



Premier of Saskatchewan
1001 - 10th Avenue
Saskatoon, Saskatchewan S4N 0A3



CCA 71-28
Tabled by Chair (Cox)
Date May 7, 2018

June 20, 2018

The Right Honourable Justin Trudeau, P.C., M.P.
Prime Minister of Canada
Langevin Block
80 Wellington Street
OTTAWA ON K1A 0A2

Dear Prime Minister Trudeau:

I am writing to propose a simple change to the equalization formula that would make equalization fairer for all provinces.

I call it the 50-50 Formula. Under this formula, the overall amount of equalization and relative fiscal capacity of each province would continue to be calculated in the same manner it is now, using the same revenue sources. Half of the total equalization pool would be distributed on this basis.

The other half would be distributed on a per capita basis, based on the population of each province relative to the other provinces. This would ensure that all provinces receive some amount of funding from the equalization program, while continuing to ensure the "have not" provinces continue to receive significantly more relative to their size, based on their relative fiscal capacity.

As you know, the economies and finances of Saskatchewan, Alberta and Newfoundland and Labrador have been hardest hit by lower oil prices and a downturn in the natural resources sector over the past few years. Yet during that time, those provinces continued to receive zero equalization, while the overall equalization pool and payments to other provinces continued to grow.

Because of this, Saskatchewan residents believe there is an inherent unfairness in this program. I expect this may also be true in Alberta and in Newfoundland and Labrador. The 50-50 Formula would address this by ensuring every province receives a base amount from equalization based on its population, while at the same time continuing to ensure that some provinces receive significantly more, based on their fiscal capacity.

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I would note that under this proposal, the benefit to Saskatchewan remains quite small. Saskatchewan would still only receive about 1.6 per cent of the overall equalization amount. As Saskatchewan has not received one dollar of the \$177 billion in equalization paid out over the past 11 years and is not expected to receive any equalization payments for the foreseeable future under the current formula, I would contend that this proposal is more than reasonable in terms of its benefit to my province.

Below is a table of how 2018-19 equalization payments would have been distributed using the 50-50 Formula.

Province	Fiscal capacity amount	Per capita amount	Total under 50-50 Formula	Current equalization amount (2018-19)	Difference
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Newfoundland	0	140	140	0	140
PEI	209	39	248	419	-171
Nova Scotia	966	250	1217	1933	-716
New Brunswick	937	200	1137	1874	-737
Quebec	5866	2189	8055	11732	-3677
Ontario	482	3663	4144	963	3181
Manitoba	1019	344	1363	2037	-674
Saskatchewan	0	301	301	0	301
Alberta	0	1107	1107	0	1107
BC	0	1246	1246	0	1246
Total	9479	9479	18958	18958	0

I have requested that a discussion about equalization be added to the agenda of the upcoming meeting of Canada's Premiers in July.

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The Right Honourable Justin Trudeau, P.C., M.P.
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Thank you for your consideration of this important matter.

Sincerely,



Scott Moe
Premier

cc Honourable Donna Harpauer
Minister of Finance

Kent Campbell
Interim Deputy Minister to the Premier and
Cabinet Secretary





Government
— of —
Saskatchewan

Minister of Finance
Legislative Building
Regina, Canada S4S 0B3

JUL 19 2018

The Honourable Bill Morneau, P.C., M.P.
Minister of Finance
Government of Canada
90 Elgin Street
OTTAWA ON K1A 0G5

Dear Minister Morneau:

I am writing to thank you for hosting the meeting of Federal-Provincial-Territorial Finance Ministers in Ottawa last month. I feel that our orders of government had a productive discussion on a number of important topics of great relevance to all Canadians.

As you will recall, during the roundtable discussion I raised on behalf of Saskatchewan some issues of particular concern. This letter is meant to follow up on those concerns and confirm our mutual understanding of next steps on each of the issues.

With respect to the federal Equalization program, Saskatchewan feels that some significant outstanding issues remain with the recent renewal of the program for 2019, and I would ask you to consider revisiting your government's decisions on a few important parameters of the program. First, the lack of responsiveness built into Equalization with the three-year rolling average and the two-year data lag is difficult to understand. This is illustrated by the commodity price downturn that significantly impacted budgets not only in Saskatchewan, but also in Alberta and Newfoundland and Labrador, with no Equalization support forthcoming while we have all struggled to maintain our public services.

Second, Saskatchewan has long been concerned with the Equalization treatment of hydroelectricity, which fails to adequately capture fiscal capacity in hydro-rich provinces, resulting in significant and ongoing over-equalizing of those provinces. This problem is exacerbated by the program's treatment of other natural resources, specifically through the Fiscal Capacity Cap and its resulting 100 per cent inclusion rate, which makes the natural resource base unnecessarily complex and overly penalizing to provinces with other (non-hydro) natural resources. Immediate and significant steps should be taken to restore fairness and consistency to the Equalization treatment of all natural resources.

Lastly, Saskatchewan questions the decision to maintain the Gross Domestic Product (GDP) growth escalator for Equalization, even in years such as 2018-19 when it acts as a floor payment instead of a ceiling, resulting in billions more in federal spending than is required to equalize have-not provinces.

It is for these reasons that Saskatchewan has recently suggested a simple change to the Equalization formula to make the program fairer for all Canadians, which we are referring to as our 50-50 proposal.

With respect to the federal proposal on the taxation of passive income, Saskatchewan is calling on the federal government to reconsider this change as announced in your 2018 Budget, due to its potential significant negative impacts on small businesses at a time when Canadian business competitiveness is of paramount importance. In particular, Saskatchewan is troubled by concerns raised by professional women (for example, doctors and veterinarians) who feel that they will be disproportionately impacted to the extent that they use passive income to help fund their maternity leaves.

If your Government is committed to proceeding with this passive income taxation change, however, Saskatchewan is requesting that you provide a mechanism to make your offer operational, whereby provinces would not be penalized for choosing to not adopt the federal tax change. A potential solution could be to create a third category of dividend income, to recognize situations where corporate tax has been paid at the federal general rate and the provincial small business rate, with a distinct dividend gross-up and tax credit rate. I invite further discussion of this issue, as it seems to me that the lack of an adequate mechanism to appropriately handle dividend income, makes the federal offer for provinces to opt out appear somewhat insincere. I would also seek your confirmation that Canada Revenue Agency will not apply administrative charges to those provinces choosing to not adopt the federal passive income taxation change.

Finally, with respect to pipelines, Saskatchewan strongly supports crude oil pipeline expansion projects to provide western Canadian crude oil producers increased access to new and expanded markets in the United States, Central and Eastern Canada, and overseas. Canada needs reliable solutions to get our products to market quickly and safely through both infrastructure (pipelines and ports) and effective regulation (rail and environmental). Saskatchewan believes that pipeline expansion is the safest and most efficient way to get our ethically produced, environmentally responsible oil to market. The failure to get federally-approved pipelines built is costing western Canadian provinces billions of dollars, which in turn is detrimental to our country as a whole.

Thank you for the opportunity to raise these issues of importance to Saskatchewan. I will look forward to your response, and to our continued federal-provincial co-operation in moving each of these issues toward an expeditious resolution.

Sincerely,



Donna Harpauer
Minister of Finance
Government of Saskatchewan

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Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

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MAH 20 2018

The Honourable Donna Harpauer, M.L.A.
Minister of Finance
Government of Saskatchewan
Legislative Building
Regina, SK S4S 0B3



Dear Minister Harpauer: *Donna,*

Thank you for your correspondence following up on the discussion of Equalization renewal at the Finance Ministers' Meeting this past December. Please excuse the delay in replying.

In your correspondence, you raised concerns about the treatment within the Equalization program of hydroelectricity and of natural resources more broadly, and the gross domestic product growth track. The issues you raised are fundamental to the functioning of the program and merit further analysis and consultation. For the 2019 renewal, the Government of Canada proposes to maintain the main program parameters, with technical changes to improve accuracy and efficiency. I will be reaching out to you and the other Finance Ministers to consult on priorities for the next renewal. To that end, I have noted your concerns.

I look forward to our continued discussion of these important issues in the context of the next renewal of Equalization.

I want to thank you again for taking the time to write to me and share your views.

Yours sincerely,

The Honourable Bill Morneau, P.C., M.P.

Canada



Government
of
Saskatchewan

Minister of Finance
Legislative Building
Regina, SK Canada S4S 0B3

JAN 29 2018

The Honourable Bill Morneau, P.C., M.P.
Minister of Finance
Government of Canada
90 Elgin Street
OTTAWA ON K1A 0G5

Dear Minister Morneau:

I enjoyed meeting you last month at our Finance Ministers' Meeting in Ottawa. Our orders of government were able to work together on important topics to achieve mutually agreeable outcomes. With respect to the renewal of Equalization; however, Saskatchewan feels that some significant outstanding issues remain, and I would ask you to revisit your decisions on a few important aspects in time for the program's renewal in 2019.

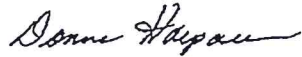
First, I was disappointed that the renewal package you presented at the meeting did not include a fix for the treatment of hydroelectricity within Equalization. As it stands now, provinces can effectively choose their own fiscal capacity for hydroelectricity by deciding the value of dividends they collect from their hydro-generating Government Business Enterprises. In this way, a provincial government's policy decisions can directly influence its Equalization payments, leading to artificially high Equalization payments for some provinces. This is a significant design flaw with the Equalization program. This renewal provided an excellent opportunity to ensure fiscal capacity from hydroelectricity was properly measured and we ask you to reconsider this issue before proceeding with revised legislation.

More generally, Saskatchewan continues to have concerns with the treatment of natural resources overall. The various inclusion rates, combined with the Fiscal Capacity Cap and the corresponding 100% inclusion rate, make the resource base unnecessarily complex. Moreover, it is nearly impossible for resource-producing provinces to qualify for Equalization, even in times of severely low commodity prices. It is absolutely critical for the federal government to redesign the program to adopt an appropriate, single, inclusion rate for natural resources that balances the need to recognize fiscal capacity from resources while not inhibiting a province's motivation to develop its resources.

Lastly, we are frustrated with the decision to maintain the Gross Domestic Product (GDP) Growth Escalator, even in years such as 2018-19 when it acts as a floor payment, and results in billions more federal spending than required to equalize have-not provinces. Saskatchewan has supported the GDP "Cap" as a positive mechanism to help constrain federal Equalization costs; however, we do not support the federal government's decision to use this mechanism as a way to provide additional funding to select provinces, particularly Ontario and Quebec.

I look forward to more debate and dialogue on Equalization. This is an important program; however, significant long-standing flaws in its design lead to it being criticized and mistrusted by many individuals in Saskatchewan and the rest of western Canada.

Sincerely,



Donna Harpauer
Minister of Finance