NUMBER 34 • NOVEMBER 1995

THE ALBERTA HERITAGE FUND IN 1995

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HIGHLIGHTS OF THE REPORT

This Bulletin is the sixth of a series of financial analyses of the Alberta Heritage Savings Trust Fund published by the Western Centre for Economic Research. The report estimates the market value of Fund holdings, and then constructs a statement of Fund income that can be compared to the performance measures applied to private investment funds. The Bulletin also comments on Fund policy issues. To summarize the main findings, the Fund's equity (assets net of minor liabilities) is estimated at $9.0 billion, in contrast to the total of $11.8 billion in the Fund annual report (Table 1). Fund equity has increased from 1994 and the concentration of investment in liquid assets has intensified with 60% of the Fund's portfolio now in short-term items (Table 2). Rate-of-return is calculated at 7.4% before correcting for inflation, slightly lower than the Fund Annual Report's estimate of 8.0% (Table 3). Fund assets are still well below Alberta provincial debt, but this relationship has improved. The Fund's estimated market value of $9.0 billion compares with the government's outstanding bonds (Unmatured Debt) of $21.5 billion (Table 4.). The Province has built a huge position in cash and short-term investments, most of which (86%) is maintained through the fund.

INTRODUCTION

In the past several years the Alberta government has withdrawn from the housing mortgage business, sold its share of Syncrude, abandoned the Lloydminster oil upgrader, and is presently disengaging from Vencap. More open and conservative accounting practices have been adopted to produce an increased, if not complete, recognition of market realities in asset valuation.

A new Volume 1 of the Alberta public accounts containing an income statement and balance sheet similar to commercial counterparts, serves to focus public attention on the net financial position of the province. A reader, seeing that the province's expenditures and revenues are about equal and that there is a Net Debt of $12.7 billion outstanding, will have at least a capsular appreciation of the province's financial condition.

At the same time, the government continues to produce a separate annual report for the Heritage Fund. This report, read out of the context of the public accounts, may present a misleading picture of the province's wealth. A reader who knows that the province has $21.6 billion in bonds outstanding may conclude that the Fund's reported value of $11.8 billion is an offset against these bonds. Unfortunately this is not true since Alberta bonds that are counted among the Fund's holdings have already been subtracted in identification of the debt level.

The objective of publishing a separate Fund annual report is not easy to discern. The report does not systematically account for all resource income set aside under Fund legislation. That amount is over $15 billion (with reinvested earnings). Further, it excludes from the total some financial assets bought with Fund money such as the $600 million in the Medical Research Endowment Fund. It is arbitrary in its selection of assets—hospitals bought directly with Fund money are excluded but Alberta crown corporation bonds used solely for, and backed solely by, public housing are included.

This Bulletin seeks to answers two main questions:

- what amount of public debt could be repaid if the Fund were liquidated in an orderly manner and used for this purpose? This question is important because the provincial public debt is now a central theme in understanding Alberta public finances.
- what rate of return did Alberta taxpayers earn on the assets of the Fund?

The report first revalues the Fund's assets, and in so doing compares 1995 levels with those in 1994. A reconstruction of 1995 net income follows. Finally, the Fund is related to the total government financial picture, and current policy issues are briefly discussed.

PROVINCE OF ALBERTA OBLIGATIONS

The Fund Statement lists among its assets $1.6 billion in Province of Alberta securities. Since these are held within an Alberta government entity, they are not counted as part of the Unmatured Debt in the public accounts. If the whole Fund had been used to "buy" Province of Alberta bonds, the Fund would have effectively vanished, along with a sizable portion of the provincial debt. There would be no point in circulating a separate Fund annual report to the public. The reduction in Unmatured Debt on the public accounts would be sufficient information. This logic is equally applicable when just part of the provincial monies set aside under Fund legislation have been used to "buy" Alberta securities. The policy may be a sound one, but reporting it through reduction in the public debt is all that is necessary.

In addition to Province of Alberta securities, the Fund claims holdings of $2.3 billion in the securities of crown corporations wholly owned by the province. The implications of these holdings are discussed below.

THE FUND'S MAINSTREAM INVESTMENTS

The Fund's holdings of liquid assets and marketable securities, described here as mainstream investments, are securities, deposits and other high-quality claims commonly held by financial institutions and private investors. These assets, now totaling over $7.2 billion, can be easily converted into cash with little or no delay. For the most part, the Fund annual report values these assets at their cost of acquisition, and reports market values supplementally. In this Bulletin, current market values are used as the primary measure of value for the reason that if the investments were to be used to pay down the provincial debt, market value, not cost of acquisition, is the relevant price.

CASH, MARKETABLE SECURITIES, ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

The Fund holds $5.318 billion of Government of Canada obligations, bank deposits and other cash-like assets. While these are extremely safe, holding them normally requires some sacrifice of earning power. In this analysis their value as stated in the Fund Annual Report is accepted.

The Annual Report valuation of both receivables and accrued interest on all but Province of Alberta obligations is also accepted. In the analysis here, accrued interest on Province of Alberta obligations is not included for exactly the same reason that the obligations themselves are left out.

PORTFOLIO INVESTMENTS

Fund assets include investments in stocks and bonds. The largest item in this category is the bonds of the Atlantic provinces and Quebec Hydro. More than half of the original position in these bonds has been repaid in full, and the remaining holdings mature on or before 2005. Because they were acquired when interest rates were high, their market value exceeds their book value.

There is also a broad portfolio of common shares, designated under Fund legislation as the Commercial Division, and investments in NOVA and TransCanada Pipelines.

Market values on portfolio investments are easy to obtain, since identical or closely similar assets are regularly traded in public security markets. The $1.729 billion market value of all portfolio investments exceeds cost by more than $300 million.

The Fund's Singular Assets: Mortgages, Venture Loans and Other Items

The remaining Fund assets are described as singular. They include the debentures of Alberta crown corporations, various economic development loans to private firms, and the interest in Syncrude still owned at the end of the fiscal year. Valuation is more difficult than that of mainstream assets, since a meaningful sale would require negotiation.

These assets could be sold more readily with government guarantees (which some already carry), but the net proceeds of the sale would then have to include an allowance for the guarantee liability. Therefore, whether these singular assets are guaranteed by the provincial government is, for the most part, irrelevant.

Alberta Crown Corporation Investments

The government no longer lends Fund money to Alberta crown corporations, but the 1995 annual report still includes large outstanding balances owed by four organizations: Alberta Social Housing, Alberta Municipal Financing, Alberta Financial Services, and Alberta Opportunity. If these crown corporation debentures were held in the private sector they would be counted in the public accounts as provincial debt. However, since they are held by the Fund they are excluded from Unmatured Debt.

Arguably, Alberta crown corporation debentures should not be counted at all in valuing the Fund, since they have already been subtracted from the provincial debt. However, the crown corporations themselves hold some financial assets which impart objective backing to their debentures. These assets, which have, for all practical purposes, been financed entirely by the Fund, could be liquidated and applied to repayment of provincial debt.

Of the four crown corporations in the Fund annual report, two can be addressed in an uncomplicated way. Alberta Social Housing essentially owns only public housing, which, like schools or hospitals, is not counted on the public accounts as a financial asset. The Fund holdings of Alberta Social Housing debentures have already been deducted from Unmatured Debt in the public accounts, so they should, like other Government of Alberta bonds, be deleted. Interestingly, if the Fund had purchased social housing directly, this expenditure would be counted among the Fund's capital projects, a record of Fund social spending. The artifice of their ownership in a crown corporation does not change the fact that Fund money has been used for a social program and not financial assets.

Alberta Municipal Financing is at the other end of the continuum. Its debentures are fully backed by loans to Alberta municipalities, supported by the taxing power of those governments. These financial assets could be sold into the private sector and used to retire debt.

Alberta Financial Services Corporation and Alberta Opportunity Company Debentures

Alberta Financial Services now owns and manages the portfolio of agricultural loans formerly held by a predecessor crown corporation, Alberta Agricultural Development. This portfolio was financed almost entirely with Fund money. Alberta Financial Services debentures are listed at face value of $894 million because the debentures are (meaninglessly) guaranteed by the Alberta government. The agricultural loans bear unusually low interest and in fact have a market value estimated at $666 million (Appendix, Note 2). Agricultural banking is clearly a discretionary activity for government, and this estimated $666 million could be realized for public debt repayment should the loan portfolio be liquidated.

On a much smaller scale, issues relating to the Alberta Opportunity Company are similar to Alberta Financial Services. Alberta Opportunity lends money to small and new businesses, and in turn issues debentures to the Fund. These debentures are valued at $78 million on the Fund annual report, but the underlying loan portfolio, because of its risk and loss experience, is estimated to have a market value of only $57 million (Appendix, Note 2).

LONG-TERM INVESTMENTS

Through the Fund the province has loaned money to several private companies including Ridley Grain, Millar Western Pulp, Vencap, and a set of companies in the Alberta Pulp Mill (ALPAC) project. Of these assets, Millar has been written down to an unimportant amount. Vencap's value appears to be understated since the province's interest in this company is in the process of being sold for a higher amount. The mortgage on the Ridley Grain terminal is probably overvalued, particularly in view of the uncertain effect of freight rate changes on Prince Rupert grain shipments. The ALPAC investment is also probably overvalued, though strong markets in pulp and paper currently reduce the likelihood that performance-contingent contractual terms will reduce the payments on this loan position (See Note 3). At the end of the fiscal year the Fund owned 11.74% of the Syncrude tar sands consortium, with a book value of $324 million. This investment has now been sold at a price in excess of the stated amount.

In general, the book values of the long-term investment position seems reasonably consistent with market opportunities.

FINANCIAL ASSETS RESULTING FROM THE CAPITAL PROJECTS DIVISION

The legislation for the Fund provides a number of investment categories or "divisions", including one for Capital Projects. Their intended purpose was to allow spending to "provide long-term economic or social benefits". To date, $3.6 billion has been spent mostly for non-financial assets, such as parks, hospitals and dams. However, some financial assets have been accumulated, one of which is Vencap.

There are two other major portfolios of financial assets; the Alberta Heritage Scholarship Fund and the Alberta Heritage Foundation for Medical Research Endowment Fund. The $906 million combined value is excluded from the province's financial assets because it is dedicated to supporting scholarships and medical research. It is also excluded from this analysis because it is unavailable for repayment of the public debt. Nevertheless, these portfolios contribute to the financial strength of the province and should be recognized when assessing the results of Fund legislation.

$54 million of capital project money was originally spent on rail hopper cars and their sale is currently under consideration. There may be other relatively small amounts of retrievable value left over from capital project spending, but no attempt is made to place a market value on any of this.

CHANGES IN THE FUND SINCE 1994

Between 1994 and 1995, the most important change in the Fund was the $1.373 billion increase in cash and marketable securities. The impact of this increase provides greater flexibility for the implementation of future policy changes in the Fund. The principal source of these liquid reserves was, rather curiously, reduction of Fund nominal holdings in Alberta government obligations. Put another way, the Alberta government chose to build liquid reserves in the Fund rather than pay down its debt to outside parties. Repayments of bonds by other provinces coupled with the final stages in liquidation of the province's portfolio of housing mortgages were important sources of the reserve buildup.

INVESTMENT PERFORMANCE

The Fund Annual Report identifies income with a conventional accounting method:

Fund Statement net income = Interest and dividends earned + gain on disposal of investments - writedown of investments.

This analysis (Table 3) uses the total income method, commonly employed for measuring the performance of investment portfolios such as mutual funds. This is stated as:

Total income = withdrawals from the Fund - payments into the Fund - decline in market value of Fund equity.

There are several reasons why the two methods produce differing incomes:

(a) since the Fund annual report treats provincial obligations as assets, it also recognizes interest "earned" by the province on its own obligations;
(b) in the annual report capital gains are recognized on assets when sold, while this analysis reports these gains or losses in the period in which they occur;
(c) this analysis deducts government subsidies to crown corporations which support their interest payments to the Funds.

Accounting methods employed in the Fund annual report results in net income of $914 million in fiscal 1995. The method in this bulletin records a total income of $628 million, a difference of $286 million explained primarily by the deletion of $231 million interest received on provincial and Alberta Social Housing bonds and the deduction of $94 million in government subsidies.

RATE-OF-RETURN

Rate-of-return (net income in relation to assets) is commonly employed as a measure of investment management success. The Fund annual report (p. 8) asserts a rate-of-return of 8%. In this analysis, where both income and assets are estimated below the levels contained in the Annual Report of the Fund, a slightly lower rate-of-return of 7.4% is calculated (before allowing for inflation).

For a true picture of the Fund's performance, the nominal rate-of-return must be adjusted for inflation. What is really important in judging Fund performance is the amount of money which could have been withdrawn from the Fund while leaving its purchasing power intact. While fiscal 1995 was a year with low inflation, the principle of correcting for purchasing power change is still sound. The Consumer Price Index (CPI), a widely used indicator of the goods and services a dollar will buy, was used to measure purchasing power change. During 1994 the CPI rose by 1.2%, leaving an estimated real rate-of-return of 6.1%.

Fund assets are an important source of liquidity for the province. About $5.3 billion in Canada securities, deposits and other safe, short-term assets provide a buffer which could cover revenue shortfalls, unusual costs, or delays in borrowing. This liquidity is an additional benefit of the Fund, though the present levels of Fund liquidity are probably well beyond government needs.

A COMPARISON WITH ALASKA'S FUND

A comparison of the annual performance of the Fund and the Alaska Permanent Trust is of interest, though care is necessary in drawing conclusions about the management of the respective funds. Not only may risk exposure between the two funds be different, but chance can also play a part in investment results. That said, for the year ended June 30, 1995, the Alaska Trust reported a rate-of-return of 4.4%, net of inflation. Like this analysis, the Alaska statement identifies total investment performance—both cash receipts and market value changes. An outside consultant is hired to measure total performance on singular investments, which in the Alaskan case are in real estate (nearly all located outside Alaska). Note that the rate-of-return in the Alaska annual report is net of inflation.

FUND ASSETS AND ALBERTA FINANCES

A decade ago the Fund was the central feature of the province's finances. Since then, financial trends have changed. Debt is now the main theme, but the assets accumulated under Fund legislation remain important. Table 4 displays the province's financial assets and liabilities and the contribution of Fund assets to the province's total holdings of financial assets. The column headed "All assets and liabilities, Book value" contains values taken directly from the Consolidated Statements, the province's central financial report. The column confirms the province's large debt but also allows the reader to see how the $18.8 billion of financial assets, including Fund items, offset a major part of the $31.5 billion in liabilities.

Of the province's financial assets, close to half are attributed to Heritage Fund investment. The column headed "Heritage component, Book value" shows the province's own valuation of all Fund financial assets. For perspective, the right-hand column presents the market value of assets from Table 1 of this analysis. In aggregate, there is a close agreement between the province's own values for Fund assets in the public accounts, $8.91 billion, and those in this bulletin, $9.01 billion.

Most of the Fund holdings are in four major asset categories. In Cash and Marketable Securities, $5.32 billion out of the province's $6.15 billion holdings have been acquired through the Fund. In Portfolio Investments, the Fund contributes $1.40 billion book value out of a $2.19 billion total. All of the $0.91 billion Long-term Investments (economic development assets) are Fund assets. In Loans and Advances, the $1.10 billion Fund holdings are only a small part of the province's $7.37 billion investment.

POLICY CHOICES FOR THE FUND

In the 1995 fiscal year, after extensive public discussion of the Fund's future, the government decided to maintain the Fund. Of course, in a literal sense much liquidation has already happened, since $5.3 billion of the Fund is being held in cash-like items.

With the decision to retain the Fund, a number of policy options are now open to the government. The government need not confine itself to one policy, and may choose a Fund portfolio segmented to reflect various policy objectives. The original Fund legislation provided for this, but did not determine how funds were to be allocated among the various objectives ("divisions"). Some of the policy options are:

1. A **Sinking fund**. In this case the province would manage funds as an offset to its debt position until the debt was repaid. Provincial bonds could be repurchased in the market, or safe bonds of other borrowers could be purchased and held with the intent of using the interest, and at maturity the principal, for debt repayment. This policy is comparable to that of private companies that assure creditors of their willingness to service long-term debt by agreeing to establish a fund for its repayment. It is already partially implemented through the government's practice of having the Fund "buy" securities of the Alberta government, thereby effectively canceling them.
2. An **Investment trust**. The province would manage money, through its employees or agents, much like private-sector mutual funds. The objective of such a fund for a debtor government would be to undertake extra risk, by including equity investments in its portfolio, and to thereby earn a higher rate-of-return than the interest rate payable on its own debt. This policy is consistent with the Fund's Commercial Investment Division.
3. **Economic development**. The province would invest in local financial assets, as exemplified by Syncrude, Vencap, ALPAC, Lloydminster, Millar Western and Ridley Grain and the loans to the Alberta Financial Services and Alberta Opportunity crown corporations. This is the policy objective consistent with the Alberta Investment Division (though part of the investment in that division was indirectly for social housing, a non-financial asset). Such a policy implies a willingness to place money where provincial planners believe private sector investment is inadequate. At its best, this policy is represented by the Syncrude investment, which earned an adequate return (4.5 % after inflation) over its lifetime, and may have stimulated a new industry in the province. At its worst, the policy supported the billions lost in government housing and farm mortgages with little prospect for stimulating major economic change.
4. **Non-financial investments.** The province would resume spending of Fund money for support of parks, hospitals and industry infrastructure, using as a model the Capital Projects Division. The return on such investment would be primarily non-financial. At its best, this division may have stimulated important economic development and social improvement through its support of medical research and post-secondary scholarships. So far as the author knows, however, no analysis has been done on the implicit rate of return on Capital Projects spending.

The government has already made a commitment not to pursue the fourth alternative, since Capital Projects spending was stopped at the end of the 1995 fiscal year. Further, it is difficult to think of the third and fourth alternatives being implemented without continuing input from politicians. Since the government has also expressed an objective of separating Fund management from politics, that probably leaves the Sinking fund and Investment Fund as the realistic alternatives.

A government committed to non-intervention is likely to prefer a Sinking Fund to an Investment Fund. This leaves the decision on whether to take extra risk for extra return to individuals, and concentrates the Fund's objective on repaying debt. The government's minimized role in managing a Sinking Fund appears to be permissible under the mandate they elicited from the public on the questionnaire regarding the Heritage Fund. At the extreme, the government could use the whole Fund portfolio for buying Alberta bonds, cancel them off the provincial debt, and in effect hold the Fund in a waiting mode until the province's Unmatured Debt has dropped to zero.

On the other hand, the mandate also allows room for an Investment Fund. Financial literature demonstrates that, over a long time, high risk assets will yield a substantial risk premium above a government borrowing rate. The choice of strategy may have a different impact on different citizens. A wealthy citizen may not care very much which choice the government makes, since he or she can easily compensate for the government's taking of more or less risk by opposite behavior in personal investing. There may be other complexities, such as the effect of the choice on the federal taxes paid by Albertans, possibilities of political payoffs in the selection of investment managers, or concern of government itself over possible political embarrassment from unfavorable market moves on risky Fund investments.

INFORMATION SOURCES

Alaska Permanent Fund, 1995 Annual Report

Alberta Public Accounts, 1994/95. Province of Alberta.

Alberta Agricultural Development Corporation Annual Report, 1994/95.

Alberta Heritage Savings and Trust Fund Annual Report, 1994/95.

Alberta Opportunity Corporation Annual Report, 1994/95.

Bank of Canada Review, April, 1995.

Table 1: Alberta Heritage Fund Valuation
March 31, 1995 (millions of dollars)

	Market Estimate	Fund Report	Difference
Marketable Securities and Liquid Assets			
Cash and marketable securities			
Government of Canada obligations	2,062	2,062	0
Other liquid assets and deposits	3,256	3,256	0
Sum, cash and marketable securities	5,318	5,318	
Accrued interest and net accounts receivables (Note 1)	171	232	-61
Portfolio investments			
Bonds of other provinces (Canada Division)	997	918	80
Share portfolio of Commercial Investment Division	443	222	221
TransCanada PipeLines Ltd. subordinated debentures	155	150	5
NOVA common	133	112	21
Sum, portfolio investments	1,729	1,402	
Total Marketable Securities and Liquid Assets	**7,218**	**6,952**	
Mortgages, Venture Loans and Other Items (Note 2)			
Loans and advances			
Alberta Municipal Financing Corporation	162	140	22
Alberta Financial Services Corporation	666	894	-228
Alberta Opportunity Company	57	78	-21
Sum, loans and advances	885	1,113	
Long-term Investments			
Direct loans (Ridley, Millar, Vencap, ALPAC) (Note 3)	588	588	0
Syncrude Project participation	324	324	0
Canadian Western Bank	1	1	0
Sum, long-term investments	913	913	
Total Mortgages, Venture Loans and Other Items	**1,798**	**2,026**	
Province of Alberta obligations	0	1,627	-1,627
Alberta Social Housing Corporation obligations (Note 5)	0	1,221	-1,221
Fund Net Assets (Equity)	**9,106**	**11,826**	**-2,810**

Table 2: Alberta Heritage Fund Change
March 31, 1994 to March 31, 1995 (millions of dollars; no inflation adjustment)

	1995 Market value	1994 Market value	Change from 1994
Marketable Securities and Liquid Assets			
Cash and marketable securities			
Government of Canada obligations	2,062	1,248	814
Other liquid assets and deposits	3,256	2,698	559
	5,318	**3,946**	**1,373**
Accounts receivable and accrued interest	171	442	-271
Portfolio investments			
Bonds of other provinces (Canada Division)	997	1,201	-204
Share portfolio of Commercial Investment Division	443	446	-3
TransCanada PipeLines Ltd. subordinated debentures155	166	-11	
NOVA common and convertible debentures	133	142	-9
	1,729	**1,955**	**-226**
Total Marketable Securities and Liquid Assets	**7,218**	**6,342**	**876**
Mortgages, Venture Loans and Other Items (Note 2)			
Loans and advances			
Alberta Municipal Financing Corporation	162	167	-5
Alberta Social Housing Corporation obligations (Note 5)	0	268	-268
Alberta Financial Services Corporation	666	684	-18
Alberta Opportunity Company	57	79	-22
	885	**1,198**	**-313**
Long-term Investments			
Direct loans (Ridley, Millar, Vencap, ALPAC)	588	554	34
Syncrude Project participation	324	341	-17
Lloydminster upgrader	0	56	-56
Canadian Western Bank	1	1	0
	913	952	-39
Total Mortgages, Venture Loans and Other Items	**1,798**	**2,150**	**-352**
Fund Net Assets (Equity)	**9,016**	**8,493**	**524**

Table 3: Alberta Heritage Fund Income and Rate-of-Return Year ended March 31, 1995 (millions of dollars)

Withdrawals from fund for general use		
"Income transferred to General Revenue, per Fund statement"	914	
Spending in Fund capital projects division	49	
Net increase in Alberta provincial and ASHC obligations nominally owned by Fund	**-535**	428
Payments out of general revenue for fund activity		
Alberta Financial Services Corporation grant for lending division	-76	
Alberta Opportunity Corporation grant	-18	
Interest received on Province of Alberta and ASHC obligations (per Fund statement)	**-231**	**-324**
Net money drawn from fund for general use		104
Change in value of Fund equity (Table 2)		**524**
Net income (no correction for inflation)		**628**
Equity, March 31, 1994 (Table 2)		8,493
Rate-of-return (net income ÷ March 31, 1994 equity)		7.4%
Inflation rate (CPI), March, 1994 to March, 1995		1.2%
Rate-of-return (corrected for inflation)		6.1%

Table 4: Province of Alberta Finances, and the Heritage Fund Year ended March 31, 1995 (millions of dollars)

Province of Alberta, Consolidated statement of assets, liabilities and net debt"	All assets and liabilities	Heritage component	Heritage component
	Book value	Book value	Mkt. value
Assets:			
Cash and marketable securities	6,149	5,318	5,318
Accounts receivable and accrued interest	1,743	171	171
Portfolio investments	2,194	1,402	1,729
Long-term investments	913	913	913
Equity in commercial enterprises	204		
Loans and advances*	7,373	1,101	885
Inventories held for resale	269		
Total assets	18,845	8,906	9,016
Liabilities			
Accounts and accrued interest payable	1,966		
Unmatured debt	21,577		
Pension obligations	5,352		
Other accrued liabilities	2,118		
Equity in Alberta Municipal Financing Corporation	539		
Total liabilities	31,552		
Net debt	12,707		

*Book value of Fund loans and advances includes $140 million backed by loans made under the authority of the Alberta Municipal Financing Corporation Act; and all loans made under the authority of the Agriculture Financial Services Act and Alberta Opportunity Fund Act, as set forth in Schedule 9, Vol. 1, 1994/95 Alberta Public Accounts.

Appendix: Notes on valuation of Heritage Fund Assets March 31, 1995 (millions of dollars)

1. Fund value for accrued interest was adjusted to exclude estimated accrued interest on Provincial obligations of about $50 million (2% of reported value). Fund liabilities of about $6 million were offset.
2. Estimates of crown corporation asset values were obtained as follows:
   a. Valuation discount rates are based on March 31 long-term Canada bond rates: 1995 8.5%; 1994 8%
   b. Premiums for risk, administration and collection are added to the Canada bond rates: AFSC 3%; AOC 4%
   c. AFSC and AOC loan portfolios are valued, using the following assumptions
      (i) Crown corporation allowances for doubtful accounts are correct.
      (ii) One maturity date characterizes all loans extended by each corporation.
      (iii) Half of AFSC abatements under the disaster assistance program are non-recurrent.
      (iv) AFSC loan book value is with accruals and before loan discounts, per Note 10, AFSC annual report.

	AFSC 1995	AFSC 1994	AOC 1995	AOC 1994
Loans receivable, per crown corporation annual reports	947	937	76	80
Interest income, per crown corporation annual reports	76	80	9	10
AFSC abatements (loan incentives and 50% of disaster assistance)	-18	-19		
Interest earned, net of abatements	58	60	9	10
Discount rate, as described above	11.5%	11.0%	12.5%	12.0%
Approximate average maturity	9	9	5	5
Present value, principal and interest	666	700	73	82
Other assets, net of liabilities not owed to Fund		-16	-18	-3
Estimated total market value	666	684	57	79

3. The province adjusts for "concessionary financing" but the method used still leaves some overvaluation. The province's borrowing rate is used as a discount rate on risky assets; and administration and collection costs are ignored. In this Bulletin, loans which back AFSC and AOC debentures are valued independently. On other "long-term investment" loans, such as ALPAC, book values are used because of difficulty in estimating market value. Their probable overvaluation is not large enough to affect general conclusions on Fund value and performance.
4. Book values for assets backing Fund debentures are obtained from Alberta Public Accounts and Alberta crown corporation reports.
5. ASHC debentures are treated as general provincial obligations, since this institution is now primarily a provider of social housing. Previous bulletins recognized some financial backing for these debentures from ASHC holdings of third party mortgages. Small 1995 net residuals of this mortgage position are ignored.