



STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

Hansard Verbatim Report

No. 31 – April 19, 2006



Legislative Assembly of Saskatchewan

Twenty-fifth Legislature

**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES
2006**

Ms. Sandra Morin, Chair
Regina Walsh Acres

Mr. Dan D'Autremont, Deputy Chair
Cannington

Hon. Graham Addley
Saskatoon Sutherland

Ms. Donna Harpauer
Humboldt

Mr. Allan Kerpan
Carrot River Valley

Hon. Mark Wartman
Regina Qu'Appelle Valley

Hon. Kevin Yates
Regina Dewdney

[The committee met at 15:25.]

The Chair: — Good afternoon everyone, and welcome to the Committee for Crown and Central Agencies.

We are going to first of all table a few reports. First we have the Investment Saskatchewan debtor-in-possession financing report as well as the SaskTel reports and also the Provincial Auditor report for 2005 CIC [Crown Investments Corporation of Saskatchewan] Crown corporations and related entities.

And I would now ask the committee members to introduce themselves starting with Mr. D'Autremont.

Mr. D'Autremont: — Dan D'Autremont, MLA [Member of the Legislative Assembly], Cannington.

Mr. Kerpan: — Allan Kerpan, MLA, Carrot River Valley.

Hon. Mr. Yates: — Kevin Yates, MLA, Regina Dewdney.

Investment Saskatchewan Inc.

The Chair: — Thank you very much. And the first agenda item is the 2004 Investment Saskatchewan annual report. I would now like to ask Minister Eric Cline to introduce his officials.

Hon. Mr. Cline: — Thank you very much, Madam Chair, and good afternoon to you and your committee members. With me to my immediate right is Janet Wightman, who is the CEO [chief executive officer] of Investment Saskatchewan and president. And to my left is the chief financial officer, Ms. Laurie Powers, and to the right of Ms. Wightman is Heather Forbes, who's an investment director with Investment Saskatchewan. And I of course am the minister responsible.

The Chair: — Thank you very much, Minister Cline. I would now call upon Mr. Andrew Martens from the Provincial Auditor's office to introduce his officials as well.

Mr. Martens: — With me today is Judy Ferguson, who's the deputy provincial auditor in charge of this audit. And behind us are the officials from KPMG. We have Tom Robinson, regional managing partner; Bruce Willis, the engagement partner on this audit; and Colin Woloshyn, the senior manager on this audit.

The Chair: — And I would now invite the Provincial Auditor's office to make an opening statement if you so desire.

Ms. Ferguson: — Thank you, Madam Chair. Members, government officials, and minister, for the year ended December 31, 2004 we worked with Investment Saskatchewan's auditor, KPMG, on all of the audits of ISI [Investment Saskatchewan Inc.] and a number of its subsidiaries.

ISI's 2004 annual report folder contains the audited financial statements of Investment Saskatchewan Inc., Saskatchewan Valley Potato Corporation, CIC WLSVF Holdings Inc., PCF Investments Ltd., WCT Investments Ltd.. We found all of these financial statements to be reliable.

In addition we found that Investment Saskatchewan had adequate rules and procedures to safeguard public resources. Investment Saskatchewan complied with authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. Therefore we have no recommendations on these matters that require the attention of this committee.

We also reviewed ISI's 2004 pay disclosure report and have no specific concerns to report to you.

Finally we'd like to acknowledge the excellent co-operation we received from ISI's auditors, KPMG, and the management. Thank you.

I'm now going to if I could, Madam Chair, turn it over to Bruce Willis of KPMG for their comments.

Mr. Willis: — Thank you. We have nothing further to add to the Provincial Auditor's comments. We have issued our clean audit reports on the financial statements of Investment Saskatchewan and would also like to add that we had an excellent working relationship with the Office of the Provincial Auditor and management. Thank you.

The Chair: — Thank you, Mr. Willis. I would now like to ask Minister Cline if you had an opening remark to make as well.

Hon. Mr. Cline: — Yes thank you, Madam Chair. Our primary purpose today is to discuss the 2004 annual report of Investment Saskatchewan. Having said that however, we would be pleased to answer any questions committee members may have about the corporation.

First let's look at 2004 which, as you will see from our annual report, was a very successful and productive year for Investment Saskatchewan. 2004 was a year of building for the corporation. From the hiring of key management personnel to the establishment of operational policies and strategic plans, significant time and effort were devoted to laying the groundwork for Investment Saskatchewan's future success.

Investment Saskatchewan clearly demonstrated in 2004 that as a stand-alone entity it can deliver solid returns to the Government of Saskatchewan. Investment Saskatchewan's earnings rose from \$7.5 million in 2003 to \$19.3 million in 2004 — an impressive achievement by any measure. The corporation also ended the year with a cash position of \$168 million and total assets of \$629 million.

The increase of Investment Saskatchewan's earnings in 2004 resulted primarily from the strong performance of five of the corporation's six major investments led by HARO Financial Corporation, Saferco, and Meadow Lake OSB [oriented strand board].

That's not to say however that the corporation was without challenges. The Meadow Lake Pulp Limited Partnership fared poorly in 2004 due to a number of economic factors including a high Canadian dollar, low pulp prices, and increasing energy costs. Uncertainty in the pulp operation led the corporation to take a \$30 million provision on the mill.

As publicly released in the third quarter report in November 2005, a significant additional provision of \$100 million was taken on the mill. Even with this, Investment Saskatchewan was still able to post solid net earnings for 2004 even with the \$30 million provision in the 2004 fiscal year. As you know, the pulp mill was put into CCAA [Companies' Creditors Arrangement Act] protection in December 2005 and is still in a court monitored restructuring process.

Although the primary reason for today's discussions relate to the corporation's 2004 performance, it has been very busy since that time. Under the guidance of its board of directors it has put in place investment, finance, and human resources policies that follow industry best practice.

The corporation has also implemented a comprehensive business development strategy which has substantially increased the pipeline of potential new projects — a pipeline which is expected to lead to an increasing number of new investment approvals in 2006 and beyond.

On Monday, Investment Saskatchewan will table its 2005 annual report and we'll be able to address its financial results for the 2005 year at that time. Today we are only able to address questions regarding the 2005 financial performance up to and including the third quarter, as this information was made public in the third quarter report released in the fall of 2005.

With that I will conclude my remarks. Again, we would be happy to take your questions related to the 2004 annual report or other matters of interest to the committee. Thank you.

The Chair: — Thank you for those opening comments. Mr. Kerpan, would you like to ask the first question?

Mr. Kerpan: — Thank you, Madam Chair. First of all thank you, Mr. Minister, for being here today and thanks to all the officials of Investment Saskatchewan and other various officials that needed to be here in order to present the 2004 report.

Mr. Minister, you touched on some areas that obviously we're going to want to spend a bit of time with today, that being namely the Meadow Lake pulp and paper mill. But a couple questions that just come real quickly out of the 2004 report that sort of present themselves to me.

Firstly, you mentioned that, you know, we've got a showing of about a \$12 million increase in profit '04 over '03. And my question, my initial question was: what areas, what sectors were accountable for that \$12 million increase in profit?

Hon. Mr. Cline: — Yes. HARO was the largest one at net earnings of \$30.9 million in 2004, followed by Saferco at \$19.7 million, followed by Meadow Lake OSB plant at \$15.8 million, Centennial Foods at . . . I'm sorry, Big Sky at \$2.9 million and Centennial Foods at \$1.9 million.

Mr. Kerpan: — You also mentioned in your remarks that, you know, you're looking seriously at some new types of investments for '06. Could you outline to the committee what areas they might be in?

Hon. Mr. Cline: — I'll ask Ms. Wightman to comment on that

in the sense that the day-to-day operations of course and looking into investments are the prerogative of the board and the people that work at Investment Saskatchewan. I would imagine that there are some confidentiality provisions as well. She may be talking to people in business where she can't fully disclose who she's talking to and it may not become public until in fact some kind of arrangement is arrived at. But with those comments, I'll ask Ms. Wightman to generally comment on the areas that they're looking at.

Ms. Wightman: — Certainly. From the perspective of the sectors that we're looking at predominantly, we have some activity in the IT [information technology] sector in advanced technologies. We have a fair bit of activity in the ag-biotech sector with some of the firms out of Saskatoon; a significant interest in ethanol and other energy-related sectors as well; some discussions in the oil and gas sector although there is . . . For the most part the firms who are based in Calgary but looking to operate in Saskatchewan have access to quite a fair bit of capital for that particular sector right now.

Mr. Kerpan: — Could you inform us what kind of . . . what area of dollars we're looking at as to some of these new investments that you're looking at? How much money are we talking about here?

Ms. Wightman: — Our mandate is to make direct investments \$3 million and upwards. So where we see an investment coming forward we may disburse out the funds in smaller increments than that, but we look at investments that have a total need requirement of \$3 million and greater. We also, for the investments that are less than a \$3 million size, we direct capital to some of the local funds or national specialty funds who are sort of focused on that niche market — smaller investments or highly specialized investments.

Mr. Kerpan: — In the area of these new investments though that you mentioned in the '04 report, how many dollars in total would you expect that you will invest in these new types of projects like the IT sector or others in total? Do you have an idea? Do you have a plan in mind?

Ms. Wightman: — Well the way that we operate is we have an allocation. So there is an allocation available to the organization to invest up to \$50 million. That being said, the other side of our mandate is to invest in commercial deals, so we certainly have to balance the rush to place capital and make sure that that's not being done at the expense of the quality of the deal.

So for '04 the investments . . . There were no new investments in '04. The investments were all follow-ons to our existing investees. In '05 in the first three quarters, where we have released the information, there were two new investments and a couple of follow-ons as well.

Mr. Kerpan: — Would I be correct then in assuming that you're turning a new corner for Investment Saskatchewan and looking at some really new areas of investment for taxpayers' dollars, things that you maybe haven't looked at or dived into in the past? Would that be a correct assumption?

Ms. Wightman: — I would say it's correct in terms of some of the more recent investments we've made. I'm thinking back.

Historically there have been no defined boundaries on which sectors investments could be made in, so it was more a matter of what in practice actually occurred.

We have held investments prior to Investment Saskatchewan. Once, investments were handled by CIC itself. There were investments in small technology firms. There were some in the ag-biotech sector as well. So I wouldn't say that it's a departure from the perspective of the sectors.

Mr. Kerpan: — When you set out to look at researching and possibly investing in a venture or an area that you haven't gone into before, what mechanics, what rules are followed by Investment Saskatchewan before a decision is either taken or not taken to invest?

Ms. Wightman: — We have particularly explicit and rigorous policies, including our due diligence policies. So in the cases you've referred to where we're investing in a sector or in a deal where we haven't traditionally been involved, what will happen is once we have a review of the business plan, we will typically contract with third party expertise who has expertise in that particular domain. So for example with a recent investment in the ag-biotech sector, the particular science that was at the base of this business was not something that we had in-house expertise, so we contract with an outside firm.

Once we've gone through a process of due diligence involving all of the financial performance and the projections for the company, we bring that forward. It first has internal management approval in concept and then will go forward to an investment committee of the board of directors. Depending on the size, it would then go forward to the full board of directors.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — When you're looking at future investments into different sectors, is there a mandate or a policy within Investment Saskatchewan to use caution or some sort of restraint if there is existing businesses in that sector?

Ms. Wightman: — The way that we look at it is on a case-by-case basis. We look at the particular company who we may already have, who is approaching us for investment and look at the other companies.

There is no policy or restriction that if it is a competitive market that we would not fund one particular player. So it does happen. For example in the Ag biotech sector, there are a number of companies operating out of Saskatoon and it doesn't prohibit . . . there is nothing that would prohibit us from investing for the growth of one or the other for that matter. There's also no rule that says if we invest in one, then we can't invest in any others.

What we're interested in doing is providing capital when needed for any company to grow. The element that we have not run into yet but could in the future is to make sure that if two companies are directly competing head to head, then you have to look at whether or not investment in one would completely jeopardize the other, especially if they are both going to be within the portfolio of Investment Saskatchewan. We haven't run into that before.

Ms. Harpauer: — That would be rather difficult to do I would think because if you had two companies that were competing head to head and you were negotiating with one in order to participate in their business or be a contributor to their business, you wouldn't have access to the other company's financial situation. It would be confidential. So therefore I'm sure it would be a very difficult decision to know whether or not you would jeopardize the other company or not.

But just an additional question. Does Investment Saskatchewan seek businesses or sectors to invest in or are companies, businesses, business people approaching Investment Saskatchewan asking for their assistance?

Ms. Wightman: — It's very much both. So we quite proactively go out and speak to companies who we know are looking at expansion and who are looking for the right way to expand their company or to start up a company if that's the case. In addition, we have definitely a lot of firms who come directly to us because we can't always know which company might be looking at an expansion or a growth plan. So it's definitely both elements.

Ms. Harpauer: — If I remember correctly and I'm just getting this confirmed, the maximum amount in any given year that Investment Saskatchewan has the authority to invest is 50 million per year?

Ms. Wightman: — That's the allocation, yes.

Ms. Harpauer: — Okay. Allan, do you have more?

Mr. Kerpan: — Yes. I'm relatively new in this place and so bear with me when I ask this question. But in the past years, has the \$50 million allocation been spent every year?

Ms. Wightman: — No. Keeping in mind Investment Saskatchewan was created only midway through 2003, so '04 was actually its first year of operations. And as noted in the annual results, the investments were 8.7 million that year. In '05 up until Q3 [third quarter], relatively similar number, although some of those were new investments.

But no, the total allocation has not been invested. The difficult part in this industry is setting aside a reasonable allocation, but not knowing what kind of deals, what kind of need is going to present itself during the year.

Mr. Kerpan: — Thank you. I wanted to move on in the time that we have left and talk about an issue obviously that's huge in many people's opinions in Saskatchewan, that being the Meadow Lake pulp and paper mill.

I'm sure that there would be no argument within this Chamber today that everyone in this Chamber has some concerns, probably some more than others, with what has taken place with the mill, not only in the last months or years but dating back many years. And I know that based on questions and comments within the legislature when it's been sitting, no one seems to want to take any real responsibility for what has happened with the mill.

And as far as I'm concerned, as far as we're concerned on our

side is that we obviously have huge concerns with the people who work there, with the communities, with the suppliers, and with the creditors of the mill. And so rather than sit here today and point fingers back and forth at each other, I think it's far more productive that we would want to make offers to work together to come up with some conclusions or possible conclusions that might be beneficial for everyone concerned, mostly again those folks that live in the Meadow Lake area and that have direct stakeholders within it.

And that leads me to probably the biggest question of the day and that is: what is Investment Saskatchewan's vision for the future of Meadow Lake mill?

Hon. Mr. Cline: — I'll take that question. Our vision is to proactively seek a solution to the problem that there is at the mill which arises from, as I indicated in my opening remarks, high energy costs, high Canadian dollar, and low pulp prices which is a combination of an imperfect storm, if I could put it that way, which has impacted pulp mills everywhere. So we have been proactively taking action in the sense that it was Investment Saskatchewan that late in 2005 went to court to have the mill placed under court protection under the CCAA. The idea being that we would bring in an operator who has a lot of expertise in the area to run the mill, to examine the operations, and to see if there is a way that the mill can be restructured in order that it may be viable.

And that is what we are undertaking to do. It's being done as part of a public process which is court supervised, and that process is ongoing with the operator reporting to the judge. And ultimately, you know, the operator will be reporting to the judge whether it's possible to restructure the mill or whether there may be some party interested in purchasing the mill which could operate the mill.

So we're pursuing those opportunities and doing the very best we can to see if there's a solution to the situation. And we certainly appreciate your indication that you wish to remove this from the political debate and fully co-operate with government and Investment Saskatchewan as we seek a solution for the employees and citizens of Meadow Lake. Thank you.

Mr. Kerpan: — I think that your answer is a really good answer although I must say, I must say it would be a real standard type of answer for whether you're in the committee or whether you were answering that very question in the Chamber.

But the hard facts, the hard reality, the hard reality of the situation is when one compares it to the Weyerhaeuser mill in Prince Albert and when one looks at the world markets and one looks at dollars and one looks at the rising costs of energy, there's a real likelihood, I think, that there may not be a restructuring plan that works for the Meadow Lake mill. And if that were to happen, then what's plan B? Because as I said before, you know, Weyerhaeuser closed last week, and I don't see people banging at the door to buy it, frankly. And they're obviously in a different situation. They're a privately owned company. They can do whatever they want to do with their mill at the end of the day and we really haven't got much to say as government.

But Meadow Lake certainly is a different situation and that's where this whole problem has gone on and on and on for many, many, many years. And we're, you know, in the ditch to the tune of . . . whatever you believe is the tune of \$800 million or 1 billion or 700 or whatever number you want, you know, we want to pick.

So it's a different situation. And what is plan B?

Hon. Mr. Cline: — Well, Madam Chair, first of all I'd like to point out that we're not in the habit of picking numbers out of the air in terms of how much money has gone into the Meadow Lake pulp mill. I had specifically answered in the legislature and to the media the amount of money that has gone into the Meadow Lake pulp mill. But I'll repeat that for the benefit of committee members and that is approximately \$347 million has gone into the Meadow Lake pulp mill.

Some talk about 800 million, \$1 billion, whatever. And they're talking about forgone interest in effect, payments that might have been made on the money that has gone in. But if you're talking about cash that has gone into the Meadow Lake pulp mill it's about \$347 million. And as I indicated in the legislature, up until about 1991 when our government came to power, approximately 240-some million dollars had been invested. Plus an agreement was entered into that pretty much obligated government to put more money in over the years which is what our government has done over the last 14 years, and another approximately 90 to \$100 million has gone in. We could give you the exact figures.

So I think it's important, when we're having this public debate, to honestly talk about what money has been spent on the mill. We can also talk about opportunity costs and the like. But we're not going to be picking numbers out of the air. That's the amount of money that's gone in — \$347 million.

Now what is plan B? Well first of all we're not anticipating that we won't find a solution to the present operations of the mill because that's the very process that we're in. We're in a court supervised CCAA process whereby there's an operator of the mill who ultimately must examine the mill, talk to the suppliers, talk to all the stakeholders, and see if there's a way that mill can be operated at a profit, recognizing that that obviously is a major challenge.

At this point the court has not decided that it should bring the court ordered protection and operation to an end. So it would be premature either to say that it can't operate in that function or that we should presume it can't and move on to some other plan.

Having said that, if that situation should arise, then we would have to examine all possible options which might include a sale of the pulp mill as a pulp mill or it might include a sale of the assets of the pulp mill which may include I think access to timber rights. And whether that timber could be used in another way to create another product, for example if there's no real market for pulp, perhaps there's another market for a product that could be produced out of timber rights. There are various scenarios and it's very uncertain, is the answer, what exactly will be done.

But we will continue to believe, and we do believe, that there is value in the forest. There may not be value in pulp. There may not be value in paper in Canada or North America. But there's value in the forest and there's a demand in the world for wood products.

And if at the end of the day pulp does not work at Meadow Lake, some other solution will be found. I'm advised by Investment Saskatchewan that there are parties that are interested in the pulp mill. They may be interested in other opportunities at Meadow Lake. We're not at liberty to discuss who they are, what their interest is, what may transpire. But I can assure you and the committee that we are doing everything that we can to make sure that, depending upon what happens, we leave no stone unturned to try to have either the pulp mill operating or some other equivalent economic opportunity going on in Meadow Lake to create jobs and generate wealth out of the forest. And we are very dedicated to that task and that's what we will continue to do.

Mr. Kerpan: — Mr. Minister, with all due respect — and I mean that, with all due respect — you know, you started answering that question exactly the way every politician has answered that question for the last 15 or 16 years, in a political way. I really did mean what I said when I . . . in my opening remarks when I said that I'm prepared, and I think we are on this side prepared, to work with all parties to try to come to some solution to this mill issue.

When you talk about debt though, I just cannot agree with you. I mean yes, I can agree with you that we have spent \$347 million of taxpayers' money, but there's in the neighbourhood of \$600 million of accrued interest on that debt. And last time I checked, when I would go out and buy a house and I borrow \$100,000 and I don't make the payments and the interest accrues, I owe the total amount at the end of the day. So maybe that's the question.

And I didn't really mean to go in that direction today because I thought there were other questions that needed to be answered. But I cannot agree with you when you say that we are in debt of 347 million because in fact it's closer to 900 million.

Hon. Mr. Cline: — Well I'll certainly note the member's comments, Madam Chair. And what I've indicated, the agreement certainly allows interest to be paid if and when possible. It appears it is not possible at the moment. But I've noted the member's comments, and he can note my comments. And I think the comments speak for themselves.

Mr. Kerpan: — Well perhaps then we'll let the court of public opinion decide who . . . and maybe that's the best way at the end of the day anyway as to what the real debt owing on that mill should be.

Could you tell me, folks, how much money is owed to unsecured creditors at the mill at this point in time?

Hon. Mr. Cline: — I'm advised by Heather Forbes who works in this area for us that it's about \$26 million.

Mr. Kerpan: — Could you tell me how many creditors would be involved roughly? Do you know that? Do you know the

answer to that?

Ms. Forbes: — Over 100.

Mr. Kerpan: — Would any of those be local creditors? Would they be local suppliers? When I say local, I mean in province, in the province of Saskatchewan.

Ms. Forbes: — It's a combination. There's lots of larger suppliers that actually . . . out-of-province suppliers.

Mr. Kerpan: — Is SaskPower part of the creditor protection of the mill?

Ms. Forbes: — Yes.

Mr. Kerpan: — When you look at unsecured creditors, would I be correct then in assuming that that's a 25 or 6 million dollar debt that would have to be added on to the total debt of the mill at this point in time?

Ms. Forbes: — The unsecured creditors are part of CCAA process, so they become frozen in that process. And it's quite separate from the debt that . . . If you're referring to the debt that's owed to Investment Saskatchewan, they're two very separate categories under that process.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — If I understand it correctly SaskPower is secured though. They're not unsecured?

Ms. Wightman: — SaskPower is an unsecured creditor. So certainly they, like all the others, as of the date of CCAA those outstanding balances were frozen and put to the side, so to speak. So on a go-forward basis the only debt that the mill has is debt to its operating lender which is HSBC. For all the other suppliers operating under contract as with SaskPower, in order to secure ongoing provision of services, or power in this case, the mill has had to make arrangements with every one of them to assure them that they would be able to be paid on a go-forward basis.

So the CCAA process freezes everything that was owing to date and it starts everything new on a go-forward basis. And the mill has had to make arrangements to either pay in advance or pay with a deposit in order to give its suppliers assurance that they're going to get paid on a go-forward basis.

Ms. Harpauer: — So what was owing to SaskPower at that time?

Ms. Wightman: — Approximately 10 million if I'm not mistaken.

Ms. Harpauer: — And that 10 million would be a part of the 25 million that's owing to creditors. So since that time, I believe SaskPower has been paid some money from the Meadow Lake pulp mill. Is that payment then for power in advance?

Ms. Wightman: — The mill pays SaskPower in . . . it pays a deposit and then it pays on a weekly basis to maintain frequency so that they can't get out of date. So they are current

with SaskPower as of the date of CCAA, which was December 28.

The Chair: — Mr. Kerpan.

Mr. Kerpan: — Thank you, Madam Chair. Just recently Millar Western has applied to have its name removed from all official documents. Why is that? Why was that action taken?

Ms. Wightman: — Their name was associated with both the pulp mill in Meadow Lake as well as their other operations in Whitecourt, Alberta. It was their view that going into the CCAA process could bring about some negative impact on their reputation or their brand reputation if you will. So they asked to have the name changed and we agreed.

Mr. Kerpan: — We're certainly aware that, you know, under the original agreement that Millar Western was not to be held liable for any debt of the mill, as I understand it. And so I can understand why they would want to take that action and be cleansed from obviously what would look like to them to be a money-losing proposition and a reputation hurting operation as well. And we're not going to go back to when this original deal started because we can again point fingers at people until hell freezes over but that's not our intent today.

The Richter report said that if some concessions were made at the mill that it's possible, they felt, that the mill could be made profitable. Does Investment Saskatchewan generally agree with that? What parts of that report do you agree with? What parts do you not agree with? And the reason I ask that question is obviously if plan A is going to work and restructuring is going to work, then some changes obviously have to be made. And what would those be?

Ms. Wightman: — The RSM Richter report was very comprehensive and for the majority of it, we are in agreement with the contents of that report.

Important to keep in mind that the report was based on certain assumptions. There were some assumptions as to concessions and savings that we would be able to negotiate from certain suppliers on a go-forward basis. There were some assumptions with respect to the efficiencies that could be gained from the operations, from the day-to-day operations of the mill. And as well, assumptions with respect to potential new investment, new capital investment into the mill in order to gain yet further efficiencies.

In reality what we're seeing as we go through the restructuring process and the discussions with suppliers, while none of it is finalized, but in general terms it would appear that we are going to have some pretty successful results with negotiations with certain key suppliers in terms of savings on fees going forward. So that's very positive.

You know, the wild card is some suppliers in the industry, there is no requirement for them to give concessions. They'll bring their supply to another entity, I mean. So for certain, the large transport players, frankly they're not interested in talking about reducing their rates at all. But in overall terms we've had some very good success.

Whether or not in reality that is successful enough to make the mill profitable, in the short term I would say it will not. Whether it would make it break even, that's a possibility. Because overlaying with the operations of the mill you have to look at the global industry and the price forecasts and it would appear that the price forecasts for '06 are still very, very poor. And, depending on the forecast that you look at, it appears that '07 may start to look up a little bit. Correct?

Ms. Forbes: — Yes, '07 could . . . it's still probably a pretty negative year in pulp prices, but then improving after. That's the current forecast out there, but that's obviously very . . . Changes with the mills that are being announced that are going down across all of North America, it does have an impact on the prices.

Mr. Kerpan: — Some of the concessions that were talked about in the report were, obviously we're cutting the workforce back and that's been done to some degree. Would that be a step that Investment Saskatchewan would look at in the operation? I know that you don't get involved in those day-to-day operations I guess, but is that an option? Other concessions are better power rates. Are those concessions that are workable, do you think?

Ms. Wightman: — The savings that we've achieved with respect to the labour force where there were approximately 20 people laid off and the existing remaining workforce has agreed to a rollback — a modest but meaningful rollback in salaries — recognizing, you know, the overall benefit to taking a rollback. So that's been very positive. And the employee group within the pulp mill has been very, very co-operative. At the same time we're working with the manager locally, the mill manager, who is giving us advice on what other areas there are where we can gain some either efficiencies or reduced costs.

With respect to SaskPower, our mandate is to manage this investment as well as possible — mitigate or minimize the opportunity for losses — and so we talk to SaskPower as if they were any other supplier. What they are able to do really is a matter for SaskPower to consider in their broader picture and the impact on rates for its other customers. So, you know, we talk to them in the process as we are required through the court process to talk to all suppliers.

Mr. Kerpan: — Can you tell me, has anybody done the work on this? And maybe you have; maybe you haven't. And do you know how many indirect jobs would be affected by the mill if it were to close its doors tomorrow?

Ms. Wightman: — Fifty jobs in the forest, so contract workers, and there's 120 I believe in the mill itself.

Now if you mean impact in other related businesses within the local community, we don't have . . . I mean certainly some of the services that they contract for are local services, but we don't have specifics about how many companies or what the degree of impact would be. We can certainly check into whether or not we can access that kind of information, but a lot of the suppliers of the pulp mill are not the very local suppliers.

Mr. Kerpan: — Does Investment Saskatchewan or the government for that matter, the department, do you have a

fallback plan in place in the event that the mill should not be sold and should not be restructured? In other words what I'm asking you is a kind of a . . . if something very serious were to happen and those 400-and-some-odd jobs were no longer there, is there a fallback plan to get out of that, to get out of the area, to compensate people, to pay creditors? Is that being put in place in case that should happen?

Hon. Mr. Cline: — Well as I indicated earlier, we're not anticipating a failure. We're attempting through the CCAA to find a solution. So it's premature to say that we won't succeed in finding a way to make the pulp mill successful. And it would be premature to say, you know, that we have a plan that says, if it fails then this is what we will do. I've indicated that we will seek a solution which provides jobs and economic opportunity continuing in Meadow Lake, and that's what we'll do.

And at the present time we're going to continue to work positively and proactively to try to make the mill work. That's what we're doing, and we're not going to speculate that we will fail. But whatever happens, we'll come up with an alternative plan as required with those goals in mind of jobs and economic opportunities in Meadow Lake.

Mr. Kerpan: — Madam Chair, our time is almost over, and my colleague has wanted a couple of minutes on another subject. I want to thank you, Mr. Minister, and your officials for being here today.

But what I'd like to suggest or what I'd like to . . . You don't have to answer this today. But I would like to hear from you at some point in time if you think the possibility of actually this committee going to the Meadow Lake area and to listen to stakeholders on a face-to-face basis . . . I know you folks do that. But I think it might be worthwhile for this committee to undertake that sort of same practice so that those people up there knew that all of us — all of us on all sides of this House, and Investment Saskatchewan — were concerned about the future of the mill. And I'd like to suggest that we would like to do that sometime when the House is not in session. But you don't have to answer that question today. But I just want to thank you again for being here. And my colleague I know has a couple of quick questions. Thank you.

The Chair: — Ms. Harpauer.

Ms. Harpauer: — Thank you, Madam Chair. I just want to return for the few minutes we have left on the investments that you're looking at, going forward, and there was mention of ethanol being one of those investments. I realize that some of the information is confidential. But could you tell us approximately what kind of dollars you're looking at that will be invested in the ethanol sector?

Ms. Wightman: — I can't give you an idea of the dollars. And the reason being this: we have been looking at for the past six months some ethanol proposals, and a couple of newer ones just most recently. All of them, depending on their size, have a different degree of capital cost. And all of them would have a different degree of owner equity put in, or third party equity, or debt financing. So we've looked at deals that range anywhere from 5 million to as high as 20 million.

The challenge is that once we get through the business plan and the analysis of the proposal, we come to a determination of whether we believe — on the government's behalf — whether we believe that it's in fact a viable proposal that's being presented to us. When it's not and when the degree of risk is far greater than the degree of return would be, then we decline to participate.

We have yet to actually decline any of those deals. What we've done is ask them to go back and strengthen their business proposal in certain areas, for example. So depending on the size of the facility, if a facility is a 60-million-litre facility it's probably looking at a total capital cost of 85 million. So depending on if you're looking at a 50 per cent debt ratio and you've got 50 per cent in equity, then who comes in with equity? So it really does depend on the size of the facility being proposed.

Ms. Harpauer: — I know in the past when there was a tentative deal with Pat Broe in having an ethanol plant along with CIC, or with financial help with CIC, it created a negative wave amongst a lot of individuals who were looking at — individuals and businesses — who were looking at ethanol plants at the time. There was a number of producer groups along with other investors that were looking at ethanol plants at that time. And I think some of them would have went ahead had the BSE [bovine spongiform encephalopathy] incident not have happened because many of them were going to be integrated plants after the Pound-Maker model.

The concern that I would have is now if Investment Saskatchewan chose a plant or two plants in which to invest in, do you foresee where that might have a negative impact on other investors then going on their own?

Ms. Wightman: — I really don't see that it would have a negative impact, and the reason being, the access to capital is there and there are many businesses who start up — including in the ethanol sector — without the need for any public capital, number one, or perhaps without the need for any private equity capital. You know, some companies or some start-up groups are able to bring together the capital that they need.

And as I said earlier, we don't limit our involvement to one company in a chosen field or two companies in a chosen field. The companies that come to us in the sector who can demonstrate that they have a growth opportunity, that they have a viable business plan, and that there will be a return to the province on the capital that's invested, we will look at participating. So you know, I don't see it as being something that would impact others negatively because if those others have a business plan that is strong and sound, we would look at them too if they need it. And as I say some of them don't need and that's all the better yet if they can get private sector capital.

Ms. Harpauer: — It's interesting that you say that access to capital is there. And that's not what we're hearing a lot of the time. Now a lot of the groups that I've worked with or have talked with are producer groups. And inevitably, you know, you're looking at a business and business prospects and I'm looking at policy. So my priority is, what is good policy for the province?

And in order for producers to value-add, which we hear so much about, the producers themselves need to invest. Because if I don't invest in an ethanol plant for example, my product is not worth any more than it is in any other market. If I invest in the ethanol plant and then add value to my product and sell it as ethanol is how I as a producer am going to become more viable. The producer groups are struggling with the capital, quite frankly. And so I think they would hesitate if they had to go head-to-head with a plant that, you know . . . and compete with a plant that perhaps would have taxpayer funding, quite frankly.

Ms. Wightman: — The other perspective that I would add to that is that sometimes the hesitation to get into the business because of competitive reasons is about market competitive reasons. It's about what the production capacity is and what the demand capacity is as opposed to who might have public dollars. The public dollars becomes less an issue.

It's a matter of is a company able to access capital regardless of where that capital comes from. And typically, if you look at the Canadian marketplace, there is liquidity in the marketplace, meaning there is capital available for good businesses.

There are times when you hear that people can't get access to capital, and typically you would look at the business plan and the flaws within the business plan. In the ethanol industry specifically — of which I am no expert — it's an industry where scale counts a lot. And so it is much more problematic for the smaller operations to start up, whether there's capital or not because it's much more difficult for them to show a long-term viable plan.

So, you know, all of those factors get taken into consideration. And I would say that the last factor is whether or not somebody's access to capital happened to come from government sources or not. It's whether they are able to get capital and whether they have a business plan that is going to stand up competitively speaking within that industry.

Ms. Harpauer: — We're not going to entirely agree on this. However I know we've gone past the time allotted for this particular report, so thank you very much. We may pursue it again another day. And thank you so much for coming.

The Chair: — Thank you, Minister Cline and your officials, for answering all the questions and helping us out in your committee today. And now we'll take a two-minute recess so we can have a committee change . . . not a committee change, sorry . . . a change of officials. Thank you.

**General Revenue Fund
Property Management
Vote 13**

Subvote (PM01)

The Chair: — Good afternoon, everyone. Glad to have you here with us. This afternoon we have Mr. Huyghebaert sitting in for Ms. Harpauer, so substitution on committee.

And the next item of business is estimates for Property Management found on page 123 of the Saskatchewan Estimates book. So with that I'll ask our minister to introduce his officials

and go from there.

Hon. Mr. Lautermilch: — Thank you very much, Madam Chair. I'd like to introduce the officials we have today. To my far left is Deb McDonald who is the deputy minister of SPM [Saskatchewan Property Management]. To my right, Donald Koop, the assistant deputy minister of commercial services. To my left again, Garth Rusconi, assistant deputy minister of accommodation services. And immediately behind us is Debbie Koshman, assistant deputy minister of corporate support services. And to her left is Phil Lambert, who is the assistant deputy minister and chief information officer. I want to thank them for being here to help me today.

And I'm going to say just a few brief words because I know members want to get into the questions. So I'll say just a few words about SPM and the work that it does.

It offers a wide range of what we believe to be cost-effective and highly, you know, high-quality centralized support services to government on a cost-recovery basis. The department's major service lines are accommodation and transportation, which include the Central Vehicle Agency. SPM also purchases supplies and equipment and provides telecommunications and mail services to government departments.

While government departments are SPM's major clients, we also provide service to regional health authorities, Crown corporations, SIAST [Saskatchewan Institute of Applied Science and Technology], and government agencies. In fulfilling our mandate, we enable our clients to focus on delivering programs and services to Saskatchewan people.

In 2006 and 2007, the department's main budget priorities will be to continue to focus on infrastructure renewal and to providing cost-effective support services to government. SPM will also continue to make investments to reduce energy consumption in government buildings, reinforcing the province's commitment to a green and prosperous economy.

In '06-07, the department is committing \$2.14 million for a range of energy performance investments, including more energy-efficient lighting, state-of-the-art climate control systems, high-energy or high-efficiency motors, and energy audits.

This year's energy performance investment package also includes funding to assist in the application of LEED [leadership in energy and environmental design] certification in all major infrastructure projects. LEED is a international standard that rates a project's overall impact on the environment.

With that, I would want to welcome any questions that members of the committee may have regarding the SPM '06-07 budget.

The Chair: — Thank you, Mr. Lautermilch. And as the Minister Responsible for Saskatchewan Property Management, we appreciate the officials and your presence here today.

So we are dealing with Property Management, vote no. 13 on page 123. Mr. Huyghebaert.

Mr. Huyghebaert: — Thank you and welcome to officials. When we last met in the fall, we were getting into some discussion about vehicle leasing. And we didn't really get a total breakdown on vehicle leasing. So there's a number of written questions that were submitted. And I would like to go back to that just to try and get some clarification in some areas and even if there's some rationale for how SPM does business for leasing through third party companies. And I understand there is only one aircraft but just again the rationale of the leasing of the aircraft.

And in the written questions there are some pretty vague answers, and so I'd just like to get a little bit more if I can from that. And a question that the number . . . what SPM leases through Cajon Leasing, and the answer is vehicles and an aircraft. And I'm wondering if the minister can provide me with the number of vehicles leased from Cajon Leasing and R & R Leasing and the number of vehicles that are in the SPM inventory that are not leased by these two leasing companies but are, I would gather, owned by SPM.

Hon. Mr. Lautermilch: — Thank you for your question. I'm going to ask Donald Koop to give us the details of the information. For your information, in this budget we're planning to purchase 574 new vehicles, and 339 previously leased vehicles will be part of a buyback for '06-07. The aggregate amount for vehicles in '06-07 is \$15.1 million, so I think your question is a little more detailed. I have certainly the overview of the budget, but I'll ask Mr. Koop to give you a breakdown of the questions as you've asked them.

Mr. Koop: — If I understand the question, you'd like to know what's the current number of vehicles in the fleet that are leased from Cajon and R & R. And then the third part is how much are actually owned by the department outright. And the short answer is, I don't have that information with me today. I'm sorry. We will provide it. It is available.

One thing that would be helpful though is if we could put it as of a certain date because there may be vehicles coming off the lease. We have a choice then of purchasing those vehicles or turning them back. So if you have a particular date in mind, we'll do the calculations as of that particular date, or if you would like something at the end of the fiscal year, that's doable as well. It's simply a matter of having to go through the records.

Mr. Huyghebaert: — I understand that and thank you. And we could pick a date of today's date, it doesn't matter.

I guess where I'm really coming from on this is last fall we went out, we — the department — went out and purchased another 50-some-odd vehicles. It was in the supplementary estimates for \$1.4 million for new vehicles. That was purchased by SPM as I understand it. So if you look at the aggregate of vehicles that are leased and used by the Government of Saskatchewan, whether it's Crown corporations, I want to get my figures around. If SPM directly deals with X number but you also lease from Cajon and you also lease from R & R . . . And where I want to go with this is I would like to see some cost analysis as to the value of leasing through third party vis-à-vis outright purchase of the vehicles through SPM.

And I don't know if you could answer that right now but pick a

date of today is fine with me for just to know how many vehicles we're dealing with. And then eventually where I want to go with this is find out a cost analysis of why we're going through third party leasing. And if it's so good through third party leasing, then why are we doing some through SPM? And I want to go also further to what other agencies had the opportunity to third party lease or direct lease, if you wish, from leasing companies.

Mr. Koop: — We'll provide the numbers and the explanation and we'll do it as of today's date.

Mr. Huyghebaert: — And the next question was the value of the assets leased through Cajon. The value of the assets leased was 17-plus million dollars, and the terms for the lease agreement is monthly payments for 60 months with an option to purchase. Now I guess my question on that particular item is, is this a continuum? Is there a rolling agreement where the 60 months comes up every six months, one month, or is it a set agreement, and then 60 months later it comes to an end, and then there's renegotiation?

Mr. Koop: — On that, the 60 months starts when the vehicles are acquired, so some may be coming in February. Some may be coming in March, April, May, June. The 60-month clock would begin for each one of those. So if you get 10 vehicles coming in in May, you would start the 60-month clock at that point. In June, you might get 20 vehicles. You would start the 60-month clock at that point. So in one sense, it's a continuum in the sense of some coming on and then coming off after the five-year term.

Mr. Huyghebaert: — Now because it's a continuum, what arrangements are there for tendering out? Is this a perpetual agreement with these two leasing companies, or at what point does it stop? Because as you've just indicated, it's a continuum. So at what point does another agency have the ability to apply for tendering or getting involved in the leasing of vehicles to the government?

Mr. Koop: — In each year that we would seek the lease financing arrangement, we would have tendered for that. So that in 2002-2003 fiscal year, we would have tendered for it, in '03-04 we would have, and in . . . we didn't acquire any leased vehicles in '04-05. I'm just double-checking. No leased vehicles in '04-05, and '05-06 I think we had a handful of vehicles that we leased. So we've essentially gone through that time period where we have been acquiring, you know, sizeable quantities of vehicles through the leasing. It is a very small part of our activities now.

Mr. Huyghebaert: — And you say that there was no vehicles leased in '04-05, and I gather that that's leased through these two third-party companies.

Mr. Koop: — Or some other company. There were no vehicles leased in '04-05.

Mr. Huyghebaert: — Okay. When you say no other agencies, are there other agencies that you lease vehicles from other than these two mentioned?

Mr. Koop: — I'm just simply explaining that we didn't lease

from Cajon, we didn't lease from R & R, and there was no other entity that we've leased vehicles from in that particular year.

Mr. Huyghebaert: — Now a question that I have with the assets, by the answer that I received of 17-plus million dollars, I gather that's an aggregate figure. So I'm wondering if there's a . . . Like you say there's 10 vehicles maybe coming to the end of the line now. And now according to another answer, you have an option to purchase. And what happens if you don't?

Mr. Koop: — There's three options under this arrangement. After the five-year term, the vehicles can be returned. That's option one I'll say. Option two is we can purchase the vehicle. And option three is we can extend the term of the lease for up to two years.

Mr. Huyghebaert: — What would be . . . Is there a formula that you use for the purchase rate after a five-year period?

Mr. Koop: — The agreement specified the, I guess, the calculation of the residual value of the vehicle that we would be able to purchase it at.

Mr. Huyghebaert: — Thank you. Now if . . . We'll use the scenario that SPM or Property Management elects not to purchase the vehicle or extend the lease on the vehicle. Are you just going to return it to the leasing agency? Is there a penalty for that? Is there something within the contract? Because now you have a leasing agency stuck with these vehicles. Is there something in the contract, a penalty clause? Again what I'm getting at is, if this is a business organization, what do they do with the vehicles if it's not extended?

I guess the whole reason behind my question is, I cannot for the life of me figure out why we're going to a private leasing agency for vehicles and at the same time we're buying vehicles through SPM. And so I'm wondering if there's a penalty clause in there that would cost extra dollars if we elect not to purchase or not to extend the lease.

Mr. Koop: — Off the top of my head — and I don't have the agreement in front of me — but I don't believe there's a penalty provision. There's simply three choices at the end of the five-year term.

Mr. Huyghebaert: — Now a question that I had asked also was the auditor . . . According to the auditor, the federal government determined that the lease agreement did not meet the definition of an eligible investment under the federal immigration regulations. And when I asked what changes were made they said two sentences of the lease agreement were deleted. Can you tell me what these . . . Was it just on residual value of the vehicles? That's the only thing that was in there that did not comply with federal regulation.

Mr. Koop: — Yes. It was simply two sentences that needed to be changed to ensure compliance, and they dealt with the residual value. I probably have it in my papers, but I don't have the two sentences in front of me here.

Mr. Huyghebaert: — There's another area that I just have a little bit of a concern with, and it's a question again related to the leasing of leasing services. And what I'd asked is what fees

have been paid to Cajon Leasing for leasing services, and it's 20-million-plus dollars, close to \$21 million to October 31, 2005.

Can you indicate to me for how long of a period . . . Is this one year? Is this since the life of the initial contract? What period of time are we talking about? All the answer I have is total payments made to Cajon Leasing to October 31, 2005, are \$20.77 million.

Mr. Koop: — The figure I believe is from the inception of the lease, and as there have been a couple of leases. So it would have been since the inception of the first lease, the total amount of payments that have been made to Cajon Leasing.

Mr. Huyghebaert: — And what was the inception of the first lease? What time frame?

Mr. Koop: — I believe it's 2001. I'll just double-check that for you. I believe it was September 2001.

Mr. Huyghebaert: — And also in my question, I had asked if other companies were given the opportunity to tender. And the answer was SPM tendered for leasing. Is there any way of releasing the companies that put in tenders for the vehicles?

Mr. Koop: — You're wondering who else bid on the tender? I would have to check to see, you know, what happened in 2001 or whatever time period was involved for . . .

Mr. Huyghebaert: — And also you say every year it's up for re-tender. Is that not what you said earlier, that every year there's an opportunity for people to get involved through the tender process? So from that, I would gather that every year it's put out for tender.

Mr. Koop: — I believe it has been tendered each year. And again, just to clarify, there was one year in 2004-05 where we did not. Yes.

Mr. Huyghebaert: — But every other year at the start of the fiscal year or whenever, then the tender is put out for the however many vehicles you need to lease in that particular year. And it's tendered.

Mr. Koop: — We would tender for the lease financing services, yes.

Mr. Huyghebaert: — Okay. It just kind of caught my attention immediately that SGGF [Saskatchewan Government Growth Fund Ltd.] was the successful bidder. And SGGF is Government Growth Fund. And they won the bid over . . . And that's why I'm wondering how many other tenders and what kind of rationale was it for SGGF, who's a government department in essence, to win the bid over what other agencies. And what was the determining factor of SGGF winning the bid? And it's been a continuum, I gather, for SGGF every year to win the bid except in 2004.

Mr. Koop: — There have been other suppliers of lease financing besides Cajon and R & R. That's where I think we're not quite on the same page there. There has been a third company. I believe the name is Pacific Western. I would have

to double-check the name. They were providing lease financing in an earlier time period.

Mr. Huyghebaert: — When you indicate lease financing, I'm not sure exactly where you're going with the lease financing. Does that mean that the individual is putting the money up to finance the vehicles to lease back to you at Property Management?

Mr. Koop: — Pretty much that way. We would send out an annual tender for vehicles, you know, the quantity of vehicles we would expect to purchase in the upcoming year.

A portion of those, we sought lease financing for, and we would identify those vehicles. They would be essentially acquired by the lease-financing company and then leased back to us on those terms that were outlined, monthly payments over a 60-month period with the option to then purchase the vehicle at the end of the term.

Mr. Huyghebaert: — So in the answer that I have here, SGGF was the successful bidder on the initial tender. So from what you've just said then, SGGF would be the lease-financing company. Is that correct?

Mr. Koop: — I believe SGGF in addressing the . . . This was at about the time of the concerns about the federal immigrant investor regulations and ensuring compliance because SGGF had set up some numbered funds that were investing the immigrant funds. And subsequently they sold the assets of those numbered funds, first to this Cajon Leasing which was a Saskatchewan leasing firm. And then subsequently they sold some . . . I think that was the, that was the, I guess, the handover from SGGF to Cajon of these assets.

Mr. Huyghebaert: — So SGGF fronted the money, won the tendering, and then turned the assets over, sold them to Cajon. So in fact, Cajon didn't win the bid for leasing the vehicles.

Mr. Koop: — The lease was with Cajon. You've asked have we've leased vehicles from Cajon. Yes, we have an agreement that says Cajon is the leasing party.

Mr. Huyghebaert: — SGGF was the successful bidder for the tendering process.

Mr. Koop: — At that particular point in time, and I'm sorry I don't know what particular year we're referencing there.

Mr. Huyghebaert: — Well I gather from inception because, from the answer I have, SPM tendered for leasing and SGGF was the successful bidder. So from the answer provided, that I would take it from that that it was at the inception, so 2001. So basically SGGF won the tendering process and sold assets — all of the assets — to Cajon and R & R Leasing. I gather R & R is in the same boat. So in fact today who is the leasing agreement with? Is it still with SGGF, or is it with Cajon and R & R Leasing?

Mr. Koop: — The lease agreements are with Cajon and R & R Leasing. They have been sold and assigned to those companies. So our agreements are with those two companies.

Mr. Huyghebaert: — I find it just a little interesting because by your own statement here SGGF won the tendering process. So now when you go out on a yearly basis for tendering process, is it SGGF who are the lease financing company or is it Cajon Leasing and R & R Leasing that enter the tendering process?

Mr. Koop: — It would be Cajon or R & R. You're talking subsequently.

Hon. Mr. Lautermilch: — Madam Chair, if I could. Part of the difficulty I think that Mr. Koop has is that we're here today to deal with estimates for Property Management for this fiscal year which is now '06-07, and Mr. Huyghebaert is asking questions that date back some considerable amount of time based on written questions that he submitted in this Chamber. And for Mr. Koop to go back through the history is, you know . . . I mean that type of information sometimes creates I guess memory problems. And it creates a difficulty in terms of how much information to bring.

We obviously have entered into two types of vehicle acquisition. One would be through leases which many companies do, many private individuals do in the province . . . is the way they do business. Many small businesses lease as opposed to purchase for different reasons. And some I guess will lease and some will own. And SPM is doing similar.

And if Mr. Huyghebaert has some detailed questions with respect to the chronology of the operations of the Saskatchewan Government Growth Fund, he would be more than welcome to ask in terms of the chronology of the sale of SGGF assets which became a lease company as I understand it, as I'm listening here today, going back to 2001.

And SPM tenders as a course of doing business with a number of different companies, that company being one of others who do business here in this province. So the tendering process is open. It's available to anyone who would choose to do business in a lease purchase arrangement. The contracts, as I understand them, are not private. As I understand them, they're a standard contract.

But if you have details in terms of the chronology of SGGF . . . And maybe what we could do is go back and do some research for you to help you understand how they've spun off part of their business into another company and then how the government has tendered with that company. And that might help in terms of clarification. But it is . . . And we tried certainly to accommodate pretty much, you know, a wide range of latitude.

But the business before the committee is the '06-07 budget as it relates to the blue book. And I can tell you that the answers on that would be much more readily available than to go back to 2001 because they just don't have all of that information in here.

Mr. Huyghebaert: — Well, Madam Chair, I understand the minister's position on this, but it's directly related as far as I'm concerned to this year's budget because here in this year's budget — and the minister said it earlier himself — there's \$15.1 million in the purchase of new vehicles. That's this year's

budget. So what I'm trying to ascertain is, if leasing is so good from other years, then why are we purchasing vehicles?

The capital money is being laid out. On one hand, it's being said that, oh this leasing arrangement is a really good deal. On the other hand, in this year's budget there's \$15.1 million for the purchase of new vehicles. So I guess my question then to the minister would be, which one is the good deal?

Hon. Mr. Lautermilch: — Well let me say to the critic, Mr. Huyghebaert, that some years cash flow isn't as good as it is in other years. And I'll go back to 1999 and to 2000 . . . I can go back many years, and some years we didn't have the cash flow to lay out the cash. And so we chose a lease arrangement as opposed to laying out the capital for purchasing because in some of those years our second biggest expenditure was paying interest on the provincial debt.

We're not there. We've got better cash flow. We've got resource income and revenue that we didn't have in some previous years. As you will, as I've said and as I've indicated . . . what our plans were for this year. We'll be spending \$15.1 million on vehicles. There will be purchases of approximately 574 new vehicles. We are going to be buying out the leases of 339 previously leased vehicles. And that's the plan for this year. But I think the plan has changed based on the amount of cash the government had at the time.

In some years there were other priorities. So we chose to lease as opposed to purchasing outright. And I mean, I think the same can be said with lots of businesses in this province. Farmers sometimes will choose to lease a piece of equipment because they don't have the cash flow to purchase it outright. Small businesses will do the same with delivery vans. And I think the government, I can say, is in no different position. Some years our cash flow is better than others. And that's why those decisions are made.

But I think the important thing to recognize is that it's an open tender process. And SPM I think is pretty widely recognized for an entity within this government that has a well-known open tendering process.

And we obviously want to see as much business done in Saskatchewan as we can, and our processes are set up to allow that to happen, you know. And we educate businesses around the province, sharing the kind of access and how you get access to doing business with Property Management corporation. Spend a lot of time doing that. And it's because we want to do business with Saskatchewan businesses, and obviously we want to ensure a fair tendering process. And, you know, I believe the process that we use with our vehicles serves that need and it is fair.

Mr. Huyghebaert: — Well I find it interesting, the minister to say that he didn't want me going back to 2001, and then he went back to 1999 talking about the funding available then. But I guess I have to go back to the same question that I asked before.

If leasing is so good . . . Now we're buying. Now if leasing . . . And I don't accept the fact that, well, some years you can buy because you've got more money and some years lease. If

leasing is a very, very good way to do business, then why wouldn't we do it on a continuing basis rather than ad hoc say, oh gosh, this year we've got an extra few bucks? Let's go spend \$15 million on vehicles. It's still a capital cost.

Now if the leasing before when money was tight — we should be operating in the best interests of the taxpayers of the province — and if the leasing was great when we were tight for money in this province, then why wouldn't we look at it still to this day because we've got extra money, as we know, but still it's a capital outlay? Now that's a question that I have for the minister because it's the same question I'm going to ask when we come to an aircraft.

Hon. Mr. Lautermilch: — Well and my answer will be the same when you come to the aircraft as it is on the vehicles. It's not either-or; it's both. And different circumstances will create different options and the recommendation from the officials to use different options.

If your cost of lease is 3 million in a year as opposed to outlaying 15 million, and if you don't have 15 million, obviously you would choose the \$3 million option. And if your cost of the lease is over a five-year period, then it would stand to reason that you have a cash outlay of one-fifth as opposed to the whole whack.

So the answer will be the same, and it's not either-or; it's both. And both options have been used. And the department officials find both have been satisfactory, have served the needs of the province and the needs of our car fleet. So it's not either-or; it's both. And we use both vehicles as private sector companies and farmers do.

I don't think any farm business would limit themselves to either a straight outright cash purchase or a straight outright lease and say, I've set policy, and so I won't do the other for the next 15 or 20 years. I'm going to lease for 15 years and that's it. I think they make the choice based on their financial ability and what makes more sense for them in a given year. And the government does no different.

Mr. Huyghebaert: — Well the minister wants to say it's not an either-or. You want to refer to companies, to farmers, to whomever you wish. They do it on a cost-analysis basis. Can the minister provide us with a cost analysis for the leasing vis-à-vis the buying, from the Sask Property Management?

Hon. Mr. Lautermilch: — I can tell you that we will provide the rationale for the decisions that we made. We have no reason not to. I can tell you that this year the answer is simple. Our cash flow was much better than it had in previous years, and so we're buying them outright. We're buying in cash.

In terms of the cost of lease versus the cost of purchase, I guess it would depend on if you're borrowing the money or if you have it in reserves. It would depend on the interest rate. It would depend on the interest rate. It would depend on the deal that the companies may give you at a given time. It may be that you can lease for a five-year period at the same cost as purchasing outright.

And people in the Property Management corporation do that

analysis. They work through Treasury Board. And so government does the analysis, and ultimately we make our decision. And in the budget process, we make a decision to lease or to purchase. There's no magic to this.

Mr. Huyghebaert: — To you maybe there's no magic. But I think it's incumbent upon us to look at what's in the best interests of the dollars, and that's why I'm looking at a cost analysis. If you look at . . . And it's a red herring if you say you pay cash for it or if you've got to borrow money because if you have the cash, how much interest does it generate? And if it's wisely invested, it's going to be far different than if you put it in at one and a half per cent.

So that's why I'm asking about a cost analysis — if there's something that actually can state that if a vehicle or an aircraft is leased over this period of time, this is going to be the cost if we buy it. This is going to be the cost, and outright what we're going to lose is interest on this dollar. Or on the other side, if we buy it, how much interest are we going to have to pay? I don't really believe for a second it's an ad hoc program where you sit around and say, oh gosh, we've got more money this year. Do we go buy vehicles?

I think there has to be something that states or indicates that which one is the best deal for the public of this province. I'm sure there is, and that's all I'm asking — if there's some kind of a cost analysis that could be shared with us that would indicate which methodology is better. And for the minister to say, well this year it might be better one way, and next year it might be better another way. I think there's got to be a little bit more of a solid procedure for determining whether leasing is better or if purchasing is better. And that's what I'm asking for.

Hon. Mr. Lautermilch: — What I will say to you is that we will give you two scenarios for this fiscal year just as an example on a vehicle that we may use. I think the government's been buying minivans, so let me give you a scenario of a lease on a minivan for '06-07 and on an outright purchase. And I can do that for you because I think that doesn't create difficulties that I'm aware of, and I think it's probably something you can find out at a car dealer downtown. But I can put one of those together. I can ask the officials to do that.

The Chair: — Okay. This being past the hour of 5 o'clock, before the adjournment of the meeting, I just have one more thing to report to the committee, and that is that the committee has received an order of the Assembly dated April 13, 2006, to consider and report back on the estimates and supplementary estimates for the following departments and agencies: vote 74, Information Technology Office; vote 13, Property Management; and vote 33, Public Service Commission.

So given the hour that's at hand, we're going to adjourn today's meeting. And thank Minister Lautermilch and his officials for answering the questions that were posed to them today and wish everyone a good evening. Thank you. This meeting stands adjourned.

[The committee adjourned at 17:03.]