

[Chairman: Mr. Oldring]

[2 p.m.]

MR. CHAIRMAN: We'll call the meeting to order if we may. Season's greetings to everyone. I'm sure you're all refreshed after a nice break and anxious to get back to the table and deal with the recommendations in front of us.

Perhaps I can begin by recapping. At this time we have had 18 recommendations that we've been able to conclude the discussion portion on. I'll quickly run down the recommendations that we have dealt with: recommendations 1, 2, 3, 4, 5, 8, 9, 10, 11, 12, 22, 24, 25, 26, 27, 31, 33, and 34. Those are the 18 recommendations that we have discussed to this time.

You will recall that we had also grouped a number of recommendations together for discussion purposes only, and I can go over those again for the members. We discussed recommendation 12 with recommendation 34; recommendation 2 with 9, 22, and 33; recommendations 4 and 5 together; recommendations 13 and 53; recommendations 16 and 45; recommendations 17 and 41; recommendation 18 with 50; and recommendation 23 with 26.

At this time we're up to 68 recommendations, a record number of recommendations brought forward for discussion by this committee. I believe you've all received a copy of those. I've also just received two more recommendations from the Member for Edmonton Kingsway, who would like to read them into the minutes, and we can perhaps do that in just a moment.

We were also hoping to have the Hon. Dick Johnston reappear before this committee at some point before we conclude. He isn't able to make it this afternoon. He's trying to adjust his schedule to accommodate us one day this week, and I'm hoping to have something confirmed sometime tomorrow.

On that note, perhaps we can take a moment to have the new recommendations read into the minutes, and I'll turn the floor over to the Member for Edmonton Kingsway.

MR. McEACHERN: Thank you, Mr. Chairman. We have just two recommendations. They are quite short in words but are quite important and I think will certainly generate quite a lot of

discussion.

Number one: that the debenture obligations of the five Crown corporations — AOC, AGT, AADC, AMHC, and AMFC — be transferred from the trust fund to the General Revenue Fund of the province of Alberta.

Recommendation number two: that the trust fund request repayment of \$150 million of the principal of its debenture held in Vencap Equities Ltd., with a reasonable rate of return thereon, in order that this sum may be used for other purposes.

MR. CHAIRMAN: Any questions for clarification at this time?

MR. GOGO: We're not open for debate yet.

MR. CHAIRMAN: If not, we'll move on to discussion of recommendations. The Member for Pincher Creek-Crowsnest is not with us this afternoon, so again we'll skip over recommendations 6 and 7 and move on to recommendation 13. The Chair recognizes the Member for Calgary Buffalo.

MR. CHUMIR: Thank you, Mr. Chairman. In starting, I'd like to wish the best of the New Year to all members of the committee. It should be an interesting year.

Perhaps I might read recommendation 13 to focus on it.

That all loans to Crown corporations be reviewed in order to ensure that the income of the Heritage Savings Trust Fund is not overstated, and that the Crown corporations be allowed to redeem high-interest debentures purchased from the Fund.

The information basis behind that recommendation is that there is at present almost \$8 billion owing by Alberta Crown corporations to the heritage fund and that interest paid on those debenture amounts by Crown corporations to the heritage fund in the last complete fiscal year was approximately \$960 million, or almost \$1 billion. That constituted approximately two-thirds of the income of the heritage trust fund. At the same time, we find that the Crown corporations that have been making these interest payments to the heritage trust fund have been incurring losses, and the losses have been subsidized to

the tune of approximately \$350 million, from the latest information we have available. As a result, we have a rather circular situation in which interest income is paid from the Crown corporation to the heritage trust fund. This constitutes income of the trust fund. The income of the trust fund is then recycled to the General Revenue Fund, and that money is then used to subsidize and eliminate the deficit of the Crown corporation. As a result, what you have is a rather circular and, I believe, misleading process, one in which the income of the trust fund is distinctly overstated.

When you look at the reason for the overstatement by way of analyzing the debentures held by the trust fund in these corporations, you find that many of the debentures bear extremely high rates of interest. In particular, one might note the Alberta Mortgage and Housing Corporation. The latest annual report we have is for the year 1984-85, ended March 31, 1985. We find in the schedule of debentures payable, schedule 2 on page 26 of that report, that their interest rates are as high as 17 percent for debentures maturing in 1994 and in excess of 16 percent for the years 1991, 1992, and 1993. There are similar high rates pertaining to the Alberta Opportunity Company, for example.

There is a footnote in the financial statement for the last fiscal year of the Alberta Opportunity Company, ended March 31, 1986, namely footnote 6, which states that the company, being the Alberta Opportunity Company,

has been informed by the Province that the holder of the Series B debentures, being the heritage trust fund, will not accept early redemption of the debentures although this is allowed for under the terms of the debentures.

It states that the Company will then maintain the debentures until their maturity at the repayment terms in effect at issue dates and forego any interest rate reductions which may be available through early redemption and concurrent refinancing of the debt.

This is a matter that I raised with the minister with respect to the Alberta Mortgage and Housing Corporation during the hearings, and I'm not yet satisfied that that position does not similarly pertain to that corporation. I've been

trying to get copies of several of the actual debentures and have been having some difficulty and getting a bit of a runaround. If that continues, I'll be bringing a motion before this committee with respect to that.

The long and the short of it is simply that the income of the heritage trust fund is very distinctly being overstated, above and beyond the reality of the earnings of these assets. In light of the concerns that many members of this committee have had with respect to the perceptions of both the members of the public in Alberta and those in other parts of Canada, I believe it's important that we become more realistic as to what the return to the fund actually is.

The purpose of this resolution in its most innocuous form is that the matter be reviewed in order to ensure that the income not be overstated. In a more precise form it proposes that these corporations be allowed to redeem high-interest debentures purchased from the fund with a view to financing them at more current interest rates. I realize that there are some complications that arise as a result of balancing the terms and maturities of the borrowings of these corporations with the time and terms of receipt of loans they in turn have made as part of their operations, but as a general principle I think this would be a matter which would more accurately reflect the true state of affairs and would be more clear for all purposes and certainly in the public interest.

MR. McEACHERN: Number 13 raises two major problems. I agree with many of the things Mr. Chumir has said. I can't help thinking that the first one I read into the record today in a sense deals with the first problem and allows a fairly simple mechanism for dealing with the second. I wonder if we should discuss those two together; that's something I'd ask.

What I recommended was to take out the debenture commitments of those five Crown corporations from the heritage trust fund and put them straight into general revenues. Instead of having a triangle, you'd just have a straight relationship between the General Revenue Fund and the Crown corporations.

MR. CHAIRMAN: I think it would be appropriate to discuss recommendation 69 now with recommendation 13, if it's in agreeance.

MR. GOGO: On that point, Mr. Chairman, my understanding of the way Mr. McEachern read recommendation 69 is that it is obligatory, whereas number 13 says "allowed," which is permissive. I think that's a dramatic change in principle between the two recommendations.

MR. McEACHERN: Obligatory? In what sense?

MR. GOGO: As I recall your reading it, they would redeem, not be allowed to redeem. To me that is obligatory. Is that not accurate?

MR. McEACHERN: No, I don't think that quite applies. You see, once you have taken the . . .

MR. GOGO: Perhaps you could reread recommendation 69, or number 1 I guess you called it.

MR. McEACHERN: Okay. I guess what I'm saying is that number 1 just as itself allows quite a few options of what you do after you do this. I'll read the resolution:

That the debenture obligations of the five Crown corporations (AOC, AGT, AADC, AMHC, AMFC) be transferred from the Alberta Heritage Savings Trust Fund to the General Revenue Fund of the Province of Alberta.

If you did that, the General Revenue Fund wouldn't necessarily have to let AOC write down that loan; they could still do it or not do it. I don't see that it . . .

MR. GOGO: Mr. Chairman, I'm just arguing against discussing 69 along with 13 in that the operative words of that recommendation are "be transferred," which to me is obligatory, whereas 13, on page 3, says "allowed," which to me is permissive. I'm arguing the case that they're distinctly different. One is to allow something to happen and the other is to make it mandatory.

MR. CHAIRMAN: I think the other ones were grouped on the basis of being a similar topic.

MR. McEACHERN: I guess what I was saying was that number 69, I guess I should call it, would make it easy to achieve the two aims I see in number 13. I wonder if Mr. Chumir would like to respond to that.

MR. CHUMIR: I have no objection to discussing them together, but I might note that I think there is a very fundamental difference in the effect of the two resolutions. While they're both directed in a sense at a certain element of unreality of what the return to the trust fund is, the thrust of Mr. McEachern's resolution is to take the amount in issue, the \$7.5 billion, out of the trust fund altogether. It would thereby cease to be an asset of the trust fund.

MR. McEACHERN: That's correct.

MR. CHUMIR: Under the proposal I have, although I have some questions and the Liberal Party has some very serious reservations about the use of the heritage trust fund for purposes of making loans to Crown corporations, our position at this stage is that the integrity of the trust fund as a trust fund should be maintained, subject to review and clarification in the next year or two as to what's happening with our economy. We would maintain this as part of the assets of the trust fund but try and do so in a more realistic manner. Mr. McEachern's thrust is to say that these will no longer form a part of the trust fund or a separate nest egg.

MR. CHAIRMAN: In that we've had some good debate on recommendations 13 and 69 already, is it in agreeance with the committee that we group the two? I'll just ask for a show of hands for concurrence or nonconcurrence at this time. Concur? Nonconcurrence? Okay, they're both on discussion.

I'll now recognize the Member for Chinook followed by the members for Calgary Mountain View and Edmonton Kingsway.

MR. HAWKESWORTH: I simply wanted to comment about . . .

MR. CHAIRMAN: Okay. The Member for Chinook.

MR. GOGO: Do you still have me there? I wanted to ask . . .

MR. CHAIRMAN: Yes; sorry. The Member for Lethbridge West.

MR. GOGO: Thanks, Chairman. Mr. Chumir made a statement about the losses of Crown corporations. Could you specify which ones

you're talking about?

MR. CHUMIR: Yes, I can. The primary loss is that of the Alberta Mortgage and Housing Corporation. One of our problems in quantifying that at the present time is the absence of the annual report for the year ended March 31, 1985, which is the subject of another comment. For example, page 20, the statement of revenues and expenditures, shows for the 1984 fiscal year a contribution by the province of Alberta of \$308,977,000 in respect of the loss of the Alberta Mortgage and Housing Corporation. For the period ended March 31, 1985, the contribution was \$185,966,000. There were commensurate losses of differing magnitudes, certainly much less, in the Alberta Opportunity Company and also in the Alberta Agricultural Development Corporation. I believe those were the only loss entities. The Alberta Municipal Financing Corporation and AGT did not incur losses.

MR. GOGO: Then in principle you object to AOC as a lender of last resort not functioning at a profit?

MR. CHUMIR: No, that's not the fundamental thing. It's that if it doesn't operate at a profit, that should be very clearly reflected in all aspects of any involvement of the province with it. The problem is that one element of the pyramid, that being the Alberta heritage trust fund, is reflected as having income from the Alberta Opportunity Company as a result of interest payments, and in fact that Alberta Opportunity Company doesn't have any income. We're forced to say that there is income on one side. Then you have a loss on the other side, and you circle the money around and you pay it off. So whenever anybody looks at the Alberta heritage trust fund in isolation, it appears to have much more income than it does. It's almost as if an individual had two separate sets of accounts and said, "I have income on one side and loss on the other." It just makes no sense.

MR. GOGO: I just thought it was standard banking practice.

Thank you, Mr. Chairman.

MR. KROEGER: Mr. Chairman, I am curious about Mr. Chumir's number 13. It almost calls

into question, I suppose, the philosophy of Crown corporations. Should they or should they not exist? They should exist, apparently, if they make money, but if they don't, then something else has to be done.

Keeping in mind that when the lending process was developed in 1976, the borrowers were to be treated, I suppose, in a similar way. That relates to the ability to redeem the high interest ones. The provinces would love that. Manitoba I'm sure would like to get out of their 18.25 percent, 25-year borrowing. The only thing that could justify the redemption thing as far as I see would be if there was an excessive cost to the transfer of the numbers back and forth. I don't know if that would pass, but to keep this thing on track, it seems to me that we have to have a formula such as we started with, and I see no real advantage in changing that, other than maybe the cost of the mechanics of writing the numbers down.

MR. CHUMIR: In response to that, while there are some very interesting and difficult questions with respect to the role of Crown corporations in the community...

MR. KROEGER: That's really the larger question.

MR. CHUMIR: Yes. This recommendation is not directed in any way to challenge that. It is simply related to how we account for the income and expenditures of that Crown corporation. In dealing with the province of Manitoba, you're dealing with an arm's-length entity. Presumably there is no right of early payment, and one wouldn't accept a right of early payment. However, in this instance there is apparently a right of early payment which is not being allowed to be realized, and the result of this is a misrepresentation of what our true accounts are.

There was a reference to excessive cost. It's true that there may not be an extreme cost of doing the accounting for it in terms of dollars and cents. But it seems to me and I would make the submission that there is always a cost to the community when we don't look at something realistically. I think we owe ourselves as a community and the taxpayers to be as open and straightforward as we possibly can in terms of what the realities of the situation are.

This particular development or the manner in

which these accounts take place is probably news to most members of this committee, including many who have been sitting on the heritage trust fund committee and in the Legislature for some period of years. If that's the case, that it's news to this group, it certainly has to be very misleading and problematic to a member of the public who sees \$960 million and some in interest being paid by these corporations to the heritage trust fund yet finds there are \$350 million in losses, that the net really is closer to \$600 million. So my submission is that we should really be paying \$600 million in interest from the Crown corporations, because that's all they realistically would be making, rather than paying the \$960 million.

MR. KROEGER: What would have happened with these Crown corporations if there hadn't been a heritage trust fund and Crown corporations had done their borrowing on the market? They'd be locked in. What would you do differently then?

MR. CHUMIR: That would be an obligation to a third party. If you were unable to pay, the third party would have to foreclose or take advantage of any guarantees. That would be the Manitoba situation. Things are different when you're dealing arm's length, but when you're dealing with yourself, when the left hand is dealing with the right hand, you have the capacity to deal with things in a straightforward manner. We have chosen, for whatever reason, to deal with things in a manner that is not realistic. It is misleading. I don't see any real advantage to it. I'd be very interested if any member of this committee can see any advantage to the province, the people, or the heritage fund in doing it in this manner rather than . . .

MR. KROEGER: First of all, Mr. Chairman, when the structure was set up, I don't think anybody had any way of knowing what interest rates were going to be down the road. Secondly, I don't think there has ever been any attempt to mislead. The results may be that some people don't understand it very well, but there was no notion of misleading anybody.

Then you can take a look at the value of the heritage trust fund itself. That comes into question on another resolution. Should there be a heritage trust fund? In the past the heritage

trust fund gave us an advantage in money markets worldwide. If we change this thing around now to satisfy your notion, for instance, what would that do to the credit rating in the larger scene? Those are questions I'd like answers for.

MR. CHAIRMAN: Before I recognize the Member for Edmonton Kingsway, perhaps I should remind members that we'd already actually grouped 13 with 53, and now we've added 69. So on the table for discussion are recommendations 13, 53, and 69.

MR. McEACHERN: I'll just have a quick glance at 53, if I may.

MR. CHAIRMAN: You might want at this time to speak to both 53 and 69.

MR. McEACHERN: Fifty-three more closely resembles the second part of number 13, so that is very appropriate. I think I would like to go straight to 69, because if we deal with it and decide to recommend it, it would allow the kinds of solutions that are somewhat hinted at. Although I recognize that in a way my friend Mr. Chumir is not recommending quite the same thing I am, what I'm recommending does in fact take care of the problem he's talking about.

The first problem he raises is one of accounting accuracy. I don't think there's very much doubt that he's on exactly the right wicket there. A couple of sort of summary kinds of points to add to what he's been saying: the \$4.5 billion debenture value in the heritage trust fund of AOC, AADC, and AMHC is probably only worth half that, maybe 60 percent of it. In question periods with both the Premier and the Treasurer and with the Auditor General I kindly suggested maybe two-thirds value, but I've talked to other people since who think half would be more appropriate. We are obviously kidding ourselves that at least those three out of the five are bringing in that kind of money.

I'd like to point out also that in those discussions the Premier did indicate that he has some qualms about the idea of funding Crown corporations out of the heritage trust fund, that it would not bother him to have Crown corporations borrowing their funds elsewhere. I'm not trying to deal with or settle that issue at this time. I think that's something else that can be decided later. But it would make it

easier to make that kind of decision if you had the obligations that the Crown corporations presently have to the heritage trust fund -- if instead of having that third party in the triangle we have between the Crown corporations, the General Revenue Fund, and the heritage trust fund, you just eliminated that third connection and said, "Let's face it; the Crown corporations are responsible to the General Revenue Fund and to the Legislature of Alberta." That would make it easier to write them down to their proper value, because it would be a one-on-one sort of relationship. It would make it easier for them to let them pay off at the lower rate, because nobody would be trying to say, "Here is this fund which is worth so much and is earning 14 or 15 percent," when in fact to maintain that fiction you have to dish the money out of your left pocket to make it true. In a sense it is true: the debentures are worth 14 or 15 percent. But we have a \$2.5 billion or \$3 billion or \$4 billion deficit to make part of it true. So that doesn't really seem to make a lot of sense to me.

While I'm on that point, I hear an expression being used more and more by people here and even outside: "integrity of the fund." I think this resolution would deal with the problem that's trying to box us into. It's a straitjacket. If we really believe we have to somehow say that this document which was put out is true and accurate and a correct reflection of the finances of the province of Alberta and that we can't somehow tamper with that, how can we use that fund as a rainy day fund? We could say, "Okay, we're not going to put more money into it, and we are going to take the interest out of it." But if we say that we have to cap it at exactly that value and not touch it in any way, shape, or form, we're really putting a straitjacket on the Legislature of Alberta in terms of how it's going to deal with the deficit situation.

We've been saving this money for 10 years, and like any good financial manager you should consider all your options. You shouldn't put a straitjacket on yourself before you start. So if we say that the integrity of the fund must be maintained, if we let that expression gain currency just because it's a nice political thing to tell the people of Alberta -- it's a nice comforting thing to tell them that we have \$15.1 billion sitting in that fund. It's very comforting and very nice to know, but people

out there are saying: "How come I don't see any of it? How come it's raining and nobody's helping us and so on?" Why put a straitjacket on ourselves in that sense, particularly when you consider the view people in other parts of the country get? People in Ontario don't want to help us right now with the oil problems we have.

I'm not trying to suggest a solution to those problems or how it would be used by my resolution. In a sense I'm just freeing up the right of the cabinet and then the Legislature of Alberta to deal with those things in a more flexible manner. They might or might not decide to take the AGT debentures and gradually over a period of time let them be paid into the General Revenue Fund instead of the heritage trust fund -- that's what I would maintain -- and let them borrow to some extent on the money markets, be they local or international. They would have that flexibility. Certainly in the meantime it would be very easy to deal with this accounting accuracy problem and write those other three down to the real value they have.

So that flexibility could be passed on to the cabinet and the Legislature by this resolution. It is, after all, the responsibility of the House to deal with issues of expenditures, fiscal policies in Alberta. When that money is being spent within Alberta, it doesn't really need to be considered part of a separate fund that sits out there and is somehow different and is not to be dealt with by the Legislature. A lot of those Crown corporations are very valuable social programs, particularly the three that are losing money. I'm in no way saying that they should be disbanded, cut off, or anything like that. The Alberta Mortgage and Housing Corporation, the Agricultural Development Corporation, and AOC are programs that to some extent make sense. We've had some criticisms of some aspects of them, but we've never said to cancel them altogether or anything like that. So I'm not trying to pass judgment on them, but I am saying that they should at least be fairly accounted for. Right now we keep putting in money out of the General Revenue Fund so they can maintain this 14 or 15 percent transfer into the heritage trust fund that does not really make a lot of sense.

I would argue that if we accept and pass resolution 69 to the Treasurer, he and the Premier might actually be quite relieved to find

that they have more flexibility in dealing with our deficit in the future and do not have their hands tied by somehow having to maintain the integrity of the fund, saying: "We can't touch that. We have to carry on as if it were not raining and as if that fund has to be \$15.1 billion." That would be my argument. At the same time, it would take care of 13 and 53 easily enough.

MR. HERON: Mr. Chairman, in looking at motion 53, I would like to say at the outset that I do not have a problem with the recommendation contained therein, if in fact there is a right of prepayment written into the debt instrument. I would say that it would be a matter of negotiation between the Provincial Treasurer and the management and board of directors of AOC. If they deemed that that would be a prudent and wise financial move and that AOC had access to alternative sources of capital, I wouldn't have a problem with seeing the recommendation to renegotiate the debt go through.

I do have some question about Mr. Chumir's recommendation, and it's much along the lines Mr. Kroeger has already pointed out. He called into question the authenticity of these reports, making a case that the higher rates somehow bring them into question. I have a problem when you set up an arm's-length deal contractually and sometime later want to back up and rewrite the deal. In my mind I don't treat an arm's-length transaction with a Crown corporation any differently from the debts to Manitoba and the other provinces. To me it's a contractual obligation, and it's to be met in good faith.

In these very few years we have looked at mortgage rates on NHA mortgages that went from 7 percent in the late '60s to 9.5 percent, back to 7.5 percent, and up to 22 percent. In looking at recommendations 13 and 69, if we were sitting here five years from now with interest rates as high, I'm wondering if we would be saying, "Let's reverse those low interest rates we negotiated, because the heritage fund is now earning less money." I think we have to stand back and say that that was a pretty good management move in that it eliminated the transaction fees of going to a third party. Clearly, we wouldn't have the option of even discussing it if our contracts had been written with New York bankers; by that I

mean if our Crown corporations had gone out and negotiated with and borrowed that money from New York bankers on the New York market.

MR. GOGO: Like other people do.

MR. HERON: Like other corporations do. Clearly, the heritage fund wouldn't have the option of considering rewriting it if we had gone out and invested in 20-year government maturities. So, really, I find very, very little validity in trying to put forth the recommendations contained, for example, in motion 69, Mr. Chairman.

MR. HAWKESWORTH: I'm just going to make one observation in terms of recommendation 53. As far as the original debentures are concerned, there was an option included that early redemption could be allowed under the terms of those debentures. So 53 would simply allow the Alberta Opportunity Company to exercise an option that has already been written in.

MR. McEACHERN: I said that I supported that.

MR. HAWKESWORTH: Yes, and I want to highlight that. I appreciate Mr. Heron's comments that he agreed to and supported that.

MR. CHAIRMAN: Thank you. Any further discussion then on recommendations 13, 53, or 69?

MR. KROEGER: Mr. Chairman, I would just like to make one more comment. Let's use AOC as an example. It may fit across the board to a degree. I suppose it wouldn't have been hard to make AOC a money-maker if the terms of reference or the basis for lending money had been tightened up. The object of AOC and the Ag Development Corporation was to lend money where the banks wouldn't go, first of all, to make it possible to make the system work. And it was working until the interest rates started to drop dramatically; then the imbalance started to surface.

If somebody had borrowed money -- I had the personal experience of a constituent borrowing at 22 percent. When the interest rate dropped to 16.5, he wanted me to intercede on his behalf. I did that, and it was reduced to 16.5.

But when it dropped to 12, he wanted me to intercede again, and I said: "No damned way. I've had one shot at this thing; you couldn't have renegotiated that under any other terms."

Mr. McEachern, you mentioned that these corporations have had an impact, presumably in a positive way, to make money available to farmers and small businesses that they otherwise could not have qualified for. Presumably that was a useful thing to do. So we have to keep that in mind. But it wouldn't have been hard for either ADC or AOC to make money had we wanted to toughen up. I remember the discussions we had about that in cabinet at that time. Bill, you may recall it. The comment was: "You guys are still playing too tough a game with AOC and ADC; you're just coming down too hard on these people. You'd better loosen up and dip a little deeper into that gray area to help more people." That was the object of it.

MR. McEACHERN: I didn't put that in to get into a discussion of the basic Crown corporations and how they're operating but rather how we do the overall budgeting of the province. When we're propping those up from our left pocket into our right, dealing with ourselves, it really doesn't make any sense for us to kid ourselves as to what we're worth. Nor does it make any sense to tie our own hands in handling the fundamental problem of the economy, which is a deficit situation now. So to say that we must maintain the integrity of the whole fund in some kind of global sense, that we can't touch that now, doesn't make any sense either. Hence my resolution was not really to try to deal with the details of how those Crown corporations operate but so that we know in a global sense where we are and where we're going and to put as much of the responsibility for fiscal policy as possible back into the cabinet and the Legislature rather than in the heritage trust fund.

MR. KROEGER: Mr. Chairman, if I may, I just want to comment. That's about the fourth time I've heard Mr. McEachern say that the fund is there and that we have to maintain the integrity and can't touch it. You can't say that, because the reason we can borrow money at the lower rates is that the fund exists and consequently we're using it as collateral. It is being touched.

MR. McEACHERN: It has some advantages.

MR. KROEGER: It has a lot of advantages. You try and borrow money on the market without that and you're playing a totally different game. So the fund is doing something even though you don't take a piece of it out. It's still being used for the benefit of the people of the province.

That's four times as much as I've talked through this whole thing.

MR. PAYNE: But nobody's counting.

MR. HYLAND: The one thing that concerns me about the three resolutions is the fact that it may be okay now, when values and interest rates are going down, but does that leave us open for — you know, I've had lots of people who had ADC loans and AOC loans talk to me about lowering their interest rate, renegotiating it. But I'll tell you for damn sure that when it was going from 10 to 12 to 16 to 18, the guy who had the 10 percent loan didn't come to me and say, "Alan, can you get me to appear before AOC so I can get my interest rate raised?" If this is passed and we do that and reduce it, I'm wondering how that's going to affect if they take off again. What protection have we got for those people who have an interest rate? Are we going to end up renegotiating them if the interest rates ever go up? Maybe they won't. Maybe they'll stay stable. But I'm concerned that if they ever start climbing like they did before, if we do something on the downward swing, as good as it may be, what's going to happen if it ever takes off again?

I think the only one on the list that you can take out is AGT, because with Alberta Municipal Financing Corporation the interest is covered at — what now? — 9 or 10 percent. So it's no different than the rest, except we know what the limit is on it.

MR. McEACHERN: Except that last year we got 14 or 15 percent on it. For the last three years we did.

MR. R. SPEAKER: Mr. Chairman, I understand the arguments that are coming forward from Mr. Chumir and also the suggestions of the ND Party. As I looked at the fund over the years, the first question was the matter of integrity of the fund. My definition of integrity of the fund

was that we would have these assets available to us on an ongoing basis. When there was repayment of debentures, we'd have these funds to reallocate to certain investments. You maintain that block of money outside the capital investment division.

In terms of that, I'd have to say it's just unfair to call that part of the Heritage Savings Trust Fund that we have available to reinvest, because we don't. As I look at it, as legislators over the years we spent Heritage Savings Trust Fund money on assets of the province, and they should be classed just like a hospital or public building and put into the General Revenue Fund. It's really just misinformation to the public that it's money available to help the public through some difficult period or to reinvest for them, because we can't reinvest it. It's gone; it's spent.

To me the debentures in the Crown corporations that we're talking about are really an asset of the fund. If I could stay in this Legislature long enough, or if all of us could, the money would come back to us and we would be able to allocate it again. As long as we can do that, we're maintaining that base of integrity of the fund. We've got that to reinvest. So now to take it, as suggested, and all of a sudden give that bulk of some — what is it? — \$7.5 billion to the General Revenue Fund, we give all of us 85 legislators the responsibility to handle that.

MR. McEACHERN: What the heck do you think we were elected for?

MR. R. SPEAKER: Okay. All right.

MR. McEACHERN: Good God.

MR. R. SPEAKER: That's fine; we are elected to look after it. But the heritage fund was put together to be used for some special assignments and special purposes. If we just add it to that General Revenue Fund as a sort of asset and the General Revenue Fund gets the debenture amounts returned to it, I can see that bolstering up the budget, but it doesn't do much for the integrity of budgeting in the province, as I see it. I think it's better to keep that money out of the general revenue, keep the pressure on government and legislators to take the responsibility within the funds that have been and will be allotted to them in terms of general revenue, instead of now trying to push

these debenture funds into the general revenue of the province and trying to bolster the general revenue expenditure pattern through that mechanism.

MR. GOGO: To put it in GRF, you make yourself a member of the investment committee, and maybe that's what some members want.

MR. R. SPEAKER: That's right. Maybe I'm not clear on the thing, but I think we would be making a mistake by moving the debentures into the general revenue responsibility at this point in time. It was an allocation to the Heritage Savings Trust Fund. We can get the money back and reassign the money to new responsibilities. That's what I expect the fund was put in place for.

MR. McEACHERN: First, I find it most extraordinary that Members of the Legislative Assembly don't trust the Members of the Legislative Assembly.

MR. R. SPEAKER: No, that's not true. That's not what I'm talking about.

MR. McEACHERN: Well, that's what you're saying. You're saying that you don't want this money to be handled as part of the budget of the province, and that was our basic objection to the heritage trust fund in the first place. You were taking money, setting it aside, and saying that the cabinet would decide what to do with it, but they will not even take their decisions back to the Legislature to be decided. "We'll set up a committee of 15 people and let them decide whether it's a good or bad idea": that's basically wrong. We have 83 members there, and why should we have any more say about how the heritage trust fund is handled than anybody else. Of course, the fact of the matter is we don't. It's basically the cabinet, and it's the same people.

I guess all I'm really arguing when I say to move that debenture money from the heritage trust fund to the General Revenue Fund is that that would give the Premier and the Treasurer much more flexibility in how they approach the future. They wouldn't have to blow them. There's nothing in that resolution that says they've got to fritter it away in any way, shape, or form, or that they've got to cash in one

debenture. It's still the same group of people in the cabinet that's going to make the initial decision. The debate about those decisions would shift, I agree, to the Legislature. Would it be so wrong that this committee might find it didn't have an awful lot to do, that the debate was in the Legislature instead of here? Surely that would be much more democratic.

The Premier himself has stated that he doesn't really see that Crown corporations need to be under a special fund. For instance, he said that Ontario Hydro had something like \$25 billion stacked up. Does Ontario go around bragging that they've got a \$25 billion heritage trust fund and therefore don't need any help from the federal government or that they don't need any help with their oil industry? Of course they don't have an oil industry, but you know what I mean.

When we say that we've got a \$15 billion heritage trust fund, people are saying, "Spend that first." We don't have a \$15 billion heritage trust fund. We have \$2.4 billion that's already spent. We have \$7.5 billion that is in Crown corporations, and maybe it makes sense to leave it in those Crown corporations. The resolution I'm putting forward does not say to take it out, but it does allow us to at least account for it accurately instead of kidding ourselves that those three Crown corporations that are losing money add up to \$4.5 billion instead of \$2.5 billion or \$3 billion maximum. They aren't really worth that much.

It would be much easier to be honest with ourselves and with Albertans as to what we're really worth, and it would be a lot easier for the cabinet, the Treasurer, and the Premier to look at — for instance, if some of the debentures come due and they can turn around and reinvest that money in something else at a good rate and at the same time borrow money for the budget and it pays to do that, then they can do that. On the other hand, if they can't, they might just as well use some of it against the deficit. Any ordinary, prudent householder would do the same thing, so why shouldn't the province of Alberta? Why should we maintain the integrity of the heritage trust fund in some kind of sense that it's got to be the shining star that we hold out there and get everybody to elect us because, "Look, we've got this heritage trust fund"? We've been doing that and kidding ourselves for years. Why don't we get some honesty in it and tell it like it's at? Take that

out of there. Put it back into general revenues where it belongs.

MR. GOGO: Geez you're cynical.

MR. McEACHERN: It's not me who's cynical.

MR. GOGO: Wait for the election.

MR. R. SPEAKER: I just want to add, Mr. Chairman . . .

MR. CHAIRMAN: On that point.

MR. R. SPEAKER: . . . that there are two steps in terms of its integrity. One, as I said, is keeping the funds we have there to be reassigned as necessary. The second step to that suggestion is that — we've said this many times in the Legislature; I've said it over and over again — the broad Legislature should have the right to make the decision on the reassignment of those funds and be more involved in it rather than the cabinet. That brings the Legislature into determining the future of those funds. I have no argument with that principle.

I disagree with the present way it's being distributed — no question of it — where 88 percent of the heritage fund is decided by the former Premier and cabinet.

MR. GOGO: But that's another issue.

MR. R. SPEAKER: That's another issue. I wasn't arguing that one. I was arguing the first one: the fact that as a Legislature we made a decision to put some funds aside for special assignments. We shouldn't erode that, nor should we bail out these welfare children called AOC, ADC, and AMHC. They're welfare children of the General Revenue Fund, not of the Heritage Savings Trust Fund, and we shouldn't be bailing them out by taking away from our part.

MR. CHUMIR: The magic of the moment has passed for what I had intended to say, but I just might say in response to the comments and suggestions of Mr. McEachern that really if these debenture loans remain with the heritage trust fund, they can still be used for whatever purposes. Presumably the implications of Mr. McEachern are that they're going to be used for

expenditure; we're going to spend them. If that is the wisdom of the Legislature, they can still be utilized from that even though they're in the heritage trust fund. The benefit of their being in the heritage trust fund is that any use of that is more visible and certainly is noted as a deviation from what public policy has been in the past. That makes it more visible. I'm all in favour of the realities of things being more visible to the public, and that's one of the problems we're confronting here. I would think that we would be removing that visibility if we kind of moved in the direction that you have been suggesting.

MR. McEACHERN: How about the integrity of the accounting process?

MR. CHUMIR: I'm suggesting that we address the integrity in this manner. This would not be perfect. There are other ways of doing it, but this addresses that issue.

MR. CHAIRMAN: Any further discussion on recommendations 13, 53, or 69?

MR. GOGO: I've just got to put in, Chairman, with regard to 69, that to me part of it is somewhat of an overt move to become a member of the investment committee. I don't agree with that at all.

MR. McEACHERN: One of 83.

MR. GOGO: That's a debate for another time and another place. Although the three are hooked together, most of the discussion in the last few minutes has really just been related to 69, and that's to see the elimination of the investment committee, which is now within cabinet, to the Legislature, which is a totally different issue. I'm not saying that I necessarily disagree with that, but I think it's an overt move to get it transferred.

MR. HAWKESWORTH: The only point of Mr. McEachern's that I want to echo is that to some extent I think this fund is becoming a political liability to the province in terms of convincing the rest of the country that Alberta and Albertans are going through a very difficult economic situation. The rest of Canadians say: "What are you complaining about? You've got this \$15 billion trust fund, and it's growing.

It's sitting there making all this money for you people out there in Alberta. What are you crying about?" The reality is that every province in Canada has a housing corporation. Just about every province in Canada has some sort of utility corporation, usually electrical not telephones. I'm sure other provinces have agricultural development corporations. How do they treat them? They don't call them a heritage savings trust fund the way we do.

To a certain extent I think the fact that we've put them under the umbrella of the Heritage Savings Trust Fund is starting to become a political liability in the sense of having the rest of the country take seriously the problems facing Alberta at this present time. That is one point I want to underscore as far as the resolution made by the Member for Edmonton Kingsway

MR. CHAIRMAN: There being no further discussion, we'll move on to recommendation 14.

MR. CHUMIR: Mr. Chairman, the recommendation reads:

That the conflict-of-interest guidelines for all government appointees to Alberta Heritage Savings Trust Fund boards, agencies and Crown corporations be reviewed to ensure that no conflicts of interest are allowed to exist.

As has been noted a number of times, the members of the Liberal Party are concerned with the absence of any significant conflict-of-interest guidelines governing the people who are involved in the legislative process, whether it be cabinet ministers or those who are members of the public or otherwise who sit on government boards. This particular resolution is directed to the latter circumstance, that of government boards, and of course we've been here as members of the heritage trust fund committee having a mandate to deal with the heritage trust fund. This resolution is directed to that element of conflict of interest that relates to entities dealing with the trust fund. But our concern certainly is conflict of interest in its more global sense and the feeling that it's very important from the point of view of the integrity of the public process and the perception of the political process by members of the public that there be firm and clear guidelines both from the point of view, as I

noted, of the respect by members of the public for those in the process and also from the point of view of being as clear and fair as you possibly can to people who are involved in government as to what is and what is not appropriate.

We, of course, had the one situation that I'm sure all members of the committee recall, in which I raised some concern about a conflict of interest arising out of the fact that three members of the board of directors of the Alberta Microelectronic Centre had an economic interest through another company in an entity which was being funded by the Alberta heritage trust fund and the province of Alberta. It seemed to me that this conflict was to some extent recognized at that time. There are suggestions that there were disclosures of interest made to the board and abstention from voting and so on.

Nevertheless, what arises from this thing is that there is no guideline to deal with this; we're left to float. I believe most other provinces do have firm guidelines, and I think it would be in our interest to set in motion and support the establishment of guidelines. This is not to specify exactly what they should be. This is a matter for some in-depth debate and discussion. It's a very difficult area, but the present situation where there is an almost total absence -- it's a vacuum that we're dealing with; it's just not satisfactory. It's as if we're dealing in a different age in which conflict of interest is not perceived to be important. When we read in the newspapers these days about matters that have arisen in relation to one of the cabinet ministers in the federal government, I think we can see just how important this matter is perceived to be, and it's as if we have our head in the sand. So in any event, the purpose of this resolution is to get our heads out of the sand and start to look at it.

MR. HYLAND: Mr. Chairman, I understand what the member is trying to do, but as far as the wording of this recommendation, I think it's out of order to the extent that it says -- and perhaps we should look at changing it slightly -- "appointees to Alberta Heritage Savings Trust Fund boards, agencies ...". The Alberta heritage trust fund doesn't have any boards or agencies. I just want to make it plain that you probably should take out "Alberta Heritage

Savings Trust Fund." I know what he's after. He's suggesting that there should be conflict-of-interest guidelines for those Crown corporations or boards borrowing from the trust fund. I think that rather than ...

MR. CHUMIR: I have, in fact, already -- I would like to conceive of that as a typo, and as I wave my copy around, you'll see chicken scratch marks through that. I have in fact done an amendment. Perhaps I might suggest for the record that the words "Alberta Heritage Savings Trust Fund," where they presently appear, be stricken and that after the words "Crown corporations" the words "receiving money from the Alberta Heritage Savings Trust Fund" be inserted so that it would then read:

That the conflict-of-interest guidelines for all government appointees to boards, agencies and Crown corporations receiving money from the Alberta Heritage Savings Trust Fund be reviewed to ensure that no conflicts of interest are allowed to exist.

MR. HYLAND: Would it be better to say "receiving loans"? When you say "money," it indicates it doesn't have to be paid back. "Loans" would indicate that it has to be paid back.

MR. CHUMIR: Sure, "money" or "loans." I'm subject to hypnotic suggestion.

MR. GOGO: Mr. Chairman, at first blush I'm very supportive of that recommendation. I'm trying to get clear in my mind some concrete examples. I recall that Mayor Purves of Edmonton had an interest in a company that supplied parking to the city of Edmonton. That was reviewed and accepted, and that was all right. If Mr. Geddes owned property adjacent to the heritage medical foundation and leased that space to our \$300 million organization, would that be a conflict of interest? The one thing I wouldn't want to see is some type of witch-hunt. Maybe that's what you mean by "guidelines." If I were to be a member of the Alberta Housing Corporation, prior to its changing its name, and it was trying to supply housing needs for Alberta and it did a survey in Fort McMurray, surely it wouldn't be right for me as a member appointed to that corporation to go up and option land three, six, or nine months before. I'm not so sure; I don't know

whether that was done or not, but in the absence of guidelines, I can certainly see that happening. That's really no different from what we're talking about here in terms of the principle.

So I'm supportive of the recommendation. I have some difficulty rationalizing in my mind how we would word guidelines; I guess that's my problem. The last thing we would want is to preclude any Albertan who is prepared to serve and has the ability to serve from serving based on some crazy set of guidelines that you have to take an oath of perpetual poverty in order to serve. Surely that's not the intent.

MR. CHUMIR: I appreciate the sentiments of general support which have been expressed by both Mr. Hyland and Mr. Gogo. As I mentioned, I think the detail of the guidelines has to be worked through very carefully, but they have been implemented and are in place in most jurisdictions in the country and in North America. Indeed, we stand out by way of exception in relation to the paucity of them. So I agree it's important. We need a balance in them, and I'm not proposing any particular set. I think they have to be reasonable to take into account the interest of attracting good people to public service and yet at the same time protecting the integrity of the process. I think that's probably what everyone has said so far.

MR. HYLAND: Mr. Chairman, I think a good example is the guidelines drafted by the municipal districts and counties in AUMA. It's different in a city, where people can get involved in politics, than in a small town or county or something. For example, when you're the only hardware store in town, the town has to have light bulbs. Where do they buy them? With the old guidelines, with no flexibility, you could be tossed out. Thus you get a lot of businessmen in small areas that don't run for fear of a conflict. I recall a question about one of the aldermen in the Hat. He was successful, but he used to have an interest in a paving outfit that was turned over to his sons. There was the question: should he be voting? He didn't vote on it, but that thing was brought up. It's easy to say "guidelines," but we have to be careful. We start precluding good people, as we've all said, from holding these positions.

In some cases -- let's take electronics, an area where things are new. It may not be right

that it happens, but people who are involved are sometimes the only people who have any expertise or knowledge in that area. If we try to keep on doing new things to diversify, you're right; we're going to run into it.

MR. McEACHERN: Just very quickly, I don't think it's the time here to get into the details of it, but I do think it's important that we not avoid the issue and that the government of Alberta be prepared to come up with some guidelines and to debate and pass them in the Legislature. However difficult it might be, that's the time to do the agonizing. I think the basic principle is a sound one, that we should have some so we would know where we stand. So I would suggest that we move on to the next resolution.

MR. BRADLEY: I was going to raise something in regard to appointments, but the Member for Cypress-Redcliff raised it in the sense of the way the microelectronics industry is in its infancy in the province. It's my understanding that the positions of the individuals involved were well known. There are very few people in the province who have the expertise to provide that sort of guidance to the Microelectronic Centre, particularly in terms of the gentleman from the university. It was felt appropriate that that person serve, and the people on the board felt that his expertise could not be found elsewhere in terms of the advice he could provide. If there is a potential conflict and it's declared and the person does not participate in the decision that's made -- I think we've been well served in the province by the people who have served on a number of boards and agencies or committees of this nature.

MR. CHAIRMAN: Recognizing that the Member for Cypress-Redcliff is here, perhaps we can move on to your recommendation 6 to start with.

MR. GOGO: Pincher Creek.

MR. HYLAND: You said Cypress.

MR. CHAIRMAN: I'm sorry; the Member for Pincher Creek-Crowsnest.

MR. BRADLEY: Where are we at?

MR. CHAIRMAN: Recommendation 6 is on the table at this time.

MR. BRADLEY: I'm sorry; I didn't realize you were coming back to me this quickly. You're dealing with number 6. Has 5 been dealt with?

MR. CHAIRMAN: Yes.

MR. BRADLEY: In my absence? At least in those I have, unless the list has been revised, that was the first recommendation.

MR. CHUMIR: That's the one that's a repeat of another.

MR. McEACHERN: Five and 44 go together?

MR. HYLAND: That's why I think it was dealt with when Fred was away, wasn't it, Mr. Chairman?

MR. CHAIRMAN: I'll check. Perhaps while we're debating number 6, I'll double-check that.

MR. BRADLEY: I did want to make some representation on that.

With regard to number 6, basically my view in terms of the future direction of the fund is that when the large debentures under the Canada investment division or the Alberta investment division become due, the objective of the fund should then be to reinvest those capital funds to gain the highest rate of return for the Alberta Heritage Savings Trust Fund. That's the general sentiment I would like to put forward in terms of the thrust of the recommendation. I think it would ensure that we continue to maintain the integrity of the fund, continue to have a high rate of return in terms of the earnings we would get from the capital of the fund, if in fact my number 5 has been passed, because I don't know what the disposition of that was.

MR. HYLAND: Nothing has been voted on.

MR. CHAIRMAN: Any other further discussion?

MR. McEACHERN: The Member for Pincher Creek-Crowsnest put forward an interesting sentiment. It probably makes a certain amount of sense for the Canada division, but I'm not

sure it works supposedly for the Alberta division as well. Where will we get money, in terms of the fund, to carry on with some of the capital projects that are going ahead and that are not particularly earning projects? Even for the Crown corporations which are losing money, it would mean you couldn't turn around and reinvest it in them. So it does have some problems.

Certainly it's a worthwhile aim for the commercial division and the short-term loan and security division, but I'm not sure it makes a lot of sense for the Crown corporations division. The Alberta division is basically the Crown corporations. With \$8.2 billion in total, \$7.5 billion is in those Crown corporations. So I do have some problem with the second half of that. The Canada division, okay. If you get money back from Manitoba or Quebec because of a loan you made to them five years ago, sure, reinvest the money at whatever best rate you can, but it does limit the options in terms of carrying on with projects in the capital division and relending money to those Crown corporations. Perhaps that's what he intended. I guess we should know if that's the case.

MR. BRADLEY: Right now there is an upper limit of 20 percent on the capital projects division.

MR. McEACHERN: There's a suggestion that we take it to 25, and there are some expenditures planned.

MR. BRADLEY: You could do that. You'd then have those other divisions left at 75 percent of the fund. I would say that the objective of the capital that comes back into the fund from the current investments we have is that we should continue to reinvest them with the objective of getting the highest rate of return for the fund in the shorter term or the longer term. In the short term, if we had the highest rate of return possible, the funds we're now transferring -- I'm basically saying the income earned by the fund, which is now being transferred to the General Revenue Fund -- would continue to provide us with the highest flow of revenues into the General Revenue Fund of the province at this time when we're facing economic difficulties.

If we so wish, we can make a decision in the future when we return to a surplus position in terms of the overall General Revenue Fund. We

may wish to look at investing those funds with a different objective. At this point in time I believe our objective should be to try and get the highest rate of return possible which would benefit the province in terms of the revenues that are available to the General Revenue Fund in terms of the deficit positions we face.

MR. CHUMIR: I have a question that I guess is in some ways related to some of the questions of Mr. McEachern. When you refer to the objective of earning the highest rate of return, is that in fact intended to mean what it implies, that the amounts coming due would no longer be eligible for reinvestment in Alberta Crown corporations? Alternatively, is it perceived — I can see it argued — that the amounts that go into Crown corporations are going at market rates of interest on a current basis? Our earlier complaint, of course, was that what was current some years ago is now misleading. If you have \$100 million available, the Alberta Municipal Financing Corporation or the Alberta Mortgage and Housing Corporation would perhaps still be looking for moneys at current rates of interest. If they were prepared to pay the same coupon as an arm's-length party, would that qualify? So that unclarity is one concern about what is intended here.

The second is just a concern about flexibility. I'm very, very sympathetic to re-establishing some form of market discipline on where we invest the money in terms of the savings aspect of the heritage trust fund. I'm also quite sympathetic to looking at more opportunities for diversification. I note that when I initially saw this resolution, in my little notes I added at the end of it "or for diversification," so as to leave that open.

While I agree with the general thrust of the resolution, when you start getting down to psychoanalyzing these things and looking at the words, you get some problems in terms of intent in one sense and limitation in the other, which causes me to have some concerns about it.

MR. BRADLEY: I see it as being a thrust in the sense that the direction in which I'd like to see the fund move is to ensure that we're earning a high rate of return but recognizing that there obviously will be flexibility and that you may only take, say, 50 percent of those funds and put them toward that objective. I'm not in any way wishing to hamstring and suggest that that

would in fact be the way it would entirely go. But my sympathy would be toward our earning the highest rate of return where possible and letting the market forces ... Let's try and manage the fund and give direction to the money managers in Treasury that this would be the direction generally. Obviously, there would be some decisions made that may have a lower rate of return in terms of a diversification thrust to a certain area of investment, but overall I'd like to see us manage the fund to earn the highest rate of return.

MR. CHAIRMAN: Any further discussion on recommendation 6? If not, it will be hard for members to believe the Chair has erred. In checking Hansard, it is noted that they have neglected to make any reference to that healthy and lengthy debate we had around recommendation 5 and have only referred to the chairman's suggestion that we pass over recommendation 5 in light of the absence of the Member for Pincher Creek-Crowsnest. Perhaps we can deal with recommendation 5 at this time as well.

MR. BRADLEY: I've made some statements with regard to recommendation 5. When the province is facing the economic circumstances it is in terms of the deficit position of the province, it doesn't make a heck of a lot of sense to take 15 percent of our nonrenewable resource revenues and put them into the Heritage Savings Trust Fund to see it grow and then borrow those funds from someplace else to put into the General Revenue Fund to pay off a portion of the deficit. What I'm saying is that we discontinue that practice, that we don't transfer 15 percent of the nonrenewable resource revenue to the General Revenue Fund until such time as we see the General Revenue Fund in a surplus position. I think it only makes sense that we proceed in that direction and not make those transfers.

MR. CHAIRMAN: The Chair would note for the benefit of members that recommendation 5 had been grouped with recommendation 44, so both recommendations are on the table for discussion at this time.

MR. McEACHERN: In fact, there is a great similarity between the two, so obviously I agree with the general position. A couple of points.

We said specifically "this fiscal year only," with the idea that we could reconsider it next year, depending on the circumstances. I won't quibble about that. I think the basic principle in 5 is a good one in that regard. I would point out, however, that the arguments used in favour of this resolution can also be used in favour of resolution 69, which I spent some time arguing on earlier.

MR. R. SPEAKER: As clarification from the mover, will earnings from the fund stay in general revenue too? Is that what you're suggesting?

MR. BRADLEY: I'm only looking at the transfer of the current 15 percent that we vote on every year. I'm saying that we should discontinue transferring that 15 percent, not bring that motion forward in the Legislature.

MR. McEACHERN: Of course, there's nothing to stop them from bringing in 30 percent again either. It basically just covers that.

MR. BRADLEY: But the current practice is to transfer the earnings from the fund to the General Revenue Fund. This doesn't speak to that at all.

MR. R. SPEAKER: No, I understand that.

MR. BRADLEY: That would continue.

MR. HYLAND: Mr. Chairman, I agree. Number 44 makes me feel a little better about that movement of funds when it says "just this current fiscal year," which would be the year we're coming into. It's a good thing to do; there's no question about that. But my concern is that if we're going to transfer this additional money, we must make sure that somehow the budget quits growing to the extent it's been growing, that it doesn't just become a way of putting another 15 percent of nonrenewable resources into the provincial budget -- probably 7 or 8 percent in total moneys -- and that it isn't just a way of gaining more money for the provincial budget. The idea is to help the deficit now. The push must be to cap the budget or stop the rate of growth of the budget. Otherwise, we're going to lose any effect we had by putting this money in, because then it just allows the budget to grow by the

additional 15 percent nonrenewable resource. We changed it in whatever year from 30 percent to 15 in the hope that that would help the budget, but it still continued to grow. I'm concerned that when it's done, it's done to assist now but it doesn't become forever.

MR. CHAIRMAN: Any further discussion on either recommendation 5 or 44? If not, we'll move on to recommendation 7.

MR. BRADLEY: Mr. Chairman, I proposed this recommendation when we were looking at the development of the coal industry in the province, particularly the high cost of transportation which is experienced in the coal industry. Our markets are either in eastern Canada or offshore, and the transportation cost is a significant component in getting our coal to markets. It ranges from one-third to one-half of the delivered price of the product.

There are some exciting things happening in terms of research regarding coal transportation technologies that we could look at. If there are sufficient funds in the capital projects division, I'm suggesting that this new generation of rail cars would be a worthwhile, appropriate place for us to make an investment that could decrease the costs of transportation and provide us some opportunity to get into marketplaces like Ontario or offshore at a lower cost, thus making our coal industry competitive. That's the thrust I come forward with with regard to this recommendation.

MR. CHAIRMAN: Any other discussion on recommendation 7?

Perhaps in light of the absence of the Member for Calgary Buffalo we can proceed to recommendation 23.

MR. CHERRY: Mr. Chairman, that recommendation is self-explanatory. What I'm saying is that I feel we should hold the fund to 20 percent and should not go any further, that our current expenditures in capital projects should be slowed down. In other words, with the downturn in the economy which we see now, perhaps we should have another look at it. I know my hon. friend across here has another recommendation below me, and we have discussed it. That basically is what I'm saying in the recommendation.

MR. HAWKESWORTH: I would just ask Mr. Cherry if he would clarify what he means by "current expenditures on capital projects." Are you thinking of hospitals? Are you thinking of irrigation systems? Are you looking at those projects that have generally been put under the capital projects division?

MR. CHERRY: Basically, yes, that's what I am looking at. I feel we should slow down. This isn't saying that if things do brighten up in the near future or something like that, we can't move quicker, but at this time I think we should slow down our efforts in capital projects.

MR. CHAIRMAN: I think there's a pretty good definition of the capital projects division on page 7 of the trust fund report.

MR. HAWKESWORTH: The reason I asked that way -- did he also mean capital spending by Alberta Government Telephones, for example? It doesn't really fit under that particular category of the capital projects division; it's capital spending by a Crown corporation. I was just wondering if he could kind of get into that a little bit.

MR. CHAIRMAN: I think the reference is directly to the capital projects division. As it stands right now, "The Division is limited to 20 percent of the Fund's assets including deemed assets." I'm not trying to put words into the member's mouth, but as I understand the intent of the motion, it's to maintain that policy.

MR. CHERRY: Basically, that's what I'm saying. We should slow down these capital projects somewhat.

MR. HYLAND: Mr. Chairman, seeing as I've got a motion that's almost the opposite, I guess I should speak on this one. I can well understand why the member put the motion forward. I think I expressed my views when we talked about 26. I believe that both sides of that argument have to be on the table.

MR. CHAIRMAN: If I can just interject, 23 and 26 have been grouped together for discussion at the same time.

MR. HYLAND: I thought we dealt with 26 but didn't deal with 23 because the member wasn't

here at the time.

MR. CHAIRMAN: Correct.

MR. HYLAND: I just think both sides of the [argument] should be out. In reading these recommendations over -- and I don't think I talked about it when mine was discussed -- the one thing is that if we accept I think Mr. Gogo's and Mr. McEachern's recommendations where they suggest that the capital projects division's projects -- i.e., irrigation, hospitals, et cetera -- should either not be listed in value or listed at a dollar, what does that do to our capital projects division? With the amount of money in it, then we're ultra vires to the Act. The Act would have to be changed to allow a different percentage. If we pass those other two, we've also got to do something with these, because the percentage numbers, if I understand the Act right, are then all out of whack.

MR. BRADLEY: Just in clarifying the intent of the motion by the Member for Lloydminster, when he talks about slowing down expenditure on capital projects, are those the multiyear projects like irrigation funding and some of them that go on? Reclamation is one that has been multiyear; funds are allocated sort of on an annual basis. Are you suggesting that we slow that down so that we don't reach the 20 percent as quickly as we might if we continue the current rate of expenditure? Is that it?

MR. CHERRY: I would think that . . .

MR. BRADLEY: That's the implication of your recommendation.

MR. CHERRY: Yes.

MR. BRADLEY: I guess what we have before us is whether we want to continue capital projects under Mr. Hyland's suggestion and put new capital projects in like the one I've suggested, going up to 25 percent, or do we have to look at not increasing the capital projects? I guess it's very clear where the recommendations are heading. I just wanted to get the sense that that was the direction of your resolution.

MR. CHERRY: Yes.

MR. HYLAND: When I put in my

recommendation, my concern was that even continuing the capital projects to those that were committed bumps us awfully close to 20 percent. I was concerned that maybe we should raise it so that we can at least complete the projects we're committed to, without starting any additional projects.

MR. CHAIRMAN: Any further discussion then?

MR. CHUMIR: I guess I might confess to a predisposition to seeing any further expenditures in the capital projects division subject to the discipline and rigours that the whole range of expenditures being made by the provincial government are obviously undergoing in this time of difficulty. I must confess that I've been absolutely baffled. I've asked a number of times, including during the last legislative session: by what parameters do we as a province make a determination that a certain expenditure should be out of the capital projects division of the heritage trust fund as opposed to coming out of the General Revenue Fund? Why is hospital A in the capital projects division and not hospital B? Why is a certain agriculture program not there but another one is? I defy anybody to make any sense out of that.

There's a certain element of convenience to having a slush fund. It's very attractive, but I think that era has passed. It's now important to get down to some much harder thinking. I prefer to see our focusing in the trust fund on the dual goals of diversification and saving for the future, if the latter turns out to be viable as the smoke clears over the next several years. At the same time, we do have to consider the ongoing obligations. There are some obligations that have been made with respect to the capital projects division, but I would prefer that those all be considered as part and parcel of the more global budget. I think it would be a healthier process.

MR. McEACHERN: Just very quickly, a list of the moneys spent under the capital division this year would indicate some \$236 million in expenditures in that section. However, a lot of the projects are complete or nearly complete, and the expenditures next year will be quite a lot smaller. I've not been able to come up with a number, because too many of them are sort of over five years and it's a little hard to know just

how much will be spent next year. Many of them are totally finished, so next year we can expect a lot smaller amount of money there.

However, I'd like to get back to the basic argument of principle raised by Mr. Chumir. If we're going to spend money in Alberta and wonder whether it should come from the heritage trust fund or the General Revenue Fund, it would make a lot more sense that it come from the General Revenue Fund and be part of the budget and be subject to parliamentary or legislative approval than to sort of do it on the side in the heritage trust fund. To remove the deemed assets from the heritage trust fund in a sense, sort of list them separately and call them worth a dollar, and then have the ongoing expenditures in those areas taken over by the General Revenue Fund makes the most sense.

MR. HYLAND: Just to comment, when the Member for Edmonton Kingsway said that the capital projects division isn't subject to the Legislature, that isn't true. They are.

MR. McEACHERN: Yes, they are. I understand.

MR. HYLAND: You said they weren't.

MR. McEACHERN: It's part of the budget. It's not a separate sort of . . .

MR. HYLAND: It's separate, in an estimate by itself, where it has to be debated by itself. It's outlined that it has to be debated by itself. If we set it in with the timing of the budget, then we're into the 25 days; we're part of the 25 days. If we leave it out, then it gets 10 days by itself.

MR. CHERRY: It gets 50 percent of the total time now.

MR. McEACHERN: No, the agricultural part goes under the Agriculture budget and the environment part goes under the Department of the Environment.

MR. GOGO: Alan is talking about the way it is now.

MR. BRADLEY: So you would trade off the ability you have today to have 10 days of

scrutiny of the capital projects division investments and lapse that into just the 25 days available for the . . .

MR. McEACHERN: Remove the 25-day restriction.

MR. BRADLEY: You can't have both.

MR. McEACHERN: Any other Legislature would.

MR. BRADLEY: I'm pleased to see that you are going to have that trade-off.

MR. CHAIRMAN: Any further discussion on recommendations 23 or 26? If not, we'll move on to recommendation 15.

MR. CHUMIR: Mr. Chairman, the recommendation is

that the fair market value of the assets of the Alberta Heritage Savings Trust Fund be reported in its Annual Report.

The basic purpose is again to attempt to provide as much information as is realistically possible and in as understandable a form as is possible for the citizens of Alberta.

At the present time the assets of the Heritage Savings Trust Fund are by and large reported on an historical book value basis. Perhaps I might note, by minor digression, that when we're referring in this resolution to the assets, we're excluding the capital projects assets, the deemed assets, which we've already suggested be removed from the trust fund and which of course are not susceptible to fair market valuation. But the other assets are by and large assets in the sense of being realizable. An estimate can be made of their fair market value. I think that at the present time there are admittedly some very spectacular deviations from what fair market value would be in relation to what is reported, and in particular the deviations relate to receivables from the three Crown corporations which have been dealing with people who have been experiencing financial difficulties. Earlier today we heard variations of the estimate of the fair market value of what is on the books at about \$4.5 billion being worth anywhere from two-thirds to half that book value.

This resolution relates to and links in with a later resolution relating to the more accurate

reporting of the net realizable value of loans and assets, but I believe it would be in the public interest if an attempt were made at the end of each year to report what the fair market value was, aside from book value. I realize, of course, that there are annual deviations, but I think it would be a meaningful and helpful figure.

MR. CHAIRMAN: The Member for Calgary Fish Creek.

MR. PAYNE: I'll withdraw my question. I raised my hand in midstream, and the latter reference to deemed assets removes my need for the question.

MR. HYLAND: The member touched on some of the Crown corporations. In this resolution do you mean that at some capsule point in time the amount of money the shares are worth is taken, or are you just saying the Crown corporations and the assets they have, compared to borrowing from the fund?

MR. CHUMIR: From what I can see, all assets. I think you could make an estimate of the fair market value of all assets. There happen to be a few wild card types of assets in which the valuation is somewhat more difficult. I refer in particular to the Syncrude plant. But most of the rest of the assets are in the form of shares, receivables, debentures, and so on, and I think are susceptible to some valuation.

MR. HYLAND: So you'd call a day and do it as of that date?

MR. CHUMIR: The end of your fiscal period. They are of course subject to variation.

MR. GOGO: Mr. Chumir, on page 50, the commercial investment division -- there's no quarrel with that, is there?

MR. CHUMIR: Those are set out, and it just points out the feasibility of being able to do it for the rest.

MR. GOGO: If I have a debenture out at face value, which I'm getting interest on, isn't it normal accounting practice to show the value of that at its face value? Are you saying that

we're going to pick and choose what are good years and bad years, or are we going to be consistent? I thought we were consistent.

MR. CHUMIR: I guess the philosophy I'm trying to espouse here and that I've referred to elsewhere is that we're not dealing with this on the basis of a report to shareholders or investors. We're dealing with it as a report to the citizens of Alberta, with the perception of making it understandable. An investment is not being made by any individual in terms of buying or selling an interest in the heritage trust fund which requires any continuum of established accounting principles as may relate to a commercial operation. It seems to me that this would enhance the understandability, notwithstanding the fact that it's subject to fluctuation. I think everyone can understand that. But at the present time there is a debate going on. I constantly read comments in the press about the differing estimates of the fair market value of the assets. I have my own rough estimate. I think it would be useful if we had the estimate of an established auditing team to value it for us.

MR. GOGO: I'm reminded of the quote by Mr. Lougheed. He said: when you're the chairman of a corporation, you report once annually to your shareholders; when you're the leader of a government, you report daily to your citizens. I don't know what better way it could be done. We've spoken ad nauseum on the deemed assets; that's a separate issue. I can't quarrel if the way we do it now is the accepted way of doing it. Where they can show market value, they show market value, such as in the commercial investment division. I have some difficulty saying that we would pick and choose each year in determining what is the market value. To me a contractual obligation is a contractual obligation. If the hon. member puts his money in Northwest Trust -- I'm aware of the fact that he'd probably think twice about that -- given 10 percent interest on a \$10,000 certificate, regardless of whether it's in jeopardy or not, I'm sure that for collateral purposes he would list that as a \$10,000 asset.

MR. CHUMIR: Certainly. But, for example, we have loans to other provinces, and they have a very high coupon. I would say they're worth a nice amount above and beyond their face

value. On the other hand, we have all of these loans to the provincial Crown corporations, much of which is not going to be repaid. As I said, it links with recommendation 19 with respect to being more up front with respect to the estimates of what is realizable and how much we're likely to get out of it. I would like to know. I don't see why we're sitting here guessing about all of this stuff.

MR. McEACHERN: Exactly.

MR. CHUMIR: We know there may be differences; even auditors and professionals will differ on these things. Nevertheless, I would prefer to have some statement like that rather than -- it seems unrealistic that we're sitting here speculating. One is guessing and another has another point of view. There are parameters which could give us something that's more realistic and reasonable.

MR. GOGO: With respect, Chairman, I thought Mr. Engelman sat here -- I think the hon. member is dealing specifically with that corporation -- and indicated to us that the value of those debentures on the market was about \$2.5 billion versus the \$3.3 billion. I thought he said that right at this table. If this committee has the freedom to call those people and ask them for their views and they come and give them, what better information could you have? It seems to me that for him to put that in the annual report, based on the date, wouldn't be very meaningful today.

MR. CHUMIR: I'd sure like to see that annual report.

MR. GOGO: I'd like to see a few other things myself, but we can't have everything.

MR. R. SPEAKER: Mr. Chairman, my question has been answered, but let's just follow through on the Alberta Mortgage and Housing Corporation debentures. In the report sense, what we see -- and a certain amount of debentures have been let out that are owing to the Heritage Savings Trust Fund, and we can see the value of them here. But what you're really suggesting to us as a committee is that there be a sort of addendum to the report which says that rather than the assets of the Alberta Mortgage and Housing Corporation as of March

31, 1986, being \$3.3 billion, in reality they may be \$2 billion. So you'd like to see that added to the report so that it is a total statement that the General Revenue Fund, as the hon. member here stated a few moments ago, is shoring up the debenture return plus the interest return to the Heritage Savings Trust Fund so that the people of Alberta really know where we are. That's what you're saying. A more inclusive statement in this report is what you're requesting. Would that be accurate?

MR. CHUMIR: I think that's dead on. The difficulty I have is that notwithstanding the fact that we've had Mr. Engelman, we have an '84-85 report, and we have the heritage fund reports, I'm sitting here trying to pull little pieces together, trying to make sense of a statement of Mr. Engelman's here, the fact that I can't get hold of copies of debentures on another hand, and the fact that there are two different accounts set up for the Alberta Mortgage and Housing Corporation, the basic corporate account on one hand and the mortgage insurance fund on the other. I'd really like to see somebody, basically an auditor who is representing the public interest, pull all this together and give us a statement of what the bottom line is, instead of having to play Sherlock Holmes. I feel that we're wasting a heck of a lot of time trying to find out the basic facts. I'd rather have the facts spoon-fed by people who are paid to do that so that we can spend our time on policy. That's what we don't get. We're spending far too much time ferreting out the facts.

MR. McEACHERN: I guess I'd just like to say that it is time we really did know the exact facts. That's a very nice document, very pretty, very slick, and it puts out a pretty good picture, but it really would be nice to know. In some cases I suppose the fair market value is something that — the Act says we can have the book value, and to do the fair market value might take a certain amount of work, but it seems to me that it would be worth while for this committee.

MR. CHAIRMAN: Any further discussion on recommendation 15? If not, we're coming close to adjournment. Before we adjourn, I'd point out that we have now debated 25 of the 70 recommendations forwarded.

I would also remind members that this Friday's meeting has been canceled. There seemed to be some confusion there. So the next meeting is tomorrow morning at 10. We'll be meeting Tuesday, Wednesday, and Thursday, two meetings per day. We now stand adjourned until 10 a.m. tomorrow.

[The committee adjourned at 3:55 p.m.]

