Public Hearing: **Department of Revenue, Supply and Services (continued)**

Mr. Chairman: — Actually, the member from Rosthern actually had the floor when we adjourned yesterday at 11, so I'll turn it back over to you.

Mr. Katzman: — I will let somebody else go first, and then come back at it. I have a few questions that I thought they may have to bring answers back on.

Mr. Chairman: — Okay, I'm going to deal with a subject which has been something of a perennial, and it is the auditing coverage of remittances on the education and health tax.

I recall discussing this when we dealt with your public accounts in the last session. It would have been probably in February, or early March, I would think. At that time, as I recall it, you were going to review the matter and give us a report in due course. And it seemed to me that we were going to get back to you after July 1. I think that's accurate, but I stand to be corrected.

Ah! The Clerk tells me that we didn't ask you to report. As you know, you made the big time again, you hit the auditor's report again, with the same problem. And I would appreciate an update from you two gentlemen on how you're progressing with the problem.

Mr. Cutts: — Could you identify what you're specifically referring to, Mr. Chairman?

Mr. Chairman: — It is alleged that there's inadequate auditing of remittances of education and health tax and the province may thus be losing revenue because, on the whole, the education and health tax which should be remitted is being omitted.

A Member: — What page, Ned?

Mr. Chairman: — What page is it?

Mr. Lutz: — Page 25 in my report to the Assembly. And on 27.

Mr. Chairman: — You took the words out of my mouth. Let me just read the opening sentence. It's a fairly lengthy sentence.

> In my three previous reports to the Saskatchewan legislature, I expressed my concern with the existing levels of detailed audit coverage carried out by the Department of Revenue, Supply and Services in connection with its revenue assessment activities for Education and Health Tax, Motor Fuel Tax and Tobacco Tax. Motor Fuel Tax and Tobacco Tax.

And that, I think, sums up the concerns. And I'd appreciate an update from you gentlemen. As I recall it, when we parted company — that was during the last session — some of you were working on it and I would appreciate an update from you.

Mr. Cutts: — Mr. Chairman, I'll ask my assistant deputy minister to answer that for you.

Mr. Chairman: — Okay, please do.

Mr. Laxdal: — Thank you, Otto. Mr. Chairman, first of all we'd certainly agree that this has been a perennial problem and one which has been addressed over, I believe, the past four years. Our position is essentially that we have certainly changed the nature of our auditing program over the course of the years, and it's evolved from a program which was basically 100 per cent field audit oriented, up until the mid-1960s, to a program which now comprises a mix of field and monitoring kinds of activities monitoring kinds of activities being things like desk audits and final analyses.

Mr. Chairman: — Could you define those terms for us: field audit, desk audit and . . .

Mr. Laxdal: — Okay. Well, there are essentially two types of field audits, one, which we refer to as a compliance audit, where we go out and do a detailed review of the records of the firm involved, and perhaps one way of giving you a bench-mark understanding of this is to indicate that a field audit takes on average, I believe, something in the order of 16 hours. The other type of field audit is what we call a deterrent audit, and that is more of a flag-waving exercise where we go out, spend some time with a vendor and, you know, do a cursory review, as it were, of the records — try and ascertain whether or not there is any potential revenue or potential assessment in that particular entity, and basically get in and get out a system with any problems that they may have and whatever.

Normally, and just for comparison's sake, a desk audit would take in the order of three, perhaps four, hours . . . (inaudible interjection) . . . Pardon me, a deterrent audit would take in the order of three or four hours. It's a considerably more superficial review of the records of the firm.

Desk audits, on the other hand, are audits that are handled internally, based on information that is available to the division. There are numerous examples of this sort of thing, but it's basically where we're able to verify or test the validity of the tax return based on information that we receive from another source. As a 'for instance,' we conduct desk audits in the area of liquor consumption tax where we receive information from the liquor board regarding the purchases of a particular vendor.

Mr. Chairman: — Who remits the liquor tax? Is it the board or the vendors?

Mr. Laxdal: — The board remits the deposit; the vendor remits the tax, and the deposit is credited against his tax.

Mr. Chairman: — So, if you've got a problem, the source would not be the liquor board but the vendors.

Mr. Laxdal: — That's correct. And we're able to, as it were, simulate given price lists and whatever of the particular vendor. We're able to simulate his sales and therefore simulate his tax based on the purchase information that we receive from the liquor board. Having done that simulation we can compare that to what was actually received and determine whether or not further investigation is warranted.

Mr. Chairman: — Okay. You were then describing — I interrupted you — you were describing the manner in which you felt you had in part at least addressed the concern of the Provincial Auditor and the standing committee in 1980.

Mr. Laxdal: — Yes, and I don't want to belabour the point, but as I was saying before, essentially the philosophy within the revenue division towards auditing has evolved over the years from 100 per cent field activity to a mixture of the field and internal monitoring kinds of activities. I guess it's our position that this mix of activities represents a good usage of our resources within the division. Insofar as we are now obtaining substantial amounts of revenue, as for instance from our desk-audit program, which we were not obtaining in the past, I should say that we certainly don't quarrel with the points made by the Provincial Auditor in a number of areas.

I believe that he notes that we should be conducting audits to the point where marginal costs equal marginal revenues. We agree with that point. Let me put it another way: we don't disagree with that principle in any way, shape or form. We also agree with the point made by the Provincial Auditor that our study, which I believe they had access to over the past winter, did not demonstrate that we'd got an optimum mix of activities of desk and field audit activities. So there are a number of areas where we are very much in accord with the views of the Provincial Auditor.

I guess our concern stems from the fact that we feel that we've got an effective program. We feel that we've got statistics, and whatever, that demonstrate that our program is effective, and our difference, if there is one, is: where do we go from here, in terms of pursuing this issue, or do we pursue this issue?

Mr. Chairman: — What have you changed since 1980, when this standing committee made a recommendation that you review your procedures to tighten up the audit?

Mr. Laxdal: — Okay. Since 1980 there was . . . The study that was referred to in the Provincial Auditor's report has taken place, and I suppose substantiated, to a certain extent, the direction that we were going prior to 1980, i.e., an increased emphasis on the desk-audit internal type of program. So — perhaps I'd ask Barry to assist me on this — outside of that, I don't think that our thrust has changed all that much since 1980.

Mr. Chairman: — I'm not being abrasive, but maybe I am. It strikes me, what you've just said is that you still haven't addressed . . . I may not being fair. Is it a fair interpretation that you do not concur in the concern raised by the committee, nor in the concern raised by the Provincial Auditor, that you hadn't met the concerns of the committee? I gathered nothing's really changed since 1980.

Mr. Katzman: — Mr. Chairman, if I may interrupt you for just a minute. I think there's something that isn't clear. Mr. Lutz says 'my three previous reports,' which would mean his '80-8 1, his '79-80, and his '78-79. Now they're referring to 1980. Maybe we had better find out if there was a change since '70 — whenever he started noting it — to what they've been doing in '80; and maybe Mr. Lutz is happy with what they're doing now.

Mr. Chairman: — He just said in his report he's not.

Mr. Katzman: — Well, no. Let's find . . . He's talking about March 31, 1982. Maybe something's happened between now and then that they've got it worked out.

Mr. Chairman: — He says, Ralph, in his report at the bottom of page 25:

> I have examined a copy of the Department's study and in my opinion this study did not specifically address the recommendation of the Select Standing Committee on Public Accounts and Printing . . . (etc.)

This is contained in his '82 report. So if they haven't changed anything since 1980, they at least haven't met the concern outlined in the last partial paragraph on that page.

Mr. Laxdal: — Mr. Chairman, could I ask Mr. Halbwachs, who is the director of our audit investigation branch, to answer that question? I think he can do it more thoroughly than myself.

Mr. Halbwachs: — The auditor's report, I believe, for '79-80 addressed the issue of the extent of the audit coverage. We, in compliance with that direction from the public accounts committee, attempted to study our activities and determine whether in fact we had. We were able to determine what would be the maximum level of coverage, or where would that marginal cost versus revenue break-even point occur. In attempting to do that we very quickly ascertained that it would be difficult to determine that point without going out and conducting extensive audits to determine where that point occurred or, conversely, to do some kind of a computer simulation, which we didn't have the capability to do.

We then, after discussing it extensively, made some management decisions that we would recommend to treasury board, and ultimately to cabinet, a level of audit coverage which we felt would address the resources that we had, the resources that the government could probably provide to us, as well as the concerns of the committee and the Provincial Auditor.

Now, in his current report that we're dealing with, the Provincial Auditor says that this did not discharge fully the recommendations of the committee. I believe we have satisfied most of the concerns he had with the exception of the extent of the coverage; and I think that is at the point where we are at today. Where do we go from here? Where do we proceed from there?

Getting back to your original question, we have in 1980, I believe February 1, implemented a functional organization which, in fact, consolidated the operations of three or four taxing statutes — E&H, and consolidated the audit activities, liquor, tobacco, motor fuel — and consolidated the audit activities. We have implemented that functional organization. We have grouped a number of activities, and we have placed a little more emphasis on desk audit and a little less emphasis on field audit, particularly the deterrent or flag-waving type audits, and have what we believe to be an effective check on the assessment and collection of revenue.

That's our position. We don't disagree that that does not address the concerns of the committee. I guess what we're here today saying, or asking, is: what does the committee wish us to do from here?

Mr. Chairman: — Address the concerns of the committee. The gravamen of the charge against the department, if I could put it that bluntly, was that you weren't doing thorough enough audits. I gather from what you say that you have no more staff time available to do any more thorough audits now than you did in 1980. It means you've got the same staff complement.

Mr. Laxdal: — Basically yes.

Mr. Chairman: — You have changed the mixture somewhat so you're doing more desk audits and fewer of the flag-waving field audits. But apart from whatever efficiencies may have been gathered up by that change, nothing has really changed since 1980.

Mr. Katzman: — Well Ned, that's not correct.

A Member: — . . . (inaudible) . . . Mr. Chairman.

Mr. Chairman: — Okay. I stand to be corrected then.

Mr. Katzman: — What the gentleman just said that's . . . (inaudible) . . . is other than one . . . (inaudible) . . . left. Everything else is mutually agreed between Mr. Lutz and themselves that there's one item left, but other than that they've addressed the 1980 thing except for one issue.

Mr. Halbwachs: — I believe that the Provincial Auditor would agree with that, that the extent of the coverage is the issue that remains.

Mr. Katzman: — Everything else has been looked after in the report.

Mr. Chairman: — Yeah, I don't disagree with that. It's just the extent of the coverage . . . (inaudible) . . .

Mr. Cutts: — What we have done, we have added five more people in the E&H tax area.

Mr. Chairman: — When was that done?

Mr. Laxdal: — This budget year.

Mr. Chairman: — Okay, then you haven't yet got those on staff, I gather?

Mr. Cutts: — . . . (inaudible interjections) . . . But we have done something.

Mr. Halbwachs: — We, as a result of the study, we've submitted a B budget submission for '82-83 to treasury board in, I believe, September 1981. We recommended that there be 27 additional audit positions which we felt would give us a level of coverage which would, if not completely satisfy the Provincial Auditor, at least indicate that that would be a good program. Treasury board agreed with the philosophy of our audit coverage, that is, compliance and deterrent. They agreed with our desk audit philosophy. However, '82-83 budget year was not the year to be asking for positions.

So they agreed with us, but said maybe we should phase the program in over a number of years. We, in submitting our '83-84 budget, we were given five additional positions to address that concern. We're not saying that the five are the total number that we need, but at least it's a start.

Mr. Katzman: — I hate to do this, but would you repeat your dates because I'm not sure if you made a mistake — the sequent dates that you used. You start at '81-82 and then somehow flipped '82-83 as if it was the same one.

Mr. Halbwachs: — Okay. In 1981, we conducted our study over the winter. In ’81, in the budget submission to treasury board in approximately September, 1981, we recommended that there be 27 additional audit positions. That was for the ’82-83 budget year.

Mr. Katzman: — In September ’81?

Mr. Halbwachs: — ’81. Okay.

Mr. Katzman: — The answer was no?

Mr. Halbwachs: — The answer was no.

Mr. Brehm: — Except, Mr. Chairman, if I might interject. Treasury board, in fact, recommended to cabinet that we get five additional staff for tax payer services at that time, which . . .

Mr. Katzman: — In ’81 or in . . . ?

Mr. Brehm: — That would have been for ’82-83.

Mr. Katzman: — Okay. There’s two ’82-83 budgets and that’s what I’m trying to get at here.

Mr. Halbwachs: — There’s an A budget, that’s a normal budget . . . (inaudible interjections) . . .

Mr. Katzman: — No, no. There’s two budgets here. There was a change of government budget.

Mr. Halbwachs: — Okay, I’m sorry. The original budget submitted prior to the dissolution of the House and the calling of an election — that budget recommended . . . In our submission we recommended that we be given additional positions. That budget request was turned down.

Mr. Katzman: — Good enough. The NDP turned you down. Good. Got it on record, Ned: you’re the bad guy.

Mr. Brehm: — . . . (inaudible) . . .

Mr. Katzman: — Which is now in the second ’82 — the new budget, ’83-84.

Mr. Brehm: — No, those positions were . . . When the government changed, all B budgets were deleted.

Mr. Katzman: — Now I got it right.

Mr. Chairman: — Okay, you still stand by your original recommendation that what is needed to do an adequate audit is in the nature of 27 positions.

Mr. Halbwachs: — No, we feel, that is our position, that that number would give us an effective — what we term to be an effective — program. I don’t, by any stretch of imagination, think that that would satisfy fully what Mr. Lutz recommends in his report, because without doing an extensive field-audit program, and determining where that break-even point was, I don't think anybody is prepared to say what is that point, neither us nor the Provincial Auditor.

Mr. Chairman: — Okay. Your figure then is 27. You're saying, if you had that, the department officials would at least be satisfied that you are doing a reasonable and adequate job of auditing. You admit that that might not satisfy the concern of the Provincial Auditor, but you would at least satisfy yourselves. Is that 27 figure . . . (inaudible) . . .

Mr. Cutts: — It would certainly move closer to the Provincial Auditor's position, we would think.

Mr. Chairman: — Okay, with respect to corporate tax collections, if I can get onto a slightly different subject . . . Maybe some others have questions on this.

Mr. Glauser: — I would not like to leave this just yet. The way I was looking at this is that, okay, when you're talking about 27 people, you're not talking about 27 people full time per se, but you're talking about 27 people more to carry out a study to determine what that break-even point is. Is this correct?

Mr. Cutts: — No, this is 27 people who would be out doing field audits.

Mr. Halbwachs: — It's my calculation that somewhere between 175 and 200 auditors, over a three-year period, would be required to do the number of audits to satisfy that point.

Mr. Katzman: — Try that number again.

Mr. Halbwachs: — 175 to 200, over a three-year period. That's what it would take to do the number of audits, based on our total file numbers.

Mr. Cutts: — I don't think we're suggesting that that's what Mr. Lutz is telling us to do either: that we do 100 per cent of those. We've got to meet some median, and we see the median being the 27. We're not suggesting that that's what the Provincial Auditor is saying: that we do 100 per cent of all the field audits today.

Mr. Glauser: — Well, that was going to my next . . .

Mr. Cutts: — I could be wrong. Maybe Mr. Lutz would be the best to answer that. But I don't think that's what he's recommending, by a long shot.

Mr. Chairman: — Is it common ground, from all concerned, that the ideal is that indefinable line at which the median expense equals the median revenue and return an indefinable line — but that at least is common ground?

Mr. Cutts: — I think that's the problem. We are a bit between a rock and a hard spot, with the Provincial Auditor recommending what he should recommend, and the treasury board saying, 'Well, you can't have all the staff you need to do what you feel are required to satisfy the Provincial Auditor.' And it kind of puts us . . . Administratively, we try to do the very best we can, and to allocate our resources to achieve as close as possible the Provincial Auditor's standards.

Mr. Glauser: — Yeah, well, the reason I mentioned that was that oftentimes an audit would be provoked by certain information that would come into the department as opposed to . . . What I'm saying is that, having been subjected to audit, usually there's certain things can be determined without ever going out there. And adding more field auditors doesn't necessarily solve the problem. A lot of this can be determined, as I suggested, right in the department itself as to whether an audit needs to be done.

Mr. Cutts: — I think, Mr. Chairman and Mr. Glauser, that's exactly what we have found because of our desk audits. And I'm sure the Provincial Auditor and his staff agree that we do provide a good service with our desk audits. There's just that balance of field audits that is really . . . that narrow area, that fine line that Mr. Chairman was talking about that has to be established.

Mr. Glauser: — Then that's a judgement call.

Mr. Cutts: — That's an administrative judgement call that we had to make based on the resources that have been allocated to us — exactly.

Mr. Wendel: — Mr. Chairman, I don't think we disagree with what the department is saying, and it is the extent that we talked about in this report; and what we want to know is some estimate of what revenue is being forgone, based on the resources that you are provided. That's what we're looking for — some estimate of the revenue that's being forgone. So if someone says you only get 27 people, how much money do you lose by only getting 27 people?

Mr. Cutts: — If we only get five, how much do we lose by not having 22 more in?

Mr. Wendel: — That's what we're looking for. We're not saying you have to audit to that level. We just want to know what's being lost by not auditing to that level.

Mr. Katzman: — Well, to the auditor, you'd better find 27 more the size of Otto, because if you're coming around to audit everybody's books you're going to have to be a pretty big guy to get past my door. If he's coming there every three years to harass me, and especially seeing as that every time they come around that they never find a penny anyway, why should they do me again?

Mr. Lutz: — Mr. Chairman, Mr. Katzman, we also go out and audit and I do not look on my efforts by my staff as harassment. I submit to you that anybody who infers this and takes whatever violent action, they might very well become a guest at this place in Prince Albert which we discussed yesterday. Neither do I think Revenue, Supply and Services should have their auditors looked on as being harassers. It's the law that you're supposed to go do this; on a good day you go do it. I don't deem it harassment if in fact that taxpayer has got my money in his till and it doesn't belong to him. How can you say that?

Mr. Katzman: — Very easy, and I'm kind of glad I got into this dispute. I was on the other side of the fence and I've seen an auditor from the provincial government spend a whole week doing a set of books and get 10 cents. I mean, it's total stupid.

Mr. Lutz: — In '79, Mr. Katzman, they got approximately $2,000 per visit — not bad.

Mr. Katzman: — . . . (inaudible) . . . The point I want to make is, the guy that's been straight up and all the time, you don't have to go back every three years for it, because basically it's harassment because he's fine, he's always been good. He puts it in. His cash register takes balance and the whole thing's there. It's the guy that's playing a little game that you may have to go see every second year. That's fair game. But after having them on stream for a while you know who is running you straight, and you know who is playing it and who isn't. And so when you say, go out and do everybody, I get annoyed. But if you say to go out and do cases that look suspicious, that's a different issue.

Mr. Lutz: — Mr. Chairman, Mr, Katzman, perhaps I could just speak to this a little more. In 1979, the year that we determined this was where this started, there were approximately 32,000 vendors. There were, I believe, 1,100 field visits, which is really not a huge harassment, and each visit covered approximately two and a half years of vendor sales tax collection. I don't believe we ever quarrelled with that kind of a coverage over once every two and a half or three years. I don't think that has really been our issue here — or at issue. I'm not suggesting, and neither have we ever, that they should do all of these every year.

Mr. Katzman: — Even every three years would be horrendous.

Mr. Wendel: — We're not suggesting that either, Mr. Katzman.

Mr. Cutts: — I think, Mr. Chairman, Mr. Katzman, that that's the area that we're trying to improve our analysis on by identifying those tax collectors that are perceived as a problem, and we get out and we do those. The 95 per cent or larger group that you're going to go in and find 10 cents worth of taxes, we're not interested in going in. And I'm sure that the Provincial Auditor and our people . . . We accept that fact, we accept that fact. And we're trying to improve our statistical analysis in identifying those problem areas.

I don't know whether we can ever give the information that the Provincial Auditor may want that there's X amount of dollars out there that we're foregoing. I think maybe we can identify potential tax collectors that are problems and narrow in on those folks. And maybe that's the area we have to work closer together on and have a common ground.

Mr. Chairman: — If you're picking up an average — I was interested in that statistic if you're picking up an average of $2,000 per visit, you're certainly not now at that indefinable line because you're certainly picking up a good deal more revenue than the audits are costing you at an average of $2,000.

Mr. Halbwachs: — Yeah, but Mr, Chairman, one point. Those audits where we're getting an average of 2,000, we know before we leave the office we're going to find money. That is the point.

Mr. Chairman: — I recognize that.

Mr. Halbwachs: — Those audits that we know we're going to find money . . . I don't want to bandy numbers around, but we have a list of files where we know we're going to find money. We do them at least every three years. We go out and audit them; we know we're going to find money. That's not the point in question. The point in question is: beyond that number how many more should we be doing of that same nature and what resource base would it take and how much money are we losing by not doing it? That is the question that the Provincial Auditor is asking.

Mr. Chairman: — That's the question the committee asked, I think, as well, and that's the one you haven't answered. That's sort of my concern.

Mr. Cutts: — Good. I think we have answered it, Mr. Chairman, if I could interrupt. I think we are refining our statistics on where the potential tax collector problems are, and we're working with the field auditors with that group of tax collectors. And we're constantly reviewing that 1,100 and looking at area, trying to maximize our collection from the problem I think that's one of the things we've done over the last few years.

Mr. Chairman: — Yeah, I recognize that and I congratulate the department on getting more staff this year. But the bottom line remains: if you haven't got any more horses you're not pulling any greater weight. You've still got the same staff. You're, I think, apart from refining your procedures, procedures — which we agree has happened — but I think which we would agree has a limited return. Still, you haven't got any more people to do it, and you do this year, and that's certainly a step in the right direction.

Why haven't we tried the kind of study to which we've alluded? That is a study which tries to define the . . . (inaudible) . . . that we can't define.

I would think a detailed analysis of the files should be able to provide you with some estimate of how quickly the returns are going to diminish in increasing number of audits. I gather that hasn't been done and I wonder why.

Mr. Cutts: — It goes back to the resources again of utilization of our resources. If we had what Mr. Halbwachs referred to earlier, a computer simulation package, we might be able to do some projections on that. We don't have that facility.

Mr. Chairman: — You don't have what facility?

Mr. Cutts: — A computer simulation program of going through the files and trying to identify potential shortfalls.

Mr. Chairman: — It would be an obvious advantage. You don't have this system computerized yet?

Mr. Cutts: — Not a simulation to identify the dollar loss figure that was referred to earlier. And what we've had to do is use the resources we've had to identify by groups of taxpayer — and I'm repeating myself — where the potential shortfall is. And we've gone out with the resources we've had and done the field audit that's there.

Now, as resources would be made available, these are things we would certainly want to do.

Mr. Chairman: — Is it also a fair assumption that you haven't done . . . You don't have the computer simulation available because you don't have the resources to do it? You've not been provided with the resources?

Mr. Cutts: — That's right.

Mr. Chairman: — That's fairly obvious, I guess. I want to get on to the corporate capital tax collections. Do we have anything more to go on this?

Mr. Katzman: — I guess it's collections, so I'll put it here. End user certificates.

Mr. Chairman: — I didn't hear the member.

Mr. Katzman: — End user certificates . . . They must drive you nuts, because nobody seems to be sure what is and what isn't covered by an end user certificate in total. There's such a vast, grey area. Am I correct?

Mr. Halbwachs: — I wouldn't call it a vast, grey area. There certainly may be some confusion out there. We have taken our best steps to provide those vendors that sell commodities that fall into that category with a detailed list of what is specifically exempt and what is exempt if an end user certificate is completed.

Mr. Katzman: — Well, I'll use an example that gives me grey hair because I've been trying to understand it for years, and that's a grain box with a hoist on it. Did I pick the worst one of all?

A Member: — It's typical.

Mr. Katzman: — You go into several dealers and they hand you an end user certificate and you sign it and you pay no sales tax. You go to another dealer and you pay sales tax on that box. And you say, 'Give me an end user certificate.' And they say, 'It doesn't qualify.' Who's right?

Mr. Halbwachs: — It's taxable. The grain box with a hoist is taxable.

Mr. Katzman: — What portion isn't? Is there some part of it isn't? The pump isn't. The pump definitely isn't.

Mr. Halbwachs: — Are you talking about the auger or the hydraulic?

Mr. Katzman: — The hydraulic system that runs the lifter. The hoist is definitely not, by your rules.

Mr. Cutts: — You bought it separately?

Mr. Katzman: — That's right.

Mr. Cutts: — You made it yourself?

Mr. Katzman: — If you buy all the parts separately you're not taxable as well. That's why I said I picked this one intentionally. If you buy the box separately; you buy the hoist separately . . .

Mr. Chairman: — That's a varied subject that I can't even follow the discussion. What is an end user certificate?

Mr. Katzman: — It means you don't pay the tax. You're exempt from tax.

Mr. Laxdal: — It's a declaration essentially that the individual is a farmer or whatever and, therefore, exempt.

Mr. Chairman: — That's one of those privileged groups that don't pay sales tax?

A Member: — Exactly, on a particular item.

Mr. Katzman: — And all I'm saying is that you can get around it by buying them as individual pieces and then have them put on custom later.

A Member: — Yes.

Mr. Katzman: — I mean, maybe it's time we just looked at it and say, 'Forget it — it's more hassle than it's worth.'

Mr. Cutts: — I think it's part of the whole review that we are constantly doing of these type of problems, Mr. Katzman, Mr. Chairman, when they come to our attention, to try to make the payment and the administration of the tax program as simple and as painless as possible. We're constantly doing those things and it's only through bringing these things to our attention that we can address them.

Mr. Katzman: — My concern is very simple. It's an unfair situation of the market-place where one fellow says, 'Look, I'll sell you the parts and then I'll custom put them on for you, therefore you don't pay the 5 per cent sales tax.' The other guy says, 'Look, I'll sell you a truck with a box on it and you've got to pay the sales tax.' So, they're both right. They're both legal.

Mr. Cutts: — We're constantly reviewing those . . . (inaudible) . . . those breaches in the regulations and . . .

Mr. Katzman: — Well, there's a whole parcel like that and I suggest you look at it. That was my comment.

Mr. Chairman: — With respect to the corporate capital tax collections, the representatives of the Provincial Auditor have observed — this is a direct quotation from his report:

> My representatives observed that no check was made monthly to identify and follow up on the corporations not remitting monthly instalments or for the final payment other than a periodic review by management of the major taxable corporation's remittances.

I would have thought the apostrophe was in the wrong place there but that's not . . . (inaudible) . . .

Mr. Cutts: — Mr. Chairman, we do agree with the Provincial Auditor's statements. We would like to state that, in our opinion, we haven't lost any revenue because of it, any tax revenue, but we have taken steps to do what the Provincial Auditor recommends.

Mr. Chairman: — What steps specifically have been taken to address this?

Mr. Laxdal: — Okay, we're doing a couple of things, Mr. Chairman. One is that the initial interest calculation was particularly onerous. We have simplified that calculation and in fact are in the process of putting that in place presently. It'll make the calculation considerably more easy for the firm to understand, and it will make it considerably easier for us to apply. So that is a significant change that is being made.

We are also taking steps to more clearly define the estimated instalment that is due on a monthly basis and this will, again, facilitate the activities of both parties.

Mr. Cutts: — In our official response . . . This was our official response, possibly we could just read that to you:

> During the implementation of the computer system we experienced problems with the identification . . . (inaudible) . . . delinquent accounts and return as well as . . . (inaudible) . . . interest. The problem has been addressed and we are in the process of changing our computer system. We have also allocated additional resources to identify the delinquents, assess interest and notify the taxpayers of the amount and collect outstanding accounts. We hope the procedures and systems will be in place before the end of the fiscal year.

That was our official response to the concern. So we have allocated resources and are in the process of fixing our computer system.

Mr. Chairman: — Are you getting the interest on the money?

Mr. Cutts: — Yes, we are.

Mr. Chairman: — You've also tidied up that . . . (inaudible) . . .

Mr. Cutts: — That's right.

Mr. Chairman: — Okay. I just have a couple of questions then about central vehicle agency. Is it common ground? Do we know what those vehicles cost us per mile driven?

Mr. Cutts: — Yes.

Mr. Chairman: — How much? What is it per mile?

Mr. Cutts: — We do it by . . .

Mr. Chairman: — Kilometre.

Mr. Cutts: — Pardon?

Mr. Chairman: — By kilometre.

Mr. Cutts: — And we do it by model, make and model number. Do you want the whole list of them?

Mr. Chairman: — How long is it going to take you? If you've got three models, the answer is yes. If you've got 30, the answer is no.

Mr. Cutts: — There's about seven or eight.

Mr. Chairman: — Well, why don't you give it to me, then.

Mr. Cutts: — Subcompacts, its total operating cost, 4.4 cents per kilometre. Compacts, 6.5. Compact station wagons, 6.5. Standard sedan . . .

Mr. Chairman: — 6.5. So it's the same as the compacts?

Mr. Cutts: — Yes.

Mr. Chairman: — Okay. Standard sedan?

Mr. Cutts: — 8.7. Standard station wagon, 9.1. Cargo vans, 12.6. Four wheel drive trucks, 14.4. One-half and three-quarter ton trucks, 11.3. Then I'll give you this other one. It's an overall fleet average of 8.9.

Mr. Chairman: — Just about where the standard sedan comes in. And what do we pay civil servants to drive their own cars?

Mr. Cutts: — 18.33.

Mr. Chairman: — So the savings are very, very . . . (inaudible) . . .

Mr. Cutts: — These are just the pure operating costs. The capital costs aren't in there.

Mr. Chairman: — What are your capital costs then?

Mr. Cutts: — I'm sorry. It is.

Mr. Chairman: — It does include capital costs. Okay, I thought it should. So the savings in having public servants drive fleet vehicles rather than their own is very considerable.

Mr. Glauser: — You mean the interest on the money would be taken in there, and the whole works?

Mr. Laidlaw: — No, not necessarily interest. The capital cost is, and the depreciation, but there's some other factors that have to be taken in light, and that is that these vehicles are operated in an environment which is conducive to low rates. That is, that they drive at least 20,000 kilometres per year for a start. They don't usually exceed three to four years in life expectancy before they're sold. So they get a maximized return on their sale, and we're taking those things into consideration.

These vehicle rates are much less. I think that was their point — on the negotiated rate that we pay for personal drivers that's taken for a short trip here and there, and if we tied up a vehicle to service those needs, then I don't think these rates could apply.

Mr. Chairman: — This may not be your responsibility, or it may in fact be Public Service Commission, but what is the policy with respect to personal use of vehicles? That's only supposed to happen with the short trip and . . . (inaudible) . . . ? Or is this your responsibility, for just openers?

Mr. Laidlaw: — Our responsibility really is to give you the other side of the coin, and that's when the CVA vehicle is used. And that is when there is in excess of 20,000 kilometres per year.

Mr. Katzman: — My understanding is, from oppositions and from the former ministers, is that whatever miles you drive, including taking it on vacations if you so wish, you have to pay the costs — the mileage. But we've established that he can take his assigned car on vacation, but he must pay for the miles personally.

Mr. Chairman: — At what rate does he pay personally? What rate do they pay?

Mr. Katzman: — 18.6 today. I don't know what it was . . . The 18.6

Mr. Brehm: — I think it's probably 18.33, reflected the gas tax, and the 18.33 is with the gas tax . . . (inaudible) . . .

Mr. Chairman: — Still, we might, I think, exclude some of these high-ended things, because presumably people can't drive their own four-wheel drive trucks. Or maybe they can. Yes, maybe some of them do . . .

Mr. Cutts: — Mr. Chairman, I've made two errors already this morning. I gave you '80-81 information, rather than '81-82 and possibly I should give you those rates as well.

Mr. Chairman: — Why don't you do that, then?

Mr. Cutts: — In the same order . . . I'll just read the costs off: 5.6, 8.2, 7.2, 10.1, 10.8, 14.9, 17.9, 13.2. And the overall fleet average again is 10.7.

Mr. Chairman: — Okay. I get this. I see the . . .

Mr. Folk: — Look over . . . (inaudible) . . . March 31, 1982.

Mr. Katzman: — Can I ask what those numbers are . . . (inaudible) . . . because l wasn't here when you . . .

A Member: — The first numbers? 5.6, 8.2 . . . what do they represent?

Mr. Cutts: — They're the . . . Did you want the type of car? Subcompact . . .

Mr. Katzman: — Okay. This is the mileage you charge for this type of vehicle?

Mr. Cutts: — That's the overall cost.

Mr. Katzman: — That doesn't include gasoline, oil change, depreciation, the whole bit.

Mr. Cutts: — Right.

Mr. Katzman: — Good enough.

Mr. Cutts: — Mr. Chairman, I'm not sure what you're asking about the personal mileage. I'm not sure whether we're giving you any . . .

Mr. Chairman: — No, you've given me precisely what I was interested in, and I want to thank you for it. My suspicion was that it was considerably cheaper for public servants to drive fleet vehicles than to drive their own. It costs the taxpayer less money, notwithstanding all the fuss. I hear what you say, and that is, if they started to use fleet vehicles for short trips downtown and so on that they obviously experience . . . (inaudible) . . . By the same token, a public servant who travels to Saskatoon with his own vehicle, he's costing the taxpayer more money, I think, than if he took yours. I think that's clear for any trip that can be at all described as long distance, should be . . . (inaudible) . . . confirms the suspicion I've had and that is that we're overpaying people to drive their own vehicles. And that's not something this administration started; those rates in constant dollars haven't changed from 10 years ago.

Mr. Katzman: — I think, Ned, on the difference between . . . You're wrong. And the reason you're wrong is the cost factors to private individuals for that car versus what the government paid for the car are two different figures. The government will buy a car X thousands of dollars cheaper, because they don't pay excise tax, they don't pay that luxury tax for certain things, and they don't pay other taxes, where you and I have to pay them. Therefore, when they calculate you and I's return, they must put those numbers in to make an allowance comparison — but they buy at such a better price and don't pay a lot of the taxes you and I have to pay.

Mr. Chairman: — Agreed. They probably buy . . . On the average, how much does your car cost you less than . . . How much . . .

Mr. Laidlaw: — I don't know. I can't give you that information, but maybe what I could give you is: I happened to buy a car for my personal use this year and it killed me. I bought a Chevy at what usually we can buy something extremely better.

Mr. Chairman: — What was the difference? Would you know?

Mr. Laidlaw: — Well, depending upon the price of the car, but on our standard fleet vehicles I think it would be not too far out to say it could be 20 per cent.

Mr. Chairman: — How much?

Mr. Laidlaw: — 20 per cent. That's the figure . . .

Mr. Katzman: — It's over $2,000 in an executive's dollar. But I mean that car, for example . . .

Mr. Laidlaw: — We buy in bulk and you know we get those bulk savings.

Mr. Glauser: — Purchases are usually so much over cost. Like $150.

Mr. Laidlaw: — That's correct, but the manufacturer then gets to bid on what he wants to put those out and different things come out — that if the manufacturer wants his assembly line down for two months, he'll put in just an unbelievably inexpensive rate for the vehicle.

Mr. Katzman: — The other thing is, we don't pay some of the taxes that a private individual pays, so that makes a big difference as well.

Mr. Chairman: — Even recognizing that, Ralph, the rate is half what they pay the individual to drive his own car. And it just does not cost him twice as much. Even if the capital cost is 20 per cent higher it just doesn't cost him twice as much.

Mr. Katzman: — To have my car at your disposal, as the boss, is worth something and you pay it in a little higher mileage rate because I'm required to have my car at your disposal. So you pay a little of that; you pay for that right a little in the mileage rate. If you've ever tabulated how it's done — I've worked one out when I was with the city and it's . . . They have to do that. Otherwise, I won't have a car.

Mr. Chairman: — That may be a justification. The point is, a public servant who drives his own vehicle . . . There's an additional factor, I think, when you're in a position to reduce your operating costs on your own vehicle. You take better care of it than you can with a fleet vehicle. The point I'm making is — and I don't know what this is apropos; nothing I suppose — but the point I'm making is, I think that it pays people to drive their own cars. I always felt it did. When I was a public servant and got mileage, I always felt that I could make money driving my own car from here to Saskatoon. I didn't think it cost me that amount of money. And the figures I get here confirm that suspicion. I know the member for Rosthern takes a different view of it.

Mr. Katzman: — I take a Jewish view of it.

Mr. Chairman: — What's a Jewish view of it?

Mr. Katzman: — A Jewish bill is the end balance sheet. If I have to have my car at the command of my employer and take it to my employment every day and I'm paid nothing to do it in case I need it, then in case I need it I'm paid mileage, okay, and those things must go into the factors.

Mr. Chairman: — I think the discussion is, as I say, apropos nothing, because it is not your responsibility to set up policy for public servants that they can't drive their own vehicles more than 25 miles might . . . My concern is that this is . . . (inaudible) . . . not spending taxpayer's money efficiently when we're allowing them to drive their own car to Saskatoon.

Mr. Cutts: — You haven't asked the question, Mr. Chairman, but I'd like to suggest that we're concerned about the cost that we're paying for people to use their cars, and I think when we were here the last time, we indicated that we were looking at ways of setting up more pool car opportunities to minimize that cost factor.

Mr. Chairman: — That's part of the . . . I gather there was also, at one point in time, an effort to get more public servants on public transportation. Limited availability of that because the bus doesn't always run at a time that's convenient and so on. But have you had any success in cracking that nut, of getting more people into the same vehicles, or getting more people onto public transportation?

Mr. Cutts: — We're just really starting into that area, quite frankly, and we're just moving into a more pro-active approach in terms of car utilization. Hopefully, we'll have more, when we come back next year, to be able to report to you.

Mr. Chairman: — Have you got an actual study of the programs you're pursuing, or how is the matter being pursued?

Mr. Cutts: — We've reorganized the department a bit to make a man available to take the statistical reports that come off by program department and go out to the user and explain to him where his costs are higher than they should be, and make definitive recommendations of how he could reduce his costs. That's the type of thing we're doing. We have a fair amount of statistics that we're now actively going to be taking out to the program departments and discussing with them.

Mr. Chairman: — The savings here are . . . The amount of money is considerable. As your predecessor in office pointed out, Mr. Foley, the British and Canadian armed forces fought the North African war with fewer vehicles than the Government of Saskatchewan now owns. We have a very large number of vehicles.

Mr. Cutts: — We do. It's . . . (inaudible) . . .

Mr. Chairman: — The cost is . . . (inaudible) . . .

Mr. Katzman: — You know, Ned, I've got to pick up on your statement. I can't pass up an opportunity to take a nasty shot like this. What you seem to indicate is all MLAs should be given government cars, in the same statement you just made, rather than paying them the mileage that we do, because it would be cheaper because you claim to make money when you drive the miles that an MLA drives.

Mr. Chairman: — I'm not sure I disagree with that. I don't think you'd want to give the member from Regina Centre or the member from Regina Elphinstone a vehicle, but . . .

Mr. Katzman: — Regina Elphinstone.

Mr. Chairman: — The member from Regina Elphinstone has one, in fact that's right . . . The member from Regina Centre a vehicle, but I think it would make a lot of sense to give the member from Rosthern a vehicle, and some others as well — those with high mileage. I'm not sure even the member from Saskatoon University could rate one.

Mr. Katzman: — Well, to be very blunt, and I don't mind, a member from the Saskatoon area is somewhere between $8,000 and $10,000 a year in mileage allowance. And you know . . .

Mr. Chairman: — It may make eminent good sense to give you a fleet vehicle and let you pay your personal miles.

Mr. Cutts: — And Mr. Chairman, that's part of the exact thing we're looking at anybody over 20,000 kilometres a year. We are looking at the economics of exactly that situation.

Mr. Katzman: — Well, you've got a different animal here, you know, when I say the members. But you're into that argument . . . (inaudible) . . .

Mr. Chairman: — No. I would readily accede, if you made an argument that you could save the taxpayers money by providing some members with a fleet vehicle, I'd readily . . . (inaudible) . . .

Mr. Katzman: — The joke is, you wouldn't save any money because the member is driving way over what he's paid for — way over — you know, if he's earning his salt, wears the car out in two years, where the government says three years and they get a good recapture. Just talk to Dennis Banda and some of those boys and they'll tell you the car is a piece of junk in two years.

Mr. Chairman: — This is away out of Revenue estimates — Revenue public accounts.

But in that sense we are then not fairly compensating Messrs. Banda and Katzman, and over-compensating Messrs, Shillington and Blakeney.

Mr. Glauser: — That's exactly right. I got a new car a year ago July. I have 38,000 Ks on it, and I have not been anywhere except back and forth. And so I think this is going to cost the taxpayers money in that case.

Mr. Chairman: — The MLA's is a more complex problem, because we are not paying them for all the miles they are putting on in the public service. That complicates the problem. Okay. I'd be interested in your comments on that another year. You've got my interest going that you've got a study going. I gather it's not something you expect to have completed in a couple of months or anything like that. It's much more long-term than that. There's little point in asking you to report before next year, but we'll look forward to that. Has the department ever reviewed the economics of converting the vehicles to propane?

Mr. Katzman: — Or natural gas?

Mr. Chairman: — Or natural gas perhaps more to the point? I don't know how available natural gas is at filling stations.

Mr. Cutts: — There is only one in town I understand. Propane we have them on delivery vehicles in some areas in the city, and natural gas it's really too new in terms of availability.

Mr. Chairman: — It's not available enough. Would it pay you to do the fleet? Put the fleet on propane?

Mr. Laidlaw: — We have an availability problem on the fleet because the vehicles that are going 20,000 kilometres and more are doing a lot of travelling out in the country, and propane we're not convinced that propane is available enough in . . .

Mr. Chairman: — You got trouble getting lead-free fuel in some areas, let alone propane, yeah.

Mr. Katzman: — I think the obvious question is the conversion and the consideration of diesel is becoming a factor. The cost for diesel, of course diesel fuel is another factor. I don't know if you've worked the numbers on that. But the one that looks the most intriguing, Ned, is the natural gas if the availability comes. But then we're going to end up into a road tax which we — well there is no road tax so we're okay there.

Mr. Chairman: — Okay. Are there further questions of these people?

Mr. Katzman: — I have one, maybe more. Sales. When you sell your vehicles. The reconditioning cost versus the cost of selling them as is through the auction systems and so forth. I'm not in love with your tender system because I think that in some cases you get more than . . . you know you get a good dollar for 'em, other cases because of the lack of bidders, you don't get as good a dollar for them, and I'm wondering if you had done a comparison test on certain of the types of the vehicles of running through what is called the auction system?

Mr. Cutts: — Mr. Katzman, your question covered several areas, the first one being the reconditioning. Our approximate costs for reconditioning averages 200 or $50 per vehicle.

Mr. Katzman: — . . . (inaudible) . . . tires, and so forth?

Mr. Cutts: — Yeah, basically, it's a . . .

Mr. Katzman: — It's a shampoo.

A Member: — It is a shampoo, or . . . (inaudible) . . .

Mr. Laidlaw: — It's a clean-up.

Mr. Cutts: — And our return estimate on that program is around $200. The tender system versus the auction system — in our tender system we have a bottom price, that we won't sell the vehicle if the tender drops below that. We put it back on the tenders the next week, or the next two weeks, whenever it is.

On an auction system you generally let it go for what was bid, and if the crowd is small you can take quite a licking on it. I think our assessment of it is that our tender system is more effective than not. We maximize a better dollar, a better return on our disposal of our vehicles through the tender system.

Mr. Katzman: — I'll disagree with you, but accept your information. Because of your volume you may have a problem.

Mr. Cutts: — That's the problem. And getting new people in every two weeks to bid on the number of vehicles we dispose of in a year, we . . . (inaudible) . . . have to increase our advertising considerably.

Mr. Katzman: — Well, I see 200 and 300 cars a week that sold on one day, going through an auction, which is a dealer auction, which the price looked very comparable to what you're getting bid. And, of course, you only need five or six of those guys around, and your price will still stay pretty solid.

Mr. Laidlaw: — We have gone the auction route, and in all cases, the price per unit has dropped, compared with the tender system.

Mr. Katzman: — The dealer system, or have you gone to the open auction?

Mr. Cutts: — The open auction.

Mr. Laidlaw: — Open auction.

Mr. Katzman: — Try the other one.

Mr. Cutts: — The dealer system — I'm not sure what you mean by that.

Mr. Katzman: — Well, you are classed as a dealer, and under the dealer system the dealers have an auction every week in Saskatoon, in Calgary and Edmonton, and so forth. And I'm not sure if they have one in Regina or not. And their prices hold pretty steady.

Mr. Cutts: — All the dealers can put vehicles into that auction?

Mr. Katzman: — Yes. And it's . . .

Mr. Cutts: — We haven't looked at that. We'll take a look at that.

Mr. Katzman: — I'm talking out of turn, but I can give you the . . . (inaudible) . . . sale price because I get the catalogue.

Mr. Cutts: — Okay. Could you do that?

Mr. Katzman: — Yes.

Mr. Cutts: — Thank you.

Mr. Katzman: — I sent it to your minister last week.

Mr. Chairman: — Okay, going once, going twice.

Mr. Folk: — I'd like to get back to the book here a little bit, if we can. One question first on the CVA. Year under review, how many vehicles were under CVA? What was your total number of vehicles?

Mr. Cutts: — 4,760.

Mr. Folk: — And I noticed one category was four-wheel drive. Was that four-wheel drive trucks?

Mr. Cutts: — Yes.

Mr. Folk: — How many of those were . . .

Mr. Cutts: — We don't have that broken down in that figure, Mr. Folk, Mr. Chairman. We have a total of trucks, and that's 1,587.

Mr. Folk: — Just on the surface, what is the need for four-wheel drive trucks, or trucks as a whole? What would their basic . . . (inaudible) . . .

Mr. Cutts: — It could be Tourism, Highways, the off-road type of vehicles, the departments that are out going through the rough terrain type of thing.

Mr. Folk: — So that would be a special department . . . ?

Mr. Cutts: — . . . (inaudible) . . . special use in special departments, yes.

Mr. Folk: — All right. The other — going back to the E&H tax. A number of years ago there was a system brought in, giving a commission and a rebate on your tax. What year was that brought in, do you recollect, at 5 per cent of the first 300 and then 1 percent?

Mr. Cutts: — Yeah, that's been around for a long time. I'm not sure . . .

A Member: — It's been in from day 1.

Mr. Halbwachs: — The rate structure has changed over the years, but there's always been a commission.

Mr. Folk: — There's always been a commission. What about this 5 percent of the first 300? That hasn't been in effect that long?

Mr. Laxdal: — No, it's curved with 7 percent of the first 300, monthly tax, plus 1 per cent thereafter, to a maximum of 5,000 for a year.

Mr. Folk: — That obviously cost the department a fair amount of money over the years. Is there a cost saving in there, like, as opposed . . . Are there more businesses paying their E&H tax because of this commission than was the case before? I guess I'm trying to get at: what's the rationale of going to a 7 per cent of the first 300, as opposed to what it was before?

Mr. Laxdal: — Saskatchewan's commission was somewhat lower than neighbouring provinces, Manitoba specifically, and that, as well as Ontario, I believe, varied. So that was some motivation — 5 percent was $15; 7 per cent is $21. So it's somewhat more. I don't think that there's been any demonstrated effect of more improved, or reduced delinquents as a result of six bucks a month, no.

Mr. Halbwachs: — The rationale for changing the rate and raising it from 5 percent in the first 300 to 7, was that there is a certain base cost to collecting the tax, whether you're a corner store, whether you're Eaton's or The Bay. It was an effort to accommodate, or more accurately, reflect, the general cost of the smaller collector as opposed to the standard way of doing business for a large firm like Eaton's or The Bay who have a computerized system. It's no big deal to collect, record, and report the tax, but it is a considerable cost for a smaller merchant who may not have a mechanized or automated cash register or bookkeeping system. The change in the rate structure was to accommodate that cost factor.

Mr. Folk: — Is there an upper level on the amount collected, like for Eaton's or The Bay which would be . . .

Mr. Cutts: — 5,000.

Mr. Folk: — 5,000 per year. Has there ever been any study or anything done to perhaps find a way of helping to collect in a more efficient manner — like a better incentive program? I thought that was the incentive program: to get businesses to pay . . . (inaudible) . . .

Mr. Halbwachs: — The incentive program is the penalties and interest they pay if they don't remit it.

Mr. Folk: — Right. Has there ever been, you know, a better bonus system thought of, or whatever?

Mr. Halbwachs: — We are pretty consistent with that used by the other provinces that have a sales tax.

Mr. Katzman: — Would you like to put the penalty on the record? You say that's the incentive: to collect it and send it in on time. Would you like to put it on the record?

Mr. Halbwachs: — The amount? 10 per cent to a maximum of $500, per return period.

Mr. Katzman: — How much . . . It's, if you're one month late you pay 10 per cent right off the top.

Mr. Halbwachs: — Penalty, right.

Mr. Katzman: — Right now. So then you pay interest on top of that?

Mr. Halbwachs: — Correct.

Mr. Katzman: — So you pay a 10 per cent penalty for day 1, basically, plus interest at what rate?

Mr. Halbwachs: — 9.

Mr. Laxdal: — 9 on E&H.

Mr. Folk: — So going through the blue book itself, I noticed a couple of items here that I'm kind of wondering why Revenue, Supply and Services was responsible for. One was to provide for, and authorize, a grant to an agency designated by the Minister of Revenue, Supply and Services to provide aid to victims in the civil war in El Salvador.

Mr. Chairman: — I can answer that. The minister in charge was Wes Robbins. Wes Robbins was also working with the Saskatchewan Council for International Co-operation. It had to do with the minister of the department, not the department itself. It was Wes Robbins. The minister was sort of the minister responsible for international affairs.

Mr. Folk: — Why would it be charged to this department?

Mr. Chairman: — I don't know why it would be charged to this department. Yes.

Mr. Katzman: — No.

Mr. Chairman: — Yes. Wes Robbins was the minister in that government.

A Member: — Perhaps the officials have an answer.

Mr. Brehm: — I think, Mr. Chairman and other members, that it's a department which was viewed as a non-political department and grants . . . As you can see there's Indian gas grants, or Indian grants, and so on in the department — farm cost reduction, that type of thing. And it really didn't matter from one year to the next whether a grant was included in Revenue, Supply and Services or not included. It wouldn't have had that same profile, for example, if it was in Agriculture and then all of a sudden it dropped out. But I would agree with your statement as well that Mr. Robbins was the lead cabinet minister at the time and was responsible for those areas.

Mr. Katzman: — This grant — now I'm going to argue here because international development was MacMurchy's bill during this year under review.

Mr. Brehm: — I think it was still paid for out of this department though.

Mr. Chairman: — If the member from Rosthern is accurate, I don't know how we'd solve such a dispute.

Mr. Brehm: — If we look on page 335, the matching grants for international aid for '81-82 in fact appear out of this department.

Mr. Katzman: — Well, I'm going by memory. But we're talking till '82 and if I remember correctly Allen Engel was looking after it as Legislative Secretary to the Minister of Agriculture.

Mr. Chairman: — Not international aid.

Mr. Brehm: — The responsibility was transferred . . . The administrative responsibility was transferred to Mr. MacMurchy and Mr. Engel during that fiscal year. But the expenditure still came out of Revenue, Supply and Services.

A Member: — Ah! Fair game.

Mr. Brehm: — We did the accounting for Intergovernmental Affairs, for example. It was kind of a mixed bag at the time. Intergovernmental Affairs was responsible for the actual administration. Revenue, Supply and Services made the payments. And the Minister of Agriculture and his Legislative Secretary were in fact responsible for the program.

Mr. Chairman: — Mr. Katzman, we're both half right. A reasonable . . . (inaudible) . . .

Mr. Folk: — On photographic and art services there, page 336-7, the total cost for the year under review was $282,000. Is that just kind of a lost expense right there? Like, what revenues can be attached to that?

Mr. Cutts: — That group does the photography services for all government departments and we don't have an out-charge for the services that we provide. We also keep a library of all the pictures we take and then turn them over to the archives at certain times. So we provide the service at a no-cost basis to all other departments.

Mr. Folk: — So if the Department of Agriculture or whatever want some pictures taken they get a hold of this and there's no charge for it?

Mr. Cutts: — That's right. They can use outside photographers and some of them do. But they can use this service as well.

Mr. Folk: — That would be the same for MLA pictures with school groups. Is there not a charge on that? Is there a charge on that?

Mr. Katzman: — There is a charge. After six copies you are charged 25 cents a copy or something like that.

Mr. Chairman: — Yeah, it's scarcely worth the cost of sending the bill and sending the money back and processing the charge, but there is a small charge.

Mr. Folk: — Has it always been this way, that there was never any charge or the services of that department?

Mr. Cutts: — I guess that's the way it is and it's something like Mr. Chairman suggested, Mr. Folk, that when you divide that up among all the departments, the paperwork of making the out-charge would more likely be more costly than the service we provide. It's really a small amount in the whole scheme of things.

Mr. Folk: — The one item in there, scientific and educational supplies for $82,000. Was there one major purchase in there?

Mr. Laidlaw: — It's the chemicals for the developing plus I believe there was a special cutting tool purchased in the year under review for . . . I'm just trying to think of the name of it, but the borders that they put on the pictures. It's a special bevelled cutter. I'm not sure of its exact cost. But that would be maybe a portion of it.

Mr. Chairman: — Okay. I gather we're going three times. Gone. Thank you very much, gentlemen, for your attendance and your assistance. We'll get now to . . .

Mr. Katzman: — . . . (inaudible) . . . camera session, Mr. Chairman.

Mr. Chairman: — . . . (inaudible) . . . in camera session before we start.

Public Hearing: Saskatchewan Economic Development Corporation

Mr. Chairman: — Okay, gentlemen, I want to welcome you to the public accounts committee to deal with the public accounts of Saskatchewan Economic Development Corporation. I'm not sure who is senior official here. It's you, Mr. Thompson, is it?

Mr. Thompson: — That's correct. I'm representing the . . . (inaudible) . . .

Mr. Chairman: — Yeah, I see you're vice-president; I'm sorry. I should have picked that up. As well we have Jerry Cheslock to my left. No? My list is at . . .

Mr. Thompson: — To my left is Jerry Cheslock.

Mr. Chairman: — Right. And Gerald Offet. Welcome, gentlemen. As I may have said to you before, the proceedings before this committee are privileged in the sense that what is said cannot be the subject of a libel or slander action, or any criminal action for that matter, although it's not easy to see how that would arise. However, what is said is taken down verbatim and to that extent is readily available for use outside the committee.

With that, I'm going to invite the member from Rosthern to open up questioning of your public accounts.

Mr. Katzman: — Gentlemen, last year's public accounts asked for some information with the understanding that we would be allowed to bring it up in this year if we so wished. The document that was sent to us was sent on March 29, 1983. It had on it Golden Acres Motel, cost of industrial park, cost of Holiday Park, unapproved changes in loan conditions. That's the face document. The first page refers to the Golden Acres situation, losses, and so forth. Do you have a copy of that with you?

Mr. Thompson: — Yes, I do.

Mr. Katzman: — On the Golden Acre situation, on that page, it says: shortfall of guarantee recovery. I'd assume that Sedco lost on Golden Acres, by the looks of it, $104,995. Am I correct?

Mr. Thompson: — That's correct.

Mr. Katzman: — So I'm reading your figures right. You put out approximately 435,000, if that top line is correct. You've lost, for easy numbers, 25 per cent.

Mr. Thompson: — That's a fair guess.

Mr. Katzman: — Okay. You sold portions and so forth. The guarantors gave you 30,752.

Mr. Thompson: — Correct.

Mr. Katzman: — And you let them off 104. In your letter you said two shareholders had declared bankruptcy. Let's see . . . seven of the nine . . . (inaudible) . . . two had declared bankruptcy. Obviously there was nothing there.

Mr. Thompson: — Correct.

Mr. Katzman: — Four others . . . Okay, seven of them . . . Now, why did you not serve all nine? Is that because the two had declared bankruptcy, or you just went after seven of them?

Mr. Thompson: — All nine were served, but as two had declared bankruptcy there was no point in pursuing them further.

Mr. Chairman: — Can't do it anyway.

Mr. Katzman: — Okay, but in your second paragraph you say besides Skoberg, four other reside in Moose Jaw — one an estate; the other was a widow of an estate and the other was the widow of a deceased, living in Edmonton. All six . . . (inaudible interjection) . . . Okay, I'm with you now.

My understanding of this type of guarantee is that you could have gone after one person for the whole amount, rather than having to go after all seven or eight or nine of them, if there were sufficient funds had by that one person.

Mr. Thompson: — They were joint in several guarantees in that, yes, we had the right of prerogative to move against any one or all.

Mr. Katzman: — You've written off $104,000. I'm going to . . . Prior to you being invited in we just . . . closed meeting where we discussed . . . And I'm going to be asking some pointed questions because no other reason that Mr. Skoberg was an MLA and was involved in a guarantee, and Mr. Collver was also an MLA and involved in a guarantee, both selling their interests but still stuck in the guarantee. And Mr. Skoberg is basically — it looks like he was released, and Mr. Collver is being sued by SGI. So the comparisons here is what I'm looking at, where two former members are treated different because of the side of the House that they sat on, and that's the point that I'm . . . Did Mr. Skoberg pay any of that $30,752?

Mr. Thompson: — Yes he did. Precisely, he paid on the guarantee $8,307.

Mr. Katzman: — Okay. $8,307. What did the others pay? Was he the low or the high or the medium or . . . ?

Mr. Thompson: — This was all based . . . The amount that each guarantor paid was based on their percentage of ownership in the project. Skoberg paid 8,307; the Dosco estate paid 10,500; McCartney paid $ 2,715: Cave paid $ 2,226; Veeder paid $1,520; and Timoruski paid $5,484. And that should total $30,752.

Mr. Katzman: — The other two, of course, bankrupt, and the seventh one is missing, and who was the estate that you didn't touch?

Mr. Thompson: — The estate . . . (inaudible) . . .

Mr. Katzman: — The estate did pay on one.

Mr. Thompson: — The 10,500.

Mr. Katzman: — Right. Okay, who was the seventh one you didn't . . . ? There's one missing. Six plus two that bankrupt . . .

Mr. Thompson: — Okay, I'm sorry. There was the Peter Dosco — his estate paid 10,500, and the widow, together, paid 10,500.

Mr. Katzman: — So that was two people.

Mr. Thompson: — That's correct.

Mr. Katzman: — Okay. So that accounts for all seven plus the other two, yes. Why was the 30,752 agreed to, when I would assume there would have been sufficient funds to recover the whole thing?

Mr. Chairman: — May I ask an additional question?

Mr. Katzman: — Okay, I'll ask another one too, if you'd like. Was property signed . . .

Mr. Chairman: — Did you have security on the residences and vehicles or just the guarantee? What did you have by way of security?

Mr. Thompson: — There was no tangible security supporting the personal guarantees that were given by the shareholders.

Mr. Katzman: — Are you suggesting then that . . . Okay, with that in mind, why did you settle on the $30,000?

Mr. Thompson: — That, in our judgement, was a better settlement than attempting to proceed through the courts to attempt to regain the full amount. It was based on one example that is current in our corporation now, and that is we've been fighting with a guarantor who is fully responsible for the level of his guarantee; we've been fighting that since 1973 and we still haven't seen a dime, but we've got lots of expense. The long and the short: it was better in our view to take the 30,000 in real pictures of the Queen than incur additional legal expense, not knowing for sure whether you were going to collect 104 plus your expenses.

Mr. Katzman: — Okay. What we've done here is made an economic decision not a principle decision. The principle says you should go after the money, be it one dollar or be it a million dollars. But we're saying because it's $100,000 it's not worth going after, but if it was a million we might do it.

Mr. Thompson: — Well, I'm not sure that I can agree to that analysis without knowing what kind of cash settlement might be available under a million dollars. I agree with the principle thought, that it is one of economics, yes.

Mr. Katzman: — So what I'm saying here is that I don't believe, personally, that the amount shown would indicate to me other than their home and their car, these people had nothing, is basically what you're telling me — or that you thought what they did have it wasn't worth going after because you weren't going to recover enough to pay your 104 plus your legal costs, so you might as well take the first lick and lose now rather than going the next step.

Mr. Thompson: — If I could use my own words, what we're really saying is that even if we were successful in obtaining judgement against the guarantors that's only the first step in a long legal battle, that you may not even recover any dollars as a result of the judgement.

Mr. Chairman: — Your memo seems to suggest — if I could just take a moment your memo seems to suggest that in your view you got from them everything but their residences, their vehicles, and personal effects.

Mr. Thompson: — That was the . . . from the information that we had available.

Mr. Chairman: — Yes, I'd suggest to you that you got everything you're going to get anyway. If you proceeded with it and got a writ of execution and sent the sheriff off to seize everything in sight, the residence is exempt, the vehicles are normally exempt certainly would be for a member of the legislature — and the personal effects, of course, are exempt. Your memo suggests you got everything that wasn't exempt.

Mr. Katzman: — Ned, would you explain . . . Try that one about 'as a member of the legislature.'

Mr. Chairman: — Well, your vehicle is exempt where you need it in connection with your ordinary job or calling. I think the word 'calling' is actually used in the act. And thus, for Ned Shillington, I think one might argue that he don't necessarily need a vehicle to get to and from the legislature, but John Skoberg, I think his vehicle certainly would be exempted. It's always exempted for a farmer; never exempted for a wage earner sort of thing who lives a mile from the factory gate. If you got everything but the residence, vehicle and personal effects you got everything they had anyway.

Mr. Katzman: — The obvious next question is: if you take a guarantee from somebody who was of collateral position so weak, for lack of a better way of putting it, because basically if something went wrong all you would have is his home and his car to go back on, why wouldn't you take an assignment?

Mr. Chairman: — What's the point in getting a guarantee from a guy who is . . .

Mr. Katzman: — Well, I don't know why they got into the deal if the backing was that bad. It sounds like . . .

Mr. Chairman: — That's an obvious question.

Mr. Katzman: — It sounds like these nine people didn't have enough backing that they should have got the loan to start with. Second of all, if they decided to make the loan because it looked like not a bad idea then you take the best line of security you can get. And seeing as they don't have bonds or other companies or something, you then take assignment on the home.

Mr. Thompson: — I think legally it's, well, difficult to obtain, but in any event I'll deal with the question of the purpose or reason for taking the guarantees in the first place. We generally operate equally, or similar to any other conventional lender in the marketplace. In the first instance the shareholders contributed cash dollars or equity dollars to the project. And I have a list of those, but in total they contributed $62,000 as individuals.

As a lender, and when we are providing a loan to a company, it's quite the normal and usual to take personal guarantees from the shareholders — and you may call it secondary or back-up security. What we're looking for is confirming the level of commitment or personal commitment by the shareholders to this particular project. In other words, we're saying we'll lend the dollars against — in this case it was a hotel. We do have prime security over land, building and equipment. Presumably if all goes well, those assets will retain their value and it should cover the exposure or the loan that we have granted. But in the event that this doesn't occur, that the value of the assets is not there to cover the exposure, we're looking to the guarantors, and that's explained to them at the outset, that they are obligated and responsible for any shortfall.

Now, if I can just conclude. It is recognized in many cases, where the value of that guarantee at the outset is perhaps even worthless, but over time people do have the ability to acquire or improve their net worth. So again we say, maybe it's not worth anything today, but maybe in five years or 10 years when the project fails, that their other entrepreneurship or efforts will have been more fruitful, and will have value.

So, two reasons. One, for personal commitment or obligation to the project. Secondly, the probable or possible value of that guarantee at some later date if it's called upon.

Mr. Chairman: — How much equity did the shareholders have in it?

Mr. Katzman: — It looks like, I would say, Mr. Chairman, about 12.5 per cent from your numbers. Am I about right? 62,000 and you gave them 435,000 as well?

Mr. Thompson: — We gave them 435, that's correct. And I can't recall — I don't have the particulars before me — but there may have been a DREE grant that is quasi equity in our view . . . (inaudible) . . .

Mr. Katzman: — Well that, and if there was a DREE grant, of course, obviously they even put in less of their own money.

Mr. Thompson: — No. The 62 is real.

Mr. Chairman: — That was cash on the barrel head.

Mr. Katzman: — Oh, they did put 62, plus the DREE, plus your 435, if there was a DREE. So their per cent would be less than 12.5 because of the DREE grant.

Mr. Thompson: — Well, again, it's a matter of interpretation. Again, we look at grants as a quasi equity because it's free, it's . . . (inaudible) . . .

Mr. Katzman: — Well, I've got some problems with this one. Mr. Skoberg claims he sold his shares in '75, but you still went back on him as a guarantor.

Mr. Thompson: — We would not release his obligation under the guarantee.

Mr. Katzman: — Correct. Now, I gather the no-interest charges or so forth have been tallied on this particular debt.

Mr. Thompson: — We've accounted for the uncollectible interest in the memo that you are referring to.

Mr. Chairman: — To what date was that accrued?

A Member: — Pardon me.

Mr. Chairman: — To what date was that accrued?

Mr. Katzman: — The uncollected interest is 68,000 . . .

Mr. Chairman: — If you don't have the answer, you don't know the answer.

A Member: — I don't know it.

Mr. Cheslock: — The interest that we show as being lost here is 68,922, is the interest that accrued up until the time Sedco took possession of the assets.

Mr. Katzman: — Okay. Now, you sold the property and so forth. You still, prior to realizing on guarantee, Sedco was exposed for $135,747, — uncollected interest 68,000; receiver fees, blah; so that comes to 146,000, less surplus proceeds of sale. The facility sold for . . .

Mr. Thompson: — 445,483.

Mr. Katzman: — And you had 435. You made $10,000 on that, so your loss was 77,000 on . . . All the land is now gone?

Mr. Thompson: — That is correct.

Mr. Katzman: — I think the point I should make here . . . You made the comment that you lend like a normal lending institution and I would almost suggest to you, you do not in this particular case. I would ask my colleague with his banking experience to either disagree or back me up on this one. It's his choice. But I understand that a bank, and one that looks as tight as what this one seems to be, would have gone for an assignment.

I'm referring to my own growth in business interest where, when I started, where I went in for a $70,000 grant, I'll tell you, they could have took my house and my car and everything else they could get their fingers on, as an assignment. Luck was with me and today it's all paid off but they clamped on anything they could touch, which is good business sense. They've got to guarantee themselves in case . . . Well, they're in business to make money, not to lose it.

Mr. Chairman: — That would depend on whether or not — what the equity in the house and car was and also . . . (inaudible) . . .

Mr. Katzman: — Well, they can only protect it for about 8,000 to 16,000 but you can't touch a person if you sold his house.

Mr. Chairman: — No. If you give a mortgage . . . (inaudible) . . . If I go to borrow money from Cal and I give him a mortgage, the house isn't touched at all because I can put up the mortgage for that house as security.

Mr. Katzman: — With a filing of a bankruptcy statement you can't take certain things.

Mr. Chairman: — No, if you put up your house as security there's no exemption at all. But, if the house is worth 65,000 and there's already a mortgage on it for 50, it's not worth the cost to get the second mortgage with that small an equity. It'll disappear when you go to foreclose anyway. That may be an explanation . . . (inaudible) . . .

Mr. Katzman: — We're fishing to find out why you didn't take the homes and so forth as guarantee.

Mr. Chairman: — . . . (inaudible) . . . I guess wouldn't be a factor in a motel, would it?

Mr. Glauser: — Well, I think what interests me in this particular case is knowing whether there was a DREE grant or were there other funds involved here.

Mr. Cheslock: — There was no . . . (inaudible) . . .

Mr. Glauser: — Okay. What criteria do you use then for basing your equity to debt when considering a loan? Is it 10 per cent? 12 per cent?

Mr. Thompson: — More like — the rule of thumb that we try to achieve is 20 percent.

Mr. Glauser: — That's what I thought.

Mr. Thompson: — We try to achieve. And I'm missing some information because the quick calculation of $62,000 worth of equity on our $435,000 loan, I know wouldn't complete the project. So I'm at a loss where the other dollars were. But using that base — 12.5 per cent equity — is terribly light from our view.

Mr. Glauser: — That's right. And that bears out what the member from Rosthern has said, is that it was a tight situation to begin with. Either one would have to, in a normal financial transaction, either one would have to say, 'Look, we need more money,' or 'In support of your guarantees, we do look for some tangible asset.'

Mr. Thompson: — The only explanation that I can give you at this point in time for the reason we did not ask from each shareholder some tangible form of guarantee to support his obligation — to support his guarantee — is that, from the information at hand at that particular point in time, it appeared that we were adequately secured. That's the only explanation I can give you today.

Mr. Glauser: — Well, in retrospect, it proved wrong.

Mr. Chairman: — Let the banker who has not granted a loan that has gone bad on him and lost money cast the first stone.

Mr. Glauser: — I would have to agree with that. However, there are certain precautions that one can take in the initial stages. And then when unforeseen happenings come along, that's a little different.

Mr. Chairman: — It wouldn't have happened at the Royal.

Mr. Glauser: — Mr. Chairman, unforeseen happenings do.

Mr. Katzman: — I think that the point, Mr. Chairman, has to be made. I guess being around this House as long as I have, I'm sounding like an old war-horse already.

Mr. Chairman: — Not a war-horse, just old, Ralph.

Mr. Katzman: — The accusations made over the past years re: this particular loan was political, of course.

Mr. Chairman: — I think the opposition would stoop that low — before the change in government, yes.

Mr. Katzman: — Yes, I would say that the Conservative side of the House suggests that Mr. Skoberg and his group of people got the loan where in other cases most others wouldn't have got it — strictly because of political knowledge of . . .

Mr. Chairman: — It should be noted for the benefit of everyone present that he was not a member.

Mr. Katzman: — That's correct. He was not a member at the time.

Mr. Chairman: — And sold his interest there when he did . . .

Mr. Katzman: — That's correct. When he got the loan he had just been defeated as a federal member.

Mr. Chairman: — No, he was defeated in '72.

Mr. Katzman: — Well, he was defeated as federal, and before he got elected as a provincial. It was during the period when he was not a member at either place. But the accusation has been suggested that being a member of the party of government made it easier for him to qualify when his financial picture was not as good as anybody else would normally have been required. And that seems to be indicated by the 12.5 per cent. But we're not sure if we have all the documents. I put that caveat on when I say the 12.5 per cent. On that note, I really am not sure what do you do with this, except to say that Sedco was wrong on what they did. But that's hindsight. And the bottom line is as long as everything was done legit and proper to the normal rules of their normal procedure, fair game, you took a loss. If there was some bending because of the person involved, they were wrong and they should refrain from doing that kind of thing.

Mr. Chairman: — It will probably remain an unanswered question as to whether or not there was any bending in granting the loan. I don't think there's any evidence there was any bending.

Mr. Katzman: — It has been suggested prior, Ned, that the collateral position of this corporation was not as good as all others are required to be.

Mr. Chairman: — It may have been suggested that the loss experience hasn't been, the loss experience . . . (inaudible) . . . I was surprised what the loss experience was before. The bottom line for me is that where somebody gets elected and he owes the government money you are just begging for trouble. It often comes back to haunt members who owe the government money.

Mr. Katzman: — Oh, no doubt about that at all — either civic, provincial, federal, doesn't matter.

Mr. Chairman: — The New Democratic Party has never entrusted me with the job of appointing candidates. But if I did, one of the questions I'd ask them is, 'Do you owe the government any money? Because if you do, that's a potential source of trouble.'

Mr. Katzman: — Now, I may be corrected here, but I think a civic candidate cannot run if he owes money.

Mr. Chairman: — That's right — he can't.

Mr. Katzman: — He can't even run if he owes money.

Mr. Chairman: — It's right in the urban affairs act.

Mr. Katzman: — But I don't believe there is any such rule on provincial.

Mr. Chairman: — Or federal, no.

Mr. Katzman: — You can owe your current taxes, but not be in default.

Mr. Chairman: — It's actually a good rule. The Provincial Auditor and then maybe . . . (inaudible) . . .

Mr. Lutz: — Thank you, Mr. Chairman. The document filed by Sedco discloses that there was uncollected interest of 68,000. I would have to ask — Mr. Cheslock, I think, responded to this earlier — to what date was that interest accrued?

Mr. Cheslock: — I'm not sure of what the date was. It was to the date of the foreclosure, or in layman's terms, when we took the place over and put in a receiver. And I'm not sure of the dates.

Mr. Lutz: — Ball park date?

Mr. Katzman: — '79, '80.

Mr. Cheslock: — No, I wouldn't even say that. Here's a guess — 1978. Well, that could be anywhere from '76 to '80, but I'm just aiming in the middle.

Mr. Lutz: — And this was settled in '82?

Mr. Cheslock: — No, in 1980. Or '81, excuse me. I think we wrote it off in '81.

Mr. Lutz: — So there is three or four or whatever years interest not included in this calculation.

Mr. Cheslock: — Well, it was carried on our books. No, I'm not sure whether we bothered carrying it anywhere. It was . . .

Mr. Katzman: — You didn't calculate it?

Mr. Cheslock: — Well, there is a point of law that we're unsure of, and it was under contention in a couple of other cases, whether or not interest is in fact recoverable after you take control of the assets. Maybe Mr. Chairman can help us on that.

Mr. Chairman: — It's a complex mess, that's the best way I can put it.

Mr. Katzman: — Mr. Chairman,, I guess just to more than anything else clear the minds, to put dates on these proceedings. And when I say it: date of application of loan; date of granting the 435,000; date of, I guess, foreclosure of the loan.

Mr. Chairman: — I think it would be best to respond to that in writing.

Mr. Katzman: — Oh, yes, definitely. What else would we require? You know, a . . . (inaudible) . . . flow chart of how the thing went: this happened, this happened, this happened, first notice, second notice, third notice, filed with sheriff, blah, blah. There's got to be a whole corresponding system. And that's more to show us that — other than the one contentious point, did they or didn't they get some favouritism from the start? Everything else went as is normal. I think that's the point we want to show, that other than the one argument that says they might have been treated differently at the end and differently at the start (and the start, of course, affected the end), everything else was done as is with anybody else. And I would like on the bottom of the letter that kind of line, saying, 'Everything on this list was proceeded as is with any other client.'

Mr. Chairman: — Okay. 15 copies to the Clerk who will distribute it to the committee.

Mr. Cheslock: — That may take some considerable research. Just the other day we had about 15 files on the subject. Is there any date on which . . . Does it matter how long this might take?

Mr. Chairman: — As soon as possible I think would be satisfactory to the member.

Mr. Katzman: — I think the key issue is . . . You probably have a log of some kind on the front of each file that says the way it happens. If I've known most bank files, they have running . . . sort of, when an important date . . . (inaudible) . . . You probably have it already categorized, with the key dates that certain things happen. I don't care if you wrote them five letters or 10 in the intervening, and I don't want copies of those letters and so forth. What I want is the steps, one, two, three, four, and I don't think that should be too difficult because you probably have it on the front of one of those files, at least. All banks do, so I would assume you do.

Mr. Chairman: — Okay. All done with Sedco?

Mr. Glauser: — I think when you were here before, I was questioning the ratio of doubtful loans to total liability, which was something less than 1 per cent. Now that's for the period under review. And I think I asked at that time what the more current situation would be. And I think it's proper that we can extend into the '82, and what in reality is it?

Mr. Thompson: — In 1982, records for the annual report will show that we're running in the range of 2.5 as a percentage of outstandings.

Mr. Cheslock: — If you took the last six year, for example, and included '82, on average it's 2.5 per cent. Previous to that it was half of 1 percent, maybe, or lower, than in '82. It jumped right up to whatever 9.6 million is of the loan portfolio, as a percentage. But if you took a period of time ending in '82, it would average about 2.5 per cent.

Mr. Glauser: — I wasn't looking for the average. I was looking for the actual for '82.

Mr. Cheslock: — $9.6 million worth of bad debts in '82 on loans and shares of 140 million, roughly.

Mr. Glauser: — So that's around 9.

Mr. Cheslock: — It would be less than 9. 140 million.

Mr. Glauser: — Oh. 140 million. Oh, okay. Then you're talking 9.6 million. Oh, yeah.

Mr. Thompson: — 6.85 is the quick calculation.

Mr. Glauser: — 6.85. And I understand there are some pretty tough situations out there now, that it could be on the increase. Is that a fair statement?

Mr. Thompson: — I think that is a fair statement, yes. And it's a function, and I think all would agree that because of the economic downturn more and more of our clients, as well as businesses generally, are suffering financial difficulty. And when that occurs, then also the value of assets, whether they be land, buildings, or equipment, their values also depreciate very, very quickly, because you're confined to the function of going out in the market-place and trying to sell assets. And if nobody wants them, then that has obviously a lesser value.

So as we're monitoring these on a monthly basis, we must take into consideration what the value of those assets have in today's market. And a provision is very simply, if the difference between whatever level of loan that you have out there less the value that you perceive that those assets have. And if the market is deteriorating for those assets, then your provision becomes larger and larger. And that is the kind of situation that we're being faced with on a daily, monthly basis. Once the economy turns around, once things pick up, then presumably the value of the assets that we're holding will also increase in value, thus reducing the amount that we've already set aside or provided for.

Mr. Chairman: — Any other questions?

Mr. Katzman: — Yes, for lack of a better way to put it, page 10 is where the Doug Tastad is referred to, and the property that — not in Saskatoon — that Doug is the project manager for, I call it AgriPlace or agripark or something.

Mr. Offet: — AgriPlace it is.

Mr. Katzman: — AgriPlace. This is under the year in review that it was purchased, I understand . . . (inaudible) . . .

Mr. Offet: — Yes, it was purchased in 1981.

Mr. Katzman: — Under the year under review, under this purchase, we bought it from a Mr. Jarvie. Am I correct?

Mr. Offet: — We bought it from a group of business men who were headed by Mr. Jarvie.

Mr. Katzman: — Mr. Jarvie had prior bought it, and I understand the . . . I assume we've checked the title between what he paid for it and what we paid for it.

Mr. Offet: — Oh, yes. We know exactly what he paid for it.

Mr. Katzman: — And how much difference was it?

Mr. Offet: — In total dollars, the difference between the price that he paid for it and the total package that we bought from him was in the neighbourhood of $585,000 difference.

Mr. Katzman: — So he made, in a period of X months, $580,000 on — what? — 320 acres, or . . .

Mr. Offet: — 311 acres.

Mr. Katzman: — 311.

Mr. Offet: — Mind you, he brought more than just land to . . . (inaudible) . . .

Mr. Katzman: — He brought the concept.

Mr. Offet: — No, he brought a concept, and he also brought six ready, willing, and able purchasers.

Mr. Katzman: — Well, time will show . . . (inaudible) . . . Of those six purchasers, I think he was part of them.

Mr. Offet: — Yes.

Mr. Katzman: — And every one of them was in trouble in Saskatoon, and the property they were sitting on had to move anyway, so it's no massive . . . The concept was what he brought, if the truth be known, not the willing context, because Jarvie, Case, International were all in rented property and all knew they were about to have to move because of other reasons, especially Jarvie.

Mr. Offet: — My information is that Jarvie owns the property on Idylwyld that he's located on . . . (inaudible) . . .

Mr. Katzman: — My understanding is that he has to move. Allis Chalmers is, of course, crowded for space. I mean, the concept is what sold.

Mr. Offet: — Well, the only thing I can say in response is that as part of the transaction we received six offers to purchase with deposits.

Mr. Katzman: — Of $10,000?

Mr. Offet: — No, 10 per cent of the . . . (inaudible) . . .

Mr. Katzman: — Okay, of that 311, it is now being incorporated in the city as a whole package?

Mr. Offet: — It's been annexed, yes.

Mr. Katzman: — Annexed to the city. Are we still in a position where we are going to be the total project developers, paying for the sewer line and everything else to come in there and charging it back in to cost to property?

Mr. Offet: — Yes, on a phase-by-phase basis.

Mr. Katzman: — Of this 311 acres, tentatively there's an arrangement with the city on 40 acres. I don't know if it's completed or subject to . . . (inaudible) . . .

Mr. Offet: — There's an agreement in principle respecting the 40 acres.

Mr. Katzman: — Which 40 acres?

Mr. Offet: — It would be the 40 acres largely contained in the south-west quarter adjacent to Highway 16, in the very southern portion of the . . . (inaudible) . . .

Mr. Katzman: — South-west? Oh, down in the low corner where the slough runs.

Mr. Offet: — That's correct.

Mr. Glauser: — Right at the intersection of 16 and . . .

Mr. Katzman: — The cut across.

Mr. Offet: — Right at the intersection of the cut across — I think there's Power Farm equipment located on it.

Mr. Katzman: — Right next to asphalt services land on the other side of the road.

Mr. Offet: — Just to the north of that, yes.

Mr. Katzman: — You have in that property two homes — one very old one, and one very brand-new. What is the disposition of what you're going to do with those?

Mr. Offet: — There are some buildings that were acquired as part of the property. The older ones, if my recollection . . . are in the process of being demolished.

Mr. Katzman: — There's one that had a fire and it's been demolished.

Mr. Offet: — And we'll be calling for public tenders for the removal of the newer home.

Mr. Katzman: — I think that a piece of advice that you should make sure that you well post both those homes and the shops, because there's a lot of people looking, because they are of capable moving buildings which you should be able to get a refundable dollar for.

Mr. Offet: — We'll keep that in mind.

Mr. Katzman: — Rather than just a closed tender that a lot of people will not see. I assume that one house is a 100-and-some thousand dollar home, never mind property.

The sites are now into . . . I'm off the year under review, Mr. Chairman, but it fits in with the year under review. You said you had six people who had committed in the year under review. I understand that the Allis Chalmer dealer, I forget the name, and Mr. Jarvie's company have indicated publicly, in the last week or two, that they are getting prepared to move in and start construction. Is there anybody else of that six that have done the same?

Mr. Offet: — Titles to four of the six parcels issued on Friday of last week — those four transactions are set to close on the 31st of May. The other two transactions will close within 30 days of that date . . . (inaudible) . . . in the land titles office. I can't really say what building plans for the other four dealers are. Under the terms of the purchase agreement they undertake to commence construction within a year of the closing.

Mr. Katzman: — You have Jarvie, International. I believe you have Case. In fact, in Case's case, I think they're leasing. Somebody else is taking it up and leasing it to them. I'm not quite sure if that's correct or not.

Mr. Offet: . — Our dealings are with the Case dealer. We have an offer to purchase.

Mr. Katzman: — Yes. And the Suburban Supply is still moving, or not?

Mr. Offet: — Yes.

Mr. Katzman: — Suburban is still coming. Allis Chalmers . . .

Mr. Glauser: — Is a dealer from Eston moving in there?

Mr. Katzman: — No, it's all local Saskatoon dealers moving in, from what I understand.

You have Peavey Mart negotiating. Have they agreed to come in or not? They are not part of your original six.

Mr. Offet: — Negotiations are ongoing with the developer who would provide a facility for Peavey Mart. We do not have an offer to purchase.

Mr. Katzman: — The 19 acres missing, I assume, by the way, is the auction mart property — 1,320.

Mr. Offet: — Yes.

Mr. Katzman: — I've got five of them. Who's the sixth one? John Deere? Have our farmers made an arrangement, or are they still staying where they are?

Mr. Offet: — No, they are . . . (inaudible) . . .

Mr. Katzman: — They've made their sale, and they were subject to the sale, from what I understood.

Okay, that gets rid of 60 acres of approximately 311 minus 40, 271. I assume you have to give 30 acres or so to the city for public holdings.

Mr. Offet: — The net yield on the subdivision, after you take out the drainage pond and the roads, is about 260 net acres.

Mr. Katzman: — 260?

Mr. Offet: — Yes.

Mr. Katzman: — So you take the 40 off that . . .

Mr. Offet: — That's correct.

Mr. Katzman: — . . . which is down to 220. Are we talking still about 60 of these dealers, or are some of them looking at only five acres?

Mr. Offet: — No, 60 acres are committed to the dealers.

Mr. Katzman: — Okay. That's down to 162. What's the break-even?

Mr. Offet: — Well, it's being developed in phases. On the total project cost, the breakeven is about 185 acres. On a phase-by-phase basis, the first phase is 110 acres excluding the Coliseum site, and the break-even on that is 80 acres. We've got 60 sold, and we have offers to purchase with respect to another 15 so we're within five acres of break-even on phase 1.

Mr. Katzman: — How much land do you have to give to the Department of Highways for the new clover-leaf overpass that we'll be required to build on 66th Street because you'll have to close 61st and 71st because of this?

Mr. Offet: — That is still under negotiation. It will be between three and seven acres, depending on the exact configuration of the clover. We naturally are inclining towards the three acres.

Mr. Katzman: — Is that in your calculation of the . . .

Mr. Offet: — Of the net saleable acreage. Yes, it is.

Mr. Katzman: — You've already got that calculated. Now you're going to . . . Double freeway coming across, an exit, I suppose, onto 16, as well as an exit onto 11 and 12 there, which is the freeway . . . Are you going . . . You said a pond, and that intrigued me. It sounds like you're not going to total go sewer and water then.

Mr. Offet: — Oh no, the pond is a retention pond for storm drainage. There's a force main in the retention pond to control the amount of water that goes into the natural drainage course down through the creek system. So the storm water, in the event of a flash flood, is immediately stored on site, and at the normal rate of flow is discharged into the downstream system.

Mr. Katzman: — Pipe system, not open system.

Mr. Offet: — No, the downstream system is an open system.

Mr. Katzman: — You're going to use the drainage, then, going to the west.

Mr. Offet: — The city is going to use the drainage going . . . no, going to the river, going east and north. I forget what the name of the . . . Tipperary Creek?

Mr. Katzman: — Yes. We're going to drain that property to the east.

Mr. Offet: — We are going to drain that property into a retention pond. From the retention pond it goes into the city system, which goes across the highway into the Tipperary Creek.

Mr. Katzman: — That system was not part of all the construction the last few weeks, then, because that was sewer and water that was being brought across.

Mr. Offet: — That's correct.

Mr. Glauser: — That retention pond is already there.

Mr. Katzman: — No, no. That's an old dug-out that's there.

Mr. Glauser: — That's not part of the system then?

Mr. Offet: — No.

Mr. Glauser: — Oh, okay.

Mr. Katzman: — They're filling the dug-out in, basically. They're pumping it to clean it out.

You now have basically 162 acres left. Will you be able to stay to your concept of an agri-park? Or are you going to start allowing non-agriculture industry into the park?

Mr. Offet: — Assuming for the moment that the Coliseum is a dead issue, then it would be our intention to stay with the concept. If the Coliseum or something of a similar nature, maybe scaled down, does come forth, probably the land adjacent to that area would be more commercial in nature than restricted solely to the agricultural sector.

Mr. Katzman: — Let me back off here, and start again, because we're not coming down the same path. We have 222 acres of land useful. I've already removed the 40 acres for the Coliseum. Of that, we sell 60 acres to agri-companies. We have 15 acres being negotiated for which is an agri-type company — Peavey Mart and all these places are considered agri-mart. We then have 147 acres left. My concern here is: are we going to stay with that 147 agri? Or are we going to allow a hotel, for an example?

Mr. Offet: — My answer would have to be that under our existing marketing plan, we would permit hotel and restaurant type developments in the area immediately adjacent to the Coliseum site, which would conceivably take up to 40 acres, which would leave the balance of the third phase of the development, which is 100 acres, more or less, which we would plan to continue to market as an agriculturally oriented development.

Mr. Katzman: — Okay. If I read you correctly now . . .

Mr. Chairman: — May I just interrupt the member for a moment. It's five to eleven. If we're going to finish up in five or 10 minutes, we should just, I think, complete it.

Mr. Katzman: — Yes, I can finish up in five or 10 minutes, I think, Mr. Chairman. This is the last issue I have.

Mr. Chairman: — Okay. Just finish up.

Mr. Katzman: — The south-west corner was the 40 acres. To the east of that is no commercial. I move to Idylwyld when I move to the east of that. North of that, moving north, we will probably have a bare section, and then butting up to the auction mart area — in that area — is our true agriplex . . . (inaudible) . . . So our middle land is now left vacant.

Mr. Offet: — That's correct. That's the final phase.

Mr. Katzman: — So we have gone to what I would consider the expensive portion first, by drawing our water lines and sewer lines. And therefore our further portions will not be as expensive and therefore faster to break even on — your phase 2 and phase 3. Because you've drawn the . . . (inaudible) . . . you have agreed to draw the far lines in, which are the expensive lines, distance-wise.

Mr. Offet: — The incremental cost of running the services from the spot at which they come in, which is about half-way through the south-east quarter, up to the north-east quarter, is really insignificant in light of the fact that 66, in either configuration, is going to be the main traffic artery, and the services have to be run down 66 before that street can be finished. And that street, whichever you select — if you selected the south as the first phase, or the north as the first phase — those services would have to be in place then.

Mr. Katzman: — Services have been brought in at 61st now.

Mr. Offet: — That's correct; about half-way down.

Mr. Katzman: — 61st is going to be closed, so . . .

Mr. Offet: — No, the services are being brought in north of 61st.

Mr. Katzman: — I suggest to you that you're wrong. Unless there is another set of services coming in . . .

Mr. Offet: — I'm simply drawing this from the development and servicing agreement that we've entered into with the city, where they indicate where they're bringing the services to us.

Mr. Katzman: — Well, if you look at the construction last week, they brought it in at 61st, not at 66th. That's what threw everybody up there, thinking you had changed your plans from the original, because the original plan said that was for the overpass . . . That's where I was trying to point out what you'd done . . .

Mr. Offet: — As I say, the city, under the terms of the development and servicing agreement, is required to bring the trunk services to us at a given point in the subdivision.

Mr. Katzman: — Yeah, so they can bring them any way they want.

Mr. Offet: — They can bring them any way they want, at their expense.

Mr. Katzman: — Mr. Chairman, basically I think I can leave this go. My concern is that I still think before we are done that one man will make good dollars and get himself out of a box that he might have been in. The concept of an agripark has been tried in, I believe, Calgary, and didn't work too well because of the cost factor. I'm concerned that we're still into this. I realize that we were in so far there was no way out, as of about a year or two ago, and it seems like you're making the best out of a bad situation. Because I think you had enough land in Saskatoon you didn't have to get into this one. You got into it on a decision of somebody. You seem to be making the best of a bad case, and if we ever took interest into consideration on our money, and so forth, once again the private sector, you know, would totally beat us for cost concerns.

But we're into it. The losses we would take if we got out are just about as bad as the losses we're going to take before this . . . (inaudible) . . . do your best to minimize your losses. And when I say minimize I'm referring to if we were paying the normal public cost, which we don't, so we may end up showing a profit because we don't show interest and so forth — so I understand.

Mr. Offet: — Interest is charged on a monthly basis on the outstanding capital costs on this project.

Mr. Katzman: — Then you're doing this one differently.

Mr. Offet: — No.

Mr. Katzman: — From what Mr. Tastad said at a meeting in Saskatoon, which I was in attendance at, he indicated — and it was he, John Lorass and somebody else on a panel — and Mr. Tastad did agree that the costs projected for the government, Sedco versus a private enterpriser were quite lighter because of special benefits you have by being Sedco.

Mr. Cheslock: — Oh, well, I think what he was referring to there was that the interest that's charged to the project is on a pooled cost basis. In other words, all the debt that we've ever borrowed since day one is still outstanding at lower rates. It is being charged to the project and it may average 9 or 10 per cent, whereas the private developer may have to bridge his financing through the bank and pay prime. And at that time, bank prime was significantly higher than 10 per cent.

Mr. Katzman: — Well, I'm prepared to leave it at this point, Mr. Chairman. Thank you, gentlemen, for being as blunt with the answers.

Mr. Glauser: — I just have one quick question and that is that development, that park, Holiday Park. What is the occupancy there now?

Mr. Offet: — Are you talking about the year under review, or right at this point in time?

Mr. Glauser: — Well, right at this point would be worth while.

Mr. Offet: — Okay, at this point in time, we have 32 acres sold and another 27 under either agreements or options, which leaves us with 63 acres, more or less, unsold.

Mr. Chairman: — Thank you very much, gentlemen, for your attendance.

Mr. Katzman: — Mr. Chairman, before we adjourn I have one comment I would like to make, and I'd like to put it on the record, if I may.

Would we, from now on, on our documents that we start to receive — and I spoke to Gwenn about it; it says 'PAC 46,' or whatever they are — put a year in front of them so when we go back, two or three years from now, reviewing a situation that we say, 'Well that was 1980 when we got that document in public accounts'? I'm just thinking of putting it on the record so that we continue to do it from now on.

Mr. Chairman: — I think that's agreed to. And I think we'll go off the record.

The committee adjourned at 11:05 a.m.