Standing Committee on Crown Corporations

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STANDING COMMITTEE ON CROWN CORPORATIONS
2002

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The committee met at 09:35.

Saskatchewan Government Growth Fund Ltd.

The Chair: — Good morning, everyone. Mr. Brkich, good morning.

Today we are considering the Saskatchewan Government Growth Fund. With us is Kathryn Buitenhuis who is the president of the SGGF (Saskatchewan Government Growth Fund Ltd.) and I'd like to call on her to introduce the officials that she has with us. And then she's asked for permission to provide an overview of the SGGF and then be in a position to entertain any questions that the members may have.

So having said that, we'll turn it over to you, Ms. Buitenhuis.

Ms. Buitenhuis: — Thank you.

I will introduce my colleague on my right, Mr. John Amundson, who is the chief financial officer of SGGF Management Corporation.

The Chair: — Mr. Wendel, before we get into the presentation do you want to introduce the people that are here with you today?

Mr. Wendel: — Yes, Mr. Chairman. We have Andrew Martens who everybody knows, who attends all your meetings, and Glen Nyhus who leads our work at the Government Growth Fund. And the appointed auditors, we have Jack Grossman next to Kathryn, and Rae Lenz.

The Chair: — Great. Thank you very much.

And we'll throw it open to you.

Ms. Buitenhuis: — Since this is the first time SGGF Management Corporation has appeared before the Crown Corporations Committee, we have prepared a handout that covers four main topics. It provides you an overview of the federal immigrant investor program, an overview of the SGGF environment and its performance, an overview of recent changes in the management services, and a summary of the economic impact of SGGF participation in the immigrant investor program.

I will not present this handout in detail to you as you can read it at your leisure. However I will present several of the highlights within this presentation.

The federal immigrant investor program is part of the business immigration program established under the federal Immigration Act and Immigration Regulations of 1978. The objective of this program is to promote, encourage, and facilitate the immigration to Canada of experienced business persons from abroad who will make a positive contribution to Canada's economic development by applying their risk capital and business acumen to Canadian ventures which create jobs for Canadians.

The Immigration Regulations provided for two options for this investment. The first was through privately administered investment syndicates approved by the province of investment. This option was discontinued in 1997. The second is through provincial government administered venture capital funds approved by the minister. And the SGGF funds fit into this category.

SGGF Management Corporation was created in 1989 as a CIC (Crown Investments Corporation of Saskatchewan) Crown to manage and administer the funds created under the immigrant investor program. To date, eight funds have been created under this program. The last three funds were closed in 1999 after receiving full subscription.

Customs and Immigration Canada is the federal regulator who approves all offering memorandums, audits compliance with the Immigration Regulations, and approves all visa applications.

Government Relations and Aboriginal Affairs is the provincial regulator for the program who also approve all offering memorandums and establish the provincial guidelines under which SGGF Management Corporation operates. As I mentioned, SGGF Management Corporation was created to manage and administer the funds created under the IIP (immigrant investor program) and the funds are all corporations registered under The Business Corporations Act of Saskatchewan who are governed by a private board, the SGGF Fund Board, who oversee the performance and operation of the funds. And in particular this board authorizes and approves all fund investments and divestments.

Pages 4 and 5 outline the particular provincial guidelines that are now in place to administer venture capital funds in the province. I will draw your attention to the fact that under these guidelines neither the federal government nor the provincial government provide any guarantee to the investors who participate in this program. In 1999, when the federal program was revamped to require a provincial guarantee to the investors, the province withdrew from the IIP at this time.

I'd also draw your attention to page 5. In 1995, the definition of eligible business was modified to include a Saskatchewan business that purchased assets and leased these assets in the form of operating leases to government entities, Crown departments, municipalities, NGOs, (non-governmental organization), etc. Consequently the latter funds designated a higher portion of the investment portfolio to be invested in these lower risk and more liquid investments. However under this lower risk profile, the latter funds only allowed for 30 per cent of the investment pool to be made available for venture capital financing; 40 per cent of the investment pool is required to be placed in these secure leases; and 30 per cent is held in cash as per the terms of the offering memorandum.

The province entered the IIP to raise venture capital. Access to low-cost venture capital is necessary to encourage economic development and growth which occurs more frequently though small business.

On page 7, a review of Saskatchewan government investment vehicles and venture capital landscape in Saskatchewan was completed in October 2000. Some of the highlights from this review indicated that Saskatchewan is lagging other jurisdictions in both the supply and placement of venture capital.

And what page 8 indicates is that the capital raised from the immigrant investors served as the main source for venture capital in Saskatchewan. The SGGF funds themselves accounted for 45 per cent of this capital that was deployed in Saskatchewan.

As of 2001, the eight funds, as you can see, are all at different stages of their lifecycle. Collectively these funds have 153 million in assets under management. During the year of 2001, 15 million was raised and 7 million in investments were made in Saskatchewan small business.

Just an overview of the governance structure associated with the SGGF environment. The SGGF Management Corporation board is a Crown corporation board. It is chaired by Wil Olive. The other members of the board consist of Ron Styles, the deputy minister of Finance; Larry Spannier, the deputy minister of Industry and Resources; and Joanne Forer, who is currently also the Chair of the private SGGF Fund Board.

The members of the private SGGF Fund Board consist of Keith Rissling, Gord Mertler, Rollie . . . (inaudible) . . . Lloyd Boutilier, and Darrel Cunningham — all individuals who have the requisite business and financial skills to appropriately govern the funds.

Page 10 provides you a snapshot of the funds' status as of the year 2001. And as you can see 2001 was a difficult year for the funds as a number of investments struggled and the new funds incurred normal start-up expenses in excess of their revenues.

I will move ahead to page 14 and reiterate the role for SGGF Management Corporation. The role for SGGF Management Corporation is to create, manage, and administer funds created as government administered venture capital funds under the IIP for the purpose of acquiring relatively low-cost capital for investment in the Saskatchewan economy on commercial terms, thereby creating economic wealth and diversification.

SGGF Management Corporation has an exclusive management agreement with each fund to provide an acceptable level of management, administrative, and investment services for the funds.

And finally, upon wind up of each fund, SGGF Management Corporation, as sole shareholder, will receive all net profit after all fund obligations are satisfied and make payment of this net profit directly to the General Revenue Fund.

Page 15 provides you a summary of the investment and management services that SGGF Management Corporation is obligated to provide to the eight funds.

In addition, venture capital firms, such as SGGF, also provide services that add value to their investee companies, along with the capital dollars. And page 16 provides a summary of some of the services SGGF Management Corporation and its investment managers provide to the investees.

In the beginning, SGGF Management Corporation entered into an administrative agreement with SEDCO (Saskatchewan Economic Development Corporation) and a number of investment services agreements with private sector, Saskatchewan-based investment management companies, the sub-managers, to provide these services. The sub-manager's role was to place this capital in eligible businesses in Saskatchewan.

In 1993, when SEDCO was restructured, SGGF Management Corporation hired its own staff to provide the professional accounting, administrative, and investment services in addition to the continued contracts with the sub-managers. During this period the management expense charged to the funds was less than 3 per cent of assets under management, less than comparable management fees attributed to comparable venture capital funds during this period. However when the province decided to withdraw from the program in 1999, SGGF Management Corporation recognized further changes were required to sustain the low overhead expense.

Since SGGF no longer participates in the IIP, no new capital will be raised. And as the funds mature and the capital is repaid to the investors, the base of capital under management will diminish. A diminished capital base cannot support the level of specialized venture capital management expertise that existed in SGGF Management Corporation. The Management Corporation sought an alternative that would minimize future management costs yet at the same time provide acceptable management services to the eight funds. In addition there was a desire to leverage the existing SGGF venture capital pool to attract new capital to the Saskatchewan market from other sources.

Outsourcing was considered the best alternative to the ongoing delivery of these management services, and the requirements for this outsourcing agreement were determined to be that it must be a Saskatchewan-based firm that is able to offer equivalent employment opportunities to all current employees of SGGF Management Corporation, that is able to deliver the full range of management services under commercial terms, and also able to leverage management of the SGGF funds to attract new capital to Saskatchewan to replace the IIP capital.

And the report I referenced, the 2000 report on the Saskatchewan venture capital landscape, was used to shortlist two candidates who had those attributes — Prairie Financial and Crown Life. Both firms had a longstanding relationship with SGGF Management Corporation serving as sub-managers, so SGGF Management Corporation was comfortable with the management style of these organizations.

However, Prairie Financial determined it could not commit to meeting the third criteria. Crown Life, for its part, did commit to contributing 60 million in funds to be managed and placed in Saskatchewan over the next three years. The MSA (Management Service Agreement) negotiation and development of the agreement was carried out by three external contractors and was effective October 1, 2000. Page 22 highlights the significant terms of this MSA.

SGGF Management Corporation is satisfied its objectives were met in entering this agreement. All employees of SGGF Management Corporation were offered equivalent employment with Crown capital partners, thereby retaining their expertise in Saskatchewan.

The officials that are here today are CIC employees who carry out the administration of the day-to-day activities of Management Corporation and provide support services to the board of management corporation. We are not compensated by Management Corporation.

The funds continue to receive full management services at fees less than 3 per cent of the net assets under management. Costs will not increase even if size of the funds diminish. Crown Life has leveraged its management of the SGGF funds to attract two new private cap . . . to attract new private capital and to create two provincial venture capital funds in 2001 to begin to fill the void left due to the decline in IIP capital.

And in summary I would just like to summarize again the economic impact of SGGF's participation in the immigrant investor program. In summary, the purpose of SGGF was to put private capital at work in the Saskatchewan economy with an objective to create economic wealth and diversification in a commercial manner with no public funds at risk.

Through the IIP program the province has attracted over 281 million of private immigrant capital to Saskatchewan since 1989. These funds have accounted for over 45 per cent of all small and medium business ven cap placements in the province during this period. From 1989 to 2001, 218 million of the 281 million has been invested in 66 Saskatchewan small- and medium-sized enterprises. These enterprises have realized 1,600 direct job creations with annual job growth of approximately 37 per cent, an increase in gross sales of 333 million or an annualized sales growth of 51 per cent, and of course the resulting tax revenues associated with their business success.

Currently the funds have 44 million of active capital at work in 24 provincial, small and medium enterprises, plus have 50 million in leases out in the province. An additional 32 million in capital remains to be collected from investors who have subscribed to Fund VI, VII, and VIII and have not as yet received their visa approval. And finally, Canada itself has benefited from the productive business acumen of the 1,124 experienced business persons from abroad who now are Canadian citizens who make a positive contribution to Canada's economic development.

Thank you.

The Chair: — Thank you very much. Questions? I'm going to go to Mr. Wendel and see if you have any comments that you want to make with respect to . . .

Mr. Wendel: — I have a brief presentation on our checklist.

The Chair: — Okay.

Mr. Wendel: — And ask Mr. Nyhus to make that presentation.

Mr. Nyhus: — Good morning. Our report for SGGF is found in chapter 3, page 29 of our 2002 Spring Report.

There are four parts to my presentation. I'm going to amend it a bit. Kathy Buitenhuis had presented a lot of information on some of the parts that I have, so I think we can just pass through that. So on the introduction, I plan to skip that because it was covered well.

Key challenges, I'd like to say a few things about this. There are three challenges, or three large ones, I guess. One is the Immigration Regulations. The regulations provide very specific requirements for eligible investments, deadlines for making these investments, and deadlines for selling them.

Another challenge is finding eligible investments. SGGF reports that finding suitable investments is difficult. Many eligible investments are risky and the challenge is ensuring that there's a reasonable prospect for success.

The third challenge that I have is that also exiting from the investments is difficult. The five-year investment period is a short time period for these kinds of investments. As a result, most eligible investments will still be risky at the end of the five-year period and may not be attractive to other investors.

On the background, I was going to cover three areas and governance structure was dealt with, so I'll go into the program requirements and financial results.

The program requirements. The immigrants must invest $250,000 for a period of five years. The fund companies are required to repay the immigrant investors when that five-year period is up. The fund companies are required to invest 70 per cent of the monies within nine months of receiving it. Investments must be in companies whose assets are less than $35 million. Investments cannot be guaranteed by anyone. Investments must be in Saskatchewan and the immigrants must bear the full risk.

The program ended in 1999; however, some of the fund companies will still be active for many years. And this is because Funds VI through VIII are still receiving monies, but only from investors who paid a deposit prior to March 31 of '99. Also the five-year start date for some investors in Funds V through VIII has not started due to the 70 per cent rule. The start date of the five-year period is when the fund invests 70 per cent of a person's money in eligible investments. In other words, it doesn't matter when the fund receives the money. The key date is when the fund invests 70 per cent of the money in eligible investments.

The assets and liabilities of Management Corporation and the eight fund companies are shown on page 33 of the chapter. And I'll just draw a few points.

Fund I — the immigrant investors are fully repaid. Approximately $4 million remains in the fund. This money is to be paid to the GRF (General Revenue Fund) once the investments are sold.

Funds II and III are in a deficit position due to investment losses. The investors in these fund companies are not expected to get all of their money back.

And Funds IV through VIII are in an approximate break-even position.

This brings me to my last slide, our 2001 audit findings. We worked with Deloitte Touche, the appointed auditor, to form our conclusions. Our conclusions are: the financial statements of Management Corporation and its eight fund companies are reliable; Management Corporation has adequate rules and procedures to safeguard and controls its and the funds' assets; and Management Corporation complied with its governing authorities except for four matters.

During 2001 the federal government reported the results of an audit on Management Corporation's compliance with the immigrant investor program. It reported the 70 per cent rule was not met for Funds V through VIII, the investments in government leases were deemed ineligible investments and that applies to Funds III through VIII, and the five-year start date for Funds V through VIII was incorrectly calculated. We also concluded that two leases in 2001 were ineligible investments.

Now Management Corporation has taken steps to address these matters. These steps are described in our report. Also in the report we state by that by June 2002 the federal government is to review the steps taken and that . . . taken by Management Corporation to address these matters, and you may want to ask management on the status of that review.

And this ends my presentation and I'd be happy to answer any questions.

The Chair: — Mr. Grossman, do you have any comments you want to make?

Mr. Grossman: — Just some very, very brief comments, Mr. Chairman. One is that we have issued reports without qualification for all the years under review, and that we have had an excellent working relationship with management and the officials from the Provincial Auditor's office, in more recent years with Glen Nyhus and Rosemarie Volk, and it has made the process of the audit seamless in the sense of service. And so we would like to thank the Provincial Auditor for their and management for its assistance in preparing the financial statements. That's all I have to say, Mr. Chairman.

The Chair: — Thank you very much.

Mr. Wall: — Thank you. Thank you, Mr. Chairman. In 1998, was SGGF ever approached by other branches of the government, including Sask Water, to pursue the potential interest that SGGF might have in investing in the potato industry or in the development of an investment attraction strategy for the potato industry?

Ms. Buitenhuis: — I am not aware of Sask Water approaching SGGF for a joint investment. However, I do know that SGGF funds were invested in a potato growing operation, Sask Ida potato corporation during that time period.

Mr. Wall: — Would you be able to determine for us this morning through . . . I think someone perhaps could make a call or confirm for the members of the committee whether or not any other element of the government, including executive branch or Sask Water, approached in that year SGGF as to their interest in the . . . potential interest in the investment attraction strategy development for the government on the potato front or direct investment in the potato industry through the . . . in terms of sheds, in terms of any element of that industry?

Ms. Buitenhuis: — We can take . . .

The Chair: — I just need some clarification. You're asking her for a response for issues that pertain to SGGF, not other branches of government?

Mr. Wall: — That's correct. That's correct.

The Chair: — Okay. Go ahead.

Ms. Buitenhuis: — I would like to take that question away and pose that question to the sub-managers of the various funds who deal directly with making all of the investment placements.

Mr. Wall: — Thank you. I'd appreciate that. Do you have an estimate for us in terms of when you might be able to get back to members of the committee with that information?

Yesterday, we just ran into a situation where a commitment was made to provide members of the committee information in June and we received it yesterday. And I just wanted to get an idea . . . get from you an estimate even of the timeline when we could expect a confirmation or . . .

Ms. Buitenhuis: — I believe it would be reasonable to return to this committee with a written response to that question in a week's time.

Mr. Wall: — Okay.

Ms. Buitenhuis: — This is the 1998 question?

Mr. Wall: — That's correct. Yes. I'd appreciate that. Thank you.

You know, as we go through . . . First of all, thank you for the presentation. You know, it's useful for our . . . I think it's fair to say that our learning curve on a lot of this stuff is fairly steep and I thought the presentation was good and helps us to sort of get a grounding in both the history of the process and where it is now, now that the management of it has been privatized to the private sector.

SGGF II certainly stands out, not only the status of 2001 but some of its history. And we certainly have some questions about that on behalf of . . . on behalf, frankly, of some of the . . . of what are referred to by the fund as bondholders, some of the people . . . some of the investors.

First of all, do you have any explanation as to why . . . do officials have any explanation as to why it's performing at . . . its status is so much more negative than the others?

Ms. Buitenhuis: — Recognizing Fund II was one of the original funds and required 70 per cent of all immigrant investor money to be placed into risky ventures, risky small-business ventures. Unlike the latter funds which are able to provide a more lower risk portfolio, the original funds require that 70 per cent of every dollar invested must be in an at-risk investment and must be held in an investment for five years.

During the course of the five years, one of the significant investments that Fund II had made was in a Humboldt-based company, Wolverine, which has since gone into receivership. Wolverine experienced start-up problems, cash flow problems, various operating problems.

Our investment managers attempted to work with this company and assist the management of this company in securing other financing options. Unfortunately they were unsuccessful in this venture. Wolverine has gone into receivership. The funds had a significant amount of this investment . . . of their investment in this particular company. Fund II had a significant amount.

In the five-year window it is impossible for this fund to secure new capital and therefore regain those losses. In fact the loss must be borne entirely by the fund and at the expense of the investors.

Mr. Wall: — SGGF had a lending guarantee arrangement with Wolverine, as I understand it. Is that a normal practice for this kind of a fund, of any kind of a v-cap (venture capital) fund, to get involved on the guarantee side of the debt of the new company?

Ms. Buitenhuis: — The financing instruments that are used to invest the fund money are developed by the investment services managers. Various types of instruments are developed by these managers.

The significant requirement is that these investing instruments must mature within five years and that is all that I can say regarding that particular instrument.

Mr. Wall: — The only stipulation is the instruments cannot mature within five years?

Ms. Buitenhuis: — The requirement is that the capital must be placed in active businesses for the full five years and therefore our investment services managers develop instruments with their investee companies that allows them to participate in the investee company and yet withdraw and, you know, remove themselves from the investment after the five-year window is up.

Mr. Wall: — Okay, thanks. That doesn't quite clarify the question I had, Mr. Chairman, which was sort of the normalcy if you will of a loan . . . of basically guaranteeing loans for projects as a venture capital fund. I'd just ask you to comment on how frequent that has occurred, you know, since 1989 when the first fund began and whether as far as you know that's a standard practice of various v-cap funds?

Mr. Amundson: — I think we'll have to get back to you on that. It's not an abnormal investment to guarantee loans, but what other provinces have done in their funds I can't tell you. I don't have that knowledge.

Mr. Wall: — So you're saying it's not an abnormal investment for a venture capital organization to guarantee loans?

Mr. Amundson: — Sorry, no. What I said was it's not abnormal for loan guarantees to be done. Whether or not other venture capital funds under these IIPs have done that, I can't answer that question.

Mr. Wall: — Well I'd be interested in what you find out because I don't know the answer either. Intuitively I'm guessing that, you know, that's obviously not what venture capital is all about so I'd be interested in your answer to that.

There are some specific questions of people in SGGF too who have been hurt by the results of that, have . . . that we would like to ask. Yes, I guess just to follow up on that last question and while you're researching it, if you could find out, if you would be able to report back . . . and this one wouldn't be that time sensitive so I don't think we would worry about whether it could be a week turnaround or later. But I think it would be useful to find out of the ventures, the 66 ventures or so, how many of them were loan guarantees and how many were, well I guess the other ones would be equity.

The other question that we have I think is, or would ask you to comment on, is when you . . . you indicated in your presentation that the, you know, the 2001, the fund . . . the funds aren't looking all that rosy. Our quick calculation is that, you know, they're in the ditch for a total of about 8.62 million when you look at all of them.

And so there again I'd ask for some comment as to what's happening in other jurisdictions. How are we doing compared to other places? How are we doing compared to other similar funds? And what are the prospects for that to turn around? Because of course it represents liabilities for new Canadians across the country.

Ms. Buitenhuis: — The significant component of that is of course Fund II, and the prognosis is very low that there can be a turnaround for Fund II. The strategy of Fund II is to . . . it's pursuing a strategy of orderly liquidation of its remaining assets in order to maximize the return it can make to those investors. But we will take the question posed and answer that for the remaining funds.

Mr. Wall: — Thank you. SGGF I would have been the . . . would have been pursuing those higher risk investments; as you indicated, the earlier funds were limited to, quote, "higher risk investments." And yet it's at about $3.82 million to the good. And the fund after it, SGGF III, which is I guess the second worst one, is still only half as bad, if you will, as SGGF II. So do you have any comment as to why . . . if that's the rationale, that SGGF II is part of the, sort of the, higher risk portfolios, why is SGGF I doing so comparatively good?

Ms. Buitenhuis: — SGGF I is a fund that's in complete redemption mode. It has returned all of the original investments to its investors. SGGF I was our larger fund; it originally had $93 million of immigrant investor subscription to be placed out of this fund. The fund repaid all of its investors several years ago and has been pursuing the orderly liquidation of its assets, and the four million that you see represents the remaining assets of this fund.

Mr. Wall: — Thank you. My understanding with SGGF II is that there are 31 investors who have not been repaid any portion of their principal $250,000 and that payment was due in December 2000. Some have though; some have received a payment. How much money was borrowed in total in order to repay certain investors of SGGF II such that they were to receive the $150,000 that they received?

Mr. Amundson: — No money was borrowed from an external source. Two million dollars was lent by SGGF I to SGGF II as a short-term financing arrangement until some of their assets could be liquidated — fully liquidated.

Mr. Wall: — Who chose which of the investors would receive their $150,000?

Ms. Buitenhuis: — That was the responsibility of the SGGF Private Fund Board. They received advice on cash flow prognosis from their fund manager, and made that decision as was totally within their realm of governance.

Mr. Wall: — Well what sort of criteria would be used for that sort of a thing because there's 31 investors now who are looking in saying, you know, we've also put up our quarter of a million dollars and the fund's going . . . You know, as you've said, the fund's . . . there's no likelihood of them getting any of it back and yet some have received their 150,000. What's the criteria that was used?

Ms. Buitenhuis: — The criteria is clearly laid out in the offering memorandums that have been issued to each of the subscription investors. And the criteria is a basically first-in, first-out criteria. The earlier investors who paid their subscriptions earlier, when their notes came due within their five-year period and when the advice from the fund manager indicated that there appeared at that time to be a cash flow warranted to support the repayment, were made their payments at that time, as per the terms of their notes and as per the terms that are provided for in the offering memorandum.

The latter investors are the last in. They are required to hold their money for five years and market situations occurred during that time which proved that the, in hindsight, that the fund manager's forecasts were optimistic. And therefore, the fund is in the position that it's in.

Mr. Wall: — Thank you. How much did SGGF I give to or provide to SGGF II so it can make these payments?

Mr. Amundson: — Two million.

Mr. Wall: — Two million dollars from SGGF I to SGGF II. And prior to going to . . . Was that the first choice of the fund — of SGGF — was to go another, the earlier . . . you know, SGGF I to get that money or did you apply or pursue traditional bank financing?

Mr. Amundson: — There was no traditional bank financing pursued as far as I know.

Mr. Wall: — There was no loan applied for, for this amount of money and no other source but the Saskatchewan Government Growth Fund.

Mr. Amundson: — As far as I know, there was no . . .

Mr. Wall: — Some of the investors in SGGF II have made proposals to the government, to SGGF, in terms of how to deal with the fact that the 31 have not been able to receive any amount of money, and the government rejected the approach in favour of this sort of gradual liquidation.

Ms. Buitenhuis: — That is . . .

Mr. Wall: — Is that correct? That's correct.

Ms. Buitenhuis: — That's correct, yes.

Mr. Wall: — And can you explain . . . would you explain the rationale for that decision?

Ms. Buitenhuis: — Yes. As per the terms of offering memorandum made to the immigrant investors, their $250,000 investment was at risk. Neither the federal government nor the provincial government offered any guarantee to these investors that there would be any return of their investment except for the performance . . . due to the performance of a particular fund that they were invested in.

Mr. Wall: — I'd like to go back to this process. I mean some of the investors in the SGGF II have been paid and $2 million was taken from SGGF I. And so obviously that's reflected in the fact that the fund balance is still at 3.82. Is that right?

Ms. Buitenhuis: — That's correct.

Mr. Wall: — Is there any . . . What is the likelihood of there being a further advance from SGGF I to SGGF II to at least provide some help to the people at . . . provide some repayment to the — not help — but repayment to the investors at SGGF II?

Ms. Buitenhuis: — The loan from SGGF I to SGGF II was secured against specific assets that were held in SGGF II and there would be no further loans from SGGF I to . . . unless there could be demonstrated assets against which those . . . it could be secured against.

Mr. Wall: — No further loans. So just so I have it, and bear with me here, but we're talking about a loan between the two funds?

Mr. Amundson: — Yes.

Mr. Wall: — Sorry. I apologize.

Ms. Buitenhuis: — In addition to that fact I should say the order in council which designates the purpose and powers of SGGF Management Corporation was also altered after the first loan to direct Management Corporation to receive all surplus directly from the funds upon their wind up — which means no fund now has the power to reinvest or to make such loans in the future.

So again I say that SGGF Ltd. will be and is currently unable to do anything other than return its surplus cash to Management Corporation to be paid to the General Revenue Fund.

Mr. Wall: — Were there assets then pledged as security against the loan with SGGF I?

Mr. Amundson: — Yes, there is. The investment that SGGF II has in Big Sky has been pledged as collateral.

Mr. Wall: — I'm looking at the . . . I'm sorry, I'm looking at the list of the last information update that was provided in February of this year of the investment. So the loan that SGGF I — just so I have it straight or correct — the loan from SGGF I to II, the $2 million, is secured by this portfolio including Lateral Vector? It's only secured by certain of these assets?

Mr. Amundson: — It's secured by certain assets, that being Big Sky Farms.

Mr. Wall: — And so how do officials feel about the likelihood of that loan being repaid?

Mr. Amundson: — There is a high likelihood of that loan being repaid.

Mr. Wall: — Okay. And I guess the question then would be: so here you have — and just bear with me, if you will — but here you have 31 investors who have not received any of their $250,000. Certain of those investors in SGGF II have received $150,000 to the tune of a total of $2 million. But the fund wasn't doing very well so the fund got the $2 million to pay those, that first group of investors from its . . . from the proceeds of a loan that came from SGGF I, and SGGF I has as security arguably the only . . . one of the only sort of good apples in the investment pile. The government has the security on . . . has as security Big Sky.

Mr. Amundson: — No, SGGF I has the security.

Mr. Wall: — Right, but when this deal is being done, SGGF is an arm of the Government of Saskatchewan, it's certainly an office of the . . .

Ms. Buitenhuis: — No, it's a business corporation of Saskatchewan.

Mr. Wall: — So the loan is secured after the structure of SGGF has changed? Is that correct . . .

Mr. Amundson: — I'm not sure I understand the question.

Mr. Wall: — After the management has been . . . this is prior to the management being put to the private sector, is that correct?

Ms. Buitenhuis: — True. That transaction occurred in October 2000.

Mr. Wall: — Right. Okay, so never mind who, what sort of entity it is, the . . .

The Vice-Chair: — It's very important.

Mr. Wall: — Well it is important.

The Vice-Chair: — It's on page 2 of the handout from the officials, where it says each fund is a Saskatchewan business incorporated under The Business Corporations Act.

Mr. Wall: — Yes, the management of the funds that's helping to make these decisions is at the time that this transaction occurred, employees of the Government of Saskatchewan. Is that correct?

Ms. Buitenhuis: — I believe the investment advisors were the sub-managers . . . are sub-managers in the instance of Fund I and Fund II. This was carried out through private investment services agreements.

Mr. Wall: — And the people that they report to are employed by whom?

Ms. Buitenhuis: — The contract was with SGGF Management Corporation who is obligated to provide the exclusive services to the funds.

Mr. Wall: — And that is . . . and the holding . . . the SGGF Management Corporation reports to whom at this time — at the time that we're talking about?

Ms. Buitenhuis: — SGGF Management Corporation is a CIC Crown and as such reports through the CIC structure.

Mr. Wall: — Thank you. So the final approval is going to be with the Management Corporation if there's any final approval to be . . . if there's any involvement to be made?

Ms. Buitenhuis: — The authorization and approval resides with the private appointed boards of each of these corporations. The SGGF Fund I Board was involved in authorizing that transaction.

Mr. Wall: — Was there any discussion at all? Big Sky Farms of course at the time would have been . . . at that time were they part of CIC III's portfolio?

Mr. Amundson: — Yes, it was an investment by III in Big Sky at that time.

Mr. Wall: — Were there any discussions at all between the management corporation and officials at CIC about the fact that this $2 million loan would be secured on assets that CIC had a significant interest in?

Mr. Amundson: — No there wouldn't have been.

Mr. Wall: — There were no discussions?

Mr. Amundson: — No.

Mr. Wall: — So we step back then to the original question and please, you can walk us through this. The investors of SGGF II, those who hadn't received any payment at all are obviously unsecured — I mean, for the most part — because there is no expectation of them going to be getting any money. Is that correct?

Ms. Buitenhuis: — The current advice we have received from the fund manager is that through the orderly liquidation process, the remaining 31 by 2005 could receive $80,000 of their original 250,000.

Mr. Wall: — Okay. So about . . . I'm sorry, what was the amount?

Ms. Buitenhuis: — 80,000.

Mr. Wall: — So about half of what the previous ones received, ballpark?

Ms. Buitenhuis: — True.

Mr. Wall: — Right, okay. But SGGF I is going to be okay because they're fully insured on Big Sky Farms, is that right?

Ms. Buitenhuis: — Correct.

Mr. Amundson: — That's correct. But as further comment, no one would make a $2 million loan without security. But it wasn't a grant; it was a loan. And security is required on a loan and without security the loan would not have been made.

Mr. Wall: — Oh, I understand. But I think what these 31 investors would say to that is — I think that's a fair comment — what these 31 investors would say to that is, what was the purpose of that loan? Well the purpose of the loan was to get some money back to that first group of original investors. Is that correct?

Ms. Buitenhuis: — The way the loan was framed, it was to assist Fund II which was in a cash flow difficulty, that it was just simply to bridge them through the period of time when the cash from their outstanding investments would return. It was not a loan to pay immigrant investors. It was a loan based on the judgment of SGGF II to support them in a cash flow situation they were in.

Mr. Wall: — Were copies of this offering memorandum, or any other ones, are they made available to the investors in their language, for example in Chinese, in all cases?

Ms. Buitenhuis: — Yes. All correspondence with the immigrant investors is required by regulation to be made in the language of their nationality.

Mr. Wall: — Can you confirm for us who are the agents for SGGF II, please, that were marketing the fund?

Ms. Buitenhuis: — Well at that time I would have to check. I would have to get back to you with the name of the agent at that point in time.

Mr. Wall: — What kind of training, or what does . . . did SGGF insist on any sort of a . . . What sort of qualifications did they have in mind for anybody that was, you know, is going to be an agent marketing their funds to people who would be providing them their investment? Was there a pretty strict sort of list of qualifications, or did you tender, or was there an RFP (request for proposal)? How did you pick these firms?

Ms. Buitenhuis: — I would have to go back and research in 1994, when those decisions were made, and return to you.

Mr. Wall: — Would you also have copies still of the marketing materials that would have been provided to the investors in SGGF?

Ms. Buitenhuis: — Yes, we have all the corporate files of SGGF Management Corporation.

Mr. Wall: — Could we get a copy of that?

Ms. Buitenhuis: — In English?

Mr. Wall: — In English, please, yes. I speak a little low German but not . . . Just English would be good.

Ms. Buitenhuis: — To be clear, is it for Fund I, Fund II, or all the funds . . .

Mr. Wall: — Fund II.

Ms. Buitenhuis: — Fund II.

Mr. Wall: — Yes. You know, the investors have been in communication with SGGF II, they've been . . . those 31 who have received nothing to date. I know they have been in contact with the fund. Have they been . . . have they had any contact with . . . They're aware of the $85,000 estimate in terms of what they're likely to receive back?

Ms. Buitenhuis: — Yes, as part of the obligations of the fund managers, they are required to make regular and complete disclosure and communications to all the immigrant investors in each fund. And the last communication that was sent to the funds was a complete assessment of the existing portfolio. And I believe that was in August of 2001.

Mr. Wall: — I mean these numbers are going to change, arguably. When will these numbers change in terms of the fund balance for SGGF I? Because we found out that they're going to get their loan repaid. When would we expect those numbers to improve even more? You know, they're obviously positive now at 3.8 or does this reflect the fact that the loan's secured . . .

Mr. Amundson: — The 3.8 reflects the $2 million as an asset. The loan is an asset.

Mr. Wall: — That the loan is completely . . . that the loan's an asset.

Mr. Amundson: — Yes.

Mr. Hart: — Thank you, Madam Chair. I wonder if you could walk me through the auditor's report, on page 36, where he deals with the federal government's audit of Management Corporation and found that the Management Corporation didn't comply to some of the Immigration Regulations; and specifically dealing with the two numbered companies that investments were made in and that sort of thing. Could you walk me through that whole scenario so that I could get a better understanding of exactly what transpired in this situation?

Mr. Amundson: — I can attempt to do that for you. The Provincial Auditor's Spring 2002 Report had four recommendations for CI . . . or for, sorry, SGGF. I'm a CIC employee . . . sorry, for SGGF.

The first one was that Management Corporation had not invested the minimum 70 per cent of the immigrant investors' monies in eligible businesses for V, VI, VII, and VIII within the nine months of receipt of investors' money.

We have been in contact with the federal regulator on this issue. They have given us till June 30, 2003 to work on becoming compliant with this. Part of the problem has been . . . putting the money into eligible leases has been part of the problem with placing the money. Our fund managers are working very hard at getting this money placed by the 2003 deadline.

The second issue was Management Corporation invested immigrants' money in ineligible businesses, numbered company 617275 Saskatchewan Ltd. and 1010051716 Saskatchewan Ltd.

We have reviewed the federal government's ruling. We have talked with our fund managers and they have put themselves in compliance with these regulations as of, I believe, early 2002.

Mr. Hart: — Could you just explain why you weren't in compliance? Like for instance, who were these companies? The numbers don't really tell us a whole lot as to who they were and I understand that the federal government ruled that these companies were ineligible because the provincial government controlled these companies. So could you give us a bit of an explanation as to who those companies were and what they did?

Ms. Buitenhuis: — The two numbered companies were established by two of the sub-managers at that time when they were created. Two of the sub-managers created these companies to serve as the eligible businesses under the revised regulations and guidelines of acceptable eligible businesses. However . . .

Mr. Hart: — Could I just interject there? These sub-managers created these companies. Did they also own these companies?

Ms. Buitenhuis: — Yes. Yes, they created these companies as the holding for the assets that would be purchased for leasing. The companies, while they were again business corporations of their own right, the fund gave indemnity to the directors of these two companies. And in the view of the federal auditor, by providing indemnity to these directors they no longer satisfied the definition of requirement of being at arm's length.

In order to make them at arm's length, two new companies were created, the indemnities were removed, the assets were purchased from the original numbered companies by the second tranche of companies, and the program has satisfied its eligibility requirements. And the leasing activities are continuing now through the new companies. And those two new companies are Cajon Leasing and R & R Leasing.

Mr. Hart: — So if you could just review that process — sorry, I may be a bit slow on the uptake here to understand this whole process — what you have just told us is that you had some people who were managing these funds and these people . . . Now who were these people? Are they people that the Management Corporation had contracted to administer these funds? Were they employees of the corporation? Who exactly were these people?

Ms. Buitenhuis: — They were two private sector investment services funds who were engaged to be sub-managers on behalf of Management Corporation and as such their role was to place capital into eligible businesses. And because they were existing sub-managers, they also took on the role of placing the capital that was required to be placed into leases. They were not . . .

Mr. Hart: — Could you define who these people were?

Ms. Buitenhuis: — I can say who the companies are. The companies were Prairie Financial Management in the first numbered company and Roy Lloyd services in the second instance.

Mr. Hart: — So then these people, what they did is they set up some sub-companies, these two numbered companies, and they took some of the funds that they were managing and put them into their own companies. Would that be fair? Would that be a fair statement?

Ms. Buitenhuis: — They received loans from the fund in the same way that other eligible businesses received loans from the fund. The only difference was they were required to use those loans of immigrant capital to place in leases, to acquire assets and own those assets, and lease them to secure government agencies.

Mr. Hart: — So then what they did was they actually then paid themselves a management fee or some sort of indemnity. There were some monies flowing from these numbered companies to these individuals who were hired to manage the entire fund and were being paid to do that initial job. So would it be fair to say that these people were being paid twice for services rendered?

Ms. Buitenhuis: — No, I do not believe that they were paid twice. They received a fee based on the amount of capital that they were allocated to place in Saskatchewan eligible businesses. That fee was set in their original contract.

I do believe that they are also, through their contracts, able to recover legitimate and real business costs associated with them carrying out those activities. And I believe through those leasing companies they were able to recover the legitimate marketing expenses and paperwork expenses and administrative expenses associated with acquiring the assets and negotiating the lease transactions.

Mr. Hart: — Well it just seems to me, and perhaps I'm not understanding this correctly, but these two companies were hired to administer funds of the Saskatchewan Growth Funds. And then what they did is they set up some . . . a couple of private companies and they received a loan from this body of funds that they were initially contracted to administer and then . . . So some of the funds that were initially in the large body of money, which I assume came from a number of the Growth Funds, was then loaned to these numbered companies. And then they also received some indemnities for administering the funds in these private companies as such. So it seems that the waters are a bit muddied as far as the flow of funds and the indemnities paid, I would think.

So okay, let's go forward. The federal government ruled that this isn't an acceptable practice.

The Vice-Chair: — I think we need to let the person respond to what you've just said to see if that's an accurate reflection of your view.

Ms. Buitenhuis: — Now I've forgotten. I think, in essence, it's fair to say that the funds were loaned to a business that was set up and owned by these individuals in the same way that immigrant investor money is placed in other eligible business — that these sub-managers, by contract, did receive compensation for the placement of this money and that they did receive the real and legitimate recovery of the business expenses that they undertook to carry out the requirements under this program.

Mr. Hart: — Well it seems to me that there is a relationship here which is not at arm's length. You've hired some companies to administer some funds for you. These companies then set up their own companies which they, for all intents and purposes, own and they loan some of the money from the funds that they have been hired to administer to the companies that they own. That is not the same thing as loaning money to companies where they have no relationship or no control or no interest in. Does that not seem like a conflict of interest there?

Ms. Buitenhuis: — It did not meet the standards of test as an arm's-length relationship and that was the observation of the federal auditor.

Mr. Hart: — So as the . . .

Ms. Buitenhuis: — In all other instances, it satisfied the program definition of eligible transactions.

Mr. Hart: — So where is the role of the Management Corporation in this whole affair? Is there not guidelines? Is there not . . . As part of the contract, as far as managing the funds, is there nothing set out to prevent this kind of cozy relationship?

When you're hiring these people, I mean in your . . . obviously, you sign the contract with these people to administer some of these funds. Correct? Okay. So as part of that contract, is there anything in the contract that would prevent this type of action where a fund manager can set up his own companies and then loan himself some money?

Ms. Buitenhuis: — That is prevented through the terms of the investment services agreement.

Mr. Hart: — So why did it happen then?

Ms. Buitenhuis: — Because they did not loan themselves money. The money was loaned from the fund to the business which they happen to be owners of. The fund made a direct allocation to these eligible businesses. It's . . .

Mr. Hart: — When you sign these agreements and when you allowed this to happen, did you check with the federal government to see whether this would be eligible, an eligible type of business relation?

Ms. Buitenhuis: — Correct. It was described to the federal government in 1996 when these companies were set up. It was reviewed with the provincial regulator. Both regulators approved the establishment of this mechanism. And furthermore, then the companies were allowed to put that definition of eligible business into their offering memorandum, and in fact have guaranteed to the immigrant investors that they will in fact place 40 per cent of the immigrant investor's dollars in a company as so described.

Mr. Hart: — Well if it was agreed ahead of time, why did they come . . . why upon auditing did they disallow this type of arrangement?

Ms. Buitenhuis: — The fund had provided, inadvertently had provided, indemnification to the directors of those companies. By providing indemnification it no longer satisfied the tests that these eligible businesses were arm's-length, and because of this the structure of these businesses had to be changed in order to comply with the federal government's definition of an arm's-length business.

Mr. Hart: — Did these two numbered companies, did they have other shareholders besides those people involved in the management of the funds?

Ms. Buitenhuis: — I'm not aware of what the ownership, total structure of these numbered companies were.

Mr. Amundson: — I don't believe they did, but we can find out for you and get back to you.

Mr. Hart: — I'd appreciate that.

The Vice-Chair: — It's now 10 minutes past . . . or 12 minutes past 10:30. I would recommend we break for 15 minutes and come back at 11:00, and we can pursue further questioning.

The committee recessed for a period of time.

The Vice-Chair: — We will reconvene the meeting . . . (inaudible) . . . some more questions and then we'll go to Mr. Prebble and Mr. Dearborn.

Mr. Hart: — Thank you, Madam Chair. I guess I have a couple more questions perhaps, then we can wrap this up. One of the questions I have, I believe our guests stated that the reason for the federal government ruling these two numbered companies ineligible is that they were . . . the directors were paid some indemnities for costs and that sort of thing. I wonder if you could . . . would you have that information as to how much or what type of costs were paid and the dollar value, and for each of those two companies?

Mr. Amundson: — I don't. They're private companies so I don't know what their costs are. I would have to find out how much went through the fund companies. We're not responsible for the fund companies — they've got a management contract. But I can find out.

The indemnity is really insurance for liability, directors' liability, and that's what was being paid. That's what the indemnification was. They were not paid any fees; they were not paid any profits; they were not . . . there was no other fees involved with those two companies other than their insurance as directors of those two companies was paid by SGGF. And that's the only fee that was paid.

When the corporations were changed to meet the definition and the indemnity was removed, there was a small nominal fee paid. There is right now a small nominal fee paid to Cajon and the other company to cover their indemnity costs and that is the only thing that is paid to them. Otherwise there is no profit component to either of these corporations. They are paid no fees by SGGF or any of the numbered companies. They are paid only their fees that they earned for placing money.

Mr. Hart: — Thank you for that information. So then to correct this situation where these two numbered companies were ruled as ineligible investments, I assume there was a process took place and to . . . loans repaid by those private . . . by those two companies and so on.

The question is, my question is: was there any net cost to the Growth Funds because of this transaction that took place, where these two numbered companies were ruled ineligible; and then too, in order to correct it was there any net cost to the Growth Funds?

Mr. Amundson: — No.

Mr. Hart: — So then to carry on and go through the auditor's report here, could you then walk us through what happened as far as to get us to where we are today, from the point where the federal regulators ruled those two companies are ineligible.

Mr. Amundson: — I think, Kathy has probably explained that already but I'll go through it again.

The indemnity was removed. The corporations, there were new corporations set up, structured without an indemnity. The leases were transferred from the numbered companies to those companies, which made them eligible. And all of the leases that are being done by these corporations are now eligible under the programs.

Mr. Hart: — So those two companies that were set up were Cajon Leasing and R & R Leasing?

Mr. Amundson: — Yes.

Mr. Hart: — Are the same individuals involved in those two companies?

Ms. Buitenhuis: — Cajon is a different set of individuals. Prairie Financial, I believe I indicated, was the company that set up the . . . one of the numbered companies. Cajon is set up by a different individual, a consulting group composed of John Johns.

Mr. Hart: — And Cajon has no ties to the people who have been hired to manage the funds then?

Ms. Buitenhuis: — No, they are not a sub-manager. They are an independent.

Mr. Hart: — How about R & R Leasing?

Mr. Amundson: — That's Roy Lloyd, is it not?

Ms. Buitenhuis: — Yes.

Mr. Amundson: — I believe so. Yes.

Mr. Hart: — Well that concludes my questions, Madam Chair.

Mr. Prebble: — Thank you, Madam Chair. I have a question about the . . . about Fund II which I'll maybe address at the end.

But I just want to ask some general questions first with respect to the performance of SGGF, since this is the first time that the corporation has come before us now for a considerable number of years.

And I guess my first question is with respect to the objectives that you . . . the objective that you speak to at the beginning of the paper. And I'm wondering — this is laid out on page 2:

> The objective of the Immigrant Investor Program is to promote, encourage and facilitate the immigration to Canada of experienced . . . persons from abroad who will make a positive contribution to Canada's economic development by applying their risk capital and business acumen to . . . ventures which create jobs for Canadians.

And then it goes on to state the objective of the SGGF corporation itself. And my question is: to what extent, in your view, has SGGF achieved the objective that it was set up for? And could you speak quite specifically to where you think it's been achieved and where you think it hasn't fully been achieved.

Ms. Buitenhuis: — In Management Corporation's opinion the purpose of SGGF was to put private capital at work in the Saskatchewan economy with an objective to create economic wealth and diversification in a commercial manner with no public funds at risk. And to this extent we believe that the funds raised by the SGGF funds through the immigrant investor program played an important role in supplying risk capital to small and medium business in Saskatchewan during the time period that these funds have been in existence.

The 66 businesses in Saskatchewan that received venture capital participation have to a large extent been successful and as evidenced by their job creation record, by their sales growth record, and by their other performance indicators.

Through the program, 281 million of immigrant capital has flowed to Saskatchewan and currently 44 million remains active in 24 business as the program winds down. And we anticipate that the program will deliver an additional 32 million to assist small- and medium-size Saskatchewan business over the next few years.

Mr. Prebble: — And in terms of successes and failures, what has been the . . . can you give us an overview about these 66 businesses? How many would you consider have been successes and have there . . . Obviously there will have been some failures. How many successes; how many failures?

Ms. Buitenhuis: — Okay. Well for commercially sensitive reasons we are unable to disclose information regarding the current fund investees, beyond what is published in the annual reports. And once a fund has been repaid its equity loan, it no longer monitors the performance of the investees.

However some of the notable successes . . . successful investees that come to mind are the Weyburn Inland Terminal, Flexicoil in Saskatoon, Leon-Ram Manufacturing in Yorkton, Urban Forest Recyclers in Swift Current, and Peak Manufacturing in North Battleford. From time to time, investments have failed to achieve their business goals and the fund must bear this cost and such is the nature of venture capital investments.

Whenever possible, SGGF management . . . investment managers have attempted to work with these companies to help them overcome these difficulties. And SGGF II, in particular, has a severely distressed portfolio and as a result, we have heard there are 31 investors who have not received any repayment of their notes.

The purpose of SGGF was to put private capital at work in the Saskatchewan economy with an objective to create economic wealth with no public funds at risk. And in that, we believe, the program has been successful.

Mr. Prebble: — Now just further though, Madam Chair, to my earlier question. Can you give us a rough breakdown of how many business successes are we looking at and how many less successful . . . well, what failing ventures are we looking at, roughly speaking?

Ms. Buitenhuis: — We of course are aware of some of the more notable failures. We have heard about Perigas, we have heard about Wolverine, and we have heard about Rockyview Lodge as being investments that have failed to meet their original business objectives. And I believe there are a number of other small businesses.

We would not expect this number to exceed 10 in the total number of companies that have received SGGF participative capital.

Mr. Prebble: — So we've got 56 that have been moderately to relatively successful and 10 that have been not successful.

Ms. Buitenhuis: — That is correct.

Mr. Prebble: — I want to ask a question with respect to the impact on private sector expertise in the province. Could you comment on whether or not the . . . Well, to what degree has the fund achieved a buildup of private sector expertise in the province? Have you assessed that and to what degree has that occurred?

Ms. Buitenhuis: — Yes. When the funds were initially set up, all of the investment services provided to the funds came from private sector. And I am aware of five private sector investment services funds who have engaged over the 10 years to provide investment services to the funds. And indeed we believe that having the capital pool to manage in the province of Saskatchewan contributed to a large extent to building up a high level of specialized expertise in the area of venture capital funding in the province.

Mr. Prebble: — And in terms of expertise that's been built up in any particular business area, can you comment on that at all? Maybe you're not clear on my question?

Ms. Buitenhuis: — No, I'm sorry.

Mr. Prebble: — Well I'm wondering in terms of the investments that have been made by the fund and the development of private sector expertise in the province through the various investments, what's your observation about to what degree the fund has contributed to that? Or has that been measured?

Ms. Buitenhuis: — It hasn't been specifically measured but I can say that a large degree of expertise has been built up in the oil and gas industry where small, junior oil companies and so forth have been assisted by venture capital start-up funds. And our investment services managers have built a significant degree of expertise in assessing investment opportunities in this area.

Mr. Prebble: — Madam Chair, I have one more question and it's with respect to Fund II and the questions that were asked a few moments ago, particularly by Mr. Wall. And that is, I just want to . . . I realize that it's a private sector board that is making the management decisions on the fund, I take it in some cases with advice from SGGF managers and in some cases perhaps not.

Can you lay out for us who the members of the board are on Fund II?

Ms. Buitenhuis: — On Fund II?

Mr. Prebble: — On Fund II. And just clarify for us what, if any, involvement by SGGF itself would have been involved in decisions that are made by Fund II, or is it strictly a private decision-making body? I just would like to get that clarified for the record and for my own benefit.

Ms. Buitenhuis: — Actually the current members? You would like to know . . .

Mr. Prebble: — I'd like to know the current members as well, but I'd also like to be clear on the membership at the time that the decision was made, particularly with respect to the decision to allocate funds of $150,000 to some of the investors while leaving others clearly at much greater risk?

Ms. Buitenhuis: — The board in place as of December 31, 2001 of Fund II consisted of Wilson Olive as Chair; Darrel Cunningham; Joanne Forer, a businesswoman from Melfort, Saskatchewan; Gordon Mertler, I believe a certified management accountant from Regina; Keith Rissling, a chartered accountant from Saskatoon; and Grant Scharfstein, a lawyer from Saskatoon.

Mr. Prebble: — And that's as of what date again?

Ms. Buitenhuis: — That was as of December 31, 2001.

Mr. Prebble: — Right. And when was the decision made with respect to the allocation of the $150,000 to each of the first investors into the fund?

Ms. Buitenhuis: — Okay, that decision would have been made in 1999 and it was recognized in early 2000 that the fund would not generate sufficient cash to continue paying any of the remaining investors. So January 2000 was when we recognized that this fund was in a serious deficit position.

Mr. Prebble: — And when was the decision made in 1999 with respect to the allocation of the $150,000 to each investor?

Ms. Buitenhuis: — I would have to specifically go to the minutes in the fundco board minutes. I believe it took place during August of 1999, however I perhaps should put that down and be more correct.

Mr. Prebble: — So the decision to allocate money to the investors was made prior to . . . several months prior to the recognition that the fund was in serious financial difficulty.

Ms. Buitenhuis: — Yes. It was prior to the . . . particularly the Wolverine transaction collapsing.

Mr. Prebble: — And that decision would have been made . . . the decision to allocate the $150,000 would have been made strictly by . . . was it made strictly by the private sector members of the fund board?

Ms. Buitenhuis: — That is correct.

Mr. Prebble: — There were no other decision makers.

Ms. Buitenhuis: — No.

Mr. Prebble: — Okay. Thank you very much, Madam Chair.

The Vice-Chair: — Just for clarification, the board of 1999 is quite a different board, just so we can have that read into the record as well.

Ms. Buitenhuis: — I'm sorry. Okay.

Mr. Prebble: — Yes, actually that would be helpful. I thought that that information was going to be provided to us later but if we have it now that would be very helpful.

Ms. Buitenhuis: — Okay. The board . . . this is effective 2000 . . .

Mr. Prebble: — I think actually what I'd like to know is the makeup of the board in 1999.

Ms. Buitenhuis: — The board in 1999 consisted of Joanne Forer, Gary Benson, Gerald Edwards, John Johns, Gordon Mertler, Alphonse Pasloske, Keith Rissling.

Mr. Prebble: — Thank you. So that would have been the board that had the . . . that made the decision with respect to the August '99 allocation to those who first invested in the . . . in Fund II. I take it that would be correct assuming?

Ms. Buitenhuis: — Yes.

Mr. Prebble: — Thank you so much. That's very helpful.

Mr. Wall: — Thank you, Madam Chair. We've highlighted the fact that SGGF II invested in . . . is vested in Big Sky. Are there other funds that are also invested in Big Sky?

Mr. Amundson: — Yes.

Mr. Wall: — What would be the total amount of investments of SGGF funds in Big Sky?

Mr. Amundson: — I'll have to get back to you on that. I don't know the exact amount.

Mr. Prebble: — Do you have an estimate?

Mr. Amundson: — No.

Mr. Wall: — Is Mr. Cunningham on any other boards of any of the other . . . As of this year in review, you indicated he was on the board of SGGF II in 2001. Is he on any of the other boards? Are there some directors that are on, you know, the various fund boards?

Ms. Buitenhuis: — The composition of each fund board is the same. In other words, the same board governs each individual fund.

Mr. Wall: — Is there a conflict of interest guidelines for the board members of SGGF funds?

Ms. Buitenhuis: — Yes there is.

Mr. Wall: — Would you provide members with a copy of those guidelines, please?

Ms. Buitenhuis: — Certainly.

Mr. Wall: — In one of the years under review, it's true that the Information Services Corporation approached SGGF to work out a leasing arrangement with . . . for some computer equipment, is that correct?

Ms. Buitenhuis: — Yes.

Mr. Wall: — And what was the nature of that request?

Ms. Buitenhuis: — It was, again, a request to receive . . . this time it was specialized computer equipment, and to avail themselves of the leasing opportunity through SGGF funds. So it was for leasing of computer equipment and specialized software.

Mr. Wall: — Do you recall the amount?

Ms. Buitenhuis: — No.

Mr. Wall: — Do you have an estimate of the amount?

Ms. Buitenhuis: — No, that transaction was never completed.

Mr. Amundson: — That's not something that Management Corporation would be involved in. That's a fundco board . . .

Mr. Wall: — Could you find out what that amount is?

Ms. Buitenhuis: — We could certainly ask.

Mr. Amundson: — We could certainly ask, yes.

Mr. Wall: — Why is it your understanding that that arrangement never proceeded?

Ms. Buitenhuis: — As we understood it, the transaction did not meet the requirements of an operating lease, which is the five-year lease requirements under the immigrant investor program.

Mr. Wall: — What were the terms that were being proposed by ISC (Information Services Corporation of Saskatchewan) if not for the five-year lease?

Ms. Buitenhuis: — I believe it was in terms of the transfer of ownership. In other words, the ownership could not transfer . . . They did not wish to transfer the ownership of these assets to the leasing company. They wished it to be more of a capital lease structure. I believe that was the . . .

Mr. Wall: — Well that would certainly make sense because it certainly seems that what they were trying to do was to avoid debt, at least the appearance of rising debt. Maybe they felt that was the way to do it, I don't know.

What are the . . . in terms of the other activity, which particular fund was approached by ISC?

Ms. Buitenhuis: — I do not know that. It would have been either V through VIII.

Mr. Wall: — But it wouldn't have been any of the leasing company . . . Neither of those leasing companies that we've discussed already would have been involved, or would they have been involved?

Ms. Buitenhuis: — They would be the only . . .

Mr. Wall: — They would be the only ones involved.

Ms. Buitenhuis: — Only ones involved.

Mr. Wall: — Do you recall which one of those?

Mr. Amundson: — Probably both would have been involved in the transaction, but they weren't involved in the negotiations whether or not a lease could work.

Mr. Wall: — So what sort of activities then . . . what sort of leasing . . . the most common, if you will, if you can characterize it as such — maybe you can't — in terms of leasing activities did these companies pursue?

Ms. Buitenhuis: — The most common one to date has been leases with SPMC (Saskatchewan Property Management Corporation) for acquisition and leaseback of vehicles.

We also have an aircraft that has been purchased and leased through the SGGF funds. And Casino Regina has a number of leases associated with their specialized video and gambling equipment.

Mr. Wall: — Are there any wholly private sector companies that are engaging in business or have engaged in business with these leasing companies?

Ms. Buitenhuis: — Under the terms of the operating memorandum these leases can only be made to government agencies. And they've been defined through the operating memorandum as government departments, Crown corporations, municipalities, and NGOs, so no.

Mr. Wall: — I have one . . . I wanted to clarify a previous question that I had asked with respect to Sask Water. Just before I do that I would like to give the auditors a chance to comment on the whole numbered company lease arrangement. Was this issue ever identified prior to the issue being raised by the federal government and the requisite changes being made?

Mr. Wendel: — Yes, Madam Chair. We had reported that the fund companies had moved into a different line of business when that happened, when they began to make leases with Crown corporations. So these two numbered companies, we reported that situation.

Based on legal advice we accepted that it was — legal advice that the fund companies had — it was acceptable to do this. But we did report it because we thought it was a change in business. We thought that should be brought forward to this committee to be discussed and our reports are made public, and that's then done.

This report now says that the federal government has looked at this situation and decided the way they had set these things up no longer complied with the regulations because they had indemnified the owners of these private companies. And that's what we're reporting here. But that situation was made public some years ago.

Mr. Wall: — But there were no concerns as it were, no specific concerns other than the fact that this was sort of a material change in how they were doing business and so it should be reported. The auditor didn't comment on whether or not, either the company's auditor or the Provincial Auditor didn't report on whether . . . questioning the propriety of it in terms of federal regulations?

Mr. Wendel: — We had discussed that with our lawyer. And again it would be a question of what the federal government would rule if and when they looked at it. But we did bring it forward because we were concerned. We weren't certain whether it had complied. But that's where it was; it was left at that. And that was made public to this committee so they could talk about that and decide what they wanted to do with it.

Now there were no other concerns. The way these companies worked is they're fully consolidated so all the revenues and expenses of these companies are just part of the fund companies. There's no . . . the books are kept by the fund companies, all the revenues come to the fund companies directly, all the expenses are paid by the fund companies directly.

Mr. Wall: — Thank you. Just one final question. It goes back to the question regarding the . . . that you were going to get back to us within a week on the potato issue, specifically on SPUDCO (Saskatchewan Potato Utility Development Company)/CIC, the possibility that they approached SGGF. And so I just wanted to get it on to the record. The specific question in addition to what I had asked earlier would be: were you approached by any individual or organization to invest in any aspect of the Sask Water/CIC potato venture?

If so, what was your response to that request for investment and why? Those are the . . . I just wanted to clarify that, so it would be accurate and it's going to be in *Hansard* and be something for you folks to refer back to.

That's all, Madam Chair.

Mr. Dearborn: — Thank you, Madam Chair. The first question that I have, I'm just not clear on an acronym on page 23 of your report, the bottom sentence. The Crown Fund I and Crown Venture Fund are listed as LSVs (labour-sponsored venture) on the Saskatchewan security exchange. Could you explain to me please what an LSV is and where does the security exchange exist per se? I just don't . . .

Mr. Amundson: — Labour-sponsored venture capital fund.

Mr. Dearborn: — Pardon me?

Mr. Amundson: — Labour-sponsored.

Mr. Dearborn: — And this is a more generic question. The Saskatchewan security exchange exists where exactly?

Mr. Amundson: — In Regina.

Mr. Dearborn: — And people can just go and make investments through it? They can buy stocks? Thank you.

Mr. Amundson: — It's similar to the Ontario Securities Exchange. It's the Saskatchewan . . . they're more regulators, they're not investment people. They regulate the stock exchange in Saskatchewan.

Mr. Dearborn: — Thank you. With regards to these funds, it makes up 45 per cent of all the venture capital in the province. Is this correct? That's what you stated earlier, more or less?

Ms. Buitenhuis: — It did, over the period from 1994 to 2000. As we are no longer active in the fund, we are no longer raising capital at that same level.

Mr. Dearborn: — Sure. For corporations or businesses to apply for this capital, there's a process that they would go through?

Ms. Buitenhuis: — Yes they would . . . this was the role of the investment services managers, to market the funds and to, you know, approach and make them, the funds, available to respective businesses.

Mr. Dearborn: — And of the 66 enterprises that were invested in, are there records kept of how many applicants applied for venture capital that were rejected?

Ms. Buitenhuis: — The investment services managers only brought forward to their respective boards those applications which they were recommending the boards would approve. And as their screening process, you know, determined certain applications did not meet the criteria, they did not keep records of any of the rejected applicants. We are only aware of the ones that have been brought forward to the boards.

Mr. Dearborn: — Thank you. Out of the 66 ventures that these funds are involved in, we had asked before how many guarantees are signed on behalf of loans.

But a follow-up question to that, could you explain the nature of these guarantees and their timelines? Because as I heard today it sounded to me like the money going in was to come out in five years. So are these guarantees, if any have been signed, limited to five years as well?

Mr. Amundson: — To my knowledge and I'll have to get back to you, there was only one guarantee ever done and that was with Wolverine. There was no other guarantees provided to anyone.

The guarantee provided to Wolverine was a protective matter. Equity investment was made in Wolverine. Wolverine began to have some trouble with its operations and needed more capital. In order to protect the equity that was already in Wolverine, a guarantee was given. Obviously it didn't save the corporation but that's the reason why that guarantee was given.

Mr. Dearborn: — Thank you. And so what you're saying then is that the total exposure now of the funds for the loan guarantees is non-existent.

Mr. Amundson: — To my knowledge that was the only guarantee ever given.

Mr. Dearborn: — Okay. Thank you, Madam Chair.

The Vice-Chair: — Just in terms of Big Sky, it appears from reviewing all of the annual reports that Big Sky received funds from SGGF II, SGGF III, and SGGF IV in 1998 only. Is that correct?

Mr. Amundson: — That sounds correct. Yes.

The Vice-Chair: — Right. So just in terms of clarification — because I got through implication from Mr. Wall's line of questioning that there could be a conflict with Mr. Cunningham being appointed to the board in the year 2000 and he has a relationship, as I understand it, with Big Sky or he used to — so just for clarification, Mr. Cunningham was not on the board in 1998 when these funds were let to Big Sky. He is presently on the board and was appointed in 2000. Am I correct?

Ms. Buitenhuis: — Yes.

The Vice-Chair: — Thank you. If we have no further questions?

Mr. Wall: — It's on the same line of questioning, Madam

Chair. The date of the appointment of Mr. Cunningham would have come after the decision to vest the funds in Big Sky and the funds that Ms. Atkinson mentioned.

However as part of . . . What would be his function then on the board in terms of, are the board . . . do they act as stewards of those funds; would they have to make the final decision if some adjustment or change would be made in the investment that SGGF has made in any of their portfolio of investments?

Ms. Buitenhuis: — Yes, they are duly responsible for all decisions regarding divestments and investments.

Mr. Wall: — Thank you.

The Vice-Chair: — And of course if there's a conflict, would a board member have to declare conflict and exit the room?

Ms. Buitenhuis: — Yes, we have clear conflict of interest guidelines for the fund boards, recognizing that a number of the board members have business interests and are well involved in, and that expertise is what we actually desire them to bring.

The Vice-Chair: — And so as with any board where there are private business people represented on that board, and private business people tend to have private interests, they would have to declare a conflict just as cabinet ministers declare conflict, just as public servants may declare conflict, just as anyone on the board of Enron, who didn't . . . obviously didn't declare conflict but should have, or WorldCom, and so on.

Okay I think we're ready to vote off these. So I'm wondering who would like to move that the Standing Committee on Crown Corporations conclude its review of the annual report and financial statements of Saskatchewan Government Growth Fund Management Corporation, and its Growth Fund companies for the years ending December 31, 1998; December 31, 1999; December 31, 2000; and December 31, 2001.

Ms. Jones: — I will, Madam Chair.

The Vice-Chair: — Ms. Jones would like to, okay. Are we ready to vote. All those in favour? Agreed. Thank you.

We're adjourned until 1:30 when we will review Sask Water. And I believe Mr. Van Mulligen has returned and Mr. Van Mulligen, myself, and Mr. Wall are going to meet briefly. Thank you, everyone.

The committee recessed for a period of time.

Saskatchewan Water Corporation

The Chair: — Good afternoon, ladies and gentlemen. I'd like to begin the meeting. Our Clerk is distributing a copy of a draft report from the committee to the Legislative Assembly. This will be the item of discussion tomorrow morning, so I hope you get a chance to go over it before that time and bring with you any comments you may have.

With us this afternoon is the Sask Water, and Mr. Stuart Kramer, the president. And I wonder if we might ask Mr. Kramer to introduce the officials who are with him here today, entertain any opening remarks that he might have, and then ask Mr. Wendel for his comments and also to introduce the officials that are with him, as well as the appointed auditor for Sask Water.

Mr. Kramer: — Thank you, Mr. Chair. I am, as has been introduced, Stuart Kramer, president for Sask Water. To my left is Terry Hymers, she's the director of finance and administration services for the Saskatchewan Watershed Authority, in her current position. To my immediate right is Wayne Dybvig, who is vice-president of operations division for Saskatchewan Watershed Authority. To my far right is Bob Wheatley, who is vice-president of engineering for Sask Water. And behind me to my left, more or less, is Michael McDougall, who is general counsel for the Saskatchewan Watershed Authority; and to his right is Greg Argue, who is vice-president of marketing and business development for Sask Water.

Obviously from my introductions, people are aware that with the legislation to establish both the new Sask Water and the Saskatchewan Watershed Authority, we have staff who were with Sask Water in the 2001 fiscal year — the basis for our annual report — who are now some with Sask Water and some with Saskatchewan Watershed Authority. That's why by way of peoples' titles, some are introduced as part of Sask Water and some as part of Sask Watershed Authority but would have been part of the Sask Water Corporation for the year under review.

I have, Mr. Chair, probably about ten minutes of opening remarks that would have highlighted 2001 and dealt with audit issues. Would you want me to proceed with that now or . . .

The Chair: — Yes. Yes.

Mr. Kramer: — . . . a little later? Now?

The Chair: — Yes, proceed now.

Mr. Kramer: — Proceed. Okay, thank you. And again, brief, probably less than ten minutes, but the purpose of remarks would be to highlight some of the operational items from Sask Water for 2001 and then summarize the issues and the responses for the items that are identified by the auditor with regard to Sask Water.

There were a number of highlights for Sask Water in 2001. We saw the highest use of our pumping equipment rental program since 1989, with over 900 clients renting pumping equipment, giving clients access to equipment to pump water to enhance their operations.

We saw a 40 per cent increase in our rural water quality advisory program with 600 clients served. Through this program, Sask Water samples and analyses water from private rural supplies and advises clients on health and aesthetic issues.

We completed a technical assessment report for municipal water supply treatment and distribution systems.

Sask Water continued to own and operate 44 major dams and some 850 kilometres of canals and pipelines which helped meet the needs of 43 municipal, 33 industrial, and about 1,300 domestic and various recreational and agricultural users. Sask

Water began the first year of a multi-year, $5.4 million rehabilitation of Avonlea dam.

We also in Sask Water serve northern Saskatchewan communities through the provision of project management services and technical advice to some 35 northern communities. Sask Water's commitments to the citizens of the province also includes working with the Indian and Northern Affairs Canada, INAC, to provide training and technical support to First Nations water and waste water system operators.

Sask Water investigated about 10,000 acres for suitability for irrigation. We reviewed over 125 land selections by First Nations under the treaty land entitlement process to identify those water bodies that needed to be excluded because of provincial water management issues.

Sask Water participated with Alberta Environment in undertaking a feasibility study of the proposed Meridian dam project.

And in 2001, Sask Water provided 47 conservation and development area authorities and watershed associations with maintenance assistance totalling some $560,000 and provided an additional 240,000 in channel clearing assistance.

With regard to financial outcomes, in 2001 the corporation incurred a loss of $4.2 million — 3.7 million was in the water management division and about one-half million in the utility division of the corporation. The loss in the water management division is primarily due to Water Power Act revenues being down due to low runoff levels into Gardiner dam primarily.

In 2001 Sask Water continued to expand the treated water systems around Saskatoon. The capital program in 2001 totalled about $900,000. Major expenditures were made on the SaskPower PCS (Potash Corporation of Saskatchewan Inc.) cogen Cory project, on the town of Lanigan bypass, and booster stations near Clavet and Dalmeny.

Sask Water we believe, from our perspective, has a very open relationship with the Provincial Auditor's office. The corporation has worked hard to address issues that were identified by the auditor in their review of Sask Water's reporting.

In the 2001 report, the Provincial Auditor identified three basic concerns as follows: one, that Sask Water should set appropriate security policies for its information technology systems and data.

In response Sask Water is involved in the government-wide security initiative and will implement security practices that do address the Provincial Auditor's observations. Some of these practices will include formalizing our information technology policies; doing an assessment of risk in various areas of information management within the corporation; putting in place policies to provide protection of assets; and education, or user awareness in terms of our own staff — us ensuring that they are aware of the risk with regard to security.

Second issue identified by the auditor was that Sask Water should improve its annual report by clearly identifying the extent to which it has achieved its plans. The Provincial Auditor also noted that the 2001 annual report was a significant improvement from previous versions. As management we're proud of the progress we've made in improving the content of the annual report but we recognize that further improvement is necessary, and we would commit to that and continue to do so in the upcoming year.

Improvements yet to be implemented with regard to a balanced scorecard would be a clear link of our objectives to outcomes so people can see how outcomes are achieved, and analysis of our target versus actual outcomes over the course of the year— why certain things took place — an explanation of that in the annual report. We also need to make improvements with regard to the risks the corporation faces in achieving its objectives.

The third item that was identified by the auditor is that Sask Water should provide the Assembly with a list of persons who received public money. And in response Sask Water currently follows CIC's practices with regard to public reporting. CIC has surveyed its subsidiary corporations for input into the review they're undertaking, and our understanding is that CIC is working also with the Provincial Auditor's office and the various Crown corporations in completing a joint report with recommendations for future processes, and we are part of that process.

So thank you, Mr. Chair, for the opportunity to make opening comments and I would leave my initial comments at that.

The Chair: — Thank you very much, Mr. Kramer.

Mr. Wendel: — Thank you, Mr. Chair. With me this afternoon I have Andrew Martens — just for the benefit of the people that aren't at the committee, Andrew's at all meetings — Rodd Jersak who leads our work at Sask Water. And from the appointed auditors, Meyers Norris Penny, I have Howard Crofts and Adynea Russell. With that, Rodd will make a brief presentation on the chapter.

Mr. Jersak: — Thank you, Mr. Chair, and members. Chapter 4 of our 2002 Spring Report includes our audit conclusions and findings for Saskatchewan Water Corporation for the year ended December 31, 2001. We worked with PricewaterhouseCoopers, the appointed auditor for Sask Water, to form our audit opinions.

We found that Sask Water's financial statements were reliable. We recommend improvements to Sask Water's rules and procedures to safeguard and control its assets. And we found that Sask Water complied with authorities governing its activities.

We raised two accountability matters that had been raised for you already by Mr. Kramer. Those matters that we raise in this chapter are not new and have been discussed by your committee in the past. I will briefly explain each of them.

The first issue has to do with better security needed. In prior reports to the Assembly we reported that Sask Water should strengthen security over its information technology or IT systems and data. Sask Water depends on a number of IT systems to deliver its services to customers, to ensure compliance with authorities, and to manage its financial affairs. Therefore it is important that Sask Water protect its IT systems and data from unauthorized access, and changes from accidental or deliberate destruction.

Sask Water has a number of security practices to protect its IT systems and data — for example, regular backups of data. However we found that Sask Water did not have complete and approved security policies for its IT systems or an approved and tested disaster recovery plan. As a result we recommended that Sask Water set appropriate security policies for its IT systems and data. Your committee concurred with this recommendation on December 11, 2001.

Our second issue that we raise is that the annual report needs improvement. In prior reports to the Assembly we reported that Sask Water should improve its public accountability by clearly describing in its annual report the extent to which it has achieved its plans. Your committee concurred with this recommendation on December 11, 2001.

There were significant improvements in the annual report for December 31, 2001. The two outstanding issues that we would like to see improvement in is the areas of key risks that Sask Water faces and explanations for reasons for significant differences between planned and actual results.

The third issue that we raise is the need for a list of payees. And as Mr. Kramer explained, our office is working with CIC to look for a resolution to the issue and we expect that we will report to this committee in January. That concludes my overview.

The Chair: — Thank you very much.

Mr. Brkich: — Mr. Chairman, I want to welcome the officials here today. To start with, the financial statements that were sent on the potato storage facilities, I take it these are the three that were still owned by the government and I know they've been transferred over to CIC. But can you discuss a little bit about the three statements that were sent to us?

Mr. Kramer: — What would have been the date or timing of the statements that would have been forwarded through . . .

Mr. Brkich: — Okay, on Lucky Lake Potato Storage, the statement of financial position as of December 31, 2001 and 2000 it has on it. And also this one is the Tullis Potato Storage and this is a Riverhurst Potato Storage. And they're dated 2001 and 2000 so . . . or they'd be just going to the end of 2000?

Mr. Kramer: — Okay, the information I'd provide for the committee is that the basic transfer of assets from Sask Water through to CIC would have taken place in June of 2000, so would have taken place before the end of the fiscal year that the report covers. But Terry Hymers, who was introduced previously, would comment just on . . . more specifically on your question.

Ms. Hymers: — Because those companies weren't dissolved until September 2001, we had to roll them up. So those are the final statements of those companies as they existed when they were dissolved.

Mr. Brkich: — Okay. I think that answers that one, I guess, on that financial statement. There was an order in council for $3 million. Was that done in 2001, or have you had an order in council for $3 million?

Mr. Kramer: — Again just to understand the question, it would have related to again the potatoes or SPUDCO issue or . . .

Mr. Brkich: — No, I'm not sure what the money was, whether it was for pipelines or infrastructure.

Mr. Kramer: — I think you test our memories. Let us see if there is . . . (inaudible) . . . that's here with you.

Yes sorry, there isn't information that we would have that would relate to that number. There would be orders in council that would go for particular grant programs to clients, to C&D (conservation and development) associations and the like that would be of normal program operation. Those would happen on a regular basis but those would be sort of fractions of the sum that you talk about so people aren't just certain on what that might have been. And it was with regard to Sask Water some time back, I take it?

Mr. Brkich: — Yes it was at Sask Water. It would have been through Sask Water, not through the Watershed Authority.

Well we can always . . . if you do have that information of grant.

Mr. Kramer: — There would have been order in council in the current year for the Watershed Authority that would have been quite recent that would have established the line of credit for the Watershed Authority. That would have gone through about the time of the legislation being proclaimed on October 1, 2002 that put in place the Watershed Authority.

That was an even number and that was for $2 million. So if it's something in recent times, that would have been what occurred. And that would have been essentially the separation of the Watershed Authority and Sask Water. And a portion of that line of credit would then have gone to the Watershed Authority. That would have been in the last two months.

Mr. Brkich: — Okay, so that doesn't deal with 2001. Thank you for your information at that end of it.

What I'm talking about, I guess, is you're going to be increasing pipelines to the new . . . with the new Watershed Authority and I know some of this initiative would have started in 2001. Have you built any pipelines in 2001 to supply towns with water?

Mr. Wheatley: — In 2001 there was some work done on some enhancements. A couple of booster stations were built on our Saskatoon-north system. It was planned to work on the cogeneration pipeline in 2001; however, that was deferred.

There were no expansions of pipelines in fiscal year 2001 other than, as I say, some system upgrades in the Saskatoon-north area.

Mr. Brkich: — Thank you. I know you . . . in discussions there is one talking about being built through Rosetown, through a number of towns there. Would that have started in 2001?

I know that there has been some meetings there and they were looking at I think . . . you're looking at a 6-inch pipe and they're looking at possibly . . . they'd like a bigger one for irrigation from it. Was there much discussion in 2001 at that end of it?

Mr. Kramer: — Some of the initial planning with the communities in west central would go back into 2001. It's been more active in recent months with the drought that people have experienced. We see significant broad activity here, interest in terms of exploring pipelines and a secure supply.

But with regard to Rosetown and Kindersley, they're looking at options. We have been actively engaged in discussions. You speak of some of the local municipal leadership that's been involved in those discussions as well — PFRA (Prairie Farm Rehabilitation Administration) is also part of those discussions — looking at which communities have most interest, documenting their needs.

And we're now at the point where there has been a commitment from communities and from the federal government to do some, I think pre-design is what it would be called. We're at the level of pre-design to basically get a notional sense of the cost and what the actual construction approach might be if it was to proceed. That will happen over coming months and then communities will have better information for themselves on what their actual costs would be, and they will then need to make decisions on whether they wish to proceed or not.

So in principle, they haven't had to make those decisions yet . . . (inaudible) . . . doing the design and the costing work with them. But we're actively engaged with a number of communities in west central, Rosetown and Kindersley being two, to look at what their options are.

Certainly from where we have regional pipelines in place, as you're aware — serving Melfort, serving Humboldt — those communities see themselves fortunate and word spreads across municipal leadership in terms of the security that's there. And we have a fair bit of interest for communities who would like to explore the possibilities for pipelines.

Mr. Brkich: — Thank you. I know there has been quite a bit of talk in the past year of building pipelines and you taking more of an active role in that. Have you stepped up your expertise in the design of maybe more consulting engineers, hiring more in-house engineers, people along that line?

Mr. Kramer: — We would have some internal expertise in terms of pipeline systems. They would have been involved, as people would be aware, in the major projects of the past that would have provided for pipelines to Humboldt, to Melfort as I'd referred to. But we haven't staffed up in that area.

And our basic approach in terms of engineering services is to work with the Consulting Engineers of Saskatchewan and we continue to be committed to that. We have a formal partnership agreement with CES (Consulting Engineers of Saskatchewan). We would meet on a regular basis, two or three times a year, to work through relationship issues. And we haven't done staffing up for the work that's done. We would plan for the incremental work on both — if I could describe it — the authority side with regard to infrastructure and the utility side working with communities. We would very much plan to work with Consulting Engineers of Saskatchewan through the formal partnership agreement that we have in place with them.

Mr. Brkich: — Thank you, Mr. Chair. Do you know if you're in competition with many private firms through 2001; were you, on any of your jobs when . . . with the consulting engineers?

Mr. Kramer: — We would have a partnership or co-operative relationship with consulting engineers. We would have some expertise in-house, people that do engineering work, but that's been long and traditional for Sask Water.

So that I would say the balance of what is done and understood as being acceptable by private engineering firms and Sask Water, certainly that wouldn't have changed in 2001. We would have done some of the work in-house, but CES understands and accepts that; they know where our areas of expertise are, and they would have done the work that they would normally do as well.

Mr. Brkich: — Thank you, Mr. Chair. The question is the . . . There has been some concerns raised from CES that in the future that you will be providing more competition to them and doing more in-house work. Is that the role you're going to be going down the road?

Mr. Kramer: — No. I appreciate the question because we do have ongoing discussions with CES and I think the CES organization has, over the course of this year, raised questions with regard to the new role of Sask Water. And in that regard we continue to work with them and assure them that our model for how our work is done has not changed.

We do believe, as we have more activity with more communities for the future, that we will have additional work in Sask Water. We also believe that there will be significantly additional work for the Consulting Engineers of Saskatchewan. We've met with them most recently two weeks ago and as a matter of interest, I'm meeting with both their Saskatoon and Regina chapters for further discussions next week.

So our model hasn't changed and we believe that as there is more work in water, as people truly expect there will be, dealing with communities, dealing with interests in pipelines, that there may well be more work for Sask Water and them, but we certainly don't see expanding at the expense of the Consulting Engineers of Saskatchewan.

Mr. Brkich: — Thank you. I'll take your message back to them and I hope they'll be happy with that.

With your new Watershed Authority, I believe that your mandate is to turn Sask Water into more of a money-making utility. How do you propose to do that? More through the pipeline end or actually building and maintaining water treatment facility plants?

Mr. Kramer: — I would answer probably even a little more broadly than that. The areas that we see ourselves in Sask Water more actively involved with communities would be these: that as communities understand what they need to do to meet regulatory requirements from the Department of Environment that is a regulator for their water and waste water systems, many are coming to Sask Water to look for advice and what their options are.

And our typical approach would be one of going to a community and quickly, in the course of a day, going through the facilities and giving them observations and recommendations on what it is that they need to do to meet the regulator's standards. At that point they can choose to establish a business relationship with us to deal with those things or they can choose to go to the private sector. And it's absolutely their choice to make.

Where we would see future work would be with regard to operations where many of the communities, when they look at the expectations of the regulator, when they look at their treatment plant operators, coming to us and asking for the corporation to — at a charge, at a commercial rate — take over operation of their treatment plant. Some will be aware of the arrangement with Edenwold over the course of this past summer as an example, where Edenwold's operator retired and they came to Sask Water, asked if we would provide them with services on a contractual basis. So did we see expansion there? A number of communities are telling us that liability issues, the complexity, water management is something that they would like to contract out for.

We also will work with communities. If they have infrastructure needs and they ask for that work to be done to give them options, we will do that if they request it. But again we are also very comfortable to have them take those needs through to private firms. We are working on regional pipelines with a number of areas — local groups of communities, hubs where they have regional pipeline interests as well.

So we would see our further activity, if I can summarize it this way, some of it within the operations of water and waste water treatment facilities. If communities wish, we will do work in terms of infrastructure design for them but that's not something that we would do at all exclusively.

We're working in regional areas as well. We're also working with industrial users and providing water to them on a commercial basis. So we see interest in expansion in all of those areas in recent months and we expect that to continue for the future.

And I realize my answer is quite general. I don't know if that's got to your question.

Mr. Brkich: — Yes, well basically is that I just want to know if you would be being more aggressive pursuing all three of them avenues and I would take it from your answer that you will be doing more of that in 2002 — be more aggressive in all three of the aspects of . . .

Mr. Kramer: — Yes, and I would add this just for understanding. It's at the request of communities. Communities need to ask us in for the assessment, the walk-through, and then they do with that what they care to in terms of whether they take action and who they choose to take action with.

But we see ourselves as a solutions provider, identifying their options for them, which are best technology and lowest cost. And if we're part of implementing that solution, we will do that and if they go elsewhere for their solution, that's fine. But our basic rule is one of ensuring they understand what their options are so that they can meet the needs of the, or requirements of the regulator.

Mr. Brkich: — You said the first day of . . . you'd do one quick day of assessment. Is that free of charge to Sask Water or do you charge for that?

Mr. Kramer: — No, that's a service that we would provide free of charge and it would be as any private business. It's part of service to customer, building a relationship with the potential customer. The example I would use is if one is interested in buying a photocopier and you call a company there, they don't do a service charge on the first visit in terms of trying to sell something or establish a business relationship. And we would be the same. This would be provided as a service to the community.

Mr. Brkich: — With the loss of irrigation, will that put a damper on your money making? And irrigation, did you make . . . I can't remember much in 2001. I'll look at the report here. Was irrigation a big part of money coming in, in 2001?

Mr. Kramer: — The principle that would have been used in services for irrigation was always one . . . I'm told in Sask Water that it was done on a cost recovery basis as opposed to a profit centre. So it would essentially have been a service that would have been provided but the objective from financial return was only ever one of recovering costs. So it wouldn't have a negative impact in terms of returns or bottom line.

Mr. Brkich: — Mr. Chair, I just have one more question before I turn it over to Brad or anybody else that wants at this time.

I mean, 2001, how many legal lawsuits are pending against Sask Water right now and the cost of that so far for the 2001 that it's cost Sask Water?

Mr. Kramer: — In response, there would have been about a dozen legal suits that would have been . . . or would have had Sask Water involvement in 2001. And the legal services related to those for the 2001 fiscal year would have been about $230,000.

Mr. Brkich: — Thank you, Mr. Chair. I don't know if you can provide this, but could you provide the name of the complainants, the dozen that are against in the law right now or is that confidential?

Mr. Kramer: — I'm told that whatever is filed, what's in process, is public information so we wouldn't put that as confidential. I don't have the list in that form but we would commit to provide that to you in written form, if that's sufficient, and ensure we have the parties then correctly identified. But I'm told that that is public information.

Mr. Brkich: **—** Sure, that'd be fine.

Mr. Wall: — In 2001 for . . . to assist the corporation . . . to defend the corporation with respect to these suits, do you . . . how many firms, how many private legal firms did Sask Water retain?

Mr. Kramer: **—** The answer would be one firm. And it would be Olive, Waller, Zinkhan & Waller that would have been the firm.

Mr. Wall: — And that's generally the practice of Sask Water, you know, notwithstanding how many suits it's facing, is just to continue to retain the services, or are there circumstances where you would, you know, retain other firms in addition to that one to assist with the caseload if it was high?

Mr. Kramer: **—** The answer would be the second part of your question that yes, even depending on geographic area of the province, we would use other firms if that became necessary and needed to be done.

Mr. Wall: **—** Based on geography though, not on the volume?

Mr. Kramer: — Could be both. Like there is no particular . . . yes, and the skill sets of the firms — depending on the particular expertise, depending on the nature of the issue that was part of the legal suit that was being pursued.

Mr. Wall: — Thank you, Mr. Chairman. In '97 Sask Water began its foray into the potato business, and four years later, in the year under review, the CIC minister highlighted the losses that that business had incurred at about $28 million. How much money in total then was lost by Sask Water's subsidiary, SPUDCO, as a result of that and how has that impacted the 2001 financial statements, please?

Mr. Kramer: — The information I would provide to the committee would be that the losses incurred we don't have here with us a cumulative total — that's something that we could provide to the committee — but that the losses would have been ones that would have been incurred within Sask Water. SPUDCO is a part of that. So it would have had an impact on cash and retained earnings that would have had a cumulative effect over the course of years. So the cumulative bottom line number we could get for committee.

But your question on the impact on Sask Water's 2001 report, it would have had an impact on our cash position and our retained earnings at the end of 2001.

Mr. Wall: **—** Thank you, Mr. Chairman. Well you know, that whole issue was a fairly public issue and I guess I'm a little surprised that that sort of a number wouldn't be more readily available. But I sure would appreciate if you could get back to us.

If you could also tell us within what sort of time frame you could get back to us with the answers to both of those questions. I'm sorry, you answered the last question.

But more specifically, what then would have been the impact on the cash side and on retained earnings in the 2001 financial report of the total losses at Sask Water as a result of the failed SPUDCO industry there?

Mr. Kramer: — Yes. And I would say this for the committee . . . Is that proper terminology — committee, the Chair?

In any case, that as was said, the transfer to CIC of assets, the impact on bottom line would have taken place in June of 2000. So that when we look at the 2001 annual report or fiscal year, there would be no new impact in 2001 that would not have been already there by the end of December of 2000.

But the question of what's the cumulative total, that's something that we've committed to provide.

I don't have a sense of time. Is that something that . . . Certainly before Christmas. I mean it may take a few days but we would provide that to the committee as quickly as we can.

Mr. Wall: **—** Is a week reasonable?

Mr. Kramer: — We will do all that we can to make a week.

Mr. Wall: — Thank you. Over the past two years then, Sask Water has been . . . I mean, the financial statements that we're looking at today and the ones from 2000 that you just mentioned, they would have been assisted greatly — some would say bailed out but we'll say assisted greatly — by the . . . by CIC's takeover of that, of the SPUDCO situation.

Would the officials describe for the committee the nature of any ensuing structure . . . restructuring and the nature of the financial assistance or bailout it would have got from CIC as a result of the transaction?

Mr. McDougall: **—** With respect to how the assets were moved over, CIC acquired through assumption of debt a certain portion of the assets, and CIC subsidiaries — I believe it was Sask Valley — acquired certain of the assets as well through assumption of mortgages from the storage companies that were previously talked about. And then I believe as well there was also a grant provided by CIC, although the exact number escapes me. I'm told it's 1.2 million.

Mr. Wall: — Thank you. Was Sask Water involved in any way in 2001 in the management, growing, or storage of potatoes in Saskatchewan?

Mr. Kramer: **—** The answer would be no.

Mr. Wall: — Does Sask Water Corp or any of its subsidiary operations manage or oversee or in any way control trust funds?

Mr. Kramer: — The answer would be no.

Mr. Wall: — Has the corporation ever managed or controlled or operated trust funds?

Mr. Kramer: — No. I'm told that the answer is no.

Mr. Wall: — There has never been any trust funds or reserved funds in respect of Rafferty or Ducks Unlimited?

Mr. Kramer: — Yes. If folks have the . . . members have the annual report from 2001, if they would go to page 29 and look at the note that is called . . . under current liabilities, about the middle of the page, deferred funding, note 6.

I'll ask Terry to describe just what that does. So just to be clear on terminology. And we don't want to be unclear. And those aren't things that we refer to as trust funds but there would be sources of funds that are drawn down for particular purposes over time. And if those are things you would refer to as trust funds we certainly don't want to be evasive in our answers. We will explain what that is.

Ms. Hymers: — Yes, I apologize. I wasn't thinking of this as a trust fund as such. What it was, when Rafferty-Alameda was being constructed, Canada, the US (United States), and the province contributed to the costs.

When Sask Water inherited those projects from the Souris Basin Development Authority, the construction wasn't completed. So Sask Water was given the pot of money to complete the construction costs of Rafferty and Alameda. So that's what you are thinking of as a trust fund. Yes, we do have that.

Mr. Wall: — I should have said in trust account perhaps. That would have been better.

Ms. Hymers: — The remaining value in that account at the end of 2001 was half a million dollars.

Mr. Wall: — That's with respect to Rafferty-Alameda?

Ms. Hymers: — Correct.

Mr. Wall: — And Ducks Unlimited?

Ms. Hymers: — That one also, when we were involved in constructing Luck Lake and Riverhurst irrigation projects, part of the project was built on behalf of Ducks Unlimited. They gave us a capital contribution. As we operate and maintain the projects that relate to the Ducks Unlimited portion of it, we draw from this fund the contributions they gave us a few years back.

Mr. Wall: — And the status of that in the year under review?

Ms. Hymers: — Pardon me, the status?

Mr. Wall: — The status of that, the value.

Ms. Hymers: — The value? I believe it was about 1.4 million.

Mr. Wall: — Thank you. Are there any of these . . . In terms of these trust accounts or these reserves, they're listed here as a current liability. So could you explain how there are liabilities? And please confirm that right now they're fully funded.

Ms. Hymers: — They're liabilities in the respect that we received money and owe people services for that money they provided to us in previous years.

So the Rafferty-Alameda situation, the contributing parties gave Sask Water the money to complete the construction. We have received the money. We are in the process of completing construction so we're providing a service for something we got previously. And likewise with the Ducks Unlimited account.

Mr. Wall: — And the funding. I guess not to put too fine a point on it, but currently in terms of the obligations that Sask Water has to those trust accounts, the money is there.

Mr. Kramer: — Yes. Yes I mean the funding continues to be . . . we've talked about the sums that are there to be spent.

Mr. Wall: — There is money in an account that would satisfy Sask Water's obligations in this respect?

Mr. Kramer: — The answer would be that this would be part of our bank account as opposed to a trust account. But there are funds that we use to meet obligations that are there, as has been described.

Mr. Wall: — Were any of these monies in trust? I guess I'm going to ask a question in terms of if that's a newer development.

Were any of these monies in these trust accounts, for those two specifically — Rafferty-Alameda and Ducks Unlimited — were those monies ever used for any purposes other than those ones that you've ascribed to them?

Ms. Hymers: — I guess in essence you could say yes, they were. We never had separate bank accounts set up for these, what you're referring to as trust accounts. They were all part of our regular bank account. As we required money for whatever it was we were doing within the operations of Sask Water, we drew on the common bank account. So in essence, I guess we did use that money for various programs that Sask Water delivered.

Mr. McMorris: — Thank you, Mr. Chair. My questions are going to be, I guess, quite a bit broader than the last member's.

In the area that I represent — and I think in probably pretty much of all of rural Saskatchewan, talking to the MLAs (Member of the Legislative Assembly) that are on our side of the House anyway — the whole issue of Oceans and Fisheries has become more and more common, and more and more of a problem.

And I know when we were doing estimates, I had the opportunity to ask questions of . . . to the Minister of Environment. But I guess I'm asking you as Sask Water, what is the relationship, is there any sort of overlap . . . What is the relationship, I guess first of all, with Oceans and Fisheries and Sask Water? Do you have some connection and some dealings with them?

Mr. Kramer: — What I would describe to the committee is that the primary relationship between Sask Water and DFO (Department of Fisheries and Oceans) would be that Sask Water would be a regulated agency in the sense that we manage 44 major dams in the province, as an example, which require ongoing maintenance, improvement, monitoring. And those activities would be one that . . . ones that DFO would need to authorize because it deals with shoreline protection, fish habitat, and the like.

So our primary relationship with DFO with Sask Water would be as a regulated agency. And in terms of describing the relationship, we have sought and seek to meet with them on a regular basis to understand their expectations as a regulator, to ensure they know which projects we need to pursue to be sure that we understand their requirements, and work on that as . . . or on a proactive basis. So I think that would describe the basic relationship between Sask Water and DFO.

Mr. McMorris: — So in the year 2001, would you say that the DFO had made some recommendations of Sask Water for changes on shoreline or any water structure that perhaps would not have taken place had the DFO not made that recommendation?

Mr. Dybvig: — Yes, I think in terms of where we've done developments, rehabilitation projects, there would have been requirements that Fisheries and Oceans asked of us to improve or lessen the impact that the construction activities might have had on fish habitat — barriers to prevent excess soil erosion or excess removal of habitat or excess unnecessary disturbance of what could be potential spawning areas.

Mr. McMorris: — Would you — and this is maybe an answer that you can come back to me later with — would you have any sort of an estimate on the cost incurred by Sask Water by requests made by the DFO in 2001?

And I guess the reason I'm asking that is certainly in our area DFO has become more and more apparent and obvious. And in most any activity that we take in our area . . . And the area that I represent is southeast of Regina here and it's been classed as fish habitat, and the only reason it's fish habitat is because there's been a few drainage ditches put through there. But now anything that is done has to seek the approval of Oceans and Fisheries, and the cost incurred has been ridiculous.

And so I guess I'm asking . . . I know what it's costing us in our area and the C & D that I'm involved with, and how much it's cost our C & D to do a study requested by Oceans and Fisheries before any sort of drainage could be done. But I'm also asking then what does it cost the province for, really in the last two years, the involvement of Oceans and Fisheries in our water resource?

Mr. Dybvig: — Yes, I guess there's two elements to those costs. One is that there's an additional need as you indicated to do investigations to identify what the potential environmental impacts might be which would include impacts to fisheries. And then there's the actual mitigation that might be required as follow-up to those investigations. So that's something that we can compile and determine based on the projects that we've been directly involved in.

Mr. McMorris: — Okay. Thanks. I think that would, that would do it. I would be very interested in finding that out because I know, again dealing with . . . in estimates dealing with the Department of Environment, there was some concerns from their aspects of what they were doing. And also I was quite interested in Sask Water and what some of the costs are incurred for Oceans and Fisheries.

Now assuming a role — and I guess maybe this just in closing, this may be a tough one for you to answer — but do you believe that the costs incurred, the request that Oceans and Fisheries put in place, the studies that needed to be done, would have Sask Water been doing that prior without having Oceans and Fisheries here? Was it needed to be done?

Mr. Dybvig: — Well I think the impact to fisheries is something that's normally been done for many years around environmental impact assessment and previously the province did provide some of that same oversight that Fisheries and Oceans is currently providing with respect to impact to fish habitat. And so we've been doing many of these investigations for many years, not just the last two years, because of the general requirement to be environmentally responsible with respect to fisheries management.

Certainly there's more tension within the last two years, Fisheries and Oceans having moved numerous staff, both into all three Prairie provinces and now having more people that are providing much more oversight. I guess we haven't had enough experience yet to determine whether or not this is costing us more money than it has previously to date. There's certainly much more oversight taking place now then there was previously.

Mr. McMorris: — As an observer I would say that would probably be costing more money then — more observation.

Mr. Dybvig: — Yes . . . (inaudible) . . . costing us more money.

Mr. Wall: — Thank you, Mr. Chairman. Back to 31, page 31 then of the annual report and this . . . I beg your pardon, page 29. With respect to these current liabilities, I just want to make sure that I understand completely.

So these liabilities basically represent agreements that Sask Water has come to in the past. Let's just deal with these two, Rafferty and the Ducks Unlimited, these accounts. Partners with respect to either of those projects have in effect prepaid to Sask Water some of the . . . or the capital costs for various projects that in turn Sask Water would use to fund those projects as it needed to, in terms of completion. Is that correct?

Ms. Hymers: — That's correct.

Mr. Wall: — But these accounts . . . Go ahead.

Ms. Hymers: — Sorry. That's correct on the Rafferty-Alameda. I'm just remembering — the Ducks Unlimited, that was . . . the portion they gave us up front that we are now drawing down on is for the O&M (operating and maintenance) costs incurred every year on their portion of the project.

Mr. Wall: — And yet these funds would have been put into just the — for lack of better term — the general operating account of Sask Water, though. Is that correct?

Ms. Hymers: — Correct.

Mr. Wall: — That's correct. So in terms of there being a separate trust account, there isn't. It's basically an entry as represented on page 29 and in the notes, in the appended notes to page 29.

Yesterday we heard that the Fiscal Stabilization Fund was going to help balance the budget. There's no cash in it per se but it's going to . . . it would have to go out and borrow to do that. But nonetheless that's the explanation I think that the Finance minister gave. Is that generally what we're . . . is that similar to what we're talking about here?

Mr. Kramer: — And the point to be made to the committee is that the arrangement around Ducks Unlimited would go back to 1991. The arrangement around Rafferty-Alameda, I believe that Sask Water's responsibility would go back to about 1994. The treatment of those accounts from Sask Water's perspective . . . But the auditor's perspective has been consistent. Since 1991 and 1994 they've been fully disclosed and has been part of the audit that's come to this committee since those dates.

So your description of the process is correct. And I will provide that for the committee's information in terms of that being consistent since 1991 in the case of Ducks Unlimited and in the case of 1994 for Rafferty-Alameda, that having been disclosed and having been audited on that basis since those dates.

Mr. Wall: — Okay. Fair enough. I appreciate that. I understand that. So if for whatever reason in this 2001, the year under review now, Sask Water . . . you know, again for whatever reason, Sask Water had to come up with the resources to cover this liability, it would either have to cash . . . (inaudible) . . . that obligation, or borrow, or seek more money from the GRF (General Revenue Fund). It would have to go out and get that money because of the nature of . . . because of the description that we just went through. Is that correct?

Mr. Kramer: — It would be part of our annual budgeting process, that's right, with the source of funds that would be there and the revenues are outlined in terms of where they would come from. But yes, it would be part of what we would manage within our annual budgetary process.

Mr. Wall: — So in terms of the liabilities that are represented here, would any of the dollars set aside in these agreements, in these trust accounts for Rafferty and Ducks Unlimited, have been used to fund the SPUDCO initiative?

Mr. Kramer: — The response I would give the member is that the treatment of the arrangement . . . From an accounting perspective we'd go back to when they were initiated — 1991 for Ducks Unlimited, 1994 which would have predated, is my recollection, the involvement that Sask Water would have had with potatoes or SPUDCO. So I would say no, the two items are not related. SPUDCO would have been transactions that took place in the later part of the '90s and these agreements, and the accounting treatment of them, would have predated the involvement of Sask Water with potatoes and SPUDCO.

Mr. Wall: — What would be the balances in 2001 of the Ducks Unlimited reserve?

Ms. Hymers: — It's part of the greater number, the number that's referred to as deferred revenue and prepayments, a total of just under 5 million. But I believe the Ducks portion of that is 1.4.

Mr. Wall: — And do you know the portion of that amount for the Rafferty-Alameda deferred funding?

Ms. Hymers: — The Rafferty-Alameda shows separately as deferred funding. That's $528,000.

Mr. Wall: — And the Rafferty-Alameda depredation fund?

Ms. Hymers: — That is part of the deferred revenue and prepayments also that are just under $5 million, and that's about $1 million.

Mr. Wall: — Does the Provincial Auditor have anything to add on the question of whether or not funds from these reserves or these accounts in trust or . . . you know, I guess whatever — if I'm using the wrong term, I apologize — but these accounts . . . these liabilities we've been talking about? Does the Provincial Auditor have any opinion as to whether or not they would have been used for funding SPUDCO?

Mr. Wendel: — The way I view these accounts, Mr. Chair, is they're not really a trust account in the sense that you think of a legal trust where you'd actually have to keep the cash aside. If they were a legal trust, I would expect they would have a separate bank account, and we wouldn't include them in these financial statements like this. We would have a separate note describing the trust accounts under administration.

So this money belongs to them and this is an accounting practice where you keep track of money that you receive in advance and you have a commitment to spend that money for a specific purpose and you can't take it into revenue until you've used it for that purpose.

So it's an accounting transaction. So as to whether the money's been used, because it goes into their general bank account . . . You can't keep the money separate. So it's . . . as long as the corporation's in a surplus position or as long as the Crown, as it is, there is really no risk to the people that have given the money. It will be used for that purpose. You know, we expect that they will, and we would of course comment if they didn't.

Mr. Wall: — Thank you.

Mr. Brkich: — Thank you, Mr. Chairman. Just in 2001, in conjunction with the PFRA, can you tell me how much was spent on well digging, dugout digging initiatives? I want a little bit of extra information on it.

Mr. Kramer: — Yes. The role of Sask Water with regard to dugouts or well construction would be one of technical advice and the financial support, the cost-shared program, would be through PFRA. So we do not have, in the year or at present, a assistance program for financial support. The PFRA producers would come to us for all sorts of advice in terms of groundwater locations, aquifer depth and aquifer quality, and the like.

Mr. Brkich: — Thank you. How much would that be . . . have been a charge to the PFRA?

Mr. Kramer: — That's a service that would have been provided by Sask Water in the year under review. For the future it would be part of the service that would be in the Saskatchewan Watershed Authority. But it's a service that was provided, continues to be provided free of charge to the farmer clients.

The Chair: — Any further questions? Would someone then move that the Standing Committee on Crown Corporations concludes the review of the annual report . . . (inaudible interjection) . . . Okay.

Mr. Forbes: — Well actually I do have a question.

The Chair: — Okay. Go ahead.

Mr. Forbes: — Or more of a comment, and that is how when I read through this — and I thank the auditor for his comment — when I read on page 35, note no. 6 pretty clearly explains what we've been talking about in terms of the issue around reserves and that type of thing. And also, I'd looked at revenue on page 30 when it talked about transfer from deferred funding, so note 6 as well.

So that's what my colleague and I were just talking about. So I just wanted to say that's all I see here. But I was going to so move, if it's appropriate.

The Chair: — All right. So Mr. Forbes is moving that the Standing Committee on Crown Corporations conclude its review of the annual report and financial statements of Sask Water and its subsidiaries for the year ending December 31, 2001. Is that agreed? Agreed.

Thank you very much, Mr. Kramer, for coming here today and being with us.

Mr. Wall: — Just very quickly, thanks on behalf of the opposition members for your questions and attending today . . . for your answers and attending today. And the questions may not have been nearly as good.

Mr. Kramer: — Thank you for the opportunity to be here and to deal with your questions. We appreciate the forum that's here with its opportunity to be accountable. Thank you.

The Chair: — Thank you.

The committee adjourned at 14:47.