strategies: "Develop and implement a new governance structure for government endowment funds." If the minister could please inform us: which endowment funds will this plan encompass? Will the new governance structure improve the performance of these funds? When will this new governance structure be in place? As well, how will this new governance structure affect the costs of operating government endowment funds?

The Chair: The hon. minister.

Mr. Melchin: Thank you. With respect to our investment management organization one of the challenges we've had and we've identified with that organization is that we have a variety of different clients with different objectives and purposes, pension funds for example. Upwards of about \$17 billion of the \$35 billion are various pension clients, and they have separate board governance that will define and give policy oversight, investment policy direction to our investment management division. So there's a segregation of that responsibility, clearly, for those.

When we talk about government endowment funds, we are specifically speaking of the Alberta heritage savings trust fund, the medical fund, the science and engineering and scholarship funds, the

ones that are clearly under the purview of the government of Alberta and of this department for investing. What we are looking at doing is ensuring that we've got the right investment policy boards in place for them. In fact, we are creating a committee to strengthen both outside participation and advice to the department to be chaired still by the Minister of Revenue but would include a number of outside professionals in the industry to help provide direction and advice on investment policy decisions so that we separate policy decisions from investment management. So part of that governance, when we then have the investment management division, would be charged with investing according to our investment policy directions, and we separate the two. So that's part of the structure we're talking about, and that will be in place as we implement that over this next year.

We've had good oversight. We're just trying to make sure that we've got the right structures to both empower the separation of policy and investment advice to the management of the funds itself. Then from the management of the funds you need to give sufficient autonomy to that group to be able to react, like any investment organization would, to the latest products that are out there, the sophistication of the research tools they would use, to everything from the systems that they employ, so those budgeting constraints so that they could operate in some respects with a little bit of autonomy but professionally managed with a governance oversight with it.

We have that governance oversight with the Investment Operations Committee already, but we want to improve that so that we've got the appropriate oversight of people, that the appropriate autonomy is given them, the flexibility to respond quickly. Because investment products are changing all the time, and the cost structures might be more or less for some, but if all of a sudden some great investment products come along and they're going to cost a little bit more, you want to be able to have the right governance that allows that flexibility, because the returns that you can yield would be substantially better. You might be prepared to spend a dollar to make multiples of dollars, and that's part of the issue with the governance. We're trying to ensure that we've got the right flexibility, the right professional judgment, and the right board governance with respect to the investment organization.

The Chair: The hon. Member for Edmonton-Glengarry in the three minutes remaining.

Mr. Bonner: Okay. How much time do I have, Mr. Chairman?

The Chair: At 5:10 we'll have to go through the vote and that kind of thing. According to the Standing Orders we must have the report done by 5:15.

Mr. Bonner: Okay. Just a few more questions. Still on page 330 of the business plan, under goal 2.3, "Superior investment returns subject to client-defined objectives and policies," and the second bullet under Key Strategies, "Enhance management of the investment portfolios by implementing new monitoring and analytical tools including improved risk management tools." Just a few questions here for the minister, and then we will put the rest in writing to the minister. Are external managers to be included in this strategy? What types of risk management tools are being considered? My final question on this particular vote is: what monitoring tools are currently used, and what holes exist that need to be improved upon?

If the minister would take further written questions, we would appreciate that.

Mr. Melchin: I'd be happy to supply a written response to this one

to give you an idea of the various tools. It's a continually changing marketplace, very sophisticated investment tools. Some of them are very software oriented. So they're looking at products that are being developed around the world that we will buy and/or tailor to our own investment decisions. It also gets into having the right research component personnel. We've put the portfolio at an increased absolute return strategy, and we don't necessarily have all that expertise inside, so you start finding that with outside fund managers that can bring those risk management tools to you. So it may not all be internally, but you do look where the sources of expertise are for your own people, your own systems, your own research, and your use of other external expertise through other fund managers. We'll provide you with some specifics on that as well.

The Chair: The hon. Member for Edmonton-Ellerslie.

Ms Carlson: If we still have some time, I'd like to put one more question on the record that you could respond to in writing, and that is: how many local capital managers do we have? How many in total? What is your perspective on venture capital in this province? We see that nationally we provide 13 percent of the GDP, that we're 10 percent of the population but only 2 percent of the venture capital available in the country. There are a number of people who think that that focus should change and that we spend some portion of our investment dollars or at least that a direction should be promoted to the small business end of the market. So if you could respond in writing, that would be appreciated.

Mr. Melchin: We'll be happy to get you specific answers. I think one of your questions was on the number of people that we have involved in the department. In our investment management division we have 57.6 full-time equivalents. I don't know who that .6 person is. The securities administration systems division, which is the back office part of it, has 37.5, so 95.1 full-time equivalents involved in our investment management division here.

The other one we'll respond to in writing.

5:10

The Chair: After considering the business plan and proposed estimates for the Department of Revenue for the fiscal year ending March 31, 2004, are you ready for the vote?

Agreed to:

Operating Expense and

Equipment/Inventory Purchases

\$45,373,000

The Chair: Shall the vote be reported? Are you agreed?

Hon. Members: Agreed.

The Chair: Opposed? Carried.

The hon. Deputy Government House Leader, who is more alert than the chair.

Mr. Stevens: I think the next step in this process, Mr. Chair, is that I move that we rise and report.

[Motion carried]

[The Deputy Speaker in the chair]

Mr. Johnson: Mr. Speaker, the Committee of Supply has had under consideration certain resolutions, reports as follows, and requests leave to sit again.

Resolved that a sum not exceeding the following be granted to Her Majesty for the fiscal year ending March 31, 2004, for the following departments.

Main estimates for the fiscal year ending March 31, 2004.

Support to the Legislative Assembly, operating expense, \$36,296,000; office of the Auditor General, operating expense and equipment/inventory purchases, \$17,305,000; office of the Ombudsman, operating expense, \$1,958,000; office of the Chief Electoral Officer, operating expense, \$1,994,000; office of the Ethics Commissioner, operating expense, \$387,000; office of the Information and Privacy Commissioner, operating expense, \$3,293,000.

Revenue: operating expense and equipment/inventory purchases, \$45,373,000.

The Deputy Speaker: Does the Assembly concur in this report?

Hon. Members: Agreed.

The Deputy Speaker: Opposed? So ordered.

The hon. Deputy Government House Leader.

Mr. Stevens: Yes. Mr. Speaker, I move that we call it 5:30 and that we adjourn until 8 o'clock this evening, at which time we reconvene in Committee of Supply.

[Motion carried; the Assembly adjourned at 5:15 p.m.]