

[Chairman: Mr. Jonson]

[10 a.m.]

MR. DEPUTY CHAIRMAN: I'd like to call the meeting of the Heritage Savings Trust Fund to order. The hon. Provincial Treasurer will be with us this morning - he'll be returning with coffee momentarily - but we do have some preliminary items to deal with.

First of all, this being the last day for the submission of recommendations, I would like to invite members to put forward any that remain and also remind members of the request from the chairman yesterday that a legible, typed copy be provided to our secretary.

The Member for Lacombe.

MR. MOORE: Thank you, Mr. Chairman. On behalf of the Member for Ponoka-Rimbey, I make the following recommendation for consideration of the committee. Be it resolved:

That the government review the implications of allocating an additional \$150 million to the Heritage Foundation for Medical Research.

MR. DEPUTY CHAIRMAN: Thank you.

The Member for Edmonton-Centre.

REV. ROBERTS: Mr. Chairman, I'd like to move:

That the Alberta Mortgage and Housing Corporation's annual reports and the annual reports of other Crown corporations should more clearly reflect the net realizable value of loans and assets, and that independent auditors be retained without delay to provide a report to the standing committee on this matter.

Further, I'd like to move:

That under the capital projects division of the Heritage Savings Trust Fund a \$75 million capital fund be set up for an Alberta North tourism recreation and development program. This capital project would fund diverse thematic, historical, cultural, and recreational parks and projects in order to expand and diversify tourism in northern Alberta.

The third one:

That given assurances by the Minister of Health to co-ordinate health research in Alberta and given previous government commitments to the Heritage Foundation for Medical Research for inflation-correcting increases to their \$300 million endowment, a further \$75 million be added from the capital projects division to the endowment for the Heritage Foundation for Medical Research.

MR. DEPUTY CHAIRMAN: Thank you.

The Member for Athabasca-Lac La Biche.

MR. CARDINAL: I have two recommendations, Mr. Chairman. The number one recommendation is:

That a scholarship be established for northern Albertans under the Alberta Heritage Scholarship Fund with a view to encouraging greater participation in university education among northern Albertans who demonstrate merit.

The second recommendation:

That a northeastern lakeland region be developed in the Pinhurst-Touchwood-Seibert lakes area to provide recreational opportunities and conservation programs for all northern Albertans to enjoy. Thank you.

MR. MITCHELL: Point of order.

MR. DEPUTY CHAIRMAN: Yes, Edmonton-Meadowlark. A point of order.

MR. MITCHELL: Yeah. Mr. Chairman, I wonder, since the

chairman yesterday asked us to provide written copies of our recommendations, whether we could dispense with the time it takes to read them into the record at this point, which takes away from the time we will have to question and listen to the Treasurer. I would like to move we do that or move that we take an extra five minutes after the 12 o'clock deadline which we normally adhere to and read the recommendations in at that time.

MR. DEPUTY CHAIRMAN: Well, perhaps before we get into a debate on a point of order, given the circumstances, hon. member, I would like to suggest to the committee that we're a good way through the process of taking in the recommendations. Let's move forward as quickly as possible so that we can get to the Provincial Treasurer. I think that would be in the interests of the committee. We could have a debate on this matter and then . . .

MR. MITCHELL: Well, I'd like to move it, and I'd like to have a vote on it.

I move that we dispense with reading the recommendations into the record at this time and that we move directly to hearing from the Treasurer.

MR. DEPUTY CHAIRMAN: There's a motion on the floor. Speakers to the motion. The Member for Calgary-Fish Creek.

MR. PAYNE: Speaking to the motion, Mr. Chairman, I'd like to speak against it, I guess for two reasons. First of all, I find very useful the procedure whereby we are apprised of the content of resolutions, because they have an influence on the questions that may subsequently be asked of the Provincial Treasurer today. Secondly, I concur with your reasoning that it's only going to take another minute or two.

MR. DEPUTY CHAIRMAN: Further debate? We'll take the vote on the motion then. All those in favour of the motion proposed by the Member for Edmonton-Meadowlark, please indicate. Those opposed? The motion is defeated.

Moving on to the Member for Redwater-Andrew.

MR. ZARUSKY: Thank you, Mr. Chairman. I've got one motion:

Given the Alberta Heritage Savings Trust Fund's commitment to maintaining our forest resource base, I recommend that this committee consider the immediate release of funding to the expansion of Pine Ridge Forest Nursery in the Smoky Lake area.

MR. DEPUTY CHAIRMAN: The Member for Calgary-Forest Lawn. Did you have a recommendation?

MR. PASHAK: No.

MR. DEPUTY CHAIRMAN: Edmonton-Meadowlark.

MR. MITCHELL: I have a list that will be here in a minute. I'll read them in later in the meeting.

MR. DEPUTY CHAIRMAN: Are there any further members wishing to propose recommendations?

If not, then I would like to request permission from the committee - the Member for Athabasca-Lac La Biche would like to provide a brief introduction of guests.

MR. CARDINAL: Thank you, Mr. Chairman and the Assembly. I'd like to this morning just take a moment to introduce a group of grade 6 to 8 students and their teachers from the Paddle Prairie school division, which is extreme northwestern Alberta, beautiful country. I'd like the students at this time to stand so they can be recognized by the Assembly and given the traditional warm welcome of the Assembly.

MR. DEPUTY CHAIRMAN: Good morning, Mr. Provincial Treasurer.

Today appearing before the committee we have the Hon. Dick Johnston. I'd like to repeat my welcome to the Provincial Treasurer and ask if he has any opening remarks for the committee prior to going into questions.

MR. JOHNSTON: Thank you, Mr. Chairman. A Treasurer never misses an opportunity to have opening remarks and to talk about the great success of the Heritage Savings Trust Fund, a fund which to a great extent is unique in the history of democratic systems and certainly in the case of Alberta has been one of the stabilizing influences in the way in which our fiscal plan has emerged, both intentionally at the outset and, I suppose, to some extent unintentionally recently as times have changed and as the economic profile of our province has suffered changes in the price of energy in particular.

But you know, the more you look at this fund the more you realize just how significant this fund is to the character, to the background, to the way in which our province has emerged since 1971. These are really guideposts which I think in a very simple way confirm what Albertans want governments to do: where possible save money, be prudent in the way in which you manage the money, and assure that you take a very cautious approach to the balancing of the dollars that are given to you. I think, in a nutshell, that's what people expect from their leaders and their governments. Certainly those have been the very important guideposts we have used all along with respect to the heritage fund.

If you look at the symbols which show up in this fund, these are important symbols. These are important items which characterize the way in which the fund has operated. They serve as touchstones for all parts of the province, and they serve as real ways in which the heritage fund has served the objectives that it was set up to do.

First of all, the fund was always intended to be a saving at the time when the economic rents provided to us in this province through oil and gas flows were such that we were able to save approximately \$15 billion from additional revenues from the sale of oil and gas. I think it's remarkable that we've been able to use the money to the positive way over the past few years that we have.

Secondly, of course, the tone of the fund has shifted just a bit. In the last annual report we characterized the history of the fund showing how at one time much more of the revenue from oil and gas went into the fund to build up assets. Then as the times changed, as the price of oil varied, as the economic recession impacted on our province, an adjustment on that flow of funds took place with respect to the economic resources. Then, finally, two years ago I guess, we had to adjust the fund entirely so that the total flow of oil and gas resources went to the General Revenue Fund, and the heritage fund itself became sealed at some limit. But since then the heritage fund has generated a tremendous amount of rent, or economic interest, to the General Revenue Fund through the annual transfers. At March 31, '89,

you saw that we transferred somewhere close to \$1.2 billion, and the fund was characterized by financial assets which totaled about \$12.5 billion and deemed assets which totaled just about \$3 billion. So the fund itself has been remarkable.

The fund is broken down into the financial assets that I referred to and the capital projects division assets, which are the touchstones or the way in which the fund is characterized in the minds of most people. The capital projects division has been the subject of some debate. I won't outline all the reasons why we think it's important to have the capital projects division assets shown together with the rest of the financial assets of the fund. But these are really remarkable steps that the government has taken, steps which serve to diversify the economy, to deal with agriculture, with research, with economic diversification, with the environment, with the quality of life, projects which could not have been accomplished had it not been for the fund, and projects which truly make Alberta a very singularly important province in Canada, and the quality, the kinds of unique projects performed by the fund, mark it as a distinct kind of advantage to us.

I would say that if I were to characterize the future of the fund, we would have to be fair, I think, and say that the major objective for the fund over the next year or so – probably the next two years – would be to maximize the income flow from the fund, to continue the transfer of the income stream from the fund to the General Revenue Fund so that Albertans can take advantage of some of the finest levels of services from the General Revenue Fund with the lowest combination of taxes available anywhere in Canada. That's the general way in which the fund has supported the objectives of the General Revenue Fund.

If you look at the statement, you'll see that close to \$9 billion, I think, has been transferred to the General Revenue Fund from the heritage fund, a remarkable amount of money. I'd imagine that by March 31, 1990, we would have transferred almost one full year of General Revenue Fund expenditures from the heritage fund. That's a remarkable success story, I would suggest.

Inside the makeup of the financial assets it has been our objective that we move more towards marketable securities, because of course as some of the assets turned to cash, we have reinvested them in short-term positions which allow us to take advantage of the rather high yields that are now characteristic of the marketplace. As a result, although I think some \$1.2 million was transferred last year, we would expect that we would transfer more in 1989-90, because of course the interest rates have been higher and we've been able to take advantage of the so-called inverted yield curve to maximize the rate of return on the liquidity of the fund.

At the same time, we've been able to take some of the money out of the financial assets and transfer those assets into the capital projects division to carry out those important priorities, those special projects that I noted. In particular, we continue to spend money on irrigation, on reforestation projects, on some of the other economic diversification initiatives which, in a general sense, have allowed the province to attract new business and to continue the diversification which has been remarkable in this province over the past two years. So the fund, in that sense, has been an important contributor to the kind of fiscal plan which the province has put together, a fiscal plan which counts on that transfer from the heritage fund and which counts on the capital projects division to do those very remarkable, unique projects which have made Alberta so unique.

Within the financial assets, as well, we have three or four divisions. There's going to be some debate today, I'm sure, about the valuations and the Crown corporations. That debate is not new; it's one which we've had continuously. Let me simply say that the assets in the financial assets disclosed in those divisions under the financial sector are in fact stated at what the Auditor considers to be a fair disclosure of the value of those assets. So it's not a debate as to whether or not the assets aren't there; the assets are there. Because quite clearly, if you look at the statement by the Auditor, the only distinction he makes with respect to the disclosure is on whether or not we have disclosed the fixed assets of the capital projects division in a way which he considers to be appropriate. I'm not going to go back through that debate, but we have had the debate. We've changed the disclosure, as I've indicated before. But the assets as disclosed in the financial assets, the \$12.4 billion of financial assets, are clearly there. It's not a question of what their value is; they're there. They are valued at what the financial disclosure shows, and that is not a debate. There is always debate about how you could better use the assets. That, of course, is why we're here: to listen to the recommendations of the committee and to seek your advice as to how we can improve the disposition of the assets within the financial sector of the balance sheet itself.

With respect to other assets, it's true that within the balance sheet of the Heritage Savings Trust Fund these assets are disclosed at cost. Now, this intrigues those people who are fascinated by the romance of debits and credits and maybe a few others, but what is there, of course, is that many of these assets have a market value far in excess of the cost shown in the financial statements. Some of my colleagues who have been here, including the Premier, have talked about ways in which we could maximize the value of those assets by perhaps selling them. I think it's been discussed that perhaps the investment in Syncrude could be one asset which could be disposed of, and obviously you would not dispose of that asset unless you could make more money on the asset than was disclosed in the financial statements here. Similarly, other assets which are disclosed in the financial statements to the heritage fund, including the investments, for example, in that remarkable Heritage Scholarship Fund and the medical research fund, all have a market value far in excess of the actual cost disclosed in the financial statements. Moreover, with respect to other investments of the fund, such as investments in Alberta Energy Company, there again the value of these assets must be above what is disclosed in the financial statements.

The point I'm making is that the assets you see in the financial statements are, in fact, disclosed at their cost. Had there been any other losses or any change in valuation below the cost, then that would have had to be reflected in the financial statements. But in the true conservative fashion in which these statements are presented, any increase in the value of these assets is not disclosed except parenthetically or by footnotes, and we tend to forget that in fact there has been an increase in the value of these assets as opposed to a decrease in the value of these assets. So what we have is a clear statement that these assets are there, at cost, and in many cases the assets have market value in excess of the cost disclosed in the financial statements.

So let's not get trapped in some argument that the fund isn't worth what's disclosed here. I can buy the argument that the fixed assets or the capital projects assets probably may not be able to liquidate as rapidly as some of the other financial assets; that's probably true. That's why we've effected a balance

between fixed capital projects division assets and financial assets, because they have a different kind of liquidity and probably have a different period of time in which they could be turned into cash if necessary.

So on those things, Mr. Chairman, I'm sure we'll have discussion about the way in which the disclosure takes place, but let's remember that there are in fact a major number of assets which have a value above the cost disclosed in the financial statements.

Let me now turn to the question of some other items which are unique here. I'll be circulating for you . . . And I guess I made a mistake here somewhere. I intended to ensure that the committee had a copy of the commercial investment division assets. Again, this is one case where the commercial investment assets have a market value in excess of the book value disclosed here. Those statements would be available, I'm sure, today. If you want them, Mr. Chairman, I'll make sure they're in your hands right now.

We have continually shown that we continue to invest the commercial investments section in marketable securities in Canada, and that has performed very well for us. A little less than \$200 million is invested in it right now, with a market value in excess of the cost shown. When those assets are liquidated or when there's a profit made or a capital gain made on the sale of those assets, of course that becomes part of the income stream that's transferred to the General Revenue Fund. We'll continue to run that fund.

One of the recommendations of the committee has been to start to invest in other stock markets besides the United States and Toronto. One of the former members of this committee opposed that. We have been moving now to that position where we would like to start to invest in other stock markets. It simply provides you with a hedge against the sharp kinds of changes that are seen in stock markets, whether it's the October 19, '87, shock or even the more recent October 13, '89, shock to the market. We think that if you have your investments in other portfolios in other stock markets, you can ride through some of those changes because it isn't uniform across all markets. So we'll move in that direction. I don't know if there'll be any recommendations here today or during this consideration which would change our view. I think the committee has essentially agreed that we would do that. We intend to move forward on that side.

With respect to my favourite issue – that is, the question of the Heritage Scholarship Fund – you know, really, every other province in Canada should have a fund like this whereby you can provide scholarships to those outstanding students who excel in high school to give them that little extra lift that I'm sure the kids from Paddle Prairie would like to achieve; in three years of high school to be able to have maybe \$1,500 to go to university, to assist them in getting into university, and to recognize their academic achievements. Even though we have paid about \$58 million out of that Heritage Scholarship Fund to about 4,000 students a year, the fund still increases in value. Let me assure you that certainly my objective is to keep that fund whole so the Heritage Scholarship Fund can continue. It simply confirms our major priority in the area of education, which shows up in the heritage fund, to ensure that the uniqueness which is ours, characterized by the heritage fund, is passed through to the students who are successful in university.

In terms of comparisons with other funds, I'm sure there'll be some comments here today about this fund versus the Alaska fund. Well, they're in fact two different kinds of funds, I

suppose. They come about because the economic rents were greater than the demands of the government at the time. I think the Alaska fund essentially copied what we did in the heritage fund, and they're saving some funds for other purposes. Yes, you may want to debate the way in which the financial assets are managed and whether or not the rate of return is similar, but I think the fund is much different in its intention. Other provinces as well have copied the heritage fund; other provinces have put aside some money. They may not call it a heritage fund, but they have come very close to copying what was done in Alberta when this fund was put in place.

So the fund is unique. It's been a milestone, I think, in the way in which governments have handled their financial resources. The Heritage Savings Trust Fund has been important in balancing our expenditures. It's been a major source of revenue for us. We cannot deny its importance in terms of our first-rate expenditures in health and education and, at the same time, balancing the way in which we have to burden taxpayers with the costs of paying for government, a thing which is not very popular with any Albertan right now.

So, Mr. Chairman, those are some of the opening comments. I know that the leader of the Liberal Party today said he would liquidate the Heritage Savings Trust Fund. Well, I'm glad he said that. I remember that when the former member from Lac La Biche was here, he said something similar. I reminded him that his words may come back to haunt him, and I guess they have, because he's not here anymore. He also had an idea similar to that, Mr. Chairman, but it would be interesting to see why he would want to liquidate the heritage fund when in fact the revenue stream from the investments is higher than the cost of borrowing. That's the illogical kind of reasoning which has characterized that party over the past little while, but it's good they've made the point, because I always thought it was the other party that was going to make that kind of statement; it was always my greatest fear.

But unless I'm mistaken or unless I misread what I saw today in the paper, I would have some great debate with anyone who would suggest liquidating the heritage fund. Because, of course, you'd lose those remarkable opportunities to do irrigation, to do environmental priorities, to do educational items: the kinds of things that are unique to Alberta and so distinguish our province from other provinces, where we have taken risks, where we have done things that are unique to Alberta, where we have a sense of pride, a sense of imagination, a vision of the future, Mr. Chairman. That's what really is characterized by the heritage fund. Those people who say they would liquidate it - well, I would love to see them argue that in the stumps across Alberta, taking away those unique things which establish the quality of life.

MR. MITCHELL: Point of order, Mr. Chairman.

MR. DEPUTY CHAIRMAN: Point of order, Edmonton-Meadowlark.

MR. MITCHELL: Mr. Chairman, I know it would be rude to cut the Treasurer off, and I would like him to speak as long as he would like to speak, but I believe in order to allow that, we should extend the meeting this morning. I would move, therefore, that we extend the meeting till 4 o'clock this afternoon so that we all have time to ask questions and to listen to the undoubtedly detailed and extensive answers . . . [interjections]

MR. DEPUTY CHAIRMAN: Order. Order please. Hon. member, I recognized you on a point of order. However, another speaker has the floor, and your motion is not in order. I would comment, however, that I imagine the hon. Provincial Treasurer is about to conclude his remarks and we might be able to get on with questioning.

Hon. Provincial Treasurer.

MR. JOHNSTON: You're right, Mr. Chairman. It's been so long since - every time I get in this Assembly, Mr. Chairman, I get filled with enthusiasm and excitement about what's happening with respect to the fund.

I'll just conclude by saying this is an amazing success story. There are a lot of naysayers and doomsdayers out there who like to point to the way in which it could have been done, but they weren't there to make the choices. They weren't there to make the decisions. They weren't there to take the initiative to make this fund work. It's easy to criticize in hindsight, Mr. Chairman, but to have a vision, to have a view of the future, to do something unique and remarkable is where the real challenge comes. It's difficult for them to look back and see the success story unfolded for them here in the statements before you. To criticize it, of course, is simple, and to be cynical is very simple, Mr. Chairman.

So I will simply close there, by saying that this is great. I look forward to the discussion. The service, I must say, of the committee is important to us. We listen carefully to what you say in most cases. We take your recommendations very seriously and try to reflect them in the pattern of management of the fund itself, and I do look forward to the discussion this morning.

MR. DEPUTY CHAIRMAN: The Member for Calgary-Forest Lawn with the first question, followed by Edmonton-Meadowlark.

MR. PASHAK: Thank you, Mr. Chairman, and good morning to the Treasurer and guest.

Some aspects of the Heritage Savings Trust Fund haven't been quite as successful as others, and I wonder if the minister might elaborate on the Alberta Mortgage and Housing investment by the fund. In particular, there's a deficit note in the public accounts statement of almost \$586 million. That's explained under Note 9. I don't know if you have the public accounts document with you for last year, but you're probably very familiar with this. It just says that the

operating deficits of the Corporation are paid out of amounts voted by the Legislature. Effective June 5, 1985, as a result of an amendment to the Act, the Provincial Treasurer may exclude from the operating deficit all or any part of an expenditure in respect of a decline in the value of assets of the Corporation.

Maybe I'm wrong in this, but I'm assuming that that \$586 million deficit really represents a decline in the assets of the Alberta Mortgage and Housing Corporation, first of all. Then my question would be: is that reflected in the stated value of the Alberta Heritage Savings Trust Fund? I note that under the Alberta investment division the assets of the Alberta Mortgage and Housing Corporation are indicated as \$3.134 billion. To incorporate that deficit of \$586 million, would it be more accurate to state that that deficit is \$586 million less than the \$3.134 billion that's shown?

MR. JOHNSTON: No. Mr. Chairman, just to review. First of all, in my opening comments, remember that the Auditor has looked at the valuations on the financial statements of the

heritage fund and is agreeable with the presentation we have put forward. That is to say that wherever you see Alberta Mortgage and Housing Corporation debentures – I think March 31, '89, \$3.134 billion; that's the value of the debentures the heritage fund has in the Alberta Mortgage and Housing Corporation. Those are claims against the Alberta Mortgage and Housing Corporation backed by the GRF or the government's general guarantee.

Now, there's nothing that needs to change those valuations, because there are two possibilities which could have occurred some time ago. Perhaps back when the first investment was made, the government had a choice of borrowing the money off the capital markets worldwide and paying the interest to some other country, probably New York or London. Still, the guarantee of the government was required to sell those bonds, and still the government would have had to pay not just the capital but, of course, all the interest which we have paid to the fund over the period of time. So whatever losses may have occurred in the Alberta Mortgage and Housing Corporation are losses of the Alberta Mortgage and Housing Corporation, not of the heritage fund. In fact, there would not be any change in the valuation in the heritage fund as a result of any changes in the valuations of assets in AMHC. Moreover, the losses in AMHC are valuation losses, and they will be realized when the asset is sold. In fact, similar to other financial institutions in Alberta, and in western Canada or Canada through 1983 to 1986, these are losses in real estate which had to be written down because of the change in the economy. It is not at all the valuation shown in the Alberta Heritage Savings Trust Fund. In fact, the disclosure of \$3.124 billion are real claims which will be collected at some point.

MR. PASHAK: So as I understand it, it's really the Alberta Mortgage and Housing Corporation, then, that's carrying that \$586 million loss.

MR. JOHNSTON: Yes.

MR. PASHAK: And the recent changes to the stated assets, I guess, of Alberta Mortgage and Housing Corporation have no impact, then, on the stated value of the Alberta Heritage Savings Trust Fund.

MR. JOHNSTON: That's right.

MR. PASHAK: I guess that constitutes a supplemental. My final question, then, Mr. Chairman. I can't help but think, though, that because the Alberta Mortgage and Housing Corporation was in a sense set up because of the power of the Alberta Heritage Savings Trust Fund, the investment strength of the fund, those who manage the Alberta Heritage Savings Trust Fund might have an interest in how well the Alberta Mortgage and Housing Corporation performs. To that extent, has the Treasurer ever considered hiring an outside audit firm to review the performance of Alberta Mortgage and Housing Corporation, say in terms of the comprehensive audit with what might be called a value-for-money audit, in terms of the economic efficiency and effectiveness of Alberta Mortgage and Housing Corporation and how that could be improved and better ensure, I suppose, that Alberta investments in that organization aren't put at too much risk?

MR. JOHNSTON: Mr. Chairman, I'm sure the member intends

no criticism of the current Auditor General of the province of Alberta, who in fact audits AMHC. I know that you respect his independence, and I know you respect the kinds of disclosure he gives us in the statements of AMHC. I'm putting that aside.

Obviously, if you're an investor in any corporation, you want to know what the valuation of assets may be or should be, whether or not there's an opportunity for repayment of those dollars. Of course, we have the same concern about AMHC, and that's why you saw the current minister, Mr. Speaker, taking some new initiatives to ensure that Alberta Mortgage and Housing Corporation is operated more appropriately. In fact, I think he's going to liquidate some of the assets of that company to get cash back as opposed to heavy losses, and it's probably true that we'd have to pay somehow for some of the losses in Alberta Mortgage and Housing Corporation. I think that's an appropriate response, given the way in which the real estate market in particular has settled down.

But I would not intend to take any outside valuation, because the valuations we have are probably done by independent appraisers and are, in fact, asked for by the current Auditor General when he expresses an opinion on the financial position of Alberta Mortgage and Housing Corporation. He uses independent judgment, he values the assets wherever appropriate, and consistent with our policies as to when those losses are realized, he reflects them in an AMHC balance sheet.

But again, as I've stated, it doesn't need to reflect in the financial position of the Alberta Heritage Savings Trust Fund because of the GRF guarantee. In the same way, these bonds could be held elsewhere. They could be held in somebody's portfolio in New York or in Toronto and would still be worth the same book value because of the provincial guarantee. The advantage in this case is that the interest payments – which have been quite considerable, I would imagine, over the past few years, the past 10 years at least – have gone back to Albertans as opposed to going offshore to some other source. That's been a similar theme we have used elsewhere in the fund, by using the liquidity of this fund to save on interest payments going offshore but going back to Albertans. Therefore we even used the fund to invest in other things, including short-term positions in the farm credit stability program or the small business program.

MR. DEPUTY CHAIRMAN: The Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. I'd like to welcome the Treasurer and Mr. McPherson to the committee hearings as well and . . .

MR. JOHNSTON: May I just interrupt? I forgot to introduce my colleague Allister McPherson. I know most of you know him. He's the deputy minister responsible for this side of the Treasury, the Alberta heritage savings fund in particular, and has had a lifetime experience in the management of this fund.

I'm sorry, Mr. Mitchell.

MR. MITCHELL: And we're very grateful that he's also extremely quiet, because there wouldn't be room enough for two of those people over there. We'd be here till 3:30 tomorrow afternoon.

MR. TAYLOR: Don't tempt him.

MR. MITCHELL: Yeah. Don't tempt him, please. Sorry.

I am extremely concerned, Mr. Chairman, with the status of investments in three Crown corporations. Alberta Mortgage and Housing Corporation over the last eight years has lost \$2 billion on a \$3.1 billion debenture from the Heritage Savings Trust Fund and has paid slightly more, only slightly more, interest to the Heritage Savings Trust Fund than in fact it has lost. The Alberta Agricultural Development Corporation has lost \$700 million in seven years on a \$1 billion debenture from the Heritage Savings Trust Fund and has paid about \$700 million to the Alberta Heritage Savings Trust Fund over that period of time. Alberta Opportunity Company has lost \$80 million in five years and has paid about \$85 million in interest to the Heritage Savings Trust Fund. These companies are bankrupt, and under any other financial system they would not be allowed, let alone required, to pay interest on a debenture which they simply do not have the money to cover if they weren't subsidized by this government out of the General Revenue Fund. It's circular accounting. Can the Treasurer please tell us how he can conceivably insist year after year that these companies pay interest to the Heritage Savings Trust Fund, which they are only able to pay because they are subsidized by the General Revenue Fund which is subsidized by the Heritage Savings Trust Fund?

MR. JOHNSTON: Very simply, Mr. Chairman, these are obligations guaranteed by the government of Alberta. It doesn't matter where the bonds are held; someone has to pay the interest. The payment is a responsibility of the government of Alberta, despite the fact that they are located in a Crown corporation. It is ultimately government's responsibility to pay the interest flow. Now, those bonds could be parked anywhere, but if the government guarantee is involved, the payment is mandated. It's a guarantee. We play a very big part of the capital markets right now worldwide. If we were to back away from a guarantee, our credit rating would drop right off. So contrary to how we would manage it as opposed to Mr. Mitchell, we believe that a guarantee is an important statement. When we enter the capital markets with our bonds, the government of Alberta guarantee is known worldwide as a good guarantee, and in fact the assets of the heritage fund back that up. So it's not at all unique. Of course there is going to be some circular flow of money, because of course on one hand you have a general charge against the General Revenue Fund to . . .

MR. MITCHELL: Of course.

MR. JOHNSTON: Well, it wouldn't matter whether the funds are held in the heritage fund or held in somebody's portfolio in Texas or in New York; you still have to make the payment. It's not confusing at all, except to very few people who can't understand what's happening because they don't understand how the capital markets operate, Mr. Chairman. The government's guarantee is important. It will stay in place, and it guarantees the principal and interest are being paid. Despite where the assets are held and despite the losses which may take place in the Crown corporation itself, these are general obligations of the government and will be met. That's always been the case and always will be the case until an entire liquidation takes place at some point.

MR. MITCHELL: Mr. Chairman, yes, the Treasurer agrees that he is subsidizing these companies, and no, we do not disagree that the government of Alberta has to honour its commitment. But you can't have your cake and eat it too. On the one hand

you are subsidizing those companies to pay interest which you use in general revenue, and on the other hand you say that that interest they are paying represents real income and real return to the Heritage Savings Trust Fund. You pat yourself on the back and say, "Look at how well we're managing that fund." The fact of the matter is that in 1988 that fund received . . .

MR. DEPUTY CHAIRMAN: Hon. member, are you leading into a supplementary question quickly? Thank you.

MR. MITCHELL: . . . \$1.3 billion from the Heritage Savings Trust Fund, paid in part by companies, those three companies that lost over \$350 million. All you can rightly assess as earnings to the heritage trust fund in that year would be about \$1 billion. Can the Treasurer please indicate to us how he can continue to inflate the earnings of the Heritage Savings Trust Fund by subsidized returns and income to these three Crown corporations?

MR. JOHNSTON: Mr. Chairman, I just did.

I'm always fascinated with the cake and can't eat it thesis. I'm sure the member has told that to his kid when he puts it on his birthday plate: you can't have the cake and eat it too. I mean, take that away. What kind of statement is that? There's no cake here. There's no icing. There's no misrepresentation taking place here, Mr. Chairman. As I said before, if those bonds were pledged in the institution, in the head office in New York, we would have to ensure that the interest payment took place.

Now, I would prefer to have that interest go back to Albertans as opposed to going to somebody else who has a large financial interest elsewhere. At least the money comes back here. At least the payments are controlled. They go to the heritage fund and back to the General Revenue Fund, I agree, because all the income goes over. But people understand that, and people prefer to have the income flow assist Albertans as opposed to assist the bottom line of some financial institution somewhere else.

It's not at all confusing, except, as I say, to a few people who try to make an issue out of it. It's not an issue. That's the way it's been done, the way it always will be done. Frankly, I think it's better to have the interest flow go back to the people of Alberta as opposed to going back to somebody holding vast amounts of resources who is indifferent to the dollar flows and simply worried about earnings per share.

MR. DEPUTY CHAIRMAN: Final supplementary.

MR. MITCHELL: Mr. Chairman, nobody's saying that we don't want the interest to flow back to Albertans. Exactly what we want to flow back to Albertans is interest, not subsidies from the government General Revenue Fund, which this Treasurer continues to call interest when it isn't.

Will the Treasurer simply admit that he's misleading Albertans as to the real income, the real quality of income, to the Heritage Savings Trust Fund and that it is nothing more than circular accounting where one hand pays another hand which pays the other hand to allow it to make its payment of "interest"?

MR. JOHNSTON: Well, Mr. Chairman, it's good to see that the member's coming closer to our position, because over three questions he at least now understands more what is happening - in fact, has agreed with our position - saying that yes, he

recognizes there's a guarantee in place, recognizes that interest has to be paid, recognizes that he would prefer to have the interest go back to Albertans as opposed to somewhere else. Well, that's essentially what's happening, Mr. Chairman. I'm glad to see he's coming to our position.

MR. DEPUTY CHAIRMAN: The Member for Calgary-Fish Creek.

MR. PAYNE: Thank you, Mr. Chairman.

Every year since, I believe, 1985 this committee has addressed the issue of the goals and objectives of the fund. Each year the same recommendation has been presented. Last year's recommendation 8 said:

as the Alberta Heritage Savings Trust Fund has now been in existence for [12] years . . . the government of Alberta consult with business, labour, and the general public as to the goals and objectives of the fund for the next 10 years.

And if I could be permitted a personal attempt at lobbying, I have introduced draft recommendation 1:

that the goals, objectives, and performance of the Alberta Heritage Savings Trust Fund be reviewed by the select committee and that private-sector consultants be retained to assist the select committee in its review.

When asked last year if the Treasurer had a plan for such action, his reply was in the negative. But in this year's committee report his response to the recommendation said that it may be appropriate to consult with specific interest groups. I'm wondering, Mr. Chairman, if the Provincial Treasurer could tell us this morning under what circumstances he would deem it appropriate to respond affirmatively, or positively, to the four-times-made recommendation to carry out such a review.

MR. JOHNSTON: Mr. Chairman, it's not that I disagree we should seek all possible inputs and advice in terms of managing such a large pool of resources for Albertans. We do that from time to time. We have had consultants, for example, advise us as to the best profile of investments. We've talked to a variety of people in the financial markets around the world as to how we could improve the rate of return on the assets of the heritage fund, and of course we've had discussions internally, particularly this committee, which I think does reflect the views of Albertans to a great extent, or at least the majority of the views of Albertans. But I've been hesitant before about going out and characterizing the fund in some future way which may mislead Albertans. Because right now, Mr. Chairman, I think our intention should be to manage the assets that are there to get the best rate of return we can so the income stream is transferred to the General Revenue Fund to maintain the costs of the programs and to maintain the tax regime we talked about.

But I'm becoming more optimistic obviously about the future of Alberta, very optimistic about the future, more optimistic about the nonrenewable resource revenues which are being generated by the province. I think it's more appropriate, as you get more certainty in terms of the oil and gas sector itself, that you could start to look at ways in which you can improve the use of the fund. Whether or not it's appropriate to have a cavalcade across Alberta talking to Albertans is one thing, whether or not you talk to select groups is another, or whether or not you simply to go out and bring in outside advisers to evaluate what has been done is a third possibility as I see it.

I think people understand the heritage fund. As I say, people who have received scholarship benefits for their kids understand it. People who have seen the Mackenzie health care facility here

in Edmonton understand it. The people who understand that the \$9 billion transfer of the General Revenue Fund has assisted them to maintain the quality of life and low taxes they expect in Alberta all understand how the fund has worked. But as you can see, even those of us on a day-to-day basis in contact with the fund tend to misunderstand some of its subtleties, if you like. But I'm starting to move a bit more toward the view that maybe at some point over the next little while here we should have a chance to further and more fully discuss the future of the fund in the context of how we can enhance it or refocus it, what to do with the fund when the revenues start to come back to Alberta, as I expect they will – I think last year I said sometime after '93 – and what else can be done with the fund in particular to maximize its use. Now, some of that discussion took place already when the Premier said that it might be possible to look at selling Syncrude. I think, in reading the record, others have said there's some story about privatizing some of the other assets that are now held by government which show up in the heritage fund.

These are all reasonable suggestions for ways in which we can maximize the benefit of the fund, to change the so-called cost approach here and add value to the fund so we can do more creative things with it, to continue the history of the fund in the future so it can become as meaningful, as creative, as important to the fabric of Alberta as it has historically.

MR. PAYNE: Well, Mr. Chairman, I think the Provincial Treasurer said that he's moving in the direction of that suggestion, and I would like to say I'm not at all fearful of asking some different guys for some different ideas which have the potential to add to the impetus to which the Provincial Treasurer refers. But I'm sure the Provincial Treasurer would agree with me that one economic factor getting in the way of the achievement of those very worthwhile objectives is in fact the erosion caused by inflation. Now, in a discussion with the Member for Lethbridge-West last year, I believe the Provincial Treasurer did acknowledge that eroding effect and even quantified it to the extent of something like a half billion dollars. According to the transcript of that particular hearing day, the Provincial Treasurer suggested that the committee might wish to recommend that we provide – his words – some basic support to the fund to allow it to deal with inflation of some of the assets. Of course, he did add the cautionary note that such a savings scheme would take money out of the GRF.

Now, last year's committee did not make the recommendation, but as you know, Mr. Chairman, this committee is almost entirely comprised of new members, and I'd like to ask the Provincial Treasurer how he would persuade this new committee that this is a good idea, if indeed he still feels it is.

MR. JOHNSTON: Mr. Chairman, I still hold to that view I expressed last year that because of the difficulties Alberta faced in 1986 with the collapse of energy prices and the impact on our fiscal plan, obviously every dollar was important. That's why we changed the way in which the fund operated with respect to the flow of nonrenewable resources, and that's why the transfers from the heritage fund and General Revenue Fund were so important to us. These were valuable dollars that we would have had to borrow offshore if we hadn't transferred from the heritage fund. So I think at that time the imperative was to protect the integrity of the GRF and to maintain as far as possible the limits on the deficit. But now, as things are improving, as we're meeting our fiscal targets, as the economy

is rebounding in such a significantly strong fashion, and since the oil and gas sector is very predictable in terms of its oil price and natural gas is rebounding in such a significant demand-driven way, probably we could start thinking about ways to protect the inflationary pressures on a fund of this size. If you assume that the inflation rate was 4 percent last year, then, of course, the real value of the fund has eroded by that 4 percent amount – an amount not shown in accounting terms, by the way, but certainly a real cost in terms of economic terms.

So I have the same view I held last year, and I again would be interested in hearing the views of the committee members about how we could take appropriate action to ensure that happens.

MR. PAYNE: Mr. Chairman, my final supplementary has a sharper focus, and that is the commercial investment division and particularly its rate of return. Now, the stated objective of that division is to earn a commercial rate of return in keeping with the heritage fund's savings objectives. I'm wondering if the Provincial Treasurer would be prepared to comment today on the performance of the commercial investment division. That is to say, how is its rate of return or other indices performing when compared with some other benchmarks, whether it's the Dow-Jones or the TSE index or whichever benchmark the Provincial Treasurer would care to use in quantifying, for the benefit of the committee, the performance of the commercial investment division?

MR. JOHNSTON: First of all, I think the commercial investment division is an important opportunity for the fund to participate in the stock markets of North America. It's not new to you to know that the stock markets since, I guess, July, August of 1982 have performed very well certainly in North America, but have been almost spectacular, I guess, in the case of some of the Asian bloc markets. It is felt that the European markets will continue to perform very well over the next five to 10 years ahead, assuming there isn't a worldwide recession or collapse. So the comments I made before are that I will circulate to you our portfolio on the commercial investment division, which I do as a matter of course; secondly, we would like to move more towards a diversified market-based approach to managing the commercial investment division; and finally, in terms of indicators, I think our numbers show that for a three-year average, if you take the Toronto Stock Exchange, it runs about 8.8 percent over that three-year period, and we have shown our calculations on equities in the portfolio to run about 9.9 percent. So we are outperforming the TSE 300.

Those of you who are familiar with portfolio management know that you pick your own index, you make up your own index, you change the weights depending on your view of the market, and you try to outperform certainly the TSE or some other traditional indices. In the case of this commercial investment fund, we in fact have outperformed the TSE 300 over the last three years.

MR. PAYNE: Thank you, Mr. Chairman.

MR. DEPUTY CHAIRMAN: The Member for Edmonton-Centre, followed by the Member for Lacombe.

REV. ROBERTS: Thank you, Mr. Chairman. I want to pick up some more from the previous questioner about the nature of the investment practices and the rates of return. I'm glad to hear about outperforming the TSE 300 index, but I think there

might be some other measures we could look to as well.

I ask these questions, Mr. Chairman, as a new member of the committee but one who is really concerned about the credibility of the Treasurer on a number of different issues, whether it be the Gainers involvement the province has had or Alberta Mortgage and Housing, as we've talked about – or even this morning, look at the front page. I mean, there was Laurence Decore in the middle page, but the front page showed the Provincial Treasurer making a mathematical error with respect to the number of jobs lost on the GST. So these kinds of credibility questions – I think my constituents are asking about how this Treasurer is really proceeding in the financial assets and management of the province.

Now, the minister did talk about the comparison with the Alaskan fund. Maybe it's not a fair comparison. There are different purposes and a different fiscal structure to both funds. But in some respects they do have the same kind of purpose. Disregarding the capital projects division, they have the same purpose of saving and investing provincial revenues. I would just like to get from this minister not comparisons with the TSE, which may be valid, but a comparison with the Alaska Permanent Fund in terms of investment practices and rates of return.

I'm told that over the last 10 years the Alaska Permanent Fund has well outperformed our savings trust fund by over a percentage point. We're at 4.6 percent; they're at 5.36 percent. In fact, their practices are very clearly stated by their corporation, which stands outside government – not the executive branch, as we have it here – where they are told to return at least 3 percent above inflation, that only 84 percent can be invested in fixed income securities, 15 percent invested in common stock, and up to 6.5 percent invested in real estate: some very clear guidelines, well understood by the people of Alaska as to what the investment policy and direction guidelines are, and they see the rate of return being far greater than ours.

So I would just like to get a clear statement from this minister, following up on the previous question, what firm investment policies are in place, how they are performing particularly with relation to the Alaska fund, and how we can get that word out more to Albertans?

MR. JOHNSTON: Well, Mr. Chairman, if you talk about credibility, people must wonder how these financial words are moving out of Edmonton-Centre's mouth. When you talk about credibility, this is the first time I've ever heard him talk about rate of return. I don't think he knows what it is, Mr. Chairman. I don't think he knows what it is. I think he'd better go back to the Old Testament where he may be at ease, because that's where his thinking is.

Let me talk about the guidelines we use to invest these assets, Mr. Chairman. It's easy to say that one fund may have been 4.6 or we may be 5.5. I don't know where those numbers come from. I can only indicate to you that we're working on a basis of a different kind of portfolio asset mix than you see in the case of the Alaskan fund, a different portfolio mix, and in fact I don't think it's easy to compare the rates of return on these assets. We opt for a very high liquidity. In the case of most of the financial assets, we are now running about 11 percent – I think the number is, Allister – so wherever the 5 percent comes from, I don't know. The rate of return we're talking about, as I've indicated, is about 9.9 in the case of the commercial investment division over the past three years, far in excess of the TSE 300, and about 11 percent overall for the fund. Now, that's not a bad

rate of return. If you assume inflation is about 3 to 4 percent over the past four years, a percentage of 11 percent is really maximizing the rate of return with very little losses in the portfolio itself.

Now, it's always a judgment as to how you weight your asset mix. Do you weight it in favour of real estate? Do you weight it in favour of fixed income securities? Do you weight it in favour of stock markets? Through advice from this committee, we are changing some of the weights you've talked about, and I've already indicated historically we're moving towards a more liquid portfolio, because of course the short-term yield curve is in fact higher than the long-term yield curve.

Now, I could explain that to the member from Edmonton if he wishes. But take it for assumption – at least assume he understands what I'm talking about – that in fact the short-term yield curve is paying more than the long-term yield curve, so we're maximizing that position by having a high liquid portfolio mix. That's why the yield in the fund is running about 11 percent right now.

REV. ROBERTS: Good answer. We're getting somewhere. I'll just challenge the minister never to tussle with me over the Old Testament. I'm sure I could tell him a thing or two about some of that Old Testament economic theology that he needs to learn more about in terms of sharing the greater wealth of the population.

MR. JOHNSTON: There we go.

REV. ROBERTS: All right?

AN HON. MEMBER: There's no doubt that he's running the fund on a prayer.

REV. ROBERTS: Okay. And there's another thing. Whether it's biblical or not, it says, "If we can't trust you on the small things, we can't trust you on the big things." I've just got a small thing here in terms of how the \$300 million endowment for the foundation for medical research has been invested.

MR. JOHNSTON: Mr. Chairman, I didn't hear.

REV. ROBERTS: The foundation for medical research: how that \$300 million, a small portion of the fund, has been invested over the last 10 years it's been in existence and why it's only now at \$509 million. I've been told that in a sense there have been some real problems in that. In fact, it hasn't been invested wisely; there have been some errors in judgment or whatever. In fact, the rate of return is a lot less than it should have been. Is that not true?

MR. JOHNSTON: That's not true.

REV. ROBERTS: So where has it been invested?

MR. JOHNSTON: It's been invested in marketable securities, which have outperformed the market, which have paid for two major facilities worth \$60 million, which have paid for an amazing amount of new research. If you looked at that annual statement, you'd see how significantly those dollars have been invested. And still the fund is growing. It's grown past the \$300 million level to something over \$500 million. That's performance, Mr. Chairman.

REV. ROBERTS: It has been 10 years the \$300 million has been in . . .

MR. DEPUTY CHAIRMAN: You've had your questions.

REV. ROBERTS: Final supplementary.

MR. DEPUTY CHAIRMAN: No, you've had your questions.

REV. ROBERTS: How many questions do you get? Are you going to change the rules too?

MR. DEPUTY CHAIRMAN: Hon. member, if you would . . . [interjections] Order. Order please. Hon. member, if you would like to be added to the list again, you certainly will, but you have had the agreed-upon number of questions.

The Member for Lacombe, please.

MR. MOORE: Thanks, Mr. Chairman. It's very evident this wasn't my original question, but I think it's very appropriate to ask it now, because it's very evident from the line of questioning I've heard today that there's a lot of misunderstanding of the fund by some people that seemingly find it difficult to understand good economic investments.

MR. DEPUTY CHAIRMAN: Do you have a question?

MR. MOORE: However, in that area I want to talk about the communication of this fund. I think it's very important that we communicate the goals of the fund and what we can do to improve this line of communication. I am just constantly amazed by the misunderstanding we have out there in the public whenever the heritage trust fund comes up.

I think we talked about this the last time the Provincial Treasurer appeared before us, and we talked about advertising. The opinion was at that time – and I agree with that opinion – that if we started advertising, we could create an area that people would expect more than what was really there, that we shouldn't overemphasize by advertising. Surely, we have to get the value of that fund across because we're continually hearing from some quarters that we're squandering it, the fund is depleting, and so on. That's still out there, and it's a major misconception. I would like to hear from the Treasurer this morning, Mr. Chairman: how could we better communicate that we aren't squandering; it's a good investment, and it's working for Albertans?

MR. JOHNSTON: Well, Mr. Chairman, it's difficult because the opposition likes to say that the fund has no asset value. I've heard statements ranging the valuation of financial assets from \$1.5 billion up to \$6 billion, which is just nonsense. Because as I've shown, the financial assets are worth over \$12 billion, and there are still other assets in the capital projects division which have worth, value, approximately \$2.5 billion worth of value. They're not as liquid assets, but they are assets of the fund.

So it's difficult to take on this continuing misrepresentation of the facts, and I guess we haven't been out there selling the heritage fund to the extent that we have. Similar to what Calgary-Fish Creek has said and as the Member for Lacombe indicates, it's time perhaps for us to go back out and talk about the strengths and the way in which this fund has performed for Albertans, the uniqueness of it, characterize the income flows which have allowed us to have the highest kinds of focus on

education and health and the lowest kinds of taxes of any province in Canada, really as a result of this fund. But I think it's important for us as MLAs on the government side, at least, where generally the truth is more relevant, to get out and talk about the things that the fund is doing.

MR. MOORE: Supplementary, Mr. Chairman. While we're on the value of the fund, there is one area I noted that I'd like the Treasurer – if he could give us an explanation of why the transfers to the General Revenue Fund are down from \$1.4 billion last year to \$1.25 billion this year. Could we hear the explanation to that?

MR. JOHNSTON: Mr. Chairman, there are two reasons for that, of course. First of all, when we continue to invest in the unique capital projects division, that money must come from the financial assets. It's transferred to the deemed assets side, and it's spent on those projects such as irrigation or other capital projects that are important to all parts of Alberta and which are, I guess, the objectives of the MLAs. So when you transfer that money to the capital projects division, you lose the income stream from that bundle of assets. I think last year there was about \$140 million – was it, Allister? – that was transferred through the year. So you can imagine that just on a simple 10 percent profile you've lost about \$14 million or \$15 million in income stream. So if you continue to erode the financial assets, continue to build important projects in the capital projects division or allocate the money for other purposes that are not government purposes, then you lose the income stream.

But the second thing that's happened is, of course, that we are moving into a more liquid profile of the fund so that we can take advantage of higher interest rates. Interest rates have been higher this year rather than last, and what you saw was essentially a variation of interest rates on a year-to-year basis. As a matter of fact, our forecast for this year has our transfers up just a bit above our budget because of the high interest rate regime. Essentially, it's driven by the interest rates and the rate of return.

MR. MOORE: Supplementary, Mr. Chairman. One area very dear to my heart is privatization. I feel we're in too many areas where we shouldn't be, but personal opinion. Now, when the Premier spoke to this committee on October 5, he mentioned that the Syncrude investment is one that could be reviewed for sale. It could be a possible target. Now, to the Treasurer. Does he see any other assets in the trust fund that we should be considering for privatization and bringing those funds back into the heritage trust fund to be utilized somewhere else?

MR. JOHNSTON: Mr. Chairman, I'm wondering out loud whether or not the Member for Lacombe is asking us: is it possible to turn the entire financial assets into cash? And likely the answer to that is yes. We could turn the entire financial assets into cash, and it could be done over time. It's quite possible, and there'd be substantial profits generated as a result of those transactions. For example, we could take the Alberta investment division. Any of the assets that are shown here in this described form could be taken to the market in some fashion and turned to cash, whether it's the Alberta Mortgage and Housing Corporation bonds, whether it's the Ag Development Corporation bonds, whether it's the bonds of AGT. All of these can be turned into different form through the way in which the market is now performing. The market is so unique and so

dynamic that you can change any assets you want into another kind of an asset very quickly, and these assets in particular could be changed.

Now, as to specific assets, it is possible that you could take a lot of the assets that are shown here and privatize them; that is to say, sell the asset to the private sector. If you wanted to, you could simply go through the list. You mentioned Syncrude; that's one obviously, which I think is shown here at about \$500 million and some; it probably has a value in excess of the book value and could be privatized in some fashion over time. Another one, of course, is the simple shares of the Alberta Energy Company, which are shown here on the balance sheet, which could be put into the marketplace very quickly. Still others would be ways in which we could privatize our position in Alberta Government Telephones, which I think this committee has referred to already. In doing that, you would probably convert your debt to equity over some time and then sell the equity into the market and obviously get cash back for it.

Privatization does two things. It converts the fund into a liquid form, and it provides transfer of the ownership to the private sector, where if you argue, as I'm sure you do, Member for Lacombe, there's more efficiency, more market sensitivity, and less government interference, then that's the appropriate policy question. To transfer it into cash, into a liquid form, you have to assume you can make more money on it in that form than you can in its long-term form in terms of rates of return. That's a judgment we all have to face when you make these kinds of decisions. But there's quite a list of them. I'd say that the entire asset portfolio of the financial assets of the heritage fund could be turned to cash, if that's what you wanted to do.

MR. MOORE: Mr. Chairman, on a point of information.

MR. DEPUTY CHAIRMAN: Yes.

MR. MOORE: I rise on a point of information, Mr. Chairman. Earlier in this meeting we ruled on the Member for Edmonton-Meadowlark's motion, and we gave direction to this committee. We voted on it, that we would read recommendations in here because of the importance of the gentleman who's appearing before us. It would have bearing on our questions, and the Member for Calgary-Fish Creek underlined that. We voted on it, and the direction was given that we would read those that were just given to us into the record. I understand that the Member for Edmonton-Meadowlark gave a series of questions. On a point of information, are you or he going to read it into the record so that we in our next series of questions to the Provincial Treasurer may have a different version of questions?

MR. DEPUTY CHAIRMAN: Hon. member, the procedure for the committee that has been established in this session of committee meetings is that a time allotment or an invitation is extended to members to read into the record recommendations at the beginning of the meeting, and the chairman has also been extending that courtesy at the end of the meeting. I would suggest that we adhere to that procedure which we've been following.

MR. MOORE: Just on that issue, are you allotting the last five minutes for reading of recommendations?

MR. DEPUTY CHAIRMAN: We will need to pause an appropriate period of time just before adjournment to allow for

that, yes.

MR. MOORE: At that time we will be allowed. We won't go up to 12 o'clock and find out we haven't time to read them in.

MR. DEPUTY CHAIRMAN: Well, hon. member, the Chair will try to handle it appropriately.

The Member for Redwater-Andrew, followed by the Member for Westlock-Sturgeon.

MR. ZARUSKY: Thank you, Mr. Chairman, and my questions will change a bit: in regards to the future of this province and something that's probably dear to our hearts in the future, and that's the Alberta family life and drug abuse foundation. As we all know, this foundation was announced by the Premier last summer, and draft legislation was proposed by the Hon. Nancy Betkowski. I understand the foundation will operate using the revenues of a \$200 million endowment from the fund, and the Premier also pointed out that it will be supplemented by private-sector involvement. Now, my question is to the Treasurer. Where will this money, this endowment, come from, and how will the transfer mechanism take place, since it's not part of the heritage fund now?

MR. JOHNSTON: Well, Mr. Chairman, in a general sense the money would have to come out of the financial assets of the heritage fund, some 12.4 at the end of March 31, '89, and the fund would do an appropriation. We'd bring an Act in the House to take the money out of the fund and put it somewhere else. Depending on the terms of the appropriation Act, we would then decide where it's located. If there's no rate of return to the government, then likely it would be shown much the same way as probably in the capital projects division, I would guess, because there'd be no income stream coming back to the heritage fund. But the comments I made earlier are appropriate – that is, it would come out of the financial assets, be appropriated somewhere else in the heritage fund, and therefore the cash flow would be reduced in the Heritage Savings Trust Fund by the interest on that \$200 million, which wouldn't go to the fund; that is, the heritage fund. It would go to the family life alcohol abuse fund.

MR. ZARUSKY: Mr. Chairman, that leads into my second question, which I think you've partly answered. But anyway, last year's recommendation 42 of the committee asked:

That continuing emphasis be placed on Alberta Heritage Savings Trust Fund investments that [only] yield monetary return, until such time as the debt is reduced or erased. So I can see there is a conflict already on some of the recommendations that are coming in. How will that be handled?

MR. JOHNSTON: Well, that's true; there is a bit of a conflict. But we have taken that direction and, as I've indicated before, are moving the fund to a more liquid form so that you can take advantage of high interest rates in the zero to three-year period. In doing that, we've maximized the yield, and we show it's about 11.1 percent overall. But if you appropriate more money from the assets of the heritage fund and segregate them somewhere else, then the income stream is lost to the heritage fund. Presumably, if you're assuming 10 percent rate of return, you'll lose about \$20 million income stream off those assets. They'll be lost to the heritage fund but gained by the appropriative fund to allow it to grow, as we did in the case of the medical research

fund, which has grown past the \$500 million level, made all its expenditures, built buildings, and still has capital which is worth more than the original appropriation. But the heritage fund and the General Revenue Fund, therefore, lose that income stream.

MR. DEPUTY CHAIRMAN: The Member for Westlock-Sturgeon, followed by the Member for Wainwright.

MR. TAYLOR: Well, thank you, Mr. Chairman. The Treasurer's made much of the fact, when asked about cyclical accounting or taking the left hand to pay the right in order to pay the heritage trust fund again, that he is worried about the reputation and the question of these Crown corporations not making good on their debentures. So in spite of the fact that the Crown corporations are badly in the hole, he says a dividend has to be paid in order to give a good reputation. Could the Treasurer tell me whether or not any of those three Crown corporations – AOC, Agricultural Development Corporation, and Alberta Housing – have any debentures with anyone except the heritage trust fund?

MR. JOHNSTON: Not that I know of.

MR. TAYLOR: So in other words, it's the left side of you frightened about the reputation of the right side.

Okay. Let's move on then, after we've blown that one out of the water. There is a recommendation made by the Provincial Treasurer, Mr. Chairman, in the standing committee on the heritage trust fund of 1988 saying:

The non-renewable resource revenue transfer has been suspended effective April 1, 1987.

That's number 3 on page 21.

The suspension is part of the Government's medium-term strategy to reduce the budgetary deficit to zero by 1990-91.

Could the Treasurer let us know whether this program is on track?

MR. JOHNSTON: Well, Mr. Chairman, as I pointed out in my opening comments, we in fact no longer provide any nonrenewable resource revenue to the heritage fund. It does not gain from royalties paid on our Crown resources. In fact, all the revenue is transferred to the General Revenue Fund, just as the committee recommended.

MR. TAYLOR: Mr. Chairman, that wasn't the question. The question was whether they're going to reduce the budgetary deficit – maybe he misunderstood me – to zero by 1990-91.

[Mr. Moore in the Chair]

MR. ACTING DEPUTY CHAIRMAN: Hon. member, that doesn't relate to the heritage trust fund. It's a general operation of a . . .

MR. TAYLOR: Well, it is very definitely. It's in your reports and in a recommendation. It relates to the heritage trust fund because it governs an amount of money that flows into general revenue from the heritage trust fund.

MR. JOHNSTON: Mr. Chairman, as I pointed out in the budget in March 1989, we moved our deficit reduction to zero to '91-92. I hate to disappoint the member, but we're on track.

[Mr. Jonson in the Chair]

MR. TAYLOR: On track, and unfortunately I think there's a train coming in from the other end of the tunnel.

Nevertheless, Mr. Chairman, the last supplementary, I believe. There again, this is 1989. The Member for Lacombe will probably be more up to date because the other one was ancient history; it was '88. This is '89, recommendation 12, and we're back again to give a background to the argument many people make that the Treasurer is kiting or making phony income receipts to the heritage trust fund by raising the debenture interest rates to defenseless Crown corporations who borrow, as he just said, only from him anyhow. In other words, why doesn't he make it 50 percent interest, and they'd really have a huge [inaudible]. Nevertheless:

Debentures may be redeemed in whole or in part without penalty with the approval of the Provincial Treasurer. Now, that's number 12 on page 22. Could the Provincial Treasurer or his deputy let me know if the department has ever refused to allow a Crown corporation to redeem a debenture?

MR. JOHNSTON: Mr. Chairman, I don't know the answer to that, if we've ever. "Ever" is a long time . . .

MR. TAYLOR: Can I say three years then?

MR. JOHNSTON: In the last three years? No, not in the last three years.

MR. DEPUTY CHAIRMAN: The Member for Wainwright, followed by the Member for Calgary-Forest Lawn.

MR. FISCHER: Thank you, Mr. Chairman. You mentioned that short-term investment was bringing a higher interest rate. In our chart right on number 1 our income has slowly been coming down. Do you project this year, then, that we're going to go back up, or have we let the Capital Fund take away some of that investment dollar?

MR. JOHNSTON: Mr. Chairman, that's my sense right now. I think the budget forecast for 1989-90 in terms of transfers was about 1.23, Allister, wasn't it?

MR. McPHERSON: Yes.

MR. JOHNSTON: We expect to be above that this year because of our performance and because of the interest rates paid on the short side of the yield curve.

MR. FISCHER: Another question I had, and I'll use ADC for an example. There was \$47 million that is going in this year. Does that come out of the investment return, or does that come out of the fund? And at what point do we get to where ADC begins to be self-sufficient so that with the money coming back in, we don't have to put any more out? Or does that go to general revenue, and then we put it back in the other way?

MR. JOHNSTON: Well, in the case of the first part: if the Legislature directs us, the Treasury or government, to invest in shares or bonds or any kind of instrument, then we do it. But if we invest in the debentures of a Crown corporation, we do it by resolution, as you well know, and we debate those resolutions here in the Assembly. Once we get the mandate to invest in ADC debentures, we simply buy them within the fund itself, taking cash, transfer it into an income-earning debenture from ADC or AGT or AMHC, whatever it may be. Internally, inside

ADC they obviously take the cash, and as our colleagues in the opposition point out, in some cases we use it to buy down debt. Well, we may do that, or we may use it to invest in new mortgages - in the case of farmers, to allow new farming enterprises to spring up in our province. Then over time it's assumed that that money will be borrowed, that it'll be put out at a rate above their borrowing costs so the income stream will allow them to repay not just the interest commitment to the heritage fund but also the capital at some point.

Now, where the problem has arisen is that there have been losses in some of these Crown corporations. It is right that they have losses, and therefore the assets have been eroded because of changes in the real estate values in particular. So while they may be able to carry the stream to pay the interest, there's always the problem of retiring the debt. That's part of the argument that's been made here. But all the debentures issued by a Crown corporation are guaranteed by the General Revenue Fund or by the government as a whole and, therefore, they must be repaid at some future date 100 percent. So we hope that under an ideal situation, along with any other financial institution, you would borrow the money from the heritage fund, say, at the current rate for 10- or 15-year money, invest it in mortgages which are 200 or 300 basis points above our borrowing costs, and that income stream to the Crown corporation allows them to pay the interest on their outstanding commitments and operate the corporation itself.

MR. FISCHER: That \$47 million that goes to ADC: what interest rate would that be?

MR. JOHNSTON: The current rate is . . . What is the last ADC rate, Allister? Ten percent in '83?

MR. McPHERSON: Mr. Chairman, the interest rates today for a five-year debenture would be just either side of 10 percent, and similarly for a 10-year debenture. So they would go out at whatever the current market rate is at the time.

MR. JOHNSTON: That's based on the term. Generally the term sets the rate. We're assuming that they borrow at the best rate Alberta has, but the rate we set on the term of the marketplace.

MR. DEPUTY CHAIRMAN: Thank you. That's your final supplementary, I'm afraid, hon. member.
The Member for Calgary-Forest Lawn.

MR. PASHAK: Thank you, Mr. Chairman. I note that you said the real assets of the Alberta Energy Company and Syncrude are far beyond the stated value in the balance sheet for the Alberta Heritage Savings Trust Fund. I guess maybe some evidence to support that would be that it looks to me like there are approximately 20 million shares of Alberta Energy Company that are owned by the fund at 20 bucks apiece - that looks like \$400 million - and the stated assets are \$117 million.

I wonder if that same ratio would exist for the value of Syncrude ownership. I know we don't hold that in terms of shares; it's an ownership position. I wonder if you could give us not an exact figure but an approximate figure of what that \$512 million worth of stated value would be if we were to dispose of it.

MR. JOHNSTON: Well, I appreciate the fact that the Member

for Calgary-Forest. Lawn understands that the assets in some cases have market value far in excess of the book value. In the case of AEC, that's certainly it. Moreover, there may in fact be a premium in AEC shares because it's a large block and therefore you'd be transferring control. If you did it, you could probably get an extra premium on that block of shares as well. But that's exactly the point I've been trying to stress, that asset values are above those shown in the financial statements.

Secondly, with respect to Syncrude, this is a very difficult one to put a valuation on. First of all, Syncrude, with the exception of last year, has always had a cash flow. Despite some people's questions, it's had a cash flow, and from that cash flow there's been some significant investment in retrofitting the plant so it generates more barrels and is more efficient at the margin. In fact, I think you'll see that the costs of production have dropped off considerably. If my memory is accurate, perhaps close to \$10 a barrel in terms of production costs have been saved from that.

Now, the member knows full well the theory of present value. He could explain it to the Member for Edmonton-Centre sometime. But the theory of present value is such that if you take the future flow of funds off a project, bring them back at some discounted cash flow value, you could come close to a valuation of the company. That's a very crude way of doing it, but the crudeness, of course, creeps in when you have to make some assumption about the price of oil going out over some period of time. And many forecasters have been wrong; some have been dead wrong, particularly in the 1981-82 period. So at this point when stability is starting to come back into the price of oil, I hasten to add that my forecast of 19-dollar oil in my budget year may in fact be fairly accurate. You don't have to blush, fellows. You don't have to blush. It may be fairly accurate going out over this year. Therefore, if you get more stability in the price of oil, it's going to be better in terms of the valuation of that company, because the present value of the cash flow is going to increase. That's the simple economics of it.

There are also the other factors which add value above the book value here. That is to say, if you were a member of the consortia or joint venture group, you probably wouldn't want to have everyone owning that share; therefore, there's a premium for you to protect your position. Finally, there may be other ways to privatize that share in some fashion. There are a lot of ways you can add value to it.

I can't give you an expression of value above the \$500 amount except to say it's more than the book value. We expect it'll increase in value as time goes on as long as the price of oil stabilizes above 18 bucks. As long as the technology continues to improve, there'll be enhanced value. But you make the right observation. Assets shown in the financial position statement or the balance sheet have value above the cost of the book value, and the two that you pointed to are classic examples of that.

MR. PASHAK: My second question, Mr. Chairman, has to do with an expression that Treasury has used, the liquid assets of the fund. That's a question that I know has been asked many times, and it really calls for an opinion on the Treasurer's part as to what the value of the liquid assets of the fund would be. I'd like to hear the Treasurer's opinion on that again, and in his opinion I'd like to know whether he would include as liquid assets those assets of the fund that are held by institutions like Alberta municipalities and Crown corporations that would in a sense be liquid if you really wanted to sell them immediately, I suspect, but would not be so liquid in terms of the political ramifications of trying to sell those debentures. So I'm asking,

I guess, for an opinion as to what the real liquid assets of the heritage trust fund are approximately.

MR. JOHNSTON: Well, the real liquid assets would be the so-called current assets reflected on the balance sheet. That's the immediate photographic view as of March 31, '89, which I think is \$2.8 billion plus accrued interest, I suppose, in any amounts that are due. So that gives you pretty close to \$3 billion in very liquid assets. They're in cash or marketable securities or T-bills or other kinds of high income producing assets. But if you take it further and add to it the additional valuations that could be achieved by the sale of certain assets, then you have the AEC/Syncrude example, which adds more current value to it over time. Probably in the short term you could add value.

Finally, as I've said before, Mr. Chairman, you could take any one of the assets that are shown in the financial assets here and securitize those or privatize those in some fashion. That is, you could bundle them up, sell them on the marketplace, get cash out of them today, and still have the security in place for somebody else to worry about over time in terms of the income stream, and we would have the cash here. The reason you would do that, of course, is either because you want to have ultimate liquidity in the fund or you could see some way to maximize return above your current costs in disposing of those assets, which would allow you to increase the rate of return internally.

It's hard to predict the valuation. If you took the \$12.4 billion at March 31, '89, and tried to securitize that in some fashion totally, you'd have a value well in excess of \$12.4 billion. How much depends on a lot of things, including the points you make with respect to Syncrude, the valuation of the stock market in the case of AEC, if you want to privatize some positions. Or in the case of Alberta Municipal Financing Corporation, if you wanted to disentangle AMFC and bring it back to its ownership, you'd probably generate surpluses as well. But I think you have to look at the investments here and segregate the investments between those which are income investments, which have a fixed charge or have a fixed income stream, and still other assets which are participatory in the sense that they're ownership positions. In the case of ownerships, you get a lot of value out of them. In the case of other ones, you probably securitize them for the approximate book value shown here.

MR. PASHAK: Thank you. My final question, Mr. Chairman, has to do with accountability. We've had debate many times in the Legislature that has to do with the fact that in a sense our whole parliamentary tradition arose out of the fact that common people wanted some measure of control in how their tax dollars were raised and how they were spent. We have a number of instances in this province where that kind of accountability really doesn't exist.

This is actually a post facto kind of exercise that we're going through. The decisions are already made with respect to expenditures from the Heritage Savings Trust Fund. I note that a number of recommendations have gone forward from this committee asking for some greater accountability to take place in the Legislature such as a financial plan to be presented annually to the Legislature with respect to spending objectives for the fund itself and that sort of thing. Why is the government so reluctant to move in the direction of having greater legislative control over Heritage Savings Trust Fund financial decisions?

MR. JOHNSTON: Well, of course I would take objection to

your position that the Legislature does not control the Heritage Savings Trust Fund. Moreover, the people who do make the major decisions are like you and I, common people of Alberta. We're the ones who are making decisions about the way in which this fund operates. We represent a constituency, we bring the ideas forward, and all of us collectively come to some view as to how to manage the fiscal affairs of the province. But it's unfair to say that we don't come back to the Legislature to talk about the fund in a variety of ways, to talk about its issues, its future, the way in which it participates with the fiscal plan and articulates with our general revenue plan. That all has been laid out for you going back at least since 1986 in terms of where we're going, in terms of the plan, and in terms of the balanced budget idea.

At the same time, we seek legislative authority from the Legislature to do certain things. We have an appropriation Bill. We have a resolution to allow borrowings to the Crown corporation. We have full opportunity to debate this fund in a lot of places at a lot of times: through question period, through resolutions, through motions, and through the entire debates with respect to the estimates of the department of Treasury. There is ample opportunity to have input into how the fund is operated. Moreover, this group here gives us recommendations, talks about the future of the fund, challenges our decisions, points ways in which they would do it better, of course, and we point ways which, in terms of the circumstances, were the appropriate decisions.

At the same time, every major investment of the fund is done by cabinet. Now, you may not like it, but someone's got to make decisions in government. Fortunately, you chaps will never get there to find out what it's like, but some people have to make the tough decisions. Some people have to make decisions; that's how the parliamentary system operates. We have responsibilities to make those decisions and we'll continue to do it. But the decisions to invest the heritage fund are made by the common people like you and I, Member for Calgary-Forest Lawn.

REV. ROBERTS: Like you and me.

MR. JOHNSTON: That's right. But not you.

REV. ROBERTS: Get your grammar right.

MR. JOHNSTON: That's right. You're absolutely right.

The point is that the cabinet, our MLAs who happen to have a little different responsibility, ultimately are the ones who control the investment in terms of the day-to-day operation. Moreover, in terms of moving quickly in the marketplace, it's allocated or designated to the Treasurer. That's the way it operates. There's full opportunity for debate, and there's full responsibility in reporting as to how the fund is managed.

MR. DEPUTY CHAIRMAN: The Member for Athabasca-Lac La Biche, followed by the Member for Edmonton-Meadowlark.

MR. CARDINAL: Thank you, Mr. Chairman. First of all, just a moment. I'd like to commend the Provincial Treasurer and his staff for the effective and responsible management of the fund. Keep up the good work.

Forestry is one of the most rapidly expanding sectors of our economy today, and that's what these guys in front of me don't like to hear, of course. Given that one of the fund's mandates

is to yield monetary return, this booming industry seems like a logical area of investment. It seems to me that we would be securing a piece of action for all Albertans through the fund. Is consideration being given to investing in this industry in addition to the existing investment with Millar Western, of course?

MR. JOHNSTON: Well, I suppose, Mr. Chairman, it can be argued that when the government provides guarantees to the forestry sector, that, in fact, is using the strength of the entire government to back that guarantee. That's no small, insignificant strength that I talk about; it's quite a significant guarantee that's put in place, and in part you're using the strength of the heritage fund to backstop the guarantee, because we are the only province in Canada with more assets than liabilities, and therefore we're in a very good position to carry out on the strength of our guarantee. So when you provide guarantees to certain private-sector operators who want to come to the province to carry out diversification, then of course the guarantee is in place. That, in part, is a way in which we've operated with some of the forest projects in this province, and I think it's legitimate use of the resources of the province to ensure that they can borrow effectively, they can have an efficient cost of capital to ensure the project advances.

More specifically, we have used the fund early on to trigger the exciting forestry opportunities in this province by ensuring that Millar Western was here with high technology and to ensure that the first step was taken. Therefore, we used the heritage fund in a fairly creative way to ensure we participated in not just ensuring the development took place but in the future flow of funds from that project. Moreover, to balance the development with the environmental concerns of reforestation, you can see as well that we have the Alberta reforestation nursery as part of the capital projects division under the fund.

So I think in terms of recognizing the forestry sector, we have done quite a bit, both within the fund specifically but, in more general terms, using the fund to provide the guarantee to ensure that that development and jobs and diversification take place.

MR. CARDINAL: My first supplementary is: is any serious consideration being given to invest in any spin-off secondary industry from the forestry projects? An example of this would be the proposed sodium chloride facilities that are being proposed for northern Alberta. I would think this would be a good investment.

MR. JOHNSTON: Well, Mr. Chairman, I think we would do that indirectly. I mean, I can't think of any province that has provided more financial infrastructure to the private sector than what the province of Alberta has provided.

Just check off, for example, the Crown corporations that some of these opposition chaps are criticizing. These are Crown corporations which have followed the initiatives, the imperatives of the time to ensure that agricultural funding was in place; to ensure that you and I can have a mortgage at reasonable rates here in the province of Alberta; and to ensure, for example in the case of AOC, that the private-sector small businessman has an opportunity to get capital. The most important thing that the private sector looks to is the source of good secure long-term financing, and this province has moved more than any other province to use its resources, to use the heritage fund, to ensure that these vehicles are in place. So if there's going to be a second-round impact of new investment driven by the diversification in forestry, then we would look to such vehicles as Alberta

Opportunity Company, Vencap Equities, for example, or maybe even Ag Development commercial side to handle some of the secure financing that's needed.

At the same time, we have used the dollars in part from the heritage fund to generate the Alberta farm credit stability program, which provides cheap financing to farmers at 9 percent to allow them to have long-term predictable secure funding, and the small business fund as well, which has been a tremendous success story in this province.

So in general we are doing it, and in specific we have laid out vehicles to ensure the financial infrastructure is in place. I could go on to talk about other vehicles, but I think the point has been made.

MR. CARDINAL: My final supplementary is: in order to address some of the regional disparities that exist, would you consider investing in regional heavy industrial parks, say, jointly with municipalities in rural Alberta?

MR. JOHNSTON: Yes, we've considered investing in it, and I should say that I suppose Alberta Mortgage and Housing Corporation during the first boom – the 1970 to '80 boom – in fact did invest in these kinds of projects. They were the response at the time. Similar concerns were raised by municipalities across Alberta that they had difficulty financing or finding private-sector activity who would put in place these industrial parks because they require long-term financing, a long payout period. As a result, Alberta Mortgage and Housing Corporation stepped in to provide these industrial parks, commercial subdivisions, and other subdivisions as well to put the infrastructure in place so that economic development could proceed and take place and expand the opportunities in these municipalities outside of Edmonton and Calgary.

Well, we did that; with the case of the housing corporation, we did that. At the time it was very imperative. Housing was a big objective; it was a big pressure. Interest rates were high, supply was short; we had to find a way to ensure that the Mortgage and Housing Corporation performed. We did it. They invested; they performed; the economy changed, and that's why we talk about some of the losses that are seen. But because we acted at the time, because we responded to the demand for infrastructure investment, which is so carefully needed in terms of industrial policy, to some extent you have to pay the cost for those investments, those decisions, later. But we have done it, and I'm sure a vehicle is in place to continue the expansion. I don't know specifically if it's going to be done directly through the heritage fund, but I'm sure you could talk to your colleagues and see if you couldn't propose something for us that we may be able to wrap around in terms of a policy question.

MR. DEPUTY CHAIRMAN: Thank you.

The Member for Edmonton-Meadowlark, followed by Calgary-Foothills.

MR. MITCHELL: Thank you, Mr. Chairman. I'd like to pursue the question of the Treasurer's concern with the province's international credibility were he to do the right thing and stop forcing Crown corporations, which are de facto bankrupt, to pay interest, which he counts as earnings, which is nothing more than circular accounting. In fact, if these Crown corporations were to be allowed not to pay the interest, the only thing that would be happening is that they would be reneging on debt to themselves: the government of Alberta would be

reneging on debt to the government of Alberta; the left hand's debt would be reneged to the right hand's note. It would mean nothing to international markets.

Would the Treasurer please confirm that his answer in that regard is nothing more than rhetoric and were he to ask these Crown corporations not to pay interest unless they were, in fact, profitable – not through subsidies but in fact – that would create not a sideways glance from any international market in the world today?

MR. TAYLOR: Or a lifted eyebrow.

MR. FISCHER: Mr. Chairman, on a point of order.

MR. DEPUTY CHAIRMAN: The Member for Wainwright has a point of order.

MR. FISCHER: Mr. Chairman, we surely don't have to sit and listen to a repeat of the same thing over and over and over again. The Member for Edmonton-Meadowlark has continually wanted to have more time for this committee, and then he asks the same question. He did it all day yesterday and all day today. I think we should have some ruling on it.

MR. JOHNSTON: Well, they're a tired opposition with no new ideas. That's why.

MR. DEPUTY CHAIRMAN: A little order would help.
Point of order, Member for Edmonton-Meadowlark.

MR. MITCHELL: Mr. Chairman, while many of the other ministers who were here before this Treasurer needed protection from the back bench, somehow I don't think that this Treasurer does, and I'd really like to get an answer to a question that is quite different than the previous questions I have asked and to which we have received no answer. Why are they so afraid to allow him to give us an answer?

MR. DEPUTY CHAIRMAN: I would like to try to move forward with the business of the committee. The question has been posed. Certainly it's on a topic dealt with previously, but – the Treasurer would like a cup of coffee. Hon. Treasurer, do you wish to proceed with the answer?

MR. JOHNSTON: I'd love to proceed with the answer.

Well, Mr. Chairman, it's a different point of view. You see, we operate on the basis that if you have a debt and have an obligation, you pay it. That's how we operate, and that's going to be the way in which we operate in the future. Now, it's unusual to have the opposition say you should renege on your payment: just ignore it; it'll go away. Well, that's not how the financial markets work, and that's not the principles on which this government operates. If we have an obligation, we pay it; if we've committed to do something, we do it; and if we have a debt to pay, we pay it. We don't believe in bankruptcy, Mr. Chairman. We believe in making things work the way we committed to make them work.

Now, the member says that wouldn't be a signal in the marketplace. How little he knows about the capital markets, Mr. Chairman. How little he understands the way in which they operate. The most casual comment, the most spurious comment, may in fact cause the capital markets to look at a player such as Alberta and say, "You know, we don't want to buy their debt

any more; they're the kinds of people who would back away from it," as in fact happened in 1930, as a matter of fact, when the province found itself in a terrible bind. We're not the kind of government that'll do that. I don't like to hear people saying: "Just ignore the debt. Walk away from it. Don't bother paying. Just ignore it." That's not the way in which this government operates, and I can see that's where those guys are going.

MR. MITCHELL: Mr. Chairman, what the Treasurer is establishing is that these debentures literally mean nothing, that he can construe them as being some kind of financially responsible vehicle, that they're really just inflated and supported by arbitrary government policy, and that they do not reflect, in fact, the ability of those companies to pay. And if all those things are true, which is in fact what he's saying, why doesn't he just set the debenture rate at 30 percent or 35 or 40 or 50 percent, and state adamantly, "Look, the fund does that much better because that's the return we've specified, and by gosh, we're going to guarantee that return"? Why don't you tell the financial markets that? Fifty percent on those debentures, and we're guaranteeing the return. It's meaningless.

MR. TAYLOR: That's impressive.

MR. MITCHELL: That would be really impressive: Heritage Savings Trust Fund earns 50 percent a year. It would be just as meaningless as its earning 9 percent a year or 10 or 11 percent a year now under the current regime of these interest rate structures.

MR. JOHNSTON: Well, Mr. Chairman, that's the most curious form of reasoning I've seen in some time. We've shown how we set the interest rates. [interjection] Well, it's typical of the Liberal Party, by the way. I mean, they're going to wipe the fund out. They're going to do a variety of things with the fund, things which Albertans would never agree to. They are advocating policies which Albertans would never agree to.

That kind of nonsense doesn't exist in this committee, Mr. Chairman. We're trying to manage this fund in an appropriate way. We're setting the rates based off the market as we described. Repayment is put in place. These are guaranteed debentures, guaranteed by the good word of this government, by the province of Alberta, which means something to me, Mr. Chairman. It means something to me, the word "guaranteed." When the province puts its guarantee on the line, it means something to the capital markets of the world. We're not going to renege on that, and I'm going to make it absolutely clear we're not going to renege on that, because the capital markets will respond.

Now, it's that kind of action, Mr. Chairman, that sends tremors through the capital markets. I know that I'm going to have to be speaking on the phone pretty soon to those people who say: "Who's that chap from Edmonton-Meadowlark there? He's talking about backing away from a guarantee. Is that the view of you?" And I'll certainly have to distance myself from my friend Mr. Mitchell, because that's not our position at all.

We would not construct it so - as phony as he suggests. We constructed it on the basis of a business transaction. The corporation borrows money from the fund - or it could borrow money anywhere; I've indicated before that our guarantee is on it - and they have to repay it. And that's, in fact, what's taken place. As I've said before, the valuation is there. The auditors looked at those debentures and said, "Yes; the debentures are

disclosed at the right price." No question about the valuation, Mr. Chairman.

So you see, Mr. Chairman, still we have confusion here, confusion in the mind of the Member for Edmonton-Meadowlark. It's unfortunate. It's unfortunate because I have a lot of respect for the gentleman. But when he talks about backing away from a guarantee, I make it very clear that that's not the position of the government.

MR. DEPUTY CHAIRMAN: Final supplementary.

MR. MITCHELL: The final supplementary. Mr. Chairman, for the Treasurer to say that he can pay off those companies so they can pay their interest and therefore avoid calling the loan would be like this Treasurer saying to Gainers, "We'll pay you so you can pay the interest so we won't have to call your loan." And he didn't do that. When he saw Gainers couldn't pay its loan, he called the loan. When he sees Alberta Mortgage and Housing and Alberta Opportunity Company can't pay the loan, do you know what he does? He pays it for them, and he says, "That's earnings to the heritage trust fund." That is . . .

MR. DEPUTY CHAIRMAN: Hon. member, do you have a question? [interjections] Order. Order please.

MR. MITCHELL: I have a final question.

MR. DEPUTY CHAIRMAN: The Chair is glad.

MR. MITCHELL: For a Treasurer who is extremely committed, we would presume, to the efficient and effective expenditure of heritage trust fund money, could he please answer this question, which has two components. One is: why would he allow the family and drug abuse foundation to be established as a parallel bureaucracy to AADAC, thereby being a highly inefficient duplication of bureaucracy with the expense and inefficiency that goes with that, when AADAC could perfectly well do it; and two, why would he allow the heritage trust fund to continue funding the grazing reserve program directly when it could be supported by grazing lease revenues on privately held grazing leases, when his Minister of Forestry, Lands and Wildlife doesn't even know how much money is going into those grazing leases from oil and gas developments?

MR. DEPUTY CHAIRMAN: There are two questions there. You can answer, Mr. Treasurer, both or one or whatever.

MR. JOHNSTON: Mr. Chairman, I understand that the member has lost the argument with respect to disclosure of financial statements. He would have pursued more the question of AMHC, but I guess, as I've said before, we've convinced them and maybe provided him a glimpse of understanding as to what's happening. I think that on AMHC - I'm sure it'll be back here again with a lot more time to talk about it.

But he's now gone on to another policy question. Notwithstanding my view as to how the fund should be invested or maximized or redirected or what its future should be or what its past has been, those are, essentially, items that I must take direction on from my caucus. My caucus describes how you invest the funds; the Legislative Assembly describes how you invest the fund. On one hand they're saying to me, "You're not accounting enough to the Legislative Assembly," and now on the other hand the Member for Edmonton-Meadowlark suggests I

could take it upon myself to manage the fund irrespective of comments from my caucus. Well, that's not how this government operates. Our caucus operates on the basis of consensus. We have a good discussion on how to form these objectives in terms of policy questions. We then have to look at the way in which resources are allocated to ensure those objectives are met. Then we have to make the decisions, and based on the decisions given to us, given to cabinet, given to the government caucus, we find and allocate resources. It's not up to the Treasurer himself to make those decisions, except with respect to the very narrow performance of the liquid assets. Those we have to do on our own because of the quickness of the marketplace.

So I think it's sort of an asymmetrical argument here, suggesting on one hand that the legislative process does not have enough input into the policy-forming of the heritage fund, and on the other hand asking me to reverse decisions taken by my caucus. That's not the way in which we operate.

MR. DEPUTY CHAIRMAN: The next questioner is the Member for Calgary-Foothills, but in view of the time, we have a couple of things to deal with. If there's time, we'll return to Calgary-Foothills.

First of all, we have filed with the chairman sometime after the commencement of the meeting this morning a number of recommendations from the Liberal caucus; I believe some 30 in number. I would like to suggest to the committee as a course of action that we invite the Liberal caucus, one member thereof, to make a motion that these recommendations be filed as part of the record. Given that we have a break in time between today's meeting and discussion of recommendations commencing on Friday, there would be an opportunity to read over the recommendations and study them prior to that time. If that's acceptable, I would invite a member of the Liberal caucus to so move.

MR. TAYLOR: I move that the letter we submitted earlier today be read into the minutes.

MR. PAYNE: I second that.

MR. DEPUTY CHAIRMAN: Discussion?
Member for Edmonton-Meadowlark.

MR. MITCHELL: Mr. Chairman, I have two more recommendations that have arisen out of the discussion we've had today, and it would seem to me inappropriate that we shouldn't have a chance to present those recommendations. Can I do it now verbally, or would you prefer that I do it at the beginning of the next meeting?

MR. DEPUTY CHAIRMAN: I would say you could do it verbally now. We can deal with this motion quickly. We'll move on to that other business.

Any other discussion? All those in favour of the motion? Thank you. Opposed? Carried.

There's an amendment to a previously submitted motion. The hon. Member for Lacombe.

MR. MOORE: You could read it in; you have my copy.

MR. DEPUTY CHAIRMAN: Well, I think you'd better read it in, hon. Member for Lacombe.

MR. MOORE: Mr. Chairman, I'd like to amend recommendation 25 on the list you provided us with this morning.

I amend recommendation 25 by deleting the word "investments" and replacing it with "projects." The recommendation will now read

That the government review the capital projects division projects as to identify which areas of expansion, addition to, or maintenance to, should be funded in future from general revenue.

MR. DEPUTY CHAIRMAN: Thank you. I believe that the courtesy of amending and reading into the record is extended without vote in this committee.

With a further amendment, the Member for Clover Bar.

MR. GESELL: Mr. Chairman, on recommendation 6 I've got a minor correction in the last phrase of the motion. Presently it reads: "... as through reduction of pollution." "As" should be amended to read "and": "... and through reduction of pollution."

MR. DEPUTY CHAIRMAN: Thank you.

The Member for Edmonton-Meadowlark, further recommendations?

MR. MITCHELL: I would ask to read into the record the following two recommendations:

That the Provincial Treasurer consider the feasibility of parceling portions of the financial assets of the Heritage Savings Trust Fund in a way that their management could be subcontracted to a variety of outside fund managers so that we could instill in the management of those features of the heritage trust fund the private-sector competition.

My second recommendation is:

That the Provincial Treasurer include in the annual report of the Alberta Heritage Savings Trust Fund comparative results for the management of financial assets in pools of a similar nature to those in the Heritage Savings Trust Fund, in the private sector. Comparative private-sector results for the management of similar pools of funds, so we can see how well they are in fact doing, not just by comparison to the TSE.

MR. DEPUTY CHAIRMAN: Let's not get into debate, hon. member, please. I'd like to request the Member for Edmonton-Meadowlark to be sure as soon as possible to file a copy of those recommendations with the secretary so we can be sure what they are.

The Member for Wainwright.

MR. FISCHER: Thank you. In recommendation 27 there's a misprint in there. The word "terms" should be out and "returns" put in. So it reads:

That in order to preserve the integrity of the Alberta heritage trust fund, the annual rate of inflation be considered before all investment returns are transferred to the general revenue.

MR. DEPUTY CHAIRMAN: Thank you.

The Member for Westlock-Sturgeon.

MR. TAYLOR: Mine was not a further recommendation. It was a motion. Is the floor open?

MR. DEPUTY CHAIRMAN: Are there any further recommendations or amendments?

I recognize the member ...

MR. TAYLOR: In view of the fact, Mr. Chairman, that some of the members did not get a chance to question the Treasurer, I would move that the committee arrange at a mutually convenient time for another meeting with the Provincial Treasurer.

MR. DEPUTY CHAIRMAN: The Member for Westlock-Sturgeon has made a motion to schedule a subsequent meeting. Discussion?

MR. PAYNE: Mr. Chairman, speaking against the motion. We have met in this Chamber very frequently in the past two months. I believe we've probably met with more cabinet ministers than any predecessor committee. I personally feel we've had full and ample opportunity to direct questions to the various members of Executive Council involved with the fund. Were it not for the highly repetitive nature of the opposition's questions of the past two days, I might have been disposed otherwise, but given the recent experience, I feel I just have to speak against the motion.

AN HON. MEMBER: Agreed.

MR. TAYLOR: Mr. Chairman, just to close off the debate . . .

MR. DEPUTY CHAIRMAN: You're going to conclude debate, Member for Westlock-Sturgeon?

MR. TAYLOR: Repetitive questions are, of course, quite often in the eye of the beholder; that's whichever side of the House you're on. It was interesting to see him in the opposition talking just the same as the opposition. Nevertheless, this committee has many members from the government side as well as from the opposition side that today you're leaving on the deck – and in particular this minister. We've not had a chance to ask him any questions before, and today – I don't know why the rush to get all these recommendations in – we have cut the time short, and I believe that the hon. Member for Calgary-Foothills as well as others have every right to ask the Provincial Treasurer, who is probably the chief spokesman in the Executive Council, maybe except for the Premier, on the use of the heritage trust fund. So I think it's a reasonable request to ask, at his convenience of course, and our convenience.

HON. MEMBERS: Question.

MR. DEPUTY CHAIRMAN: Debate on the motion having concluded, all those in favour of the motion, please indicate. Thank you. Those opposed? The motion is defeated.

I'd like to thank the hon. Provincial Treasurer and . . .

MR. TAYLOR: I'm sorry. It's a point of order. Could I ask for a recorded vote on that? [interjections] I have my own reasons, of course, as you can suspect, but I believe I have the right to ask for a recorded vote.

MR. MOORE: Point of order.

MR. DEPUTY CHAIRMAN: Yes. A point of order, Member for Lacombe.

MR. MOORE: I think it was very evident by the hands that were held up what the vote was. I see no time in tying up important people for political reasons. This is a nonpartisan

committee, very, very nonpartisan, and I hate to inject this sort of thing to indicate there is any political division here. I object to this inasmuch as we have now passed our time of adjournment, Mr. Chairman, and I say we should adjourn. We have no stipulation that we carry on at this point in time. We are now past our time of adjournment.

MR. DEPUTY CHAIRMAN: Yes. Thank you. It is within the parameters of the operation of a legislative committee to request a recorded vote. Hon. Member for Westlock-Sturgeon, do you wish to pursue that? Were you just reflecting on it, or what?

MR. TAYLOR: No. I'll pursue it. It only takes a . . .

MR. DEPUTY CHAIRMAN: You do wish to have a recorded vote?

MR. TAYLOR: Yes, please.

MR. DEPUTY CHAIRMAN: Okay. All those in favour of the motion please . . .

MR. GESELL: A point of order.

MR. DEPUTY CHAIRMAN: Clover Bar, yes.

MR. GESELL: If I understand the Standing Orders which rule this committee, there need to be three members standing to ask for a division. That hasn't happened. We've introduced a new motion which calls for adjournment. Now, this committee is guided by the Standing Orders, Mr. Chairman, and they have not followed that procedure. Three members did not stand to call for a division. A new motion to adjourn has been introduced which is on the table. They've missed the boat. I'm sorry, Mr. Chairman. [interjections]

MR. DEPUTY CHAIRMAN: Would the committee please come to order.

The point of order was raised, and we are still on the point of order. I realize there was a suggestion that there be a motion for adjournment, but when you're debating a point of order there would not be an intervening motion. I have said that if the member who moved the previous motion wishes to have a recorded vote, it is quite within order in this committee. We can ask for the bells to be rung or we can simply ask people to stand and we will have the vote recorded.

MR. TAYLOR: One question, Mr. Chairman. Maybe we're a little mixed up. In Members' Services we did it all the time. Recorded just means those that voted . . .

MR. DEPUTY CHAIRMAN: Could I just interrupt for a moment? I'd like to thank the hon. Provincial Treasurer and Mr. McPherson for their attendance at the committee.

MR. TAYLOR: It's just putting down the names that put up their hands. We did it in Members' Services all the time.

MR. DEPUTY CHAIRMAN: Right. Okay.

Would all of those members who were in favour of the motion please indicate so the vote might be recorded?

[For the motion: Mr. Mitchell, Mr. Pashak, Rev. Roberts, Mr. Taylor]

The committee is adjourned by the Member for Lacombe.
The next meeting is on Friday morning at 10 a.m.

MR. DEPUTY CHAIRMAN: Would those opposed please indicate?

[The committee adjourned at 12:07 p.m.]

[Against the motion: Mrs. Black, Mr. Cardinal, Mr. Fischer, Mr. Gesell, Mr. Moore, Mr. Payne, Mr. Zarusky]

