



STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

Hansard Verbatim Report

No. 35 – November 30, 2009



Legislative Assembly of Saskatchewan

Twenty-sixth Legislature

STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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[The committee met at 19:00.]

The Chair: — It now being 7 o'clock, I would like to welcome everyone to this meeting of the Crown and Central Agencies Committee.

Tonight we will start off with . . . I believe approximately 15 minutes has been arranged to speak about the sinking funds payments, government share, vote 176. Presenting to the committee tonight will be the Minister of Finance. If he would like to make an opening statement and introduce his official then we can get straight to questions. I turn it over to the Minister of Finance.

**General Revenue Fund
Supplementary Estimates — November
Sinking Fund Payments — Government Share
Vote 176**

Hon. Mr. Gantefoer: — Thank you, Mr. Chair. Since there is limited time available tonight, I'll be very brief. With me tonight is Jim Fallows, the executive director of cash and debt management in the Ministry of Finance. He's here to help me answer questions that members may have.

Very quickly, we had budgeted \$96.967 million . . . I'm sorry. We had budgeted \$96.855 million for sinking fund contributions in the current budget year. Two things have changed from that budget that are being incorporated in supplementary estimates — a 230,000 voluntary payment over and above the required 1 per cent by Sask Water Corporation who tends to want to put more against the sinking fund, and a \$118,000 benefit due to exchange rate changes that actually lowered the requirement for contribution by 118,000, resulting in a net change of the \$120,000 . . . \$112,000. With that general description that is as complicated as it is, I invite questions.

The Chair: — Mr. Nilson.

Mr. Nilson: — Good evening, and look forward to another interesting evening. On these sinking funds, how many different funds are there? You've referenced two or three of them here in your explanation. But how many different funds are there so that we can have some idea of what . . . and also the total amount?

Hon. Mr. Gantefoer: — I'm told there's basic two funds, a Canadian dollar one and one in US [United States] dollars. So this second one is the one that got affected by the changing exchange rates.

Mr. Nilson: — So then this vote relates just to one of the two funds. Is that correct?

Hon. Mr. Gantefoer: — No, the \$230,000 would relate to the Canadian dollar one and the \$118,000 one would relate to the US denominated one.

Mr. Nilson: — Is there any reason why you wouldn't set out both funds so that we could see that on here? Because all we get is the bottom line of 112,000.

Hon. Mr. Gantefoer: — On the 2008-2009 volume 1 of Public Accounts, on page 67, if you happen to have that document with you, is where the sinking funds are disclosed. And at the bottom of that very page, there's sort of a small line of print that indicates the breakdown between the US denominated and the Canadian denominated. The US denominated is relatively small, but there is a little bit that is put there in accordance with the investing policies that have been in practice for several years, certainly before our administration.

Mr. Nilson: — How many different activities are in the sinking funds in the sense that you've just referenced now — some activities that, you know, were related to one of the departments? Like does every department put money into sinking funds or just some of them? Or is that not a relevant question?

Hon. Mr. Gantefoer: — On that very same page that I referred to in the Public Accounts, under schedule 7 it gives the total of the sinking fund in two main categories: the government, which is \$2,963,931,000 in government; and then there's a further \$400 million in Crown corporations. And the Crown corporations are broken down individually in that disclosure as well, so it's all documented in the Public Accounts on page 67.

Mr. Nilson: — And so for somebody who's watching us at home, what exactly is a sinking fund?

Hon. Mr. Gantefoer: — Well the members would know that there is long-term provincial debt that's held by various vehicles, long-term debentures and things of that nature. And as government has had the opportunity over time to actually put money against debt . . . There's two ways you could do it. You could actually redeem some of the long outstanding debentures, and in order to do that you generally pay a penalty or a premium in order to do it.

And so what we have done and had been done previously is these sinking funds were set up to receive dollars that would be applied against long-term debt, and they're constructed in such a way that as a long-term debenture matures and comes due, then the funds are available to offset that. So they're actually an offsetting factor to balance out the long-term debt of the province, and in a way that then has the money available when the debentures come due so they can be cashed without penalty.

Because in the analysis that was done by Finance, I think over time it would be less beneficial to redeem these long-term debentures at premium than to honour them and then have the sinking funds earn 3 or 4 per cent of money and have them available to offset when the opportunity arises as they mature.

Mr. Nilson: — Are these funds available for other purposes when they're in the sinking funds, and how do you make sure that that's the case?

Mr. Fallows: — Right. The sinking funds are not available for other purposes.

Mr. Nilson: — And is that by policy or by practice? Or you just sort of stick them in a different bank account, or what happens?

Mr. Fallows: — By both policy and practice.

Mr. Nilson: — And is there a daily evaluation of these or monthly, or is it quarterly? And I guess what I'm thinking is that from what your description of them, they are a method of managing the debt of the government, and so that there may be opportunities that arise to use the money and pay things off sooner than you might have anticipated when you first put the money into them. So is this a regularly managed kind of fund, or is it just looked at quarterly?

Mr. Fallows: — The sinking fund, it's managed on a day-to-day basis. And there's a monthly accounting process that's done and reported out to the Crown corporations and all the participants in the fund.

Mr. Nilson: — And this is all managed in the Department of Finance for both the Crown corporations and the line departments?

Mr. Fallows: — Correct.

Mr. Nilson: — What you've presented here tonight is then the net as of the half-year and which shows that you need slightly more money in this account — little more in one, little less in the other. Would that be an accurate way of saying it?

Hon. Mr. Gantefoer: — Net effect is \$112,000.

Mr. Nilson: — More is needed.

Hon. Mr. Gantefoer: — Yes, that's needed.

Mr. Nilson: — Okay. So I think maybe my colleague might have a couple of questions.

The Chair: — Ms. Higgins.

Ms. Higgins: — Who in the Department of Finance would manage the sinking fund accounts and payments?

Mr. Fallows: — There would be two specific employees in the treasury and debt management area who would manage the sinking funds on a day-to-day basis.

Ms. Higgins: — Okay. And sorry; I was rooting through some papers when you first made your comments as to what made up the 112,000.

Hon. Mr. Gantefoer: — It was a \$230,000 voluntary contribution from the Sask Water Corporation and that was partially offset by a \$118,000 gain on the US denominated sinking fund. And so the net effect of those two transactions, one having a particular effect, there are two main accounts, one in Canadian dollars and one in American dollars — much smaller one in American dollars. And the two . . . So the transaction would be the \$230,000 would be in the Canadian denominated funds; the \$118,000 would be in the American denominated funds. The net effect of that in total is the \$112,000 that's being requested.

That's from the basis I indicated in total between the Crowns and government of the total sinking fund balance of \$3.364

billion.

Ms. Higgins: — 3.364 . . .

Hon. Mr. Gantefoer: — 364. And for the member's . . .

Ms. Higgins: — Billion?

Hon. Mr. Gantefoer: — Billion. And that is documented in the Public Accounts 2008-09 edition volume 1, on page 67.

Ms. Higgins: — Okay. So is this a common adjustment to be made mid-term?

Hon. Mr. Gantefoer: — If there are entities that want to, they have the opportunity to make voluntary extra payments. That's something we can't foresee at budget time. And so that represents the 230,000. And then you make certain estimates as to what the exchange rate is going to do on the US denominated fund, and if that changes from the budget time — and the exchange rates, the member will know, have varied considerably since budget — and so what this does is adjusts the actuals to the mid-year.

Ms. Higgins: — So then are your expectations that there may be adjustments again at the end of the year, or would it just be carried over into the new budget?

Hon. Mr. Gantefoer: — There potentially could be further adjustments if an entity wants to put more money into the sinking fund than they had notified us at budget time, as SaskWater did at mid-year. And if there is further volatility in the exchange rate, there could be some further changes before March 31st. But as this would indicate, they seem to be relatively minor in comparison to the almost, well \$3.3 billion of fund. It's a pretty small percentage.

Ms. Higgins: — So what would cause an entity to make a contribution to the sinking fund that there would be something unusual that would come along that we would see these kind of contributions?

Hon. Mr. Gantefoer: — Mr. Fallows knows the detailed circumstance of SaskWater. We can use that as an example.

Mr. Fallows: — What SaskWater does is it's a policy particular to their corporation and it's been established by their board of directors.

And under ordinary circumstances a corporation will contribute 1 per cent per year of an amount of debt that's outstanding. So if they have a \$100 million liability, they'll contribute \$1 million a year to their sinking fund. When that debt matures, they'll look at how much they have in their sinking fund and then they'll pay the difference to redeem that debt.

SaskWater does things a little bit differently. They want to try to make contributions that are large enough so that when that debt matures, there's nothing to pay at all. So that's why they've decided to pay a little extra. It's their choice, and it's based on a decision made by their board.

Ms. Higgins: — That's all the questions that I have.

The Chair: — Mr. Nilson.

Mr. Nilson: — When the government guarantees debt — it doesn't do that very much any more — but are there sinking funds set up to deal with guaranteed debt? So the answer is no?

Hon. Mr. Gantefoer: — The answer is no.

Mr. Nilson: — Okay. So there's none of the sinking funds monies here relate to any debts that are guaranteed by the government. Now my sense is that that amount is like under \$100 million in the total scheme of things that government's actually guaranteed debt.

But can you give us a little bit of an idea whether that's going up or down? Because sometimes it's talked about in the same space as sinking funds.

Hon. Mr. Gantefoer: — In the document that I referred the member to previously, on page 68 is the guaranteed debt, and in 2008 the amount was \$25.227 million and 2009 it's \$20.305 million. So it's gone down.

Mr. Nilson: — Yes. Thank you. That is the kind of one that can get you into trouble because you don't always know where it is, but I think we've had a fairly good policy of not doing that any more.

Well I'm not sure. I think that was my extra question.

The Chair: — Okay. I'd like to ask the committee, would you like to adjourn these considerations or conclude these considerations?

An Hon. Member: — Adjourn.

The Chair: — The members have said they'd like to adjourn considerations of the sinking fund payment, government share, vote 176. With that I'd like to thank the minister and his official for spending their time and explaining this to us tonight, so thank you very much.

Hon. Mr. Gantefoer: — Thank you very much, Mr. Chair, and thanks to the committee members for their questions.

[19:15]

The Chair: — Mr. Nilson.

Mr. Nilson: — Yes. Thank you for your assistance tonight, and we appreciate the clarity of the answers. Thank you.

The Chair: — The committee will now take a brief recess to allow the next minister and his officials to get organized.

[The committee recessed for a period of time.]

**General Revenue Fund
Supplementary Estimates — November
Lending and Investing Activities
Saskatchewan Gaming Corporation
Vote 139**

Subvote (GC01)

The Chair: — I'd like to welcome the members back and the Minister of Saskatchewan Gaming Corporation and his officials. Tonight we will be discussing the Saskatchewan Gaming Corporation, vote 139. And I think we might as well get right at it, so I would ask the minister to introduce his officials, and if he has an opening statement he could go ahead and make that now.

Hon. Mr. Hutchinson: — Thank you very much, Mr. Chair, and members of the committee. It's a pleasure to be here once again. On my left — and we're talking about physical position, not necessarily political inclination — Mr. Tony Coppola, acting senior vice-president of finance administration for SGC [Saskatchewan Gaming Corporation]; and Ms. Wendy Hutchison who's the controller.

A couple of introductory remarks to start off this evening, Mr. Chair. Sask Gaming was a Treasury Board Crown up until April 1st, 2008. And as a Treasury Board Crown, the corporation paid 100 per cent of its net income to the General Revenue Fund or GRF for short. On March 31st of 2008, when the corporation became a CIC [Crown Investments Corporation of Saskatchewan] Crown, the balance payable to the GRF was \$29.8 million.

Now CIC advanced funds to Saskatchewan Gaming to pay the balance and requested that the corporation repay this advance over the following four years, beginning in 2009. When Saskatchewan Gaming became a CIC Crown, it had a debt-to-equity ratio of 50 per cent, and CIC has established that the corporation ought to maintain this ratio. Saskatchewan Gaming has stable earnings, as you may know, and is well positioned to carry debt and can thereby free up cash for other priority needs within the Crown sector.

At this point in time SGC's capital requirement for 2009 is estimated to be \$24.3 million, 18.3 million of which can be internally generated and 6 million of which must be borrowed. It is this \$6 million borrowing requirement that is contained within the estimate we are here to discuss this evening.

Thank you, Mr. Chair. We're ready for questions.

The Chair: — Ms. Higgins.

Ms. Higgins: — Thank you very much, Mr. Chair, and thanks to the minister and his officials for being here this evening and for giving us the opening remarks.

I just want to ask you, could you repeat the last couple of sentences where you said the amount of debt that could be carried, how much they could carry, and that's why the 6 million?

Hon. Mr. Hutchinson: — Thank you for the question, Mr. Chair. The last two bullets are as follows. At this point in time, SGC's capital requirement for 2009 is \$24.3 million. Now \$18.3 million of that amount can be internally generated, and \$6 million is the borrowing requirement. Thus it is this \$6 million figure that we're chatting about this evening.

Ms. Higgins: — So in total, what is the capital requirement to be used for?

Mr. Coppola: — The casinos are both under renovation at the present time and \$12.3 million of that is for the renovations. Two million is for ongoing capital at the Gaming Corp and 10 million is for equity that is going to be repaid to CIC. And the total of that is 24.3.

Ms. Higgins: — I'm a little bit curious as to why the payback to CIC over the four-year period and the money that was advanced that the minister referred to. If you could give me a little bit of an explanation.

Mr. Coppola: — The debt/equity structure of the organization is set at 50 per cent by CIC. This enables us to repay the equity to CIC. So this repayment will enable us to keep the debt/equity ratio at 50 per cent.

Ms. Higgins: — So do you have more of a detailed breakdown as to what the capital requirements are? And for what time period are we looking at?

Mr. Coppola: — Yes, I do. The payments to CIC for 2009, as I mentioned, is 10 million. For 2010 it will be 4.2; 2011, 6.2; 2012, 9.4. And those are all millions.

Ms. Higgins: — And these are all payments to CIC?

Mr. Coppola: — Correct.

Ms. Higgins: — And then the \$6 million, where does it fit in, that's being borrowed?

Mr. Coppola: — The payment to CIC for 2009 will be 10 million. We can generate part of those funds internally and we need to borrow 6 million for the remainder.

Ms. Higgins: — When I look at the annual report and the consolidated statements of operations, it gives the nine months ending December 31st, '08 and 12 months ending March 31st, '08, so we're a little bit offset, I would assume for the new structure, and reporting periods. But you've got 43.7 million for end of March 31st, '08 and 38.3 for the end of December. So when you're looking at 12 months as compared to nine months, I would almost, I mean guessing here, that the outlook for this year is increased revenues?

Mr. Coppola: — That is correct. Revenues will increase in '09. We anticipate that '09 revenues will be approximately 4 per cent over '08 revenues.

Ms. Higgins: — When you look at the consolidated statement again, there's a payment to the General Revenue Fund of 19.151 million and it's under note 1, so that is the payments that would go to the First Nations Fund, just the requirements of the gaming agreement is my understanding. Is that accurate?

Mr. Coppola: — That's correct. That would go to the Community Initiatives Fund, the First Nations Trust, and Métis Development Fund.

Ms. Higgins: — So it's just the two, the Métis Development

and the First Nations Trust?

Mr. Coppola: — Correct.

Ms. Higgins: — And then when we go down to the consolidated statement of retained earnings, we have 50 per cent, of course, that went into the GRF for the First Nations Fund and Métis Development Fund. And then we have the dividends that come out to the GRF, and this is money paid to . . . dividends to CIC or dividends to GRF?

Mr. Coppola: — Previously as a Treasury Board Crown, those proceeds would go to the GRF. Now that we are a CIC Crown, those dividends get paid to CIC.

Ms. Higgins: — So because this is from the statement ending December 31st, '08, and you said they flipped to a CIC Crown in April of that year, March?

A Member: — March 31st.

Ms. Higgins: — March 31st?

Mr. Coppola: — Yes.

Ms. Higgins: — So then the 15 would've been paid to CIC or GRF?

Mr. Coppola: — To CIC.

Ms. Higgins: — CIC. So then the dividends are on top of the \$10 million payment?

Mr. Coppola: — The 10 million is correct. That's 2009.

Ms. Higgins: — So when you're looking at capital requirements in the casinos, what exactly is the work being done?

Mr. Coppola: — The property has not been renovated for quite some time. The work consists of replacement of all the carpets throughout the property. The Last Spike restaurant has been renovated and refreshed. The coffee shop, the Whistle Stop, has been renovated as well. All of the wall decor has been changed. The Show Lounge crush space has been renovated as well — new carpeting and new wall coverings also.

And then we've done some office arrangements in the second floor of the CNCP [Canadian National and Canadian Pacific] building. That's space that was previously leased to Allstream. We received that space back from Allstream on January 1st and we've converted that to office space. We've also replaced all of the chairs in the restaurant and on the gaming floor. We're in the process of completion on the gaming floor.

In Moose Jaw we've expanded the building out toward the lane, which is on the right side of the property when you're facing it. That enabled us to expand food and beverage service in Casino Moose Jaw. That was a long-standing concern from customers. The carpets again are being replaced in Moose Jaw, the chairs as well. And we've built office space on the second floor which was previously the mezzanine. There are now some offices and a boardroom in that space.

Ms. Higgins: — So are the renovations complete in both locations or ongoing?

Mr. Coppola: — No, the renovations are not complete. In Regina we've been doing it in stages and that has enabled us to continue business. So I believe we're on phase 16 of about 23 phases.

Ms. Higgins: — So have all of the phases been tendered?

Mr. Coppola: — Pardon?

Ms. Higgins: — Have all of the phases of renovation been tendered?

Mr. Coppola: — The project itself was tendered both in Regina and in Moose Jaw, but the phases themselves, the phases are just the way that we're managing the project.

Ms. Higgins: — Is there any structural changes that are being done other than, I mean basically what you've described is kind of a renovation, a facelift. Is there any structural changes that are being looked at for the Regina casino?

Mr. Coppola: — Not in Regina.

Ms. Higgins: — No. Is there any accommodation for the possibility of a domed stadium being built to the northwest of the casino?

Mr. Coppola: — There have been no accommodations for that. The structure of the Regina facility has not been changed.

Ms. Higgins: — Okay. Thank you.

The Chair: — If I could interject, I believe the minister had a comment. But I would like to remind committee members that we want to keep most of our comments and questions related to this amount. And I think that we're still within that bounds, but I just remind the members that. If the minister had a comment, please go ahead.

Hon. Mr. Hutchinson: — Well thank you, Mr. Chair. No, I certainly agree with your undertaking there.

Ms. Higgins: — Thank you very much for the clarification, Mr. Chair. But just a comment that if there's fairly extensive renovations going on, the question would be I think quite relevant as to the \$6 million, plus the 6 million that has to be borrowed and what exactly we're accommodating, whether it's major full-scale renovations to accommodate some other facility, whether it's internal and facelift.

So I'm trying to stay within the bounds that you've laid out, even though the Premier said in question period that we could ask detailed questions in estimates. So I'll try and keep within your bounds.

Mr. Speaker, I'll see if my colleague has a few questions.

[19:30]

The Chair: — Mr. Yates.

Mr. Yates: — Thank you very much, Mr. Chair. I have a number of questions regarding the repayment schedule. When the original 29.8 million was paid by CIC, at that time was the repayment schedule put in place for 10 million in 2009? Or has that been amended recently?

Mr. Coppola: — Mr. Chair, the repayment schedule itself was not worked out at the time. We did receive instructions from CIC that they expected repayment. That schedule was worked out later through the budgeting process.

Mr. Yates: — Thank you very much. So in 2008, the 2009 payment would have been set at \$10 million?

Mr. Coppola: — That is correct.

Mr. Yates: — Thank you very much. Why the flexibility between the repayment schedule in 2009, '10, '11, and '12? The differences.

Mr. Coppola: — I'm sorry. Could you repeat the question?

Mr. Yates: — Why the differences in the amount being paid in 2009, '10, '11, and '12? Is there any particular reason for the fluctuation in the amount paid annually?

Mr. Coppola: — No. I think the schedule was worked out based on our capacity to repay over that four-year period.

Mr. Yates: — All right. Thank you very much. Debt to equity ratio is established at 50 per cent. We're seeing this year a \$10 million payment with a \$6 million increase in debt. Is it the corporation's expectation, from direction from CIC, that it will remain at 50 per cent in outgoing years?

Mr. Coppola: — At the moment that is our understanding. But those discussions can occur at any time and that number can be revised by CIC.

Mr. Yates: — Thank you very much. On top of the repayment here, is there any expectation of an annual payment to CIC on top of that?

Mr. Coppola: — Yes, there is. We will pay a dividend to CIC as well. So previously our dividend went to the GRF. Now our dividend goes to CIC.

Mr. Yates: — Thank you very much. Did those dividend ratios change at all in the transfer from a Treasury Board Crown to a CIC Crown?

Mr. Coppola: — Slightly. We now have the capacity to retain earnings as a CIC Crown.

Mr. Yates: — Thank you very much. So on top of the dividend, the repayment schedule sees the 29.8 million paid back over the four-year period. Are there any other avenues in which you have to pay money to CIC other than the dividend and the repayment of this debt?

Mr. Coppola: — No.

Mr. Yates: — Thank you very much. And no special dividends

requested or anything in this fiscal year?

Mr. Coppola: — There are no additional requests in this calendar year.

Mr. Yates: — Thank you. The 50 per cent ratio that has been established for debt to equity, is that firm for the foreseeable future or is that negotiated annually and can change annually?

Mr. Coppola: — It is 50 per cent for the near term, but that can be renegotiated in discussions with CIC. So they may open the issue for discussion at some point in the future.

Mr. Yates: — Thank you. For a corporation such as the Gaming Corporation, is the 50 per cent debt to equity ratio appropriate based on norms within the market — other casinos?

Mr. Coppola: — I can't comment on other casinos. It seems appropriate in our environment. We have stable earnings. We have stable profitability as well. So 50 per cent is a reasonable number. The corporation is able to carry 50 per cent debt.

Mr. Yates: — Thank you. Do you have any forecasts of what the amount of borrowing will be required in outer years, say 2010, '11, and '12?

Mr. Coppola: — Yes, I do: 2010, 7 million; 2011, 3 million. And I don't have anything for years further than that.

Mr. Yates: — Thank you very much. And the forecast for borrowing in outer years is to accommodate both capital expenditures and the repayment to the original debt?

Mr. Coppola: — That is correct.

Mr. Yates: — Thank you. I have no further questions at this time.

The Chair: — Mr. Belanger.

Mr. Belanger: — Thank you very much, Mr. Chair. Just a couple of questions on the manner in which you're paying back the increased cost. You mentioned the fact that you're looking at the profit increase of 4 per cent. Correct me if I'm wrong, but where is the increase coming from in order to sustain your current debt obligations and of course your dividend payment to CIC?

Mr. Coppola: — The 4 per cent that I mentioned earlier was the 4 per cent increase in revenues over 2008. So we anticipate that 2009 revenues will close approximately 4 per cent above 2008. Our net income for 2008, we anticipate to come in — I'm sorry, for 2009 — we anticipate to come in at about 48.3 million and for 2010 at about 50 million.

Mr. Belanger: — Now in terms of the profit, because obviously changing the, you know, some of the scenery on the walls and changing the chairs doesn't seem to be an expensive proposition, but how is that going to increase your profits to be able to sustain payment of the \$6 million? Are you increasing the number of seats? How are you going to increase your profits by 4 per cent?

Mr. Coppola: — We've experienced continued growth since the casino was opened. Our growth rate has started to decrease starting late last year, but it continues to increase. So we have revenue growth.

Mr. Belanger: — So it's not as if you're adding more machines or adding more chairs to certain gambling venues; it's just the natural growth of more customers or people spending more.

Mr. Coppola: — That is correct. We are not adding slot machines. We are not adding chairs. We are replacing those items. And yes that's correct, it is growth and revenues through increased visitation and increased spend.

Mr. Belanger: — All right. So based on this fact, when you say you see the trend grow by 4 per cent, now I'm just curious, do you see that growth rate continue on in the future? Do you project three to five years? Because it seems to be a bit optimistic in terms of the growth here. Do you see that type of growth continue to sustain the operations?

Mr. Coppola: — I believe that we've hit the top of our growth curve. While there will be growth, it will be at decreasing rates going into the future.

Mr. Belanger: — And I guess my point being that this particular CIC department, I guess if I can use for a lack of a better word, that you don't see any future growth in revenues, so sustaining further debt in further years would be a challenge for this CIC Crown?

Mr. Coppola: — I think if the revenues capped at where we are currently, the organization would continue to remain profitable and continue to generate 45 to \$50 million net income per year, which would enable us to sustain debt.

Mr. Belanger: — But the question is that you don't see the out years as a continual 4 per cent increase in your revenues?

Mr. Coppola: — That is correct.

Mr. Belanger: — Okay. Now when they'd done this shift between it being a Treasury Board Crown and then turning it to a CIC Crown, what was the logic behind making this change? Because the money that you're trying to ask for today, what was the logic behind doing that? And you mentioned retained earnings which is something that I am assuming the Treasury Board Crown couldn't do, but you're allowed under a CIC Crown. Is that correct?

Mr. Coppola: — That is correct. But it was not the motivation for the conversion from a Treasury Board Crown to a CIC Crown. I believe the motivation was that as an organization, SGC looks and behaves more like the other commercial Crowns that are under CICs purview, and as a result they believed that the governance of Sask Gaming Corporation would be better served as a CIC Crown.

Mr. Belanger: — Okay now, when I look at some of the dollars you spoke of earlier and I do the quick calculation . . . And you'll have to forgive me; I'm just a hockey player dabbling in politics here. But when I looked at the amount of money you're paying back in '08-09 to 2011 and '12 — 10

million, 4.2 million, 6.2 million, 9.4 million — and those four-year time frames, it comes to 29.8 million. And you're asking to borrow 24.3. Is that the correct scenario?

Mr. Coppola: — No, the borrowing is 16 — 6 in 2009, 7 in 2010, and 3 in 2011. So that's a total of 16. And the remainder of the 29.8 would be from internally generated funds.

Mr. Belanger: — So when you say internally generated funds, could you explain that a bit for me?

Mr. Coppola: — We're a profitable organization with a net income of approximately \$50 million per year. So that enables us to fund our own capital requirements and to repay equity and to pay dividends to CIC and make payments to the GRF.

Mr. Belanger: — You know, the Sask Gaming Corporation itself, when you mention that, at the outset you talked about funds to the Métis Development Fund. What is that amount each year? Does it come directly from Sask Gaming Corporation or does it go through a different process?

Mr. Coppola: — It goes through a different process. We make a lump sum payment, well actually quarterly payments to the GRF. And then there's another process for disposition of those funds, and I'm not aware of it. I couldn't speak to that.

Mr. Belanger: — The reason why I'm asking is that, obviously when you look at the Métis Development Fund as an example . . . Because I was assuming that the 6 million that's being borrowed today would have some effect, a net effect or positive effect on the Métis Development Fund. But when they consider a request for increasing their grant, so to speak — I think they receive 2 million a year if I'm not mistaken — do they go to the Gaming Corporation and to you as a minister? Or do they go to a separate process to lobby for the change in the revenue sharing scheme?

Mr. Coppola: — They do not come to SGC. The disposition of our net income, we have instructions on how that's done, and that is in accordance with the gaming corporations Act. How those funds are dealt with once they are received by the GRF is a separate process and SGC does not participate in that. Requests do not come to us from the Métis Development Fund, nor do we fill requests or commitments with the proceeds that we do send to the GRF.

Mr. Belanger: — This \$6 million request tonight has no net effect or bearing on the Métis Development Fund. It's primarily for SGC's purposes.

Mr. Coppola: — That is correct. I think what the 6 million loan enables us to do is meet the total commitment for 24.3. Absent the 6, we would not be able to meet the capital requirement of 24.3. We would be 6 million short. So the 6 million enables us to get 24.3, and then I've spoken to how that 24.3 was spent during 2009.

Mr. Belanger: — Okay. Now I just wanted to go back a bit to the actual net effect or the needs. You mentioned that 12 million was renovations, 2 million was ongoing costs, and another 10 million was meant for equity. Like the \$12 million again for the improvements you mentioned — is that correct?

This figure's correct?

Mr. Coppola: — That is correct; 12.3 was for the renovations.

Mr. Belanger: — Okay. Now I'm just curious, and I don't want to sound like a jerk here, but \$12 million to replace carpets and chairs, it seems to be a bit rich. Does it cost that much to do some of those things?

[19:45]

Mr. Coppola: — That's a very prudent number, the 12.3. There is a lot of carpet. We have a huge building. We probably have upwards of 2,500 chairs in the building. A slot chair is approximately \$1,000 a chair.

Mr. Belanger: — And these renovations are taking place in Moose Jaw, Casino Regina, and where else? Is there any other place?

Mr. Coppola: — The renovations consist of the gaming floor, the food and beverage facilities, and office space as well.

Mr. Belanger: — Would you or could you break down, basically — I don't care if you use round ballpark numbers and different areas — as an example, you'd spend X amount on chair replacement, X amount on the wall, X amount on structural, even if it's all lumped together, the different facilities and the office building as well.

Mr. Coppola: — I don't have that breakdown. I'm guessing that 80 per cent of it went to the gaming floor itself and 20 per cent to the ancillary.

Mr. Belanger: — Okay. So again going back to your 4 per cent profit increase, is it primarily because you anticipate the increased visitation? You're not turning down, as an example, slot payouts or you're not increasing fees for some of the people that go there? That kind of language often exists in the gaming world, so to speak.

Mr. Coppola: — It does, but it's a myth. Pricing has been stable since the casino has opened. It has not changed.

Mr. Belanger: — When you mention pricing, you're talking about the payout schedule and so on.

Mr. Coppola: — That's correct.

Mr. Belanger: — Okay. It's actually good news and bad news because sometimes I frequent that place.

I was going to ask the other question about the retained earnings as a CIC Crown. Is there a certain amount that you're allowed to retain and then any money above and beyond this that you have to turn back to CIC? Is there a level that you're allowed to keep, you know, within your Crown?

Mr. Coppola: — The current decision rule is 50 per cent of the net income gets paid to the GRF. And of the remaining 50 per cent, 80 per cent of that gets paid to CIC as a dividend, and the remainder is retained by the Saskatchewan Gaming Corp.

Mr. Belanger: — So on the 50 million, you're saying 25 goes to the GRF, 23 would go into CIC, and 2 would be into the retained earnings, approximately.

Mr. Coppola: — Yes, approximately. That sounds reasonable.

Mr. Belanger: — Okay. Now the other question I have is that of the \$2 million that you're allowed to retain within Sask. Gaming Corp. You know, year one you put 2 million. Year two you put another 2; and in year three, another 2. All of a sudden you're up to 6 million. Like, is there a ceiling? Like after 10 years, you've got 20 million in there where you're not allowed to retain any more earnings?

Mr. Coppola: — No. At present there is no ceiling. That decision rule could be revisited next year or two years out, depending on how the organization is performing against its budget and anticipated budgets.

Mr. Belanger: — All right, and that is something that is consistent with the . . . And I'm trying to make the connection here with the Métis Development Fund because I think the same rules apply with them, that they get X amount of dollars each year and they're allowed to save it. And as their savings build, of course they have to lend some of it out, that over a period of a number of years you can have a fairly hefty balance there.

And I'm just wondering that, given the fact that you do have an increase borrowing, you have to pay dividends, that at the end that we're not stripping equity from the Sask Gaming Corporation, that it continues to be a healthy, viable operation. That was my point.

Mr. Coppola: — Yes, it is healthy and it is viable. And the equity, the current equity structure, I believe, is appropriate as well.

Mr. Belanger: — You don't have any retained earnings now, as we speak?

Mr. Coppola: — At December 2008, the retained earnings were 3.8 million.

Mr. Belanger: — So I'm assuming that these are retained earnings for the past two fiscal years.

Mr. Coppola: — That would've been retained earnings to that date. As a Treasury Board Crown we were not, we did not retain earnings. We paid all our earnings out to the GRF.

Mr. Belanger: — So that 3.8 is for a period of what time, like how many?

Mr. Coppola: — That would be the nine months in 2008. We reverted to a CIC Crown effective April 1st, was the transition date.

Mr. Belanger: — So nine months based on your formula of 25 — oh sorry, 50: 48 and 2 per cent — in terms of where your payments go, you accumulated \$3.8 million in nine months as retained earnings?

Mr. Coppola: — Yes, and that would be about 10 per cent of the 38 million.

Mr. Belanger: — All right. Okay. That's all the questions I have. I'm not sure if my other colleagues have questions.

The Chair: — Ms. Higgins.

Ms. Higgins: — Just a question. I'm still a little puzzled as to why you would have the obligation to CIC of the 29.8 million.

Mr. Coppola: — At the time that CIC assumed responsibility for the Saskatchewan Gaming Corp, Saskatchewan Gaming Corp owed the GRF 29.8 million. What ended up happening was, CIC advanced those funds to the GRF, and then effectively they advanced equity to the Gaming Corp in that transaction.

Ms. Higgins: — Okay. Thank you very much. No, go ahead.

Mr. Coppola: — If I may, I'd like to correct myself on a statement I made earlier. There has been some structural change to the building. The roofing structure that was above the restaurant on the east side of our building was prone to leakage and it is being replaced. So that is a structural change.

Ms. Higgins: — Thank you very much. So the dividend payment at the end of December in 2008, the 15.3 million, that was just a flat dividend to CIC? It didn't include any of the \$29.8 million?

Mr. Coppola: — Yes, that 15 is the 80 per cent of 19.2 million.

Ms. Higgins: — So in your financial deliberations or discussions with CIC, was there any consideration or was there a request to CIC from SGC for any accommodation on adjustment of dividends or payments to accommodate the need for SGC and your capital requirements that you have within the operation for this year to take a bit of the stress off so you weren't borrowing money for payback and capital needs?

Mr. Coppola: — I think the discussions were along the lines that the debt equity ratio was 50 per cent. As a Treasury Board Crown, CIC believed that that was a reasonable debt/equity ratio for the organization going forward. And after that we presented our budgets to CIC, in terms of our capital requirements going forward. And the rest is just math in terms of how much you need to borrow to maintain that debt/equity ratio.

Ms. Higgins: — Okay. So in other words, SGC could afford to borrow and that your debt ratio was at an acceptable level and CIC would rather have the cash. I guess the concern is that we have seen in a number of these estimates and at this mid-term financial report that there has been a fair bit of debt that has been added to, whether the Municipal Financing Corporation, now we see SGC come forward borrowing money for what we would consider just normal operations. And we see debt also piling up in the Crown corporations when the government has taken 1 billion out.

I know that many people feel we should have just shoed these estimates right through without asking questions. But I do appreciate the time you've taken because it's important, and

this is somewhat limited answers that we will get for the people of Saskatchewan that will explain the deficit that we are now finding ourselves in.

Do you expect to see borrowing over the next couple of years, or do you feel that this is a kind of a one-time . . . Or I guess it's not a one-time, it would be a regular occurrence in the type of business that you're in to have to do, have capital requirements that aren't cheap by any means. But do you expect that 09-10 you've got 4.2; '10-11, 6.2 and 9.4 that have to be repaid to CIC? Are you expecting to have to borrow for any of those in the out years? Or is that 6, 7, and 3 for borrowing or for other purposes? Borrowing to pay off debt? Or borrowing . . . I don't know how to explain this right.

Mr. Coppola: — No, fair enough. I think, in terms of an alternative to come at this, I think what we need to look at is what does the organization need on an annual basis for its capital. And that includes the ongoing capital requirements as assets wear out. For instance the renovations themselves, it's a worn-out asset. Then we need to, in this instance, repay this equity.

So there's one-time capital expenditures such as renovation. There's ongoing capital expenditures such as things break or they need to be replaced or software gets its end-of-service life. So in total we look at that number, and then we take a look at how much is generated from inside the organization enabling us to pay that total bill. And that tells us how much we need to go to the markets to borrow.

In terms of future years, capital in future years, capital expenditures, I believe that five years, probably 2015-2016, we will be renovating the property again, likely to the tune of 15 to \$20 million or more. So that will drive additional capital requirements in those out years and perhaps additional borrowing. We do not have forecast numbers that far out.

Ms. Higgins: — I guess when we look at the numbers and just kind of the general conversation we've had, I have I guess, what raises a few alarm bells for me is that you're having to borrow to pay back equity to CIC but also for basic requirements of just the operation of business. And that you're not able to establish some type of a fund that will do you and be able to do some forward planning in. Is that anything you . . . I know before when you were Treasury Board Crown and any profit came into the GRF, so would you have borrowed then at that time to do any type of capital renovations?

Mr. Coppola: — The organization has borrowed in the past. It borrowed when the casinos were originally built. It borrowed when the Show Lounge was constructed. So in the past we have borrowed and we borrowed in the commercial markets.

Ms. Higgins: — Okay.

The Chair: — Minister.

Hon. Mr. Hutchinson: — I might be able to offer a comment that would be of some help. But we have background. There are ongoing costs, which we might look at as maintenance and operating costs, M&O as it's often called in property and management. Those requirements are at least reasonably

predictable. What's much more difficult to predict, and what sometimes comes along in big chunks, is the need to carry out significant renovations.

There are two reasons that these sorts of decisions, these kinds of investments are inescapable in a casino operation. One is with something . . . If I remember the figures correctly, there are over 2 million visitors a year to the Regina property alone. That takes an incredible toll on finishes. As I was mentioning to somebody, just imagine if 2 million people came into your living room each year, it wouldn't take long before you had to throw everything out in the way of finishes and redo it. It's the same for this property. No matter what the quality is, they can't withstand that kind of use indefinitely.

The other thing which is common to properties of this kind everywhere, I'm told, is the need to refresh the look, the image, the gaming experience. This property is in keen competition with a number of others. In order to maintain that market share, protect the value of the investment, make sure that you keep customers coming in, you have to offer them, on a reasonably ongoing basis, some different stuff to see and do.

Those are the two primary drivers as I understand them: the need to replace things which wear, and with 2 million visitors a year that's inescapable, that takes a terrific toll; and also to provide a different kind of an experience to keep customers coming back in the future.

[20:00]

The Chair: — Mr. Nilson.

Mr. Nilson: — Thank you, Mr. Chair. In the normal course, this kind of borrowing would not be a supplementary estimate. Is that correct? Or maybe I can ask it this way: when was the decision made to borrow this extra money? It obviously had to be after June when the overall budget for the province was approved, and so that normally you wouldn't see this in the supplementary estimates.

Mr. Coppola: — I can't comment on the timing of the provincial budget. Our budget cycle, we're at the end of it currently, so our budget cycle ends about the middle of November, so we'll be presenting it to CIC the first week of December. So they'll be making their decisions in terms . . . Or CIC will be making their decisions. So I don't know how that links to the supplementary estimates.

Hon. Mr. Hutchinson: — Thank you, Mr. Chair. The other comment that I would like to make that might clarify a little bit is that with the change from a Treasury Board Crown to a CIC Crown, the year-end also changes. A lot of upheaval obviously, as you are aware, but that changes reporting times, and the times at which you would understand what your needs are will be different than they were before. It's a new financial environment operating on a different calendar basis.

Mr. Nilson: — Okay then. Then my question is, the new year-end for the Gaming Corporation is December 31st or November 30 . . . December 31st. So is this money that's being borrowed here, the 6 million, is that for use in the year 2009 for the Gaming Corporation or is it for use in the first three months

of 2010, which is the end of the government budget cycle?

Mr. Coppola: — It's for use in our '09 calendar year.

Mr. Nilson: — Okay. So then as we go forward, and some of these other borrowing requirements that you have indicated on an ongoing basis, the 2010 borrowing will actually show up in the budget that we'll see here in the legislature next March. Would that be correct?

Mr. Coppola: — That seems reasonable. I don't know for certain.

Mr. Nilson: — So practically this money is needed because it's just about already spent. And so this borrowing is for in the year 2009 and so that's why the estimate's there. And I mean I guess my question goes to, well when were all the decisions made around the budgets for the Gaming Corporation, if in fact the new operation came into effect in last year's budget? Or was it delayed that much that it wasn't decided until June or July? I'm not sure if the minister can answer that one or maybe we should get the Finance minister back.

Mr. Coppola: — I can comment on our budget cycle. Our 2008 budget cycle was extremely difficult because of the conversion. I think we did our budget three or four times. But following that, the March-April window, then we did our 2009 budget later on in the year, in the third quarter for presentation to CIC in December of '08, and we've just completed our budget cycle for 2010, which will be presented in early December to CIC.

Mr. Nilson: — Well I mean obviously this shows up here. My assumption is that it will never show up again in supplementary estimates unless there's some dramatic change in the borrowing requirements during the year of the Gaming Corporation. And so that's my question. Normally supplementary estimates are something extraordinary has happened during the year. It appears that the answer is that it's this transition that forced this borrowing to be shown this way as opposed to in the original budget. Would that be an accurate estimation?

Hon. Mr. Hutchinson: — Perhaps I can provide a general comment, and then Mr. Coppola might be able to provide a technical answer that will fill out the details.

If I understand correctly, what the member's suggesting is, is he right in assuming that this ought to be a one-time . . . [inaudible] . . . based on all of the problems normally associated with the changing year-end? Year-end is an enormous undertaking on an ongoing basis. When you change the year-end I think the controller would be . . . Oh, she's not actually smiling right now but she might in a year or two. I think she'll be able to look back at the change in the year-end and say, that was the year we probably wouldn't want to go through again. It's a huge, huge assignment to take on.

And I think what you're saying, sir, is that you're wondering if you're correct in assuming that any unpredictability that would lead to these discussions coming up at supplementary estimates time would likely be more predictable as all of the kinks get ironed out, etc., in coming years. Witness the fact that we have been able to put together some anticipative borrowing requirements in the years to come.

Mr. Nilson: — Then I guess my question is, those anticipated borrowing requirements will always show up in the main budget and would be unlikely to show up again in the supplementary estimates. Is that correct?

Mr. Coppola: — I believe that's correct, yes.

Mr. Nilson: — I have no further questions.

The Chair: — Ms. Higgins.

Ms. Higgins: — Now part of this is you said that the '08-09 repayment to CIC was \$10 million, so that out of the 24 million, 24.3, 18.3 was internally generated and you were borrowing 6. But that's '08-09, and we're now in '09-10 budget cycle. Now maybe I wasn't listening as closely as I should've, but I thought that part of this was to make the \$10 million payment to CIC.

Mr. Coppola: — The province is on a fiscal year ending March. We are in a calendar year ending December, so the 6 million loan and the 10 million repayment is in our '09 calendar year, but it would be in the province's fiscal year.

Ms. Higgins: — Okay. That's it for me. Thank you very much.

The Chair: — I'd again like to clarify: would we like to adjourn or . . . adjourn consideration of the Saskatchewan Gaming Corporation, vote 139. With that I would like to thank the minister and his officials for spending time and answering our questions tonight. Ms. Higgins.

Ms. Higgins: — Mr. Chair, I would just like to thank the minister and his officials also for being here this evening and answering our questions that maybe weren't as direct as they could've been. We do appreciate the time you put in, and the effort. Thank you very much.

The Chair: — Thank you. I would now entertain an adjournment motion. Mr. Allchurch has moved an adjournment motion. Is it the pleasure of the Assembly to adopt the motion?

Some Hon. Members: — Agreed.

The Chair: — Agreed. This committee now stands adjourned.

[The committee adjourned at 20:09.]