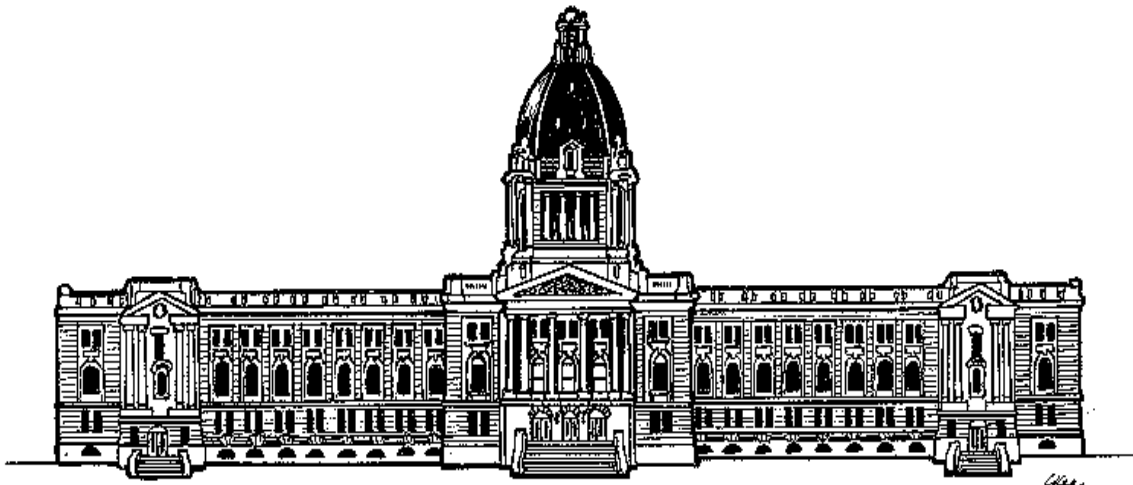




# **STANDING COMMITTEE ON ECONOMY**

## **Hansard Verbatim Report**

**No. 4 – May 12, 2004**



**Legislative Assembly of Saskatchewan**

**Twenty-fifth Legislature**

**STANDING COMMITTEE ON ECONOMY  
2004**

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Prince Albert Northcote

Mr. Lyle Stewart, Deputy Chair  
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Hon. Deb Higgins  
Moose Jaw Wakamow

Mr. D.F. (Yogi) Huyghebaert  
Wood River

Mr. Kevin Yates  
Regina Dewdney

The committee met at 15:00.

**The Chair:** — Good afternoon, ladies and gentlemen. If we could call the committee to order.

We have a number of items on the agenda today. The first item of business today is Bill No. 3, An Act to amend The Certified Management Consultants Act.

**Bill No. 3 — The Certified Management Consultants  
Amendment Act, 2004**

**Clause 1**

**The Chair:** — Is clause 1 agreed to? Mr. Krawetz.

**Mr. Krawetz:** — Thank you very much, Mr. Chair. And, as indicated, this afternoon we're going to deal with a number of Bills that have reached the committee level. And I want to clarify some of the clauses that are contained in the Bill, as well as some of the concerns that were raised through debate in second reading.

Mr. Minister, you indicated that the original Act has its anniversary date today. In fact it's May 12, 1998 when the original Act was assented to, and yet it has not been proclaimed. Could you indicate what difficulties your department or Justice has incurred in putting in place the regulations that are necessary to actually have this Act proclaimed?

**Hon. Mr. Van Mulligen:** — Thank you, Mr. Chair. Before I begin, I might introduce, seated beside me on my right is Ron Styles, the deputy minister of Finance, and seated on my left is Terry Paton, the Provincial Comptroller.

I want to thank the member for the question and in a general way clarify the legislative process not only here in Saskatchewan, but I venture to say in many jurisdictions.

We in the legislature might pass a piece of legislation, but that legislation provides a framework for other activities that then follow. In some cases it might be regulations; in other cases it might be bylaws. In this particular case the question is the bylaws for the organization, the certified management consultants.

Although we passed the Act a number of years ago, the process of going through the development of bylaws has been a time-consuming one in this particular case. I don't know if it's extraordinary. There may well have been other professional associations where the process of developing the bylaws or specific regulations has taken a considerable period of time. I don't know if it's taken long because they're consultants and they feel the need to consult widely. But might I ask Mr. Paton to just go through, review the history of the meetings that we've had on this particular Bill.

**Mr. Paton:** — Yes, Mr. Chair. We have been working closely with the certified management consultants over the last four years, and we've actually received four different drafts from the consultants during that time frame. I'll just quickly go through the dates when we received those and when we replied to them.

The first one was received in November 17, 1998, and that was responded to on November 23. Second edition of the bylaws came through on January 13, 1999; that was responded on February 8 of that same year. The next version or the third draft was May 25, 2001, and we responded June 18, 2001. And the fourth draft, and the final one that we did receive was actually February 21, 2003, and again was responded March 3. So in all circumstances we received them and replied to them on a fairly timely basis. It was during this process that it was determined that there were some amendments that actually should be made to the Act before it was proclaimed, and that's why we're bringing forward these amendments today.

**The Chair:** — Excuse me, Mr. Van Mulligen, Minister Van Mulligen, I didn't ask you to introduce your officials and that was an oversight on my part. So if you would do that now, we can proceed.

**Hon. Mr. Van Mulligen:** — For the record then, seated beside me on my right is Ron Styles, who's the deputy minister of Finance, and seated on my left is Terry Paton, who's the Provincial Comptroller.

**The Chair:** — Carry on.

**Mr. Krawetz:** — Thank you, Mr. Chair, and we now note that the officials have been introduced twice and we welcome them to our committee this afternoon.

Mr. Minister, through you to Mr. Paton, you have indicated that the last set of bylaws was received in February 2003. That's over a year ago. And you've identified that some of the concerns raised by that draft was indeed that there had to be some changes. With the passing of this Act, the amendment Act, will you expect that a new set of draft bylaws will have to be developed again and then reconsidered?

**Mr. Paton:** — Mr. Chair, I'd have to confirm that but I believe there could be minor amendments to those bylaws at this time. I think it would be a fairly short process at this point, because the amendments that we are making are primarily to be consistent, or to allow provisions within the bylaw. So I don't think this would be a delayed process.

**Mr. Krawetz:** — Therefore, Mr. Minister, when this Act obviously is passed, it will not be assented to until the other Act is actually proclaimed as well, is that my understanding?

**Hon. Mr. Van Mulligen:** — What we have is an Act which has not yet been proclaimed. What we are proposing is a Bill to amend that Act. I'm not sure about the proclamation date on that but Mr. Paton can give you the details on that but it comes into force on the day The Certified Management Consultants Act . . . The Act comes into force on the day on which The Certified Management Consultants Act comes into force.

**Mr. Krawetz:** — So therefore then, until those bylaws of that Act that was assented to in 1998 are ready and accepted as bylaws, this amendment . . . this Act that we amend, referred to as Bill No. 3, will not be in force and therefore both will be simultaneously accepted.

**Hon. Mr. Van Mulligen:** — As I understand it, that's correct.

**Mr. Krawetz:** — Good, thank you.

Mr. Minister, you've indicated that there were some changes that were brought to your attention as a result of the drafting of the bylaws. Could you indicate what concerns were raised by the management consulting group?

**Hon. Mr. Van Mulligen:** — I understand it, and I think I indicated during second readings, that during the process of finalizing its bylaws the institute which governs these certified management consultants indicated that it would like to recognize both internal and external management consulting experience for prospective members.

If the Act were proclaimed in its present forms, individuals who are providing internal versus external management consulting services would be legally prohibited from qualifying as prospective members. So what they want to do, in short, is to expand the Act to also include those who provide internal management consulting services.

And also an amendment is being made to permit the institute to grant certificates to members who have met the educational experience and other requirements set by the institute.

And finally there's a correction that's being made to section 49 to change the reference from the institute of certified management accountants of Saskatchewan inc. to the Institute of Certified Management Consultants of Saskatchewan Inc..

**Mr. Krawetz:** — Thank you, Mr. Minister. And we do recognize that obviously an error in typing in referring to the consultants as accountants and it needs to be changed.

Nowhere did I see in your second reading speech to the size of the current group of consultants in Saskatchewan. Could you indicate how large an organization this is and whether this is an organization that is province wide, and whether or not that organization has in place its own executive to ensure that it can fulfill the responsibilities that are being given to it by this Act?

**Hon. Mr. Van Mulligen:** — We're trying to find the number of members or the membership of the organization. The membership is governed by a board — the Saskatchewan Institute of Certified Management Consultants — and that is the structure that they have. They may have other associations that promote particular aims and purposes, but in terms of regulating their practice it would be done through an institute.

And I'm informed that certified management consultants number about 2,400 across Canada and Saskatchewan has approximately 55 members.

**Mr. Krawetz:** — So, Mr. Minister, will that group of 55 members have in place the board that you refer to? Is that composed of members that are part of that group of 55?

**Hon. Mr. Van Mulligen:** — Effective April 20, 2004 there were six members of the institute board, including a national representative who is not a voting member and a past president who is also not a voting member.

**Mr. Krawetz:** — One final question, Mr. Minister. One, in section 4 of the Bill, or clause 4, amending section 16, it refers to that "the council may grant certificates to members as proof of registration". When you refer to the council, are you referring to the board that we just discussed, or will there be another council established within the bylaws that you are talking about that will administer both Acts?

**Hon. Mr. Van Mulligen:** — The council means the council of the institute, and we'll try to get you further clarification on that. But I assume that it may well be that the board is indeed the council and the council is indeed the board.

**Mr. Krawetz:** — . . . question and through you to Mr. Paton. I'm sure that this is a technical question. When we're talking about granting of certificates, what is the purpose of that?

**Mr. Paton:** — Mr. Chair, the change that the management consultants have requested here is a move from licences to certificates. I think the issue they have is a licence is usually issued for a set period of time, whereas a certificate recognizes the accomplishments and responsibilities and capabilities of the member but exists for a longer period of time. So instead of having a renewable licence, it's actually a certificate recognizing the accomplishments of the member.

**Mr. Krawetz:** — Is it then understood that the 55 members will be asking if they want to have a certificate that indicates that they are members of the consulting management group and are, you know, bona fide consultants within the province of Saskatchewan under the auspices of this Act?

**Mr. Paton:** — It's my understanding that all those 55 members would become members under this Act.

**Mr. Krawetz:** — Would there be any concern about the education process or becoming members of this under this new Act, or will those things all fall into place because they currently are members?

**Mr. Paton:** — Again I believe they all currently are members and will qualify under the new Act. The bylaws would be stating the educational requirements for future members.

**Mr. Krawetz:** — That is the concern that I was wondering about, Mr. Paton, is as bylaws are developed . . . and as you've indicated you have had four drafts and you may have a fifth draft yet that you'll see before it becomes the bylaws of the association.

Are the members that are involved, the 55 members — obviously a committee must have been struck of those 55 members to help build this — will there be assurance that this is the wishes of the majority of the 55? Or will there be a concern that some member may feel that they're being, you know, left out and that rules may be put in place that require them to update their education or require them to change how they practice to be eligible members? Or indeed will we have something that is often referred to as grandfathering, whereby if in fact new standards are accepted or adopted by these bylaws that those people will not have to fear that they will be ineligible as members?

**Mr. Paton:** — Mr. Chair, the questions that the member is asking about are actually in the existing Act that's already been passed, so I don't have a lot of information on that. But section 13 of the current Act does outline the bylaw setting procedures and it indicates that the council, with the approval of not less than three-quarters of the members of the council, may make bylaws for any purpose set out in section 14.

And then section 14 does prescribe all of the bylaw making abilities of the council already.

**Mr. Krawetz:** — Thank you for clarifying that. I do not have a copy of the original, and I'm pleased that you have been able to confirm that those sections are in that and that obviously has been accepted by the 55 members.

**Hon. Mr. Van Mulligen:** — If I could just add to that, the council may make bylaws but the bylaw only has effect until the next annual or special meeting of the institute, and unless confirmed or varied by the members in accordance ceases to have any effect. So there is a provision here for any bylaws that are passed by the council to . . . in fact it has to be ratified at some point by the general membership.

**Mr. Krawetz:** — No further questions.

**The Chair:** — Thank you very much. Is clause 1 agreed?

**Some Hon. Members:** — Agreed.

Clause 1 agreed to.

Clauses 2 to 8 inclusive agreed to.

**The Chair:** — Her Majesty by and with the advice and consent of the Legislative Assembly of Saskatchewan enacts as follows: An Act to amend the Certified Management Consultant Act.

Minister, would you want to move the Bill without amendment, that the committee report the Bill or a member from . . .

**Mr. Yates:** — I move that we report the Bill without amendment.

**The Chair:** — It has been moved by Mr. Yates that the Bill be reported without amendment. Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — That's carried.

The committee agreed to report the Bill.

#### **Bill No. 4 — The Municipal Employees' Pension Amendment Act, 2004**

##### **Clause 1**

**The Chair:** — The next item before the committee is Bill No. 4, The Municipal Employees' Pension Amendment Act, 2004.

Mr. Van Mulligen, if you would introduce your officials.

**Hon. Mr. Van Mulligen:** — Thank you, Mr. Chair. Again seated to my right is Ron Styles, the deputy minister of Finance. And seated on my left is Brian Smith. He's the executive director of the Public Employees Benefits Agency.

**The Chair:** — And, Mr. Minister, we won't ask you to introduce either of these gentlemen again. I think once will be sufficient on this Bill.

Mr. Krawetz, we're entertaining a speakers order. And the first item is the Bill and clause no. 1. Is clause no. 1 agreed?

**Mr. Krawetz:** — Thank you, Mr. Chair. Bill No. 4, as indicated, is dealing with The Municipal Employees' Pension Act. I don't know, Mr. Smith — I welcome you, Mr. Smith, as well to help us get a better understanding of this Bill — how many people would currently be members of the municipal employees' plan and what categories would they represent? Would they represent a majority of municipalities or would there be a breakdown with school boards as well? Do you have that kind of information, Mr. Minister?

**Hon. Mr. Van Mulligen:** — Mr. Chair, at this point there are 752 active employers who are members of the plan or who participate in the plan. And there are 10,895 active members in the plan.

The active employers include cities, regional colleges, regional libraries, rural municipalities, school divisions and boards, towns, and villages.

**Mr. Krawetz:** — Thank you, Mr. Minister. In light of a fairly large group of employers, as you've indicated over 750, will this . . . Changes to this Act, will they impose any financial costs, additional financial costs on any of those employers?

**Hon. Mr. Van Mulligen:** — I understand that there is no additional cost and certainly there is no charge to the public purse of Saskatchewan. This is a plan, although it's set into legislation by the provincial government, in fact the contributors to this plan are people who are outside the government service.

**Mr. Krawetz:** — Thank you, Mr. Minister. Mr. Minister, then will there be a financial implication as we look at the changes that have been proposed regarding part-times to be treated as full-time for contributory service? Will that imply that there will be some financial cost to boards of education and municipal town councils or rural municipal councils? Will there not be some financial implication to them as employers?

**Hon. Mr. Van Mulligen:** — Maybe I'll let Mr. Smith deal with that. Certainly there are implications, but these are implications that they've analyzed and have dealt with and at the end of the day have chosen to recommend to us for change to their legislation.

**Mr. Smith:** — Mr. Chairman, the part-time employees in the school divisions working on an academic year are already contributing to the pension plan. The changes to the legislation are going to recognize their service in the calculation of their pension benefit. So they're already contributing to the plan and so we're not adding any new members to the plan. They are

already contributing.

**Mr. Krawetz:** — Okay. When you add these . . . For contributory service, these people are members of the plan. Will that have an impact on the solvency of the plan if 10-months people are now affected by the contributions that they make on that 10-month basis for pension purposes when they retire? Will that have any financial impact?

**Mr. Smith:** — No, Mr. Chair. The recognized other non-academic employees in the plan receive one year of service for every year of contribution. People working in the education sector, if they work 10 months of the year, receive one year of service and it has no impact on the financial stability of the plan.

**Mr. Krawetz:** — Thank you very much for clarifying that. Mr. Minister, do the changes to this Act affect the benefits that an employee will receive in the end when they have retired? Do any of these clauses actually have an effect on the benefits that a retiree may obtain?

**Mr. Smith:** — In terms of the employees who are working part-time in the school system they will receive, I believe increased benefits because we're going to treat them the same as the people who are working 10 months a year, receiving one year of service. People who are working part-time — for example, half-time — would receive half a year of service compared to . . . Before the amendment, if they were working six months of the year they would receive half of a year of service as a regular member would. If they're working six months of the year, they would now receive six-tenths of a year of service if they're working in the education system.

**Mr. Krawetz:** — Thank you, and I think I understand that. Mr. Minister, in the explanatory notes on this Bill you make reference to the fact that the changes to The Income Tax Act have necessitated some changes. Could you indicate for the record, you know, what changes the federal government has made that have necessitated changes to this Act.

**Mr. Smith:** — Mr. Chairman, in 1991 The Income Tax Act was changed to allow people to transfer out of defined benefit pension plans to RRSPs (Registered Retirement Savings Plan). They put limits on the amount you could transfer from a defined benefit pension plan to a RRSP. And they have recently made an amendment to allow members to do the same thing. And if you were over the limits you would have to pay tax on the amount that you were over the limit.

CCRA (Canada Customs and Revenue Agency) or CRA (Canada Revenue Agency) as it's now today, have now allowed pension plans to pay out the maximum benefit out of a pension plan up to the limit allowed by the Income Tax Act. And this amendment will allow people to leave the remainder of those benefits in the pension plan to provide an annuity from the date they retire to age 65 or 15 years, whichever is earlier. So the same amount of benefits are being paid out of the pension plan with this amendment, taking advantage of the rules that Revenue Canada will allow.

And so the individuals can take out money to an RRSP. If they are over the maximums allowed by Revenue Canada, they can

leave some money in the pension plan to get a benefit from the pension plan.

**Mr. Krawetz:** — Mr. Smith, does that mean then that if anyone is moving money out of a previous plan and they have no space for RRSP purchasing, did you indicate then that they can leave the money in this pension plan without being taxed and then withdraw it prior to age 65 or 15 years, whichever is the least or whatever is sooner?

**Mr. Smith:** — The individual has to receive it as a monthly income from the date they retire to age 65. They can't receive it as a lump sum . . . or they can. They'll pay tax on the whole thing.

But you're correct. This change will allow people to take money out of the plan. The rest they can have in the plan and receive a benefit from that money in the plan until age 65 or 15 years, whichever is earlier.

**Mr. Krawetz:** — Okay, thank you. Mr. Minister, one of the clauses restricts the benefit or the transfer to a spouse as not . . . a spouse is no longer, a surviving spouse is no longer able to receive continued pension payments. They must receive, I guess the word is, a commuted value for what remains of the original pension.

Could you explain for, you know, for clarity purposes, what implication this will have on people, on surviving spouses of the future? I mean, we're not suggesting that someone's passing away, but obviously there will be concerns raised by people to say, what restrictions have been imposed upon me as the surviving spouse? Could you clarify that, Mr. Smith?

**Mr. Smith:** — Mr. Chairman, the amendments propose that surviving spouse beneficiaries will be allowed to take the commuted value of their pension out to an RRSP to do with what they wish with the funds from the pension plan. There is no diminution of value to surviving spouses, but all surviving spouses — the same as any other beneficiary under the plan — will be allowed to take the full value of the employees' pension benefit and move it to an RRSP.

**Mr. Krawetz:** — When someone has a pension plan values left and a surviving spouse currently is drawing a monthly pension for whatever period of time remains for that pension, are you . . . or is it . . . what you are saying is that the commuted value will have the same value as the pension payable monthly in the end — that they will both have the same numerical value?

**Mr. Smith:** — I should clarify, the changes are for death prior to retirement. For death after retirement, the surviving spouse will receive the pension that the employee determined when the . . . when he retired because there are several different forms they can select. The amendments only refer to death prior to retirement, and it will be the commuted value of the individual's pension when the individual, the employee, passes away.

**Mr. Krawetz:** — Thank you, Mr. Smith. I was confused and now that you've indicated that it's prior to retirement, that's . . . makes a lot more sense.

Mr. Minister, when you've indicated gender references and gender changes, obviously those are necessary and you've indicated that those must take place in, I believe two or three cases. Could you for the record indicate where those changes are?

**Mr. Smith:** — Mr. Chairman, section 5 of the Bill changes firemen and firefighter . . . or sorry, section 3 changes firemen and policemen to firefighters and police officers. And section 5 changes firemen to firefighter, and I believe on the last page of the Bill, it changes workmen to workers.

**Mr. Krawetz:** — Mr. Chair, I think that's all the questions that I have on this Bill.

**The Chair:** — Okay. Thank you very much. Is clause 1 agreed?

**Some Hon. Members:** — Agreed.

Clause 1 agreed to.

Clauses 2 to 10 inclusive agreed to.

#### Clause 11

**Mr. Krawetz:** — On that last clause, Mr. Chair, coming into force, could you clarify what is meant by, "Subject to subsection (2)"? In fact, what needs to happen in subsection (2) before this Act comes into force?

It's also indicated in this clause that there's another section that says that section 6 of this Act comes into force on January 1, 2005. Could you just explain why there are two different dates. And I'm suggesting that there must be two different dates.

**Mr. Smith:** — Mr. Chairman, section 6 of the Act comes into force January 1, 2005, which is allowing people to transfer to an RRSP (Registered Retirement Savings Plan) and leave remaining amounts in the plan. It will give us enough time to change our administration systems to be able to deal with this effective January 1, 2005. That's in answer to your second question.

Mr. Chairman, I'm struggling for a response to the first question. Mr. Chairman, I think that "Subject to subsection (2)" means it will come into force on assent with the exception of section 6.

**Mr. Krawetz:** — Okay.

**The Chair:** — Thank you very much. Section 11, is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — That's carried.

Clause 11 agreed to.

**The Chair:** — Her Majesty by and with the advice and consent of the Legislative Assembly of Saskatchewan enacts as follows: An Act to amend The Municipal Employees' Pension Act.

Could we have a member move that we report the Bill?

**Mr. Borgerson:** — Yes, I would move the Bill be reported without amendment, please.

**The Chair:** — It has been moved that the Bill be reported without amendment. Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — Carried.

The committee agreed to report the Bill.

### Bill No. 5 — The Saskatchewan Pension Annuity Fund Amendment Act, 2004

#### Clause 1

**The Chair:** — Okay, the next item before the committee is Bill No. 5, An Act to amend The Saskatchewan Pension Annuity Fund Act. Is clause 1 agreed? Mr. Krawetz.

**Mr. Krawetz:** — Thank you, Mr. Chair. Mr. Minister, the Act refers to the Pension Annuity Fund and in your second readings you indicated that the fund had approximately 1,836 members. Could you indicate who becomes eligible to be a member of this fund. From what working groups do members come from?

**Hon. Mr. Van Mulligen:** — These are all members of the Public Employees Pension Plan, people that have retired over years and as opposed to purchasing an annuity from an outside entity, have elected to purchase annuity with their pension through the Public Employees Pension Board.

And the Bill before us recognizes that although the government may not have an ongoing responsibility to the Public Employees Pension Plan, it definitely has some ongoing responsibilities with respect to the annuity fund because we are undertaking to provide annuities to these retirees. And therefore the Act proposes to set up a separate governing structure for the annuity fund.

**Mr. Krawetz:** — Thank you, Mr. Minister. Mr. Minister, could you indicate how many members choose to join the annuity fund on a given year on average?

**Hon. Mr. Van Mulligen:** — At this point, or as of December 31, 2003, the Saskatchewan Pension Annuity Fund had 1,836 annuitants, and that number would have accumulated since 1977.

**Mr. Krawetz:** — So is it fair, Mr. Smith, to say that you have at least 100 people join the fund on an annual basis, more or less than 100?

**Mr. Smith:** — It would be less than 100.

**Mr. Krawetz:** — Less than 100. Thank you.

Mr. Minister, you've indicated that the Pension Annuity Fund needs to be administered by a new board, and that's basically the purpose of this Act is to create the board. Who has been

administering the annuity fund up until now? And what reasons are being given for the creation of a brand new board to administer the fund?

**Mr. Smith:** — Mr. Chairman, since 1977 the Public Employees Pension Plan and the Saskatchewan Pension Annuity Fund were in one piece of legislation. And it was that way from 1977 until 1996.

In 1996 the public employees pension Act was introduced and The Saskatchewan Pension Annuity Fund Act was introduced. The board for the Public Employees Pension Plan was also the board for the Saskatchewan Pension Annuity Fund. And so that board has been performing the dual role.

We have been examining pension plan governance issues over the last couple of years. Because the government is providing the annuities from the annuity fund, the proposal is to create a different board than the Public Employees Pension Board to administer the fund for these annuities.

**Mr. Krawetz:** — Thank you, Mr. Smith. You must have anticipated my next question. You've indicated that it'll be a different board — in name of board only or are you suggesting that there will be three different members of which none will be members of the current board?

**Mr. Smith:** — We would expect, Mr. Chairman, that they will be different than the members of the Public Employees Pension Board.

**Mr. Krawetz:** — Could you indicate what process you will follow to procure the three members that you want to have sitting on this new board?

**Hon. Mr. Van Mulligen:** — It's intended that the board members will be public servants with appropriate qualifications and they'll be appointed for a term at the pleasure of the minister.

**Mr. Krawetz:** — Could you indicate what the term will be, Mr. Minister, of the appointment. Is it a one-year term or a three-year term or something different? And I guess I'm looking at what is the current board that has in place.

And the second question to that, Mr. Minister, is will new regulations have to be created regarding the workings of the board and the powers that they have or will you be just following the existing regulations that are in place for the previous board?

**Mr. Smith:** — Mr. Chairman, the legislation creates the duties of the new board and so they will follow the duties as prescribed in the legislation.

**Mr. Krawetz:** — Could you indicate what you mean by the legislation? I didn't see here too many things that actually refer to the duties of the board.

**Mr. Smith:** — Section 3 of The Saskatchewan Pension Annuity Fund Act has a significant amount of powers now. We are amending some of them, but not really the powers that are currently in the Act. So there'll be different board members

administering the Act and responsible to the minister.

**Mr. Krawetz:** — So what you're saying then is that the current section 3 of the Act specifies how a board . . . or what duties the board must perform and the controls and regulations by which this board operates under. Is that correct?

**Mr. Smith:** — That's correct.

**Mr. Krawetz:** — Thank you. Mr. Minister, one of the other questions that I had was regarding the solvency of the fund itself. In your second reading speech you indicated that as of December 31, 2003 the fund had assets of \$117.34 million and that liabilities were at \$117.19 million. So very close; about \$140,000 difference. Has the annuity fund since 1997, has there ever been a period of time where it was insolvent in that assets were less than liabilities?

**Mr. Smith:** — Mr. Chairman, yes. And depending on what happens to the investments, it can be into a deficit position and into a surplus position. We haven't finished the financial statements for March 31, 2004 so the last information we have is as you indicated.

**Mr. Krawetz:** — What happens in the year where in fact there is insolvency and that liabilities of the fund exceed assets? How is that made up? Is there an additional levy or is there a transfer of dollars from the General Revenue Fund or what process do you use to ensure that the next year, you know, marking improvement to, you know, investments, what kinds of magical things happen to make the fund balanced or in this case at least have some black ink instead of red ink?

**Mr. Smith:** — We hope it's not magical. We have not transferred in the past, since 1977, any money from the General Revenue Fund to the annuity fund because over time it will go into deficits and come back into surplus. So there isn't any instant transfer of money from the General Revenue Fund to the annuity fund and I think that we would examine it very carefully over a period of years.

These annuitants will live for the next, we hope 50 or 60 years, and so there are time to deal with any shortfalls in the assets if there are any at the end of the day which is quite a ways off.

**Mr. Krawetz:** — Mr. Minister, Mr. Smith, did you indicate that the General Revenue Fund has not transferred any money to this plan forever?

**Mr. Smith:** — No.

**Mr. Krawetz:** — Thank you. He's indicating that . . .

**Mr. Smith:** — Mr. Chairman, no.

**Hon. Mr. Van Mulligen:** — But we do stand behind the fund.

**A Member:** — Yes.

**Mr. Krawetz:** — Thank you. Mr. Minister, when you've indicated that the plan is going to grow by less than 100 members per year, obviously not a large increase in the plan and when . . . My final question would be, as this plan is



growing very, very slowly, the annuity funds that are going to be paid out, do they change or is it almost like a money purchase plan where you as a new member of this fund, of this annuity fund, bring a pot of money to invest into it? Could you explain how members actually benefit from this annuity fund?

**Mr. Smith:** — When individuals are ready to retire, we take the money from the Public Employees Pension Plan, if they so choose, and move it to the annuity fund. When they move it to the annuity fund, we calculate an annuity rate, a monthly rate that the individual will receive and it will stay in place until death. And so every month the annuity fund will pay the individual the same amount until death.

**Mr. Krawetz:** — Mr. Smith, that calculation I think varies. And I was wondering if you know what age is used to determine that life benefit for men and for women? Is there a difference?

**Mr. Smith:** — For the Saskatchewan Pension Annuity Fund, we do not differentiate between gender, male and female, but we do use the individual's age at that date that they retire or move money into the annuity fund and the amount of capital that they bring to the annuity fund to determine their monthly income.

**Mr. Krawetz:** — Okay, thank you.

**The Chair:** — Thank you very much. Is clause 1 agreed?

**Some Hon. Members:** — Agreed.

Clause 1 agreed to.

Clauses 2 to 6 inclusive agreed to.

**The Chair:** — Her Majesty, by and with the advice and consent of the Legislative Assembly of Saskatchewan enacts as follows: An Act to amend the Saskatchewan Pension Annuity Fund Act.

**Mr. Yates:** — I would move we report the Bill without amendment.

**The Chair:** — Mr. Yates has moved the Bill be reported without amendment. Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — Carried.

The committee agreed to report the Bill.

### **Bill No. 6 — The Superannuation (Supplementary Provisions) Amendment Act, 2004**

#### **Clause 1**

**The Chair:** — The next item of business is Bill No. 6, An Act to amend The Superannuation (Supplementary Provisions) Act. Is item 1 agreed? Mr. Krawetz.

**Mr. Krawetz:** — Thank you, Mr. Chair. Mr. Minister, I need to have some explanation about why a large number of sections

are being repealed because the Act currently has no members.

Could you explain when this Act came into force what group of people were involved and why a number of the sections are being repealed because they are . . . I take it that they are redundant because there are no members. For clarity and clarification for the people, could you explain why a huge portion of this Act really removes legislation that it has in place but really is not needed any more?

**Mr. Smith:** — Mr. Chairman, the legislation has been around since 1966. The Public Service Superannuation Plan and other old defined benefit plans to which this Act applies have been closed since October 1, 1977. So individuals have not been allowed to join since 1977.

For example, section 6 is repealed. It allowed individuals who were over the age of 45 when they went to work to join the pension plan at their option. Individuals haven't been allowed to join since 1977, so there's no one left in the plan that could exercise the option of participating in the defined benefit plan. And so there are sections like that that are being repealed.

Another section is section 8, which allows individuals in the plan to purchase World War II or Korean War service. We think that most of those . . . well, all of those employees are retired. There's no one left contributing to the pension plan who could take advantage of those sections. And so most of the sections that, in terms of housekeeping amendments, they don't apply to any individuals and therefore they are truly redundant in the legislation.

**Mr. Krawetz:** — Thank you, Mr. Smith. Mr. Minister, you indicated in your remarks on April 14 that the plan had about 2,500 active members. Do changes that you have proposed . . . will there be any financial implications on those 2,500 active members in any way?

**Hon. Mr. Van Mulligen:** — No, there won't be.

**Mr. Krawetz:** — Thank you. Mr. Minister, you've indicated that pension benefits, the increases that are required, will be done by orders in council through cabinet order under, I believe, sections 15, 16, and 17. And you've indicated that these benefits will change as a result of that.

How often do . . . has cabinet made those changes in the past, and is there a sort of a plan where cabinet deals with these changes on an annual basis? And, if so, what changes are made by cabinet?

**Mr. Smith:** — Mr. Chairman, the changes to the defined benefit pension plan participants are reviewed every year during the government's budgeting process. And I'm not totally sure, but I think it was 3 years in the last 26, I believe, where there has not been an increase. But I'd have . . . I can get some more information on that because I'm just guessing from memory.

**Mr. Krawetz:** — So, Mr. Smith, when you're talking about a review by cabinet and an increase, are you talking about a cabinet order indicating an indexing of the plan?

**Mr. Smith:** — Yes.

**Mr. Krawetz:** — Could you indicate . . . or is it true then that you're saying that, in the last 26 years, only 3 years where cabinet has not indexed this plan?

**Hon. Mr. Van Mulligen:** — It's not an indexing as such. It's an increase that's voted by cabinet through the budget process. It may be more than three years. This would be one of those years. I believe there was also some years in the early 1990s where there may not have been an increase. I believe that there were also some years in the 1980s where there were not increase granted. Now it may be more than three years, but I stand to be corrected on that. But we could certainly undertake to provide the accurate information to the committee at a later date.

**Mr. Krawetz:** — Thank you, Mr. Minister. Mr. Minister, as you have noted I'm sure over the last couple of years in the Legislative Assembly, and in I'm sure meetings that you've had with the Saskatchewan Government Superannuates Association where they are lobbying for changes . . . so that they are aware that indexing would occur on an annual basis and on a regular basis. And I'm wondering, Mr. Minister, there seems to be a bit of a disagreement between what I'm hearing from members who have stated many times that their plans have not been affected by indexing, and yet you've suggested that this annuity fund has been changed quite often.

Is there, and you know . . . and I want to thank you for agreeing to review that and to indeed clarify how many years there actually has been a change. But what message does this give to superannuates that claim that they are not having their pension plans affected by indexing?

**Hon. Mr. Van Mulligen:** — Well, I think you get at the nub of an issue here that confronts us, and that is that the government believes that the government is providing the pensions that were called for under the terms of the pensions that were agreed to, and that were provided to the members and that the members contributed to, and if the government is meeting its legal obligations and financial obligations. Having said that, now some members say that there ought to be ongoing indexation and increases in the pension plan. We take the point of view that that was not anticipated when those pension plans were entered into.

But we've taken the position on an annual basis that perhaps the government could make some additional payment to these pensioners, to recognize cost of living issues that they might have. But we take the position that payment need not be made because the government is meeting its legal obligations with respect to the pension plan.

This now is apparently the subject of legal proceedings by some of the superannuates, or at least we're told that this would be the subject of a legal proceeding. I'm not sure how far down the road these proceedings have gone. There may well have been some opening statements of claim in the courts that we're responding to, but that's the issue that's before us.

**Mr. Krawetz:** — Thank you, Mr. Minister. Mr. Minister, in the explanatory notes, sections 12 and 13, the existing provisions seem to put in place a very controlled response by government to changes to the plan and indicated percentages and rates, and

then it indicates of course that these are being repealed, these sections are being repealed, because the provisions are now going to be done by order in council.

Are there going to be regulations or procedural plans that cabinet will follow that are going to be similar or is it just going to be an annual discussion about the rates by which pension plans should change, and the Minister of Finance after reviewing the finances of the province says no, not this year, or yes this year, and we'll magically pull a number out of the air? Or are you contemplating following some plan that is explained by the two sections that are being repealed?

**Mr. Smith:** — Mr. Chairman, the sections that are being repealed were prior increases to pension payments being made to pensioners. The increases will continue, but the sections of the legislation are redundant.

Since 1985, the legislation has provided that the government can increase pensions by order in council. So there isn't any change proposed to that process which has been there since 1985.

**Mr. Krawetz:** — Okay, thank you. And my final question, Mr. Minister. It deals with section 15, 16, and 17, and then subsequent to that is section 19 coming into force, where it indicates that the three sections have to come into force, you know, retroactively to dates of April 1, 1989 and December 31 of 1991 and April 1 of 1994.

Could you explain why there was a need for retroactivity to three different dates and what these sections actually mean?

**Mr. Smith:** — Mr. Chairman, these sections are early retirement sections. The legislation was changed three times to provide for early retirement benefits to define benefit plan members who were retiring.

The proposed changes here are to reflect how the plan has actually been administered. When an early retirement program occurred we would never know who the individual was until the date they retired. We then really could not, under the current legislation, pass retroactive orders in council and so we're trying to reflect what has happened administratively for these three programs and that's why the coming into force is 1989, '91 and '94.

We actually did the work and so now we're requesting a change in the legislation to reflect exactly what happened. The orders in councils are passed after we know who the individuals are. We really can't pass orders in council before the individual retires. Some of these people have an option to exercise their early retirement date sometime in the future.

**The Chair:** — Thank you very much. Is clause 1 agreed?

**Some Hon. Members:** — Agreed.

Clause 1 agreed to.

Clauses 2 to 19 inclusive agreed to.

**The Chair:** — Her Majesty by and with the advice and consent

of the Legislative Assembly of Saskatchewan enacts as follows: An Act to amend The Superannuation (Supplementary Provisions) Act. Ms. Hamilton.

**Ms. Hamilton:** — I would move that the committee report the Bill without amendment.

**The Chair:** — It has been moved that the committee report the Bill without amendment. Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — That's carried.

The committee agreed to report the Bill.

**The Chair:** — The next item before the committee are estimates for the Department of Finance and we'll wait for the arrival of the officials.

**General Revenue Fund  
Finance  
Vote 18**

**Subvote (FI01)**

**The Chair:** — I believe the minister and his officials are ready. And the first item of business is the estimates for the Department of Finance, found on page 64 of the budget document. And the first item is administration (FI01). Mr. Minister, would you introduce your officials.

**Hon. Mr. Van Mulligen:** — Thank you, Mr. Chair. Seated beside me on my right is Ron Styles, the deputy minister of Finance. And seated beside me on my left is Kirk McGregor, the assistant deputy minister for taxation and intergovernmental affairs.

Seated behind me are a number of officials from the department including: Glen Veikle, the assistant deputy minister for the treasury board branch; Len Rog, the assistant deputy minister for the revenue division; Terry Paton, the Provincial Comptroller; Dennis Polowyk, the assistant deputy minister, treasury and debt management; Joanne Brockman, the executive director, economic and fiscal policy branch; Brian Smith, the executive director of the Public Employees Benefits Agency; Janine Reed, the executive director of the personnel policy secretariat; and Bill Van Sickle, the executive director of corporate services division.

**The Chair:** — Thank you very much, Mr. Minister. The vote before us is administration (FI01) in the amount of \$3.398 million. Is that subvote agreed? Mr. Krawetz. I was sure you'd let that through.

**Mr. Krawetz:** — Thank you, Mr. Chairman. And again, welcome to the new officials who have joined us this afternoon for the time that we will spend on Finance estimates.

Mr. Minister, a lot of questions have developed since the budget at the end of March, when we look at projected revenues from sources other than government, especially those in the non-renewable resource sector. And that's where I would like to

begin, Mr. Minister.

You've indicated that in your budget and performance plan summary, you indicated that the treasury was going to use a-barrel-of-oil price for projecting the revenue that Saskatchewan would attain over the course of the fiscal year. And you projected a value of \$26.50. Could you indicate who would assist you? Who would evaluate conditions in the United States or in the world and of course in Canada to be able to indicate to you as the Finance minister that accurate price would be \$26.50 US (United States)?

**Hon. Mr. Van Mulligen:** — Mr. Chair, the information that we receive on which the budget is based with respect to oil and gas are based on estimates that we receive from the Department of Industry and Resources. Industry and Resources will consult people in the oil industry and consult widely to arrive at what they believe will be the price of oil that we should include in our estimates.

This is a similar process to which other producing provinces, you know, also subscribe. Alberta follows a similar process. BC (British Columbia) will follow a similar process. And the estimates that they provide in their budgets are not dissimilar to the estimates that we provide. I believe in the case of Alberta, that ours may be a little bit lower than Alberta's, whereas in the case of natural gas their assumptions for natural gas may be a little bit lower than ours. But we're in the same ball park. We look at the estimates for both British Columbia, Alberta, and Saskatchewan, and we're within a range.

**Mr. Krawetz:** — Thank you, Mr. Minister. Mr. Minister, while you have indicated that of course you're relying on officials and companies that supply this same type of information to other provinces and that other provinces are affected . . . Of course Alberta and Saskatchewan having a large amount of revenue from oil and gas, it has a value.

I note by the Estimate document that last year you expected about \$400 and some million — in the 400s — and the end result was that there was about \$700 million. You're again suggesting by the estimates that we will receive \$400 million in oil and gas. The projections that of course I think have . . . documents like this one which have been in the paper showing the last three years and of course a document that has a projection of 40 to \$50 per barrel. And of course we're seeing that as reality now.

Mr. Minister, in an article in the paper, you or your officials indicated that for every dollar change in the price of a barrel of oil, that that would mean about a \$30 million revenue for the province. Is that correct?

**Hon. Mr. Van Mulligen:** — I believe that is correct.

**Mr. Krawetz:** — Mr. Minister, of that 30 million . . . or to make it simpler, I guess, let's look at a \$10 increase because we're over a \$10 increase right now. We're at, I think, closing at about \$40 a barrel. And if you have used \$26.50, you know, we're over \$14. But for simplicity's sake, if we're to use an average price of \$36.50 per barrel, which is \$10 per barrel more than what your estimates have used, that would suggest that your additional revenues to the treasury would be about \$300

million.

Now, Mr. Minister, as I know that you have great concern with the equalization factor, as I do, or the equalization formula, what impact will the province have . . . or what financial impact on that 300 million would be a deficit to Saskatchewan by the application of the equalization formula?

**Hon. Mr. Van Mulligen:** — Let me just say that although we projected oil at \$26.50 a barrel, at this point in time oil is . . . (inaudible) . . . higher than that. The \$30 million increase in royalties that we would project if the price of oil goes up by a dollar over what we project — this is if it stays that way for 12 months, and we don't know that yet whether that's going to be the case. But if, you know, these things hold, then yes; for every dollar in excess of what we project we would have another \$30 million in royalties.

Now as to the impact that we would see from equalization, perhaps I'll let Mr. McGregor deal with that specific issue of the taxation rates because there's various kinds of oils and various parts of the formula that Mr. McGregor will be aware of and that the federal government would look to when they try to arrive at what kinds of tax back there should be on our equalization, pursuant to an increase in oil in Saskatchewan or royalties in Saskatchewan.

**Mr. McGregor:** — Mr. Chair, the equalization program is obviously a very complicated calculation. It's a formula-based program. There's two essential elements to the determination of what we get or what we don't get under the program.

First is called the revenue effect. It's the extent to which the program brings back the amount of revenue we're able to generate from our oil and gas through a net of equalization. Then there's a base effect. When the value of your product increases, so does what they term the base that you're able to tax. And when you combine both of these things — and Professor Courchene's paper is a very good illustration of what happens — you tend to lose dollar for dollar.

Now the minister refers to the varying effects of equalization on the types of oil. Equalization broadly defines 33 different tax bases and tries to measure each province's fiscal capacity from each of those bases and then compares that to a national standard. And oftentimes because data is unavailable, they have to make assumptions. They have to use proxies like they do for mining. In the case of oil and gas, you have a different base for heavy oil, for light, for Crown leases. And even in the case of natural gas, you have two different types; you have domestic and you have international.

The point I guess I'm getting to — and I'm sorry to take so long — is that the formula looks at the type of oil. It looks at what your tax rates are and what's termed the national tax rates. And by doing that, they look at Alberta's tax rates because it's such a large part of the overall royalty system, and therefore it compares what it feels that you should generate to what you do generate. And in the case of, for example, heavy, we try to attract heavy oil. Sometimes our rates are somewhat lower than Alberta's. In that case to attract the jobs and the investment, they'd have to be. So the net effect of equalization might be that we lose more than dollar for dollar.

Another basis, it might be that we have slightly lower national average tax rates, and we lose a bit more . . . sorry, we lose a little bit less. The point I'm making is that, as the minister refers to, overall our calculations are that for a barrel, a dollar barrel increase, we get about \$30 million. Overall, the system takes back almost all of it — 90, 95 per cent — depending on what Alberta's rates do, where it is in the royalty curves. But we use for our purposes . . . essentially we lose dollar for dollar. Now in addition to the royalties, we also get the corporation capital tax surcharge, which is another element of our tax system. In that case our loss is less because again it looks at the base in which it's measuring, in that case it's capital tax and our losses are somewhat less.

So overall as the minister says, when you combine both of them you might lose 90 per cent.

**Mr. Krawetz:** — Thank you, Mr. McGregor. Mr. McGregor, as our production value at \$40 a barrel or whatever the number, and I understand, you know, Mr. Minister, you are very correct in saying we have to have a 12-month average of something, you know, that will produce at least \$26. And we hope, based on this first month and a half, that, you know, if prices indeed are going to change they're going to have to change dramatically even to get to a \$26 average because it'll have to drop significantly below \$26. And you know, I guess based on the straight-line projections that we see here, that just doesn't seem to be on.

So, Mr. McGregor, as we obviously are going to get far more than the projected \$400 million from oil, \$400.8 million that's forecast in the budget, when will equalization . . . which I note at the bottom is at \$442 million approximately, that's what's anticipated. And while you've indicated that it is a very complicated formula with over 30 elements that come into play, what will happen or when will Saskatchewan be at a position where equalization will not be affected because . . . or I should say the value that a barrel of oil is going to bring for the province of Saskatchewan will not have an effect on equalization? When will that occur?

**Hon. Mr. Van Mulligen:** — If it keeps going at this rate, I suspect we'll receive very little in the way of equalization payments this year. But maybe, Kirk, you've got details on this.

**Mr. McGregor:** — The detail, I guess, Mr. Chair, is that the \$442 million estimate for equalization has three components. The first component is the \$120 million payment for compensation. So when you take that out of that number, you get back into the range what's termed the current year entitlement.

And if I may, members, I'll give you the actual numbers so that there's no uncertainty. Our current year estimate for the entitlement for the budget year 2004-05 is \$361.6 million. We expect that there'll be a relatively small in this base, a prior negative adjustment of \$39 million, point one million dollars, and the compensation payment being \$120 million. The sum of those is 442 million.

So the question you ask is, when will that entitlement reach zero? And again, if only oil was being looked at, just that one series of bases, then you could probably make the assumption

that if it's a dollar-for-dollar loss, if your oil and gas revenues went up by \$361 million, you'd be effectively a have province.

The difficulty in making that assumption for us is that every other base is changing. All 33 bases have an effect on what your entitlement is. It's also affected, in a very significant way, by what happens outside of Saskatchewan. For example, if Ontario's economy does better than what the formula is assuming right now for '04-05, then the standard will rise. Our distance from that standard will be larger, and we will be a larger recipient under the program.

So again, first you have to determine what the standard of the program's going to be, and we made the assumptions that . . . our economic assumptions throughout Canada. You then determine how far away you are from the line. And then you have to make your estimate as to whether you think you're going to get additional fiscal capacity to bring yourself up to that line. And as I said, it's a bit of a moving target because of all the other provinces' effect on that standard.

But if everything held constant, no other base changed, then we'd have to see our entitlement rise by \$361 million.

**Mr. Krawetz:** — Thank you, Mr. McGregor. You indicated an adjustment or a possible negative inclusion of \$39 million. Is that for adjustments to past years? Is that what makes up that 39 million?

**Mr. McGregor:** — Yes. It's an adjustment respecting 2003-04.

**Mr. Krawetz:** — Previous years.

**Mr. McGregor:** — Yes. It's largely as a result of revenues, oil and gas revenues received late in last year that will then affect our revenues for this year.

**Mr. Krawetz:** — So, Mr. Minister, setting aside changes to any of those other factors, as Mr. McGregor has indicated, we're seeing about a \$322 million — a 322 million net equalization for this year, if I subtract out that 39 million from the 361. I think that works out to about 322.

If we see oil continue to rise — and suppose it hits \$46 on the average for this 12-month period which means that's \$20 a barrel higher than what has been projected, and at \$30 million per dollar increase above the 26, that's about \$600 million and nothing else is changed in the formula — what will this do for the province of Saskatchewan after the penalty at about 90 per cent . . . I think is what Mr. McGregor indicated? When will we see Saskatchewan's position, relative financial position, be finally affected by the fact that we are, we as a province are indeed receiving \$46 per barrel?

**Hon. Mr. Van Mulligen:** — Well you know, at the end of the year then you would show that you would have a great deal of retained revenue and that we would not be receiving any equalization. That would be the final calculation from here. And we would have significant surplus dollars. But these are calculations that, you know, you would do towards the end of the year to calculate what that would be.

But again these are if questions — a lot of money but if is a big

word too.

And again this would be at this point. We don't know what oil will do after this fiscal year and whether this is a level of revenue that we could count on then for ensuing years. Every year we'd go through the process of trying to determine what estimate we would have for, you know, a barrel of oil, price of a barrel of oil, and what impact that will have on our royalties, what impact that will have on our equalization.

Alberta's in a similar position. Alberta too can have huge fluctuations in its revenues. They make some allowance for, on an ongoing basis, as to what to expect in terms of royalties. But you know, like, their budget is based on certain assumptions as well for the price of a barrel of oil and the price of gas. And if they receive more than that, then they're in a surplus position. If they receive less than that, then they're potentially in a deficit position.

So yes, if oil were to continue to escalate here to \$46.50 a barrel, then at the end of the year we would have some significant retained income. Maybe Kirk or Mr. Styles want to provide some details on that, but yes, I might say that we have been in that position in the past.

**Mr. Styles:** — Maybe the two comments I'd offer is, you know, somewhere between \$35 and \$40 is when you'd be kicked out of the program assuming everything else stays constant. And as Mr. McGregor has pointed out, it never happens like that. All the other revenue bases move up and down, and so there's often a lot of offsetting impacts.

The other part of it is the stress, the volatility, that the minister has talked about as well. I think it was six years ago oil, if I remember correctly, was about \$18 a barrel. And so you do get quite extreme volatility within very short periods of time. And so you need to be quite aware of that I think in terms of setting out your fiscal plan and, you know, dealing with those potential type of revenues.

**Mr. McGregor:** — If I can just add one other point. The other aspect of it is the timing question. A lot of the data that we receive that determines what our final entitlement would be for a current year is one and two years removed. So you receive the information, and then you have to determine how it's going to affect your bottom line.

So again when I talked earlier about price and base effects, a lot of times you know about the revenue side of it and you can build that into your forecast, but you don't know is what's happened in the base and what's happened in bases in other parts of Canada. So there's always changes to the forecast even as much as 30 months after the close of the fiscal year.

**Mr. Krawetz:** — Thank you very much, Mr. Minister, and your officials.

As you've indicated, it is a hypothetical situation. And I noticed in your comments in the article that you did refer to hypothetical dollars, which is correct. But I guess officials must be looking forward to plans that . . . As we look at a quarterly report that's going to be coming out soon, I mean you're going to be adjusting things as we move forward because in fact a

month and a half of this first quarter is done. So we're halfway through the first quarter if I might use that analogy. And I'm sure your officials are projecting a change from \$26.50 or using a different number to project where you're at today. So we're going to have to be able to anticipate, you know, on a hypothetical situation that indeed the province's finances are going to change.

Mr. Minister, I think what we have noted in discussions that you and I have had over the last few weeks and what you've indicated today, as indicated by Mr. McGregor, the equalization number that you have in your budget document reflects a \$120 million payment from Ottawa for a correction of a three-year error.

Can you indicate whether or not you are confident that the federal government has recognized the entire problem with Crown leases and is indeed not going to . . . Saskatchewan will not have to be dealt in a very negative fashion by that in the future?

**Hon. Mr. Van Mulligen:** — My interpretation of the actions that the federal government has taken is that with respect to the Crown leases, they concede that there has been an excessive clawback in the case of Saskatchewan and that we have been taxed back more money than we make on those leases. And the federal government has sought to correct that as to, you know, what has happened in the past.

They're indicating that they're prepared to review this situation carefully in the future and to make adjustments as is necessary going forward. But there are other bases that concern us.

Our estimate of the funds that we should be receiving for excessive clawbacks on some of the other bases as well and the mineral leases is in the area of \$300 million. And so the federal government has provided us with \$120 million. We believe, and our analysis would suggest that we are, if you like, owed a further \$180 million, and that is the position that we are taking with respect to our discussions with Ottawa.

**Mr. Krawetz:** — Thank you, Mr. Minister. And you lead right directly into my next comment about discussions with Ottawa. You have indicated that your officials continue to discuss with officials in Ottawa. The conditions of the current Bill before the federal Parliament that did not reflect, I think, some of the agreements that were reached with provinces regarding the moving to a ten-province standard rather than the current five-province standard, as you've indicated, looking at the mineral tax base and adjusting that and a number of other concerns.

There was some suggestion that those were going to be taken into consideration, if I can use that term, in developing that new agreement. That didn't happen, and we have a Bill before the Parliament . . . and I don't know what that Bill is, that number of that Bill. But there is some suggestion that we're very near the calling of a federal election, and that Bill may end up staying on the order paper and not being implemented which means then that the agreement I think is retroactive back to the existing agreement.

So, Mr. Minister, I guess my question would be: is

Saskatchewan still in discussions with Ottawa — as far as with your officials and yourself with the Finance minister — regarding a new equalization formula? And if it's not a new formula for all of the provinces, are you proceeding with trying to have a Saskatchewan accord developed that will reflect a Saskatchewan position that is different than the 90 per cent number that Mr. McGregor has used, when we know that other provinces have a 70 per cent accord? Which direction are you pursuing, knowing that there is an imminent federal election?

**Hon. Mr. Van Mulligen:** — The federal government renews equalization on a five-year basis. Every five years they put before parliament an Act that indicates how equalization will be distributed. And once that's put into law, then the federal government opens up discussions over the course of the next five years to determine what Act of parliament will be implemented again in five years time.

These are not agreements, by the way. These are programs of the federal government. This is an Act of legislation by the federal government. It's not a matter of the federal government and the provinces reaching agreement. The federal government opens up discussions, invites the provinces to comment on various proposals that it wishes to look at for the new equalization formula — five-year formula — and will listen.

Sometimes these are unilateral discussions between the province and the federal government. Sometimes the provinces, at the officials levels, are brought together to look at things in a joint way. At the end of the day ministers are brought together to basically be given an opportunity I guess, one last opportunity, to make a pitch as to what they believe should be in the equalization formula for the next five years.

That process has been completed for the Bill that is now before parliament. And it is my sense that the federal government has signed off on this. This is the new formula for the next five years. I do not expect them to make any changes to this. There's one caveat to that, that the Senate also has a role in reviewing legislation and they are reviewing this Bill as part of their normal review of legislation. And it's under that umbrella that you and I were privileged to meet with the Senate committee and to discuss equalization. But it is my view that at the end of the day the federal government will not be changing or amending that legislation for any reason, no matter what particular issues that a province may have at this point in time.

The discussions that we are having with them relate to specific issues that Saskatchewan have and the opportunity to arrive at, first, an understanding about previous excessive punitive taxation that the federal government has put on Saskatchewan, and the need for the federal government to make a correction for that. In the case of the \$120 million, this was a payment that was made outside of equalization. And we would expect that if they agree with our assessment that we are owed another \$180 million for previous injury, that this will also be done outside of equalization.

With respect to the issue of how our oil and gas revenues are treated, we do not anticipate that the federal government would at this point pull any legislation to make changes to that legislation to reflect the issues that we are bringing to them.

But as we point out, the federal government has made agreements or come to agreements with the two Atlantic provinces, Newfoundland-Labrador and Nova Scotia, both of which have access to offshore resources. In both cases the federal government has entered into agreements outside of equalization which then affect, as I understand, their equalization payments.

And it is on that score too that we are trying to impress upon Ottawa that we cannot wait for another five years to begin to have some sense of fairness and equity from Ottawa as to how our resources are treated.

There's an additional issue with respect to mineral taxation, that we also feel that we're being unfairly penalized. My sense is that if — if, and I'm not sensing the federal government is particularly interested in pursuing this one again — if they were interested in making any adjustment, then that too would have to be done outside of the equalization formula because what affects us under equalization also then begins to affect the other provinces. So my sense is that they would not make an adjustment there.

But perhaps I might let Mr. Styles, who's had discussions with federal officials pursuant to a meeting that the Premier had with the Prime Minister to discuss these issues, to give you some sense of where these discussions are at, at this point.

**Mr. Styles:** — I don't know if I have a lot to add. The minister's I think provided a fairly good summary of it. The process that we're engaged in with the federal government is to simply document our concerns to the extent that you can lay out the specific numbers. Those will be provided to federal Finance. They're working on an assessment of the issues we've raised as well; that'll be combined into a product that I understand will be presented to the Prime Minister and to the federal Minister of Finance as well.

So we're hoping to see that process come to a conclusion sometime in June, and that at some point after that, within a month, two months, we would get some type of a response on the issues that have been raised. I think it's fair to say that the concerns have been recognized by federal Finance and they're trying to assess within sort of the overall scope of the program, equalization, the extent that they believe they're valid — that our province is being treated differently than other provinces.

**Mr. Krawetz:** — Thank you, Mr. Minister and Mr. Styles. Mr. Styles, a question then based on media reports that we might have an election called within the next 10 days — do you foresee the Act being passed? The federal Act?

**Mr. Styles:** — My understanding is that it would be unlikely the Act would be passed. And, in point of fact, the federal government I think has passed another Act that allows the present five-year program to continue on until the new Act is passed. So it would be my expectation, based on what we know about the process right now, that it would probably not be passed — the new renewal Bill.

**Mr. Krawetz:** — So if we're going to be under the regulations of that current five-year agreement that is in place, would it be Saskatchewan's position to lobby for an accord outside of that

agreement, to deal with the concerns that you have raised, Mr. Minister?

**Hon. Mr. Van Mulligen:** — The very best thing that could happen for Saskatchewan and all the provinces would be if the federal government were to return to a 10-province standard to determine what the capacities are of the provinces to generate their own revenues, to provide for their services. That would be the very best solution.

In dollar terms it would mean roughly 275, 285 additional millions of dollars every year for Saskatchewan. It would also mean additional dollars for some of the other provinces. We feel that's the best solution. That is also the position that we have taken over the years as a means of trying to make improvements to the equalization program.

An accord outside of equalization along the lines of the accords that have been reached with the Maritime provinces, we believe, would perhaps net us on an average basis in the neighbourhood of \$100 million a year. So we believe that the 10-province standard is by far the best solution.

We feel too that that is then the . . . not just the best solution for Saskatchewan, but we feel that's the best solution for all of Canada. And not just for individual provinces, but for this country. And that if we're to, as a country, be in a position to provide services for all of our citizens no matter where they live, roughly comparable services, whether it's education or health, and to do that at reasonably comparable levels of taxation, and that we can claim as Canadians that we can experience that no matter where we live. And the very best thing for us as Canadians is to have this 10-province standard.

**Mr. Krawetz:** — Mr. Minister, would it be fair then to say that that if that Bill, that federal Bill, dies on the order paper, then the lobby that you and other provinces would be in as you indicated . . . I think we saw in Ottawa that most provinces were expressing a desire to return to the 10-province standard that was there, you know, decades ago, and that seemed to be the lobby that provinces were putting forward. Yet when the Bill came before parliament it didn't reflect that.

So if that Bill dies in the order paper, is it then a lobby that Mr. Styles and other officials would be taking to Ottawa to say, let's reconsider this, and let's try to build something for the future, whomever the new government might be?

**Hon. Mr. Van Mulligen:** — One never knows what opportunities are presented by elections and the results of those elections. But suffice to say that if there is no five-year agreement that has been put into law and if the circumstances permit, we, and I suspect the other provinces, we will be wanting to have discussions with the federal government with respect to making improvements to the equalization program.

**Mr. Krawetz:** — Thank you, Mr. Minister. And as the official opposition has indicated, we support the position of the federal government treating Saskatchewan fairly. And you have raised those concerns on a national level, and we support you in those efforts. And we would hope that indeed Saskatchewan can arrive at what is fair and equitable for the province of Saskatchewan. And I think, as you've indicated, a 10-province

standard is the way to go, and we would encourage you to continue to lobby in that direction.

**Hon. Mr. Van Mulligen:** — If I might, Mr. Chair. The people who are watching this or these proceedings, and people who watch the Legislative Assembly and those who read the news about what takes place in the Legislative Assembly, all too often only see the conflict between opposing sides of the House. And I want to point out that there are many opportunities and sometimes very significant occasions under which members from both sides of the House agree on fundamental public policy issues. And this question of equalization is one, and we very much appreciate the support of the official opposition in this respect.

**Mr. Krawetz:** — Mr. Minister, one of the other questions that I have around the oil projection that you've used for oil is on page 33 of your summary document, when you indicate that based on production, your officials have indicated that the production of oil will drop to 1,600 wells for this year and that you will see a drop to 1,500 wells in 2005. And you've reflected that in the production based on millions of barrels as I indicated in the Legislative Assembly the other day — you know, we're seeing a drop of over 2 million barrels of oil.

Could you . . . my understanding was that our oil and gas sector was booming and that we were having a lot more wells drilled and we were going to have a large amount of production. That doesn't seem to be reflected in what's contained in these two paragraphs. Could you explain why that's true?

**Hon. Mr. Van Mulligen:** — Generally we project the price of oil to go down, and when the price of oil goes down we also project a decrease in the number of wells. Some marginal wells might be shut down, we might see less activity. But given the price of oil at this point, I expect that if anything things will be going in a different direction. But maybe Mr. McGregor has some details on that.

**Mr. McGregor:** — No, Minister, that's exactly it. The Department of Industry and Resources forecasts industry activity based on price, since it's a major component of it, and also the higher exchange rate. And both those factors were assumptions that would play into a reduced activity, reduced production and also reduced drilling. But this is probably the most reactive industry that we have in terms of changing economics. If oil stays high and exchange rates stay lower, then I think these assumptions will probably improve.

**Mr. Krawetz:** — So, Mr. McGregor, are you then saying that the number of wells that you foresee, you know, being drilled to change dramatically because we are at \$40 a barrel?

**Mr. McGregor:** — Well again, I don't want to give you an evasive answer, but I think the answer I would give is that it's still early and production will, and industry activity will depend on where the price goes. If it stays high then I think these estimates are going to be low. Yes.

**Mr. Krawetz:** — Thank you. Mr. Minister, one of the other projections, probably more volatile last year but also has a definite bearing on estimates for the province, is the Canadian dollar compared to the American dollar. And I noted in your

description you talk about the Canadian dollar being at 78.4 and we've seen some change in that in a different fashion over the last little while.

So, Mr. Minister, and I know you and I have talked about the various components that some go up and some go down, and you have in the end when you throw everything in the wash it all comes out pretty equal. Could you indicate how a projection of 78.4 cents, you know, of a Canadian dollar relative to the American dollar, how that will affect your budget by a significant change of 3 or 4 or 5 cents?

**Hon. Mr. Van Mulligen:** — I won't get into quantum terms, but maybe Mr. Styles or Mr. McGregor want to get at that. But generally speaking if the Canadian dollar is up, it means that it reduces the interest payments that we pay as a province because some of our debt is in US dollars. But when the Canadian dollar goes up, then it reduces some of the interest payments that we would be obliged to make.

Our debt would also be reduced because at certain points we would value what our debt is and if our debt is in US, some of it is in US dollars, then it means that relatively speaking we have less debt in Canadian dollars.

But a lower dollar or higher dollar will also have an impact on the economy. Mr. McGregor indicated a higher Canadian dollar makes oil exports from Saskatchewan less attractive than if it was a lower Canadian dollar.

One of the industries that's quite sensitive to the changes in the dollar is the potash industry, where a high Canadian dollar makes potash exports less attractive. To some extent that's offset by equalization.

But as a general rule, you know, fiscally I guess we're probably better off with a high Canadian dollar. But in economic terms I expect that we would prefer to see a lower Canadian dollar because it makes our exports more attractive and therefore would be more conducive to industry and economic growth so . . . But maybe if Mr. Styles or Mr. McGregor want to add to that. But generally speaking, that's where we're at.

**Mr. Styles:** — No, the minister's provided a very good overview of it. It has both economic impacts which translate into revenue impacts and then direct revenue impacts, and he's pointed out the key areas.

It's a very positive issue if you go to a lower Canadian dollar in terms of our revenues from oil. And that is one of the factors, as Mr. McGregor pointed out. With a lower Canadian dollar and higher priced WTI (West Texas Intermediate) oil price, you're going to get a lot more drilling and probably more production as well, a little bit more pumping. So it does have those kind of benefits.

Broadly, our economy is very much export oriented. And again, a lower Canadian dollar is going to prime the pump a bit and provide more money, okay, for individuals here in the province. So it will have an impact for us from both sides of the equation.

**Mr. Krawetz:** — Thank you, Mr. Styles. One of the other elements in the budget document of course is interest rates, and



we've seen stability over the last little while with interest rates. And one of the obvious expenses of government of course is paying for debt.

And I note with interest each year we see a projection in the budget document of a certain figure for interest costs on debt. Last year the projection was \$650 million, and it came out I think at \$605 million. And this year you're forecasting \$614 million. So there's . . . While the interest rates seem to have stabilized, there seems to be a quite a fluctuation from 650 last year estimated to 605 as forecast for year-end. And this year we're forecasting 614.

What elements play a role in determining the interest got? And I know of course you're going to say, well the amount of debt, which I understand. But what other factors come into making interest costs to the Saskatchewan taxpayer vary so greatly?

**Hon. Mr. Van Mulligen:** — One of the factors would certainly be interest rates. But probably a larger factor in terms of the fluctuation last year would be the exchange rate I would venture to say.

**Mr. Styles:** — Yes, there was all three factors as the minister pointed out. Lower interest rates, both long and short, and that produced interest savings for us. The foreign exchange rate was higher, and that also brought down the cost of the interest payments we were making, okay. And debt was lower last year than was originally anticipated, and so you have all three that combine to get us to the point that we're talking about.

An item of note, because we're talking about trends that are positive, if you look into the interest rates right now onto market conditions, the long end of the market right now has actually jumped. And so 30-year money right now is, you know, approaching 6 per cent or something in that range. So we've been the beneficiary of a trend — for I'm not sure how many years but quite a few years now — of interest rates falling off.

We're probably at the bottom of that, and I think in the foreseeable future you're probably going to see interest rates begin to grow. And Greenspan, I noticed in the United States, has talked quite dramatically about that. And a lot of the expectations are to see a bit of bump potentially in the Canadian interest rates as well. So it's been nice, the type of benefits we've had from that in the past number of years, but we might be on the other side of that particular trend right now.

**Mr. Krawetz:** — As trends move forward or change . . . As we look to subsequent years, as your officials, Mr. Minister, have projected the cost of \$614 million for this year and based on a 78.4 cent Canadian dollar, and we know that that has dropped, are we going to — we meaning the province — going to get burned dramatically on \$614 million if, as Mr. Styles has pointed out, the interest rates, long-term interest rates, seem to be going up, the Canadian dollar has dropped from 78 cents, and your projection is 614 million? Will that be something that's going to be out by \$100 million on the short end?

**Hon. Mr. Van Mulligen:** — Without getting into all of the specifics because we're quite early in the year, I think it's fair to say that any budget has within it the risks, and certainly you've

identified a couple of the risks. And one is in the area of interest rates that you make assumptions about what you think the interest rates will be and what kind of interest that you might be paying then on new borrowing that you do during the course of the year.

Exchange rates is another area of risk that is, you know, an area that you try to project what those interest rates . . . or exchange rates might be. But if they change, then it'll have an impact. But as we've also said on the other hand, if the exchange rate drops — that is, the Canadian dollar drops vis-à-vis the American dollar — it also presents opportunities, and that is that it's better for industry in Saskatchewan. And it makes oil and gas activity more attractive. It'll be good news for the potash industry. And so although we may see the need to adjust at the end of the year, what our interest payment will be, we may also see increased revenues from increased drilling in the area of oil and gas.

I think it's quite early in the year to really make any kind of projection or to speculate. Even the first quarter is . . . Although we're providing a first quarter report, we've only been doing that in the last number of years because, at the end of the day, we're not really clear of the value of a first quarter report because it's so early in the year, but we've agreed to provide that. First quarter report would take you to the end of June, and the end of June doesn't really provide us with a good opportunity to analyze what is happening in significant sectors in the economy.

We really don't know what's happening in agriculture yet towards the end of June. You don't know what's happening necessarily with respect to forest fires for the whole year at the end of June. We get a much better idea when we approach the mid-term area which would be — what? — at the end of September. Then we're in a better position to say that, you know, what crop production might be, projected to be, what has happened with the forest fires during the course of the year, and then of course where the interest rates are at and the exchange rates are at and the like and other, you know, commodity prices are at. So you know, yes, by the mid-year stage we start to get a better feel of where we're at with respect to the year and all of the various risks and opportunities that are in the budget.

**Mr. Krawetz:** — Thank you, Mr. Minister. While I agree with you that the first quarter may not set you with, you know, a lot of new information, what I think it might do is flag . . . your officials may be able to flag for you that something has gone south, and you need to pay more attention to a particular area. And I think that's the usefulness of the first quarterly report.

Mr. Minister, one of the other projections that you use for arriving at numbers in your document of course is the growth rate, the GDP (gross domestic product) growth rate. And I wonder, based on what happened in the document that we saw before this House a year ago with a 6.8 per cent, what did the actual rate come out as? And I know that you indicate it's 3.9 per cent.

When we start to look at almost a 3 per cent difference in what was being forecasted as the real GDP percentage growth for the province and the fact that it was 3 per cent less, did that have a dramatic effect on the numbers that were used, or is this just a fictitious number that has really no bearing on the actual

numbers that are in your document?

**Hon. Mr. Van Mulligen:** — I thank the member for the question and for this opportunity to provide hopefully . . . will be some clarity in this. We did forecast last year that our GDP growth would be 6.8 per cent. But there was a change in Saskatchewan. And almost all of that change was due to a smaller crop harvest, that is crop production being less than average.

Our GDP forecast and this GDP forecast for this budget year too is based on an average crop. And the average crop production is determined by taking a 10-year rolling average for the last 10 years and then say that that's your estimate for the coming year. And we're doing that again this year. Some people might argue that we're in the midst of global warming, and therefore you should have different assumptions. I don't know quite how to quantify that. But again, we're using the 10-year rolling average to make a prediction for this coming year. And on that basis, our GDP is . . . Of course along with other parts of the economy, the other parts of the economy continue to do pretty much as we projected last year. In some areas, they might in fact have been a bit better than we projected. But the major change again was due to the lower crop production.

I believe the figure that we have in the budget document now for GDP growth this coming year is 2.6 per cent. Again, that's based on an average crop production. And if we get something less than average crop production, then I will make the prediction that our GDP growth will be less than 2.6 per cent.

That's our prediction at this point. We feel that, based on the projections from other economic forecasters, that our projection might in fact be a little bit low. I believe there is at least one forecast from — I forget — maybe it was RBC (Royal Bank of Canada) that was projecting 4 per cent growth for Saskatchewan this year. We believe that we, at the end of the day, are more accurate than the other forecasters because . . . or at least that we're in a position to make forecasts more quickly than they can.

This is something that happened last year too. We projected 6.8. The forecasters took a while to come around to also making predictions or projections that were on the high end. Then we projected, on the basis of lower crop production, that in fact our GDP growth would be less even as some of the others were still increasing their projections for the coming year.

But we believe, based on the economy that we see and all of the indicators that we use, and based on an average crop production, that we will see 2.6 per cent growth this year in Saskatchewan. Some may say it'll be higher than that, but we believe that 2.6 is an appropriate reflection of what is taking place in the Saskatchewan economy and what we expect to see this coming year.

**Mr. Krawetz:** — I know the time is drawing near, Mr. Minister, and to wrap this up, one final question that . . . I hope you'd be able to put yourself in the position of a person in the public who doesn't understand the numbers. While we have no quarrel with you on 2.6 per cent projection for this year, I mean we're hearing that the Saskatchewan growth rate could be

between 2.2 and 2.8, and 2.6 just, you know, falls in that.

The question that many people have asked me — and I don't have an answer for that and I'm hoping you would — is that last year for the compilation of this document, the budget, the minister used 6.8 per cent. That was out by a huge amount, almost 3 per cent. What did that do to that budget document when in fact reality set in, and it was only 3.9 per cent? What numbers turned out to be dramatically wrong then for the production of this document if indeed 6.8 wasn't at all close? That's what people ask me, saying well if Saskatchewan's projection was 6.8 and they were out by that much, what numbers were really skewed in this document? And I don't have an answer for that.

**Hon. Mr. Van Mulligen:** — The only thing that we attribute the change in the GDP to was the smaller crop harvest. And in terms of impact on the budget itself, we would not be looking at this point in any great changes in revenues as a result of that.

The smaller crop production would not have had a huge impact for example on, of course, fuel tax revenues. It would not have had an impact on sales tax revenues. It may at the end of the day have some maybe reflected in income tax revenues, but that's something that we wouldn't be seeing until next year I believe, that we would be because there is a lag effect in terms of the information we get from the federal government. It would not have had any huge impact in terms of corporation income tax.

It did have an impact, however, in terms of additional expenditures by the government. But in terms of GDP as a figure, yes there was a huge impact on the figure. But in terms of the budget, the major impact was additional expenditures by the government to reflect the needs in the agricultural industry.

**Mr. Krawetz:** — Thank you, Mr. Minister, and one final question. You said that your projection for this year is based on a 10-year average.

**Hon. Mr. Van Mulligen:** — Yes.

**Mr. Krawetz:** — Was that the same type of reasoning that was used last year to come up with 6.8, that . . .

**Hon. Mr. Van Mulligen:** — Yes.

**Mr. Krawetz:** — . . . a 10-year average would have shown that we were going to have a 6.8 per cent growth rate?

**Hon. Mr. Van Mulligen:** — Yes. Yes, last year the GDP forecast was also based on a 10-year rolling average, but we got less than we expected in terms of crop production. This year it's also based on a 10-year rolling average, but the rolling average will again be a little bit less than what it was last year because it also takes into account the lower than expected crop production last year.

Again, is there a different formula that we should be using? The 10-year rolling average has I think served us reasonably well over the years. Again some say that because of global warming that you should change your assumptions in terms of basing your GDP forecast. If we can find a way to quantify that, then I

suppose we might do that, but at this point we're not in a position to quantify that. We do base it on the actual crop production over the course of the last 10 years.

**Mr. Krawetz:** — I want to thank you, Mr. Minister, for those responses today, and I look forward to the next session that we will have to discuss Finance estimates.

**Hon. Mr. Van Mulligen:** — Thank you very much, Mr. Chair.

**The Chair:** — Okay thank you. Mr. Minister, if you'd like to thank your officials before adjournment.

**Hon. Mr. Van Mulligen:** — Yes I would. I'd like to attend my officials who are here with me today, and we certainly look forward to an opportunity to appear before the committee again.

**The Chair:** — Thank you. It being past 5 o'clock this committee stands adjourned.

The committee adjourned at 17:01.



