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# **Standing Committee on Government Operations and Estimates**

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**EVIDENCE**

**Wednesday, December 5, 2007**

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**Chair**

**The Honourable Diane Marleau**

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## Standing Committee on Government Operations and Estimates

Wednesday, December 5, 2007

• (1540)

[English]

**The Chair (Hon. Diane Marleau (Sudbury, Lib.)):** I call the meeting to order.

I welcome our guests. We have Mr. Michael McCracken from Informetrica, and we have Patricia Ducharme, the national executive vice-president of PSAC.

You've both been before committees before. I'll give you your choice as to who wants to start and who wants to finish. I will allow you to speak for five to ten minutes, and then we'll start with rounds of questions.

I must tell the members of the committee that the topic is the real estate transaction that occurred not too long ago and the sale of some federal buildings.

Gentleman, lady, go ahead, please.

**Ms. Patricia Ducharme (National Executive Vice-President, Public Service Alliance of Canada):** Thank you, Madam Chair and committee members.

Thank you for the opportunity to appear before you today on behalf of the Public Service Alliance of Canada. Joining me this afternoon, as Madam Chair mentioned, is Mike McCracken. Mike is the chairman and CEO of Informetrica. His firm is a privately owned Canadian company specializing in quantitative economic research.

PSAC commissioned Mike's firm to analyze phase one of the real estate plan. It will surprise no one that we think the sale and leaseback of several properties owned by the people of Canada was a bad deal for citizens. Mike has also concluded that it is a bad deal for taxpayers.

In a moment, Mike will brief you on the highlights of his analysis, but first let me outline some of our general concerns with the sale and leaseback of the initial set of properties. Because virtually no details are publicly available about phase two of the real estate plan, it is difficult to comment on it. All we can do is examine the recent transaction and anticipate what phase two might bring.

Our concerns are rooted in the belief that the sale of these assets is akin to the privatization of public space. In a world where Canadians are bombarded virtually every waking moment by commercial messages, images, and values, the loss of any public space is a very serious matter.

In a real sense, these buildings are the bricks and mortar of public services PSAC members deliver to Canadians. It is our view that the

sale of these properties further diminishes the role in leadership of the Canadian government in our communities and is in keeping with the view that less government is better government.

The properties in question belong to the people of Canada. As our representatives, your committee has properly objected to the secrecy adopted by the government when it came to conducting the sale of these buildings. Your call for a moratorium on the sale was entirely appropriate and prescient, given the Federal Court injunction in relation to the Musqueam Band's objection concerning its unresolved land claim.

Information this committee demanded was withheld. Canadians were kept in the dark about the government's plans to sell our property. Some but not all details related to the sale have since been released, but only after the transaction was announced. If one is to encourage good behaviour through praise, then the government deserves credit for this limited release, but key documents remain secret, the Larco lease among them.

In fact, the most important details, the real numbers contained in a prospectus prepared for bidders called "The Confidential Information Memorandum", continue to be withheld to this day. The confidential information memorandum contains a description of every property. It provides the details a potential bidder would need to craft an offer to purchase. It includes a statement of net operating income. It outlines operating expenses, taxes, management fees, parking income, and the like. It also includes a detailed schedule of capital improvements the new owners will pay for.

Without the details contained in the confidential information memorandum, it is impossible to properly evaluate the sale. I dare say, Public Works has probably withheld this confidential document even from government members of this committee.

Vague assurances that this is a good deal are not good enough. When you see the numbers, I believe you will quickly come to the same conclusion that Informetrica has reached: that taxpayers lost big time in this transaction.

You might be wondering, "How does she know?" The truth is PSAC obtained a copy of the confidential information memorandum. We were given the document on the condition that we keep it secret. For this reason, unless the Minister of Public Works releases us from this undertaking, I cannot at this time give you the document, but we can and will brief you on our analysis of it, and I will now ask Mike to do just that.

**Mr. Michael McCracken (Chairman and Chief Executive Officer, Informetrica):** Thank you, Patty.

The handout I've given you is just a summary I'll speak to. If you have further questions, we'll try to handle them as they come up.

Essentially, the deal is one in which there is a turnover of buildings for cash and in which the new owners make a commitment to make certain capital improvements, not all, but those that are published in a schedule that the lessors were told they would have to commit to doing. These run to about 60% to 70% of the known, expected capital expenditures. They vary by building.

The government, at the same time, commits to pay the lease on the space for 25 years, indexed at 2%, although it's not clear whether that's 2% or the CPI, which could be different, and has an option to renew for two ten-year periods at market rates at that point. But the starting point on this is a set of lease amounts. It is interesting to note, from looking at earlier drafts of the discussion in some of the earlier studies, that the lease amounts per square foot in the final documents appear to have gone up an average of about \$2 per square foot in the parts on which people actually finally bid.

The lessee, the government, as part of its leasing operation, is expected to pay all operating costs and any capital costs not specified as the responsibility of the lessor. So the risk—and a lot of the discussion around this, in general, was a discussion of the transfer of risk—of operating cost overruns and the risk of additional capital requirements is still being carried by the government.

There is an option at the end of 25 years, also, for the government to give up the buildings and not continue leasing them at market rates or to continue leasing them. They can also buy the buildings at the end of the 25-year period. That is done on the basis of the lease value at the end of the period. So it's the index value moved forward 25 years divided by what's called the capitalization rate, or the cap rate. That cap rate is specified in the lease. That's not been made public. We have made the assumption that it appears to be about 6%, but some of the other documents and commentary that have been released use numbers that are substantially higher than that, and if they are, of course that will affect that out-year cost.

There are a number of different ways of looking at it. You can just look at it on the basis of what happens in the first year, in 2008, say. In the Hays Building, it was previously \$5 million net that was being paid by the government for operating costs and a net of their parking revenue. They will now pay \$20 million, which is the lease payment, and they will lose the parking in the process, and so on.

We've gone over the seven properties. We did the analysis originally on the nine properties, but the two Vancouver properties have been removed from this presentation, given that they are in a state of limbo. I guess that would be the best way of describing it at the moment. With some of the recent claims on some of the Ottawa buildings, limbo may get bigger over time, as well, if others see this as an opportunity to put forward their requirements or demands.

This gap will widen over time from what you see here in the first year. Because of indexing, the operating costs covered by the tenant, we're assuming in the two cases, before and after, would be the same. Again, one can argue as to whether that will be the case or not.

Without the sale, the government faced a capital cost of about \$105 million over the 25-year period for what has to be done in terms of major repairs. The lessor has indicated a willingness to accept \$70 million of that, or about 68% in aggregate. This varies from between 50% and 90%, or 50% and 89%, depending on the building you are looking at.

• (1545)

The only thing I would make sure you keep in mind is that these are for the capital costs identified in the schedule. Anything that is not identified will be at the cost to the government as the tenant, as it would be in the case where they still held it, so we've not tried to raise that in the analysis as a differential element.

What we call the net present value of this lessor portion—in other words, what is the value if you were to try to put aside something to finance all these changes today—is about \$54 million. So that's the value of that particular item.

In summary, the numbers around these projects, for the seven buildings, the revenue in what we call this net present value, is about \$1.2 billion. There's a residual value on the buildings at the point at which there is an option available in 25 years. We estimate that to be \$522 million. The capital being provided by the lessor is a \$54-million reduction in cost to government. The total of that is \$1.7 billion. The sale price, as near as we can determine it, is \$1.4 billion for the seven buildings. This gives you a loss to the taxpayer of about \$366 million, again, in net present-value dollars today.

This loss, of course, is over a 25-year period. We went out only 25 years, because after 25 years, the arrangements are such that the lease is on the basis of market value at that time, and one would normally take the market value to be one that would represent the balance between the value of the buildings and the payments for the use of that building, but it's in this first 25 years that the lease amount is fixed and where there is this indexing provision that's been put in place.

So that gives you at least an overview of the numbers. I think the general sense that one has is that the payments are generous. The risks are still on behalf of the tenant in terms of net operating costs and in terms of additional capital costs. The reason the values that came out of some of the studies that were tabled—particularly the Deutsche Bank study, and the Bank of Montreal studies as well—seem so low is based on a view that the residual value of these buildings is essentially very low, so much so that one wonders why they even bothered putting the number into it.

Of course, if they are in fact worth so little, then presumably the government will find it profitable to buy them back at that very low cost and return the situation to what it is today. But our view is that the value of those buildings, properly kept up, as they would be, is substantially higher than they were in these other studies. That represents a situation in which the value of this transaction is quite a bit more, because not only are you committing to these lease costs for 25 years as a government, but you're saying, "We're also going to throw in any claim we have on that building by surrendering it to you today rather than holding onto it."

Let me turn it back over to Patty for some closing comments.

**Ms. Patricia Ducharme:** Were you going to talk about the efficiency of the private sector?

**Mr. Michael McCracken:** I can.

Let me just raise one issue that did come up. One of the claims was that the private sector, if they were operating this, would be able to deliver a 20% improvement in operating costs. The evidence of that has not been forthcoming. We've asked to see a study that was reportedly looking at that issue, from DPW some years back, but we should understand—or at least, my understanding of the current situation is—that the private sector is already being contracted, in most cases, to provide the ongoing maintenance of these buildings. So one has to ask, where have they been hiding their gains, because these operating costs that we are seeing are supposedly the actual operating costs that are there.

● (1550)

The second issue, though, is if they in fact are in a position to realize those through their expertise, etc., then I would suggest building that into your estimates. Then why don't you assume the liability for the operating costs—and those aren't. This is a net-net lease, the netting out being anything that they can still leave on the hands of the government will be there. But if you really believed you could operate the thing at 20% less, you would offer a gross lease; then you would show the economies that you can attain, because then you would retain those economies.

In this case, where every incentive I see is one in which there is an incentive to raise the operating costs on the part of the owner, you can pass them on to the tenant, you can maintain the value of his asset, which you will own immediately, and enhance its value in 25, 35, or 45 years. Oh yes, by the way, there is also a management fee that's a percentage of those operating costs as well. All of those things would make me ask why these are going to be lower in this situation.

That's the story on the operating costs. And as I say, we haven't seen this study that supports the view that they will be 20% more efficient than the current situation.

Thank you.

● (1555)

[Translation]

**Ms. Patricia Ducharme:** Some of you may be aware that the company which bought this federal property, Larco Investments Ltd., plans to demolish one of Vancouver's most architecturally-significant buildings. Graham House was designed by the famous Canadian architect Arthur Erickson in 1963. It is the building that launched his career. It is currently listed as a building of primary cultural and historic importance. The prospect of the destruction of Graham House has sparked weeks of controversy and pleas of clemency in Vancouver.

Larco Investments Ltd. has met this with stony silence, refusing comment, and preferring simply to dispatch its lawyers for a demolition permit. This cavalier attitude only amplifies our concerns about the government's troubling tendency toward secrecy, especially when it comes to the protection of heritage buildings, several of which are part of the second phase of the real estate plan.

The limitations of our time slot prevent us from canvassing all of our concerns. I hope that we will be able to speak to those I have had to leave out later in the meeting.

We are pleased to answer any questions you may have.

[English]

**The Chair:** Thank you very much.

By the way, we were scheduled to hear from Minister Fortier on Monday, but he was caught up in the snow storm and he couldn't get to Ottawa from Montreal somehow. I'm a little surprised. I got here from Sudbury, but I guess we're tougher where I'm from.

Mr. Holland.

**Mr. Mark Holland (Ajax—Pickering, Lib.):** Thank you, Ms. Chair.

Thank you to the witnesses for your time, and for coming today.

Obviously there are a number of very troubling elements to this entire affair, and I think what I'll start with is the secrecy, because it makes getting answers very difficult. If there's one thing about secrecy, it's that you don't often go to great lengths to cover up a good deal. So one has to wonder why there have been such extraordinary lengths taken to avoid both your organization and this committee being able to get facts and information.

I will be introducing a motion requesting that the confidential information memorandum be circulated to members of the committee. It's difficult to review this matter without it, but it's fair to say that the secrecy continues, that you have not been getting any additional information voluntarily from the minister, and anything that has come to you seems to have been coming through people who feel you should get this information, as opposed to the minister feeling some need to be transparent.

● (1600)

**Ms. Patricia Ducharme:** Thank you for the question.

Information was made available to the public once the sale was announced. The BMO and RBC real estate study and the Deutsche Bank study were made public and available. However, other documents, such as the confidential information memorandum and the actual lease, have not been made public to date.

**Mr. Mark Holland:** Right, the problem being that to properly assess the quality of the deal, the information that is required is being withheld.

As well, we don't know the status of the two buildings in Vancouver the government had planned to sell but because of the court injunction have been pulled. We don't know what the government's intentions are with those two buildings at this point.

**Ms. Patricia Ducharme:** I was advised they were no longer part of the parcel. However, I did meet with representatives of the Musqueam Band last week, and I was advised during that meeting that the Federal Court is appealing the injunction the Musqueam Band received at Federal Court.

**Mr. Mark Holland:** The concern as well.... You referenced phase two. Given the fact that even within the first phase there's been little regard to consulting first nations or considering heritage, there are rumours that some 31 buildings are involved in phase two, and many of those buildings are national heritage buildings. I wonder if you could talk about some of your concerns there.

**Ms. Patricia Ducharme:** The BMO-RBC study that was released in November—it's dated November 14, 2006, although that is not the date it was released—lists specific buildings that are listed as parliamentary district and ceremonial boulevard buildings: the Lester B. Pearson Building; the Library and Archives Canada building; the Wellington Building; the Sussex, Bytown, and Rideau pavilions; East Memorial Building; West Memorial Building; and the Lorne Building.

**Mr. Mark Holland:** Maybe a phase three offering is the West Block.

I'm wondering if we can go now quickly to Mr. McCracken.

Obviously the numbers paint the story of a very bungled deal and are deeply concerning, I think, to any taxpayer who may look at them. There are a couple of items I want to explore a little further so I can understand how you got to some of the numbers.

One of the items you looked at in this report you did for PSAC was a discount rate. The discount rate you used was 4.5%, whereas Deutsche Bank used a discount rate of 9%. I am just wondering if you can explain that rationale and how that might impact the numbers.

**Mr. Michael McCracken:** Okay.

The first thing is that we had no guidance on what they were using, so we used what we thought was the appropriate rate, which was the borrowing cost to the federal government at the time. So most of the work we did in the first round of our support to the group was actually at 4%. We tried a variety, though, at 4.5%, 5%, and so on.

We then repeated the work after they had released some of their studies, because at one place in there it was stipulated that the lessor was supposed to use 4.7%. So we said, "Let's see what it looks like with that and see if we get the kinds of numbers that they're getting on this." But then what you observe is that it's used only for discounting the lease amounts that are paid out, and that for other purposes much higher rates are used—in particular, in trying to put a value on the residual value of the property after 25 years.

The Deutsche Bank was suggesting that should be discounted back to the present at 9%, which makes it essentially valueless in the analysis that anyone is doing. They don't justify where that rate comes from, although that is a number that a real estate developer would no doubt like to get on anything that he's doing.

The other term or the other amount that comes in is a 6% discount rate, and this is based on the valuation of the building. This is based on the private sector experience, over a long period of time, of properties where people are not always occupying them on a steady basis, not necessarily always paying, so there is a discount on the value of a building. When you're trying to buy a building, you say, "What's the lease amount that I have and can expect? What is that divided by—let's say, 0.06 versus 0.045 or 0.047?" In that case, it

would have the net effect of lowering that residual value or the value of the building more generally.

Again, it's not clear that in this case you should be using that kind of discount rate, for two reasons. One is that if you believe the central bank, we are in a new world of inflation at 2% or less. So much of the experience in the past, going back into the 1980s and early 1990s, of much higher inflation rates would have coloured your view of what would be the appropriate discount rate to use.

The other thing in this whole transaction that is not brought front and centre and we thought should be is that we're talking about the government here. We're talking about a government that can borrow funds more cheaply than anyone else in Canada. So it struck us that this really represents the alternative.

If they're selling this, the purpose of which is to raise some money, to get \$1.4 billion, why don't you just go out and borrow \$1.4 billion? What does that cost you? Currently, that costs you between 4% and 5% to borrow, depending on the term and the nature of the structure of the deal you have. Why would you want to be selling the stuff off and doing so on the basis of someone else borrowing money at 6% or 9% in order to buy it from you?

The discount rate in transactions of a government strike me as requiring special treatment, because they are special. They are in a position to provide that risk-free financing and borrowing, well beyond the capacities of any of the people on the other side of the transaction.

• (1605)

[Translation]

**The Chair:** Thank you.

Yes.

[English]

**Mr. Chris Warkentin (Peace River, CPC):** On a point of information, could you let us know whether the minister has provided you or the clerk with any information today? I believe it's information that was asked for by Mr. Holland.

**The Chair:** I believe they've provided us with a number of copies: the BMO report, a number of things here—things that we already had, by the way. The one thing that we didn't have was the Larco portion of it.

Is that being translated now?

**Mr. Philippe Le Goff (Committee Researcher):** It's being translated.

**The Chair:** So we do have those things, and they're being translated into French.

**Mr. Chris Warkentin:** So the confidential information memorandum was included in that package. Is that correct?

**The Chair:** We have Larco Investments' agreement to purchase the nine assets, the leases the Government of Canada has entered into with Larco Investments, details of the financing that Larco has negotiated to purchase the seven real property assets sold by the federal government in phase one of its real estate plan, and they are available to the public.

**Mr. Chris Warkentin:** The analysts are concurring that in fact the confidential information memorandum was included in that package, I understand.

**Mr. Michael McCracken:** I didn't hear that. Did you say it was?

**The Chair:** No, I didn't see that, but—no, this thing here is a year old. This is the RBC, and it was just released but it is the studies on....

**Mr. Guy Beaumier (Committee Researcher):** That's the confidential information.

**Mr. Chris Warkentin:** Could we just get—

**The Chair:** You will, yes.

**Mr. Chris Warkentin:** This one is the confidential—perfect. Thank you. I appreciate that.

[Translation]

**The Chair:** Your turn, Ms. Bourgeois.

**Ms. Diane Bourgeois (Terrebonne—Blainville, BQ):** Thank you, Madam Chair.

Good afternoon, Ms. Ducharme and Mr. McCracken.

I have a number of quick questions. I will try to stay on track, because this is quite a complex matter. I would like to talk about the First Nations who have been seeking injunctions; I am referring to the Musqueam.

My question is for Mr. McCracken.

Do you find it normal that three banks did not raise the matter of property rights before they issued their report. Is that usual?

[English]

**Mr. Michael McCracken:** I would just say if they were buying it for their own account, they would have checked, as part of due diligence, to make sure that there was a legitimate claim, but none of them was buying it for their own account. They were buying—in fact they were precluded, in the case of the Royal Bank and the Bank of Montreal, from participating in the deal.

I think the issue of property rights is generally a question that the people who own it would have secured an opinion from the Department of Justice, for example, that this was theirs to sell, and no doubt that's exactly why they're raising this issue with the Federal Court, saying, "We've been there. We've done that. We've looked at it. Please." However, as you know, this will be resolved in the courts and it's not something that you necessarily would expect a banker to try to sort out. We can't sort it out with the best minds in the country within the government.

• (1610)

[Translation]

**Ms. Diane Bourgeois:** All this has cost us a little over a million dollars and the bank come to us with the problem. They did not see it coming.

[English]

**Mr. Michael McCracken:** Larco, the people buying it, I would have thought would have been very sensitive to this issue and it would have been part of their due diligence—

[Translation]

**Ms. Diane Bourgeois:** Also...

[English]

**Mr. Michael McCracken:** —in signing a commitment to put out some money, particularly if they're living in Vancouver.

[Translation]

**Ms. Diane Bourgeois:** Ms. Ducharme, I am sorry to rush you a little, but we do not have much time.

Ms. Ducharme, you say that you have met with the people in the Aboriginal community. If the documents submitted by the minister and his press conferences are to be believed, it appears that it was after his meeting with the community that the minister himself, or the department, advised the communities about this difficulty with their ancestral lands.

Is that in fact what the communities told you?

[English]

**Ms. Patricia Ducharme:** Yes, what the community told me was what they said at court, that the federal government failed to consult with the Musqueam Nation prior to going forward with the sale of the buildings, and it was just last week that I was advised that the federal government was appealing the injunction that had been granted at Federal Court.

[Translation]

**Ms. Diane Bourgeois:** Good.

Mr. McCracken, I have in my hand a document from the Public Service Alliance of Canada. You probably helped to draft it. It says that the lessee is responsible for all maintenance and operating costs, property taxes, and capital improvements not specified in the list.

Can you give me some examples of unspecified capital improvements?

[English]

**Mr. Michael McCracken:** The unspecified capital costs are the things that cause all of us as homeowners nightmares. You know, all of a sudden a roof leaks that we previously thought was sound, and if that wasn't listed on the capital improvements, you as the lessee are responsible for that. Cracks appear in some pillar. That wasn't identified in the earlier part. You're liable for that as the tenant, the lessee, the government.

So it could be anything, you see, and you don't own the building. You're just occupying it, but nevertheless you are still responsible for all the capital costs except for those that were named in this list. Those things tended to be things like fixing the parking garage, and if you know something about parking garages, every 10 years or 20 years you have to go in and dig it up, take care of the corrosion, put it back down again. So they're predictable and anticipated. But there was nothing in there, no catch-all phrase that said "and anything else". Quite the contrary. Anything else was kept in the liability of the government in its lease document, as near as we can tell.

[Translation]

**Ms. Diane Bourgeois:** I hope you will have time to answer my last question, which deals with a preliminary report. It contains a short sentence that I cannot make sense of. Perhaps you can; listen carefully. It says that, in order to keep the political risk as low as possible, there must be a commitment that would require PWGSC's participation in increasing the value of redevelopment properties in all the transactions undertaken.

What do you think that sentence means?

•(1615)

[English]

**Mr. Michael McCracken:** We lost a little bit in the translation of that. Perhaps the translator could try again on that, or do you want to just restate it?

[Translation]

**Ms. Diane Bourgeois:** I will read it again. It says that in order to keep the political risk as low as possible, there must be a commitment that would require PWGSC's participation in increasing the value of redevelopment properties in all the transactions undertaken.

I am asking you because I have searched in vain for someone to explain it to me, and since you are an expert, I thought you might be able to tell me what it means.

[English]

**Mr. Michael McCracken:** Is this a government document you are quoting from?

[Translation]

**Ms. Diane Bourgeois:** It is a document that came from the government, yes.

[English]

**Mr. Michael McCracken:** To me, and this is just my own personal interpretation of it, there was a lot of criticism early on about the value of the property, and if you recall, there were estimates that were put out in *The Globe and Mail* about what they thought the properties were worth.

If you look at the documents that were around, like the BMO and Royal Bank study, you can find numbers that are fairly close to those in *The Globe and Mail*, and they were probably the source of them. But the government was, of course, aware that they wanted to be seen to be making a good deal, and making more money than what had been anticipated in this earlier item.

So what they did was to make a very simple adjustment, which is perhaps the best way of putting it. I wouldn't call it a trick. The lease price was revised upward by about \$2 a square foot on all of the properties between the time the offer was put out for bid and the earlier studies that were the basis for the Royal Bank and BMO studies and the leaks to *The Globe and Mail*, etc.

So already they had set themselves up to do better, because they were saying "We'll give you more money, and you should pay more money. We're going to give you another \$2 a square foot for 25 years. That's worth something to you, isn't it?" Of course it is, and that's why the bid prices that came in were at or even slightly above

some of the prices that had appeared in those earlier articles. But in the interim, the value of the lease had gone up by \$2 a square foot on average.

I don't have them with me, but we have those two columns of leases, the amounts in the two different documents. If you don't have them in the documents already provided to you, we'd be happy to make them available. I believe we can do that.

[Translation]

**The Chair:** Thank you.

**Ms. Diane Bourgeois:** Madam Chair,...

**The Chair:** That is all, Ms. Bourgeois.

[English]

**Mr. Michael McCracken:** Did you close it off? Okay.

[Translation]

**The Chair:** Mr. Kramp, your turn.

[English]

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Welcome to our guests.

I just have a few questions, Mr. McCracken. How many staff do you have working on this evaluation?

**Mr. Michael McCracken:** This evaluation? I and one other person were working on it. So it was two people.

**Mr. Daryl Kramp:** What professional expertise do you or that other staff person have to provide such a complete and accurate analysis of this?

**Mr. Michael McCracken:** Well, most of it is arithmetic that we learned and taught in university, both in economics and elsewhere. My own degrees include a master's in economics and I have about 35 years' of experience. In the case of the other person, they had a BA in economics, and their work was done under my supervision. That's where the expertise came from.

**Mr. Daryl Kramp:** Thank you. I just asked for your impression, because on this committee we have a few members who weren't available through the previous evaluations we had, when we had a multitude of witnesses, many of the quality and the calibre of people such as Professor James McKellar and others like him.

Let me just read you his résumé: Professor James McKellar, Professor of Real Property; Academic Director, Real Property Program, Schuler School of Business, York University; recently published a book that looked at the management of public assets in various countries in order to assist some of the more emerging economies in how they handle the type of government. The professor is also an adviser to a group called the National Executive Forum of Public Property, comprised of 30 members, 10 from each level of government. And on and on it goes.

We had many witnesses like this, with the calibre of this man, who have suggested to the government an independent evaluation of where they should go. Your report flies directly in the face of their professional advice. Are they all wrong?



•(1620)

**Mr. Michael McCracken:** I don't know whether they saw the detailed numbers. If they did and concluded this was a good deal, then you have two different people with different opinions.

Is it this professor you're talking about Mr. McKellar?

**Mr. Daryl Kramp:** Yes, he was one of the many witnesses we had.

**Mr. Michael McCracken:** This is a quote from—

**Ms. Patricia Ducharme:** May 1.

**Mr. Michael McCracken:** —May 1:

Is this a sound approach for government? Well, the answer is both yes and no. You have to know what the details are. It could be a good deal. It could be a bad one. I don't know what the details are. I could say, however, that what distinguishes between this whole business in the public sector and that in the private sector are the two variables that the private sector doesn't deal with. One of those is public perception.

That's what he said, and it sounds to me like a very sound statement. The devil is in the details.

**Mr. Daryl Kramp:** That's fine, but I could give you many other examples.

**Mr. Michael McCracken:** Sure.

**Mr. Daryl Kramp:** He says:

Is it a good time to sell? It's a great time to sell. I don't think we've ever seen real estate prices almost at a ridiculously high mark. It's a very legitimate asset class today. I'm not saying that's a reason to sell; I'm just saying that certainly it's a very healthy market today.

And on and on it goes.

We can go back and forth with this. I'm certainly not trying to discredit you. Don't take it personally.

**Mr. Michael McCracken:** I'm not worried personally, sir.

**Mr. Daryl Kramp:** I realize that. You've been around the horn many years.

**Mr. Michael McCracken:** Yes.

**Mr. Daryl Kramp:** But sir, have you read the Deutsche Bank report?

**Mr. Michael McCracken:** Was that the Deutsche Bank?

**Mr. Daryl Kramp:** Yes.

**Mr. Michael McCracken:** Yes, I did. I'm glad you raise that. Was that tabled with you all?

**The Chair:** Yes, we were having it translated, I think.

No? We haven't?

But I am told that a lot of the figures have been struck out.

**Mr. Michael McCracken:** There are a few on the back.

I would draw your attention—you don't have to look at it now, but just for the record—to page 27 of their study. There's something called the Lease payout summary, and it forms the basis for the total value and the cashflow stream that they're planning to discount. They use that in their calculations a little bit later in the report, on page 31.

The point I'd have you check, though, is that the table's wrong. It has stupid mistakes in it. I don't know how it got out of their internal checking process, but whoever did this, it is not the professionals you were talking about, such as Professor McKellar.

**Mr. Daryl Kramp:** That's fine; if you're on the record as saying the Deutsche Bank report is factually wrong, I accept your opinion on that, subject to verifying, of course, and we could call back the Deutsche Bank officials again to check on it.

**Mr. Michael McCracken:** Yes, it wouldn't hurt.

**Mr. Daryl Kramp:** And besides their report, there are hundreds of pages of reports and evaluations that have been completed on this file now.

I have another point. You suggested that the properties could be worth even substantially more than the bidders think. My understanding is.... How many bidders were in this? Do you know how many?

**Mr. Michael McCracken:** I believe it was 11 or 13, or something like that, in the final analysis.

**Mr. Daryl Kramp:** So if this property is worth significantly more, somebody is going to want to pay more, wouldn't you think?

**Mr. Michael McCracken:** I wouldn't be surprised, if you had access to all the bid documents, that you would find residual values that are higher from some of the bidders.

The overall package is such that Larco presumably came in higher. We don't know that, but we—

**Mr. Daryl Kramp:** My understanding is that obviously it was a "highest bidder" process and that Larco was the highest bidder. But of course when we have them here we could certainly ask them.

**Mr. Michael McCracken:** It may have been that they were willing to take all the properties and that this made them an attractive thing, too, because it costs the government about \$10 to write a cheque.

**Mr. Daryl Kramp:** What was the total scope of your study, then?

**Mr. Michael McCracken:** Our scope was to take the numbers as made available and to do an analysis as if we were buying or selling it, from the government's viewpoint.

So our analysis was based on whether this was a good deal from a benefit-cost framework for government. Would you go out and raise money this way? That's essentially the question we're answering. The answer we came back with was no, not unless you got a value of something close to \$2 billion for these nine properties. If you got something more like \$1.7 billion, \$1.6 billion—

**Mr. Daryl Kramp:** Are you assuming that the government, at the end of this period, would buy it back, or not? Have you assumed one way or the other?

•(1625)

**Mr. Michael McCracken:** Whether they would do what?

**Mr. Daryl Kramp:** Have you assumed that at the end of the lease period the government would definitely buy it back, and what the terms would be, or that they would not? Did you come to a conclusion?

**Mr. Michael McCracken:** We had put a residual value, the government exercising their option at that price, per the formulas contained in the lease.

**Mr. Daryl Kramp:** If they did not?

**Mr. Michael McCracken:** If they did not, then they would, of course, not own the buildings after that 25-year period. The issue would then be what happens after that period.

**Mr. Daryl Kramp:** But do you believe the continued operation of public property by public administration is the only way to go?

**Mr. Michael McCracken:** It certainly is a way that we have established as a major tradition in Canada, particularly if in this case you're saying we need it for at least another 25 years, and we're prepared to enter into a firm lease agreement for that.

If what they were doing was releasing the property, then that's a different story.

**Mr. Daryl Kramp:** Are you aware that Public Works leases 43% of their buildings now?

**Mr. Michael McCracken:** I'm aware that they do lease a lot of property, yes.

**Mr. Daryl Kramp:** Forty-three percent?

**Mr. Michael McCracken:** Okay, it sounds good.

**Mr. Daryl Kramp:** My understanding is that this would take it up significantly, to 47%.

I have no more questions.

**The Chair:** Thank you.

Mr. Angus.

**Mr. Michael McCracken:** It's the first phase you're talking about, not the second—43% to 47%? Just these seven buildings, or the nine?

**Mr. Daryl Kramp:** I may have just one other question, if I have that 30 seconds.

**The Chair:** You're really past your time.

**Mr. Charlie Angus (Timmins—James Bay, NDP):** Thank you, Madam Chair.

I have presented a motion to the clerk—because I think the details are very important—that we ask the minister to release all the relevant documents surrounding the confidential information memorandum. That would include the operating expenses, the taxes, the management fees, and the detailed schedule of capital improvements. I have submitted that to the clerk. I just thought I would bring that to your attention.

I would like to pick up on my colleague's question, because I think it is a big issue—what we are going to do at the end of 25 years. I don't think we need a professor to tell us this is a great time to sell—of course it's a great time to sell. But what about having to buy it back?

Since I haven't seen a plan to get rid of the public service in 25 years, I'd like to talk about what happens at the end of this deal. It looks to me like we're looking at an elaborate accounting shell game here. This government will get an incredible one-year boost in their bottom line and look like they're managing our assets well—they'll

have amortized the loss to the taxpayers over the 25 years—until the moment comes when key pieces of urban real estate are no longer in our hands and we have to find a place to put our staff.

I don't know if this was in the purview of your study or not, but if we go back to 1982 and look at the real estate value of federal buildings in key urban markets like Calgary, Toronto, Montreal, and Vancouver, what the value of those buildings would have been in 1982 compared to what they are in 2007, we'd see they've probably jumped fivefold to tenfold.

Have you looked at any of the realistic costs, the real estate values, given the previous 25 years and what we would be expecting in the next 25 years?

**Mr. Michael McCracken:** That's not been part of our charge, so we don't have an ability to speak to that specifically on the government building side. We certainly are not unaware of what's happened out there. But keep in mind that our forecast, at least, over the next 25-year period doesn't show the same rapid rate of inflation that occurred in the late seventies and early eighties that was part of the story of escalating prices in non-residential real estate.

But who knows what the future holds? I think you'd want to do several different scenarios to get a guide on what's happening.

**Mr. Charlie Angus:** I guess my concern here is I'm looking back to 1982, the 25 years counting back from here. Take, for example, urban real estate prices in Toronto. You're not even looking at the same world any more.

So unless you put a figure, whatever that figure is, on where we're going to be to deal with the thousands of placements that we're going to need in those key urban areas for civil servants, there's a considerable booby prize sitting there at the end of this.

Would it not have been reasonable for someone who's trying to sell this to the taxpayer, to the government, to have put a fair price on what we're going to be looking at when we reach that 25-year period?

**Mr. Michael McCracken:** It would certainly be part of their overall analysis, I suspect, at DPW or the Department of Finance, who would be the ones responsible for this type of a long-term transaction, but we haven't done it. In some sense it's not the union's responsibility to worry about the 25 years out. They're worried about losing the buildings now and in the second tranche, and that's where their concerns are.

• (1630)

**Mr. Charlie Angus:** You estimated that in the first year of operating, costs for the Harry Hays Building in Calgary will jump from \$5 million to \$20 million, the Canada Place from \$7.2 million to \$22 million. Are you expecting that as a one-time massive increase, or is this going to be part of the ongoing costs that will be stuck to the Canadian taxpayer?

**Mr. Michael McCracken:** No, I should make clear that these are the annual costs—

**Mr. Charlie Angus:** These are annual costs?

**Mr. Michael McCracken:** —for the first year, so that you keep on giving. And then of course the lease is escalated, so after five years you'll be paying a higher amount. Keep in mind, if you own the building you're not escalating your return. You are essentially having to pay here the additional lease.

Your operating costs, we're saying, are the same in the two situations. The only difference between these two are operating costs. In the case where you own the building, you keep the net profits from your parking, and when you don't own the building, then the lessor gets those net profits from the parking.

**Mr. Charlie Angus:** Okay. We're giving any of the profit value that offsets the costs of these buildings. Our costs are going up at the Harry Hays Building fourfold as soon as this kicks in within year one, yet you said that any of the responsibilities for leaks in the roof and the foundation cracks go back to the tenant?

**Mr. Michael McCracken:** Unless they are specified in this set of claims that were laid out, yes. This is a net-net-net lease: it's net of operating costs, it's net of utilities, it's net of capital cost except otherwise specified.

**Mr. Charlie Angus:** Okay. But in the real world, what tenant would ever sign onto an agreement like that unless they were a country bumpkin and never read a contract?

**Mr. Michael McCracken:** It's a question of price.

**Mr. Charlie Angus:** I don't see any benefit here that we're giving prime urban real estate to an investment company that's protected at every single level, and the costs continually come back to the taxpayer.

**Mr. Michael McCracken:** Don't forget that one part of the transaction in year zero is you're getting a big bundle of money; you're getting \$1.4 billion, say, in cash. That's not going to DPW, and it's not going to the departments who are involved in individual buildings; it's going to the government. So that's the offset to all of this. Whether it makes sense or not is the issue that Public Works has to answer to.

**Mr. Charlie Angus:** Madame Ducharme, I'd like to ask you about the Musqueam Band's injunction.

I worked for a tribal council for a number of years, and I know for a fact that getting a court injunction to stop an action is not an easy thing for a first nation to do. You have to first of all establish a pretty impressive paper trail with government so that the government would have been very aware of concerns raised at each point along the process. Why is it that this process was allowed to go pretty much to the week of sale before the government suddenly realized that they had blown it considerably and had to pull those two buildings out of the sale?

**Ms. Patricia Ducharme:** I can't answer that question. I can't explain the government's failure to consult with the Musqueam. The Musqueam have a longstanding claim to their territorial lands in metro Vancouver, downtown Vancouver. Quite frankly, I was shocked to realize that there had not been consultation prior to putting these buildings on the block.

**Mr. Charlie Angus:** Did the Musqueam Band indicate to you the efforts they had made to make their concerns known to the federal government before they had to go to the extraordinary steps of actually having to take it to the Federal Court?

**Ms. Patricia Ducharme:** No. We had a discussion about what was happening when I met with them.

**Mr. Charlie Angus:** Okay. Thank you very much.

**The Chair:** Before you complete, I think you have a motion on the floor. Did you want that debated at this time?

**Mr. Charlie Angus:** Yes, I would certainly like to bring that forward, because I think it's germane to the discussion we're having right now.

**The Chair:** Yes, it is.

**Mr. Charlie Angus:** Would you like me to read it?

**The Chair:** Yes, please.

**Mr. Charlie Angus:** My motion is that the committee call on the Minister of Public Works to immediately release to the committee the confidential information memorandum for the sale of federal buildings to bidders that outlines operating expenses, taxes, management fees, parking income, and detailed schedule of capital improvements.

• (1635)

**The Chair:** I believe that's part of what we have, if not all of what we have. We were given a number of documents here, and some are being translated.

Mr. Holland.

**Mr. Mark Holland:** Madam Chair, while you search for what we may or may not have been given, I think what is staggering about this is that this far after the deal, when we're resuming having hearings on this matter, after the committee has done everything but beg for information, we would get it the day of the meeting, when we would like to be able to pose questions to the witnesses. We don't even know whether we do in fact have it, and some of it's still being translated.

This is incredibly unproductive and it's being done way after the fact. It's very problematic. Frankly, it just seems to be more roadblocking on behalf of the government.

**The Chair:** Mr. Warkentin, and then Madame Bourgeois.

**Mr. Chris Warkentin:** Madam Chair, thank you for instructing us that we have it. I was just going to concur with you that in fact we had it. I think it was not so long ago that Mr. Holland actually requested this information. It has been forthcoming in our effort to be totally transparent on this issue. Obviously there were issues as to why it couldn't be disclosed until the deal was completed, but it's fully there.

So we are fully supportive of Mr. Angus' efforts to get the information. In fact, if he opens his portfolio there, he'll find it.

[Translation]

**The Chair:** Ms. Bourgeois.

**Ms. Diane Bourgeois:** Madam Chair, I gave the documents to my assistant who examined them carefully. He tells me that he could not find what Mr. Angus is asking for. So I think that we should put Mr. Angus' motion to a vote. I call for the question.

**The Chair:** That is not the same thing.

**Ms. Diane Bourgeois:** True, it is garbage.

I call for the question, Madam Chair.

[*English*]

**The Chair:** Okay.

**Mr. Harold Albrecht (Kitchener—Conestoga, CPC):** Madam Chair, how can we vote intelligently on something that's just verbal? We don't have it before us. There are so many unanswered questions.

**Mr. Chris Warkentin:** If they're saying this isn't it, then what are they looking for?

**The Chair:** First of all, we don't have absolutely everything. We don't have the documents from Larco.

Who's next here? Mr. Angus.

**Mr. Charlie Angus:** I appreciate Mr. Warkentin offering that it is here. This has just been presented to us. I've asked for the specific elements. We will not know until we've left, and then we'd lose more time.

If it's all there, then there's no problem voting for the motion and we'll be all happy, but if elements of that are not in there, then that will give our committee the chance to take it back so that we're not wasting any more time, because we're getting close to the Christmas break. So I would like to vote on it.

**The Chair:** Mr. Kramp, and then Mr. Warkentin.

**Mr. Daryl Kramp:** I have no problem with providing information. If we have whatever is there....

I haven't seen what is there. My understanding is that it has been registered with the clerk, but for whatever particular reason it hasn't been effectively translated to us here today. I have no idea why.

My concern is that if we have a situation where legal action has been taking place—an injunction right now—if any of this information would prejudice the action that is going on right now, we should not be discussing it unless we discuss it in camera. I don't know, because I have not read this information myself. But I think we'd better be very, very careful. If we just automatically table information that could end up in a court case and we start discussing something here or make those documents public, then I think we would do a disservice to the Government of Canada, regardless of who is at the helm.

**The Chair:** Mr. Warkentin, and then Madame Bourgeois.

**Mr. Chris Warkentin:** I'm happy to proceed to the question. I understand that what is being asked for is in fact there, the specific information. So I'm happy to vote in favour. I call the question.

[*Translation*]

**The Chair:** Ms. Bourgeois.

**Ms. Diane Bourgeois:** Madam Chair, the documents in our possession were already provided by Mr. McGrath. They were asked for on April 2, 2004. There are three studies that show clearly that

Public Works Canada was not able to give clear information to BMO and RBC. Now BMO and RBC used that information as the basis of their report to the minister. We have had those studies for some time now, and they are not what Mr. Angus is asking for.

I have asked for a vote on Mr. Angus' motion, and I would like us to get moving, Madam Chair.

[*English*]

**The Chair:** I will now call the vote.

**Mr. Chris Warkentin:** Could I just get some clarification from our analysts?

**The Chair:** Yes, you can.

• (1640)

**Mr. Chris Warkentin:** What exactly is being asked for? I'm hearing that there's a confidential memorandum.

I just need clarification, Mr. Angus, because from what I understand, what you're asking for is included in here. If you don't know what you're asking for, that's fine, because I'm not sure what I'd be asking for specifically if I had a whole pile of stuff in front of me.

**Mr. Charlie Angus:** know what I'd ask for; I don't know what I'd receive. That's why I'd like to vote on it.

**Mr. Chris Warkentin:** What are you asking for?

**Mr. Charlie Angus:** I'll read it again. It was for “the confidential information memorandum...to bidders that outlines operating expenses, taxes, management fees, parking income and detailed schedule of capital improvements”. Is that all there?

**Mr. Chris Warkentin:** It's right here. It is attachment number one. It begins with attachment number one.

**The Chair:** There are other things that are being translated right now, as I was saying earlier. They include the Larco Investments agreement to purchase the nine phase one assets from the federal government, the leases the Government of Canada has entered into with Larco Investments, and details of the financing Larco has negotiated to purchase the seven real estate properties sold by the federal government in phase one.

These documents will be available to all of us as soon as they are translated, but if there are other documents you're looking for, that's fine.

[*Translation*]

**Ms. Diane Bourgeois:** We can pass the motion, Madam Chair. If we get the documents twice, it will not matter. At least we will know for sure that a motion was passed.

I have called for the question.

[English]

**Mr. Chris Warkentin:** For the sake of clarity, could you read into the record the letter provided by the minister outlining the information that was being provided? All members could then be enlightened as to what exactly is being provided.

**The Chair:** To save time, we can say that the letter has been read in both official languages. We have it here and we'll make sure it's part of the record. I am sure I can do that with the people taking the notes.

**Mr. Chris Warkentin:** Let them have a copy of that letter, because the opposition seems to be asking for stuff that has been provided.

**The Chair:** They already have it.

All those in favour of getting all the information, whatever the motion is...?

**Mr. Chris Warkentin:** Could Mr. Angus read the motion into the record?

**Mr. Charlie Angus:** I just did, about a minute ago.

**The Chair:** What I'm saying is they essentially wanted his motion.

(Motion agreed to)

**The Chair:** We'll continue with the questioning.

Go ahead, Mr. Silva.

**Mr. Mario Silva (Davenport, Lib.):** Thank you, Madam Chair.

I would like to begin by saying that because I'm new to the committee, I haven't had an opportunity to express my public view on this particular sale. I will state quite emphatically that I'm opposed to it; I have some serious reservations as well about how they're proceeding, both with this phase and with the next phase and the development.

I'd like to ask questions of the witnesses; I thank them for coming forward and giving us their presentation.

There is always this myth out there that you sell things and then somehow you're going to actually get a better value for taxpayers' dollars. They point to banks that are selling their properties and then leasing them back as a prime example.

You said the devil is always in the details, and I quite agree with you. We're not always very clear on what the details are. Why is the mythology out there that if you do sell property and lease it back, somehow you're getting good value for your dollars? I'm not necessarily speaking only to this particular sale, but that seems to be a general rule. With your experience of 35 years, could you elaborate on why some of those cases are not always the truth as they come out?

**Mr. Michael McCracken:** Let me be brief, though, given the hour.

If someone can take and buy the property and do something with it that is not going to be otherwise done, and that new use of that property is a positive contribution to the town they're in or to the businesses they're running, then you might say that it was a worthwhile transaction. And it may well be that the tenant of that

building, who had previously been the owner, sold it but didn't want to make that change, and now the new owner can and the old owner can have that residual place of residence.

A very good example of this is what's gone on in many major cities where the air rights of certain buildings have effectively been sold. People have extended a building upward, or they've taken the air over the railroad tracks and built a building, and the train goes underneath it. CN would never have developed the building above it, so you're therefore getting better value out of the whole piece of real estate.

In this case, to my knowledge, we have not seen on the table any proposals for changing the configuration of the buildings. We have the same tenant in the same space for 25 years. So it's not clear that there's this opportunity for innovation or change, the hallmark of which, in the past, has been the assembling of a number of pieces property and the creation of some new, major structure. We don't see that happening here. Now maybe we don't see it because they don't want us to know it's going on, and the people who are buying all this stuff will eventually reveal the grand plan they have. And that's fine, because it's in their interest to keep people in the dark if they're going to be buying up other pieces of property that are related to this area.

The other reason it happens is that you have someone who is cash-strapped. So you may have an organization that owns a building. They can't borrow any more from the bank, so they say, "What can we do? Well, let's sell it. We have someone who wants that real estate. Maybe they want the property it's on and will eventually do something with it. Maybe we can get a good deal to lease it back cheaply and then, effectively, have some financing to continue our operation. And anyway, we're not in the real estate business." That's the other term that is often raised by someone like that.

Now, you can imagine some governments being in that position. You know, some of the provinces in the thirties were on the verge of bankruptcy. Maybe, if they'd been such financial innovators as we are today, they would have had opportunities to sell off some of their properties and lease them back. But by and large, the current position of the federal government would not appear to be that of a cash-strapped entity. Certainly the surpluses that have been appearing now for a number of years would suggest that there's no major financial constraint that they're trying to appease through this particular transaction. They're not going to be able to borrow as a result of this transaction at a significantly lower rate than if they had not undertaken this transaction, and they haven't told us that this is a sale for some purpose. It isn't a case of telling us what they are going to spend the \$1.4 billion on. It will just go into general revenues and will be parcelled out in tax cuts or in other actions or as debt reduction at some later point in time. So I don't see that innovation, that imagination, and the application of the funds as being evident in this transaction. Those would be the kinds of things you would look for.

I mean, people buy and sell real estate. It's not an odd thing. It's a huge market, and it's happening all the time. But in this particular case you ask them again to explain why they're doing this when the value they're getting for this seems to be a low value. That's all we're asking.

•(1645)

**Mr. Mario Silva:** This is not quite on the real estate issue, but I can tell you a little bit of history. When I was on city council in Toronto, there was also a deal to lease back our computers and there were fantastic reports saying how wonderful this would be for the city because we were cash-strapped. It ended up costing us millions of dollars in an MFP scandal. So I always wonder about these reports saying what a great deal it is leasing back things that we originally have and own.

Thank you.

[Translation]

**The Chair:** Mr. Nadeau.

**Mr. Richard Nadeau (Gatineau, BQ):** Thank you, Madam Chair.

Good afternoon, Ms. Ducharme and Mr. McCracken.

Given what we were hearing earlier, I was wondering if it was possible if the figures that Public Works and Government Services Canada gave to the *Deutsche Bank* were in error.

[English]

**Mr. Michael McCracken:** I see no evidence of that. I just see evidence of carelessness in putting together their spreadsheet and not making sure the data they have is properly aligned. But I have no sense that the numbers they're using were incorrect, in some sense, from the basic information that was provided.

I just think what they did was not skilful or not analytically correct. It's not enough to make you say the whole piece is garbage, but it's something that does make you worry about what's underlying it.

•(1650)

[Translation]

**Mr. Richard Nadeau:** Earlier, we heard a quotation from an expert who appeared here to the effect that public authorities did not make good property managers. That troubles me, given that the Government of Canada owns about 4,600 buildings.

Is being a property manager really a recipe for disaster in the public service? Are public servants really averse to the work? Does the statement hold water?

[English]

**Ms. Patricia Ducharme:** Mr. Nadeau, I'm looking at the blues from Mr. McKellar's evidence that he gave to the committee on May 1. I understand that at that time there was a discussion about the federal government as a manager for federal government buildings. In his evidence he said that as "a general rule of thumb...a government should budget annually somewhere between 2% and 3% of the capital costs of an asset for annual reinvestment". He was talking about the whole issue of recapitalization of our real estate holdings when he did that.

He goes on later in his testimony to say, "Now...Public Works, if the question is, have they done a bad a job....I would turn it around and say they've never had the money to do a good job. In other words, I remember not that long ago..." and he goes on.

So my take on this is that Public Works hasn't had the funding to do the job they need to do. I think we just have to look at the Library of Parliament to see what Public Works can do when it's sufficiently funded. They can obviously deliver excellent real estate property management and maintenance. I think that is a prime example right here on the Hill.

[Translation]

**Mr. Richard Nadeau:** Thank you.

The Informetrica study indicates that we are going to pay four times more for these buildings over 25 years. Can you tell us more about what you mean by that?

[English]

**Mr. Michael McCracken:** This is simply a device to try to help people size what's happening, which is that you're paying a lease cost over 25 years. If you accumulate it without discounting, it is a multiple of the original outlay. It is of course precisely the imprecision of such statements that leads us to take the net present value when we analyze this. There's a big difference between a dollar you pay today and a dollar you pay in five years, or in ten years or in 25 years.

So that's why you try to bring the story into a common base and value it as of some arbitrary date like the present. That's the arithmetic, if you will, we go through. But I wouldn't take it as other than you're going to be writing a lot of cheques, and more cheques than if you owned the building yourself. Keep in mind there is the transaction cost here of making your lease payments and of determining that you've gotten value for money on an ongoing basis. That takes resources too on the government side to manage the leases when they're paying out these kinds of funds.

So it will take some additional resources inside government. How much that varies, I think, in estimates, but certainly the kinds of management fees that the lessors are charging are in the order of 3%, 4%, 5%, or more.

•(1655)

**The Chair:** We're going to go to Mr. Albrecht.

**Mr. Harold Albrecht:** Thank you, Madam Chair.

I'd just like to follow up some of the comments made by Ms. Ducharme in her opening statement.

You refer on page 2 to the fact that PSAC commissioned Mike's firm to analyze phase one. Did you get other proposals from other companies to do a study for your group?

**Ms. Patricia Ducharme:** We didn't actually seek proposals. We went out and sought companies that we felt had the ability and expertise to do the job, and we retained Mike's firm at that point in time.

**Mr. Harold Albrecht:** And are you prepared to disclose the cost of the study to PSAC?

**Ms. Patricia Ducharme:** Sure.

What was the cost?

**Mr. Michael McCracken:** I'm trying to remember. I think it was \$10,000. It was not a big deal.

**Ms. Patricia Ducharme:** It certainly wasn't \$1.2 million.

**Mr. Harold Albrecht:** Could you tell us, Mr. McCracken, how long your firm has been in existence? How long has Informatrica been—

**Mr. Michael McCracken:** It's only been around since 1972, December of 1972. We started paying people on January 1, 1973. So that's been 34 years, or 35 years by the end of this month, actually.

**Mr. Harold Albrecht:** On page 3 of your comments, in about the fourth paragraph down, you said that "Without the details contained in the Confidential Information Memorandum it is impossible to properly evaluate the sale". Yet we have an evaluation here that is supposedly pointing to the fact that the government made a bad deal.

So how can we honestly accept this evaluation, when you've said in your own comments that it's impossible to evaluate the sale without that information?

**Ms. Patricia Ducharme:** We shared with Mr. McCracken the confidential information memorandum, and we asked him to analyze that document. So he had the details.

**Mr. Harold Albrecht:** That goes against what you said later in your comments: "We were given the document on the condition that we keep it secret".

**Ms. Patricia Ducharme:** We were asked to keep it confidential—which we did. Mr. McCracken worked for us under a pledge or oath of confidentiality. The document has not been shared with any other parties. At no time did we say that we would not analyze the documents. As a public sector union, a union that believes in government in Canada, we felt it was incumbent on us to do some analysis to see if this really was a good deal for Canadians.

**Mr. Harold Albrecht:** On the whole issue of coming to a realistic value for anything, whether it's real property or something else, I would say that I've been to enough auctions to know that a bidder will bid up until a point where he feels it's no longer of value to him. Now, the person selling could establish some theoretical reserve bid, at which point, if he didn't achieve that, he then certainly wouldn't sell the property.

So my point is simply this. If we had eleven bidders bidding on these properties—and I think many auctioneers would be glad to have two or three bidders, let alone eleven—and you have that kind of competition and you come up with this value for the buildings you've sold, it seems to me rather theoretical or hypothetical to suggest after the fact, well, we could have received more. I don't understand that. You'll have to help me come to grips with it.

**Mr. Michael McCracken:** I don't know the answer to that. I would look to the nature of the eleven bids you received, and try to understand how many of those were for all of the properties, whether some were just for one and whether there were multiple bids on one property, just to know the degree to which you might have had the kind of competition you allege there was.

Where eleven people are bidding on a piece of property, it's not clear it is necessarily a competitive setting. Keep in mind—particularly if you have a government who's trying to establish a track record, with a phase one and a following phase two—you may well have people saying let's take a look at it and see what's there and we'll throw in a bid, and if we get lucky, fine, but if we don't, then so

be it. So I don't know how many serious bidders were in that group. Obviously there was at least one.

You could take your view, though, that this is what we could get. Then the question becomes what was the due diligence on the part of government to establish its reserve price? I guess my approach in what we were doing was to say, well, what should they be expecting from a government's perspective to get out of this deal? And that's where we came up short.

• (1700)

**Mr. Harold Albrecht:** I think that study was done by BMO and Scotiabank or whichever other company was here that did that.

**Mr. Michael McCracken:** Yes, I had some difficulties with that study, as I mentioned to you, and then also the subsequent work by the Deutsche Bank and also the earlier study by the BMO-Royal is based on a lower leased price than was finally effected.

**Mr. Harold Albrecht:** Finally, as it relates to the Musqueam Band, I've been informed that there was discussion that went on with this group, dating back to as early as March 2007. Certainly communication occurred and at least one meeting was held with this group, so I'm having again difficulty accepting the allegation that consultation did not occur.

I also serve on the aboriginal affairs committee, and we frequently come up against this issue of adequate consultation. I've never had it answered to my satisfaction what adequate consultation actually means.

We can consult and consult and consult, but at some point there needs to be a decision made. Again, I would like clarification as to whether or not adequate consultation, in your mind, involves agreement with the proposal or involves at some point someone making a decision.

**Ms. Patricia Ducharme:** Well, sir, I would suggest that it's not my opinion that's relevant, but a Federal Court judge granted an injunction. If a Federal Court judge deemed that no consultation had taken place and an injunction was granted, I'm quite comfortable with that person's learned decision.

**Mr. Harold Albrecht:** In spite of the fact that we have records of meetings and communication that occurred?

**Ms. Patricia Ducharme:** I would believe that representatives of the Department of Justice would have presented those to the Federal Court judge.

**The Chair:** Are there any questions from the Liberals? Are there any more from the Conservatives?

**Mr. Chris Warkentin:** Certainly, I'd be happy to.

**The Chair:** Mr. Warkentin.

**Mr. Chris Warkentin:** Mr. McCracken, I just thought I'd spend a bit of time with regard to Informatrica. Is that the name of your company, Informatrica?

**Mr. Michael McCracken:** Informatrica. It's the word inform and then "etrica" at the end, or "infor" and then "metrica", whatever's easier for you.

**Mr. Chris Warkentin:** We learn about these new companies all the time.

**Mr. Michael McCracken:** It's very new.

**Mr. Chris Warkentin:** I was just in the real estate industry and I never heard of your company prior to this.

I'm wondering if you could share with us a little of other real estate studies that you've taken part in, some that would be similar to this.

**Mr. Michael McCracken:** Probably the best example of this type of study is a benefit-cost study.

**Mr. Chris Warkentin:** Specifically on real estate studies of this nature, of this type.

**Mr. Michael McCracken:** On a building value? No, I cannot point to other studies of building transactions at this juncture.

**Mr. Chris Warkentin:** Okay, that's fair. I think that obviously you must have some expertise in some other areas.

I'm wondering if you've ever found the findings of Deutsche Bank or BMO or RBC to be deficient in any of the other projects that you've ever done.

**Mr. Michael McCracken:** I have a high general regard for these institutions in the areas of macroeconomic analysis and other areas where we monitor what they put forward, and I know some of the people at all these institutions.

**Mr. Chris Warkentin:** They often do this type of analysis on a regular basis, the real estate analysis. Your company doesn't engage in these types of activities, and they do; they're experts in this area. So your criticism would be because they do so many that they probably were just negligent in this particular one.

**Mr. Michael McCracken:** I don't think it's so much the experience in real estate they have. I think it looks like they don't know how to use Excel. It's pretty basic stuff.

**Mr. Chris Warkentin:** So it would be a simple spreadsheet error.

**Mr. Michael McCracken:** An error that then just carried forward, yes. I mean, it's the type of thing that you would expect a professional group charging many hundreds of thousands of dollars to avoid, that's all.

**Mr. Chris Warkentin:** Okay, so then Deutsche Bank and BMO and RBC all have the same—

**Mr. Michael McCracken:** With reference to BMO and RBC, my issue with them is more an issue of the assumptions that they are making in terms of the cost of money to governments and the way in which they're doing the discounting, and those are areas in which I would say there is room for a variety of opinions. I think you could ask them how many studies of government purchases and sale of buildings have they done, and I think you'll find a very small set of those as well.

• (1705)

**Mr. Chris Warkentin:** But more than zero?

**Mr. Michael McCracken:** Possibly.

**Mr. Chris Warkentin:** Yes. You speak about assumptions, and you've actually disclosed to us that your report was based on a significant number of assumptions because all the information wasn't provided to you. I'm wondering if you could table for our committee the full list of assumptions that you did make in your report. Would that be available to us? Could we get that from you?

**Mr. Michael McCracken:** I think if they table the document and we're released, if we get a release from the minister, there's nothing to prevent us from letting them look for errors on our spreadsheets.

**Ms. Patricia Ducharme:** Yes, absolutely.

**Mr. Chris Warkentin:** No. I'm specifically looking, hear me correctly, for assumptions that you made on the information that wasn't disclosed to you to be fact. I'm wondering if you could provide a full listing of all of the assumptions that you made.

**Mr. Michael McCracken:** I'm not quite sure I would be able to identify anything. We were trying to take the numbers as provided in the study and evaluate them.

**Mr. Chris Warkentin:** In your testimony you said that where you weren't able to find or have the exact information you made assumptions. I'm wondering if you could provide full disclosure of every last assumption, including the fact that you assumed that the government would buy the properties back. So every last assumption that you made, would you be able to provide those to the committee?

These other companies that did the analysis had full disclosure of all the information. You obviously didn't have all of the information. So could you then provide our committee with a listing of all the assumptions that you did make in your report? Would this be something that you would be willing to table at our committee?

**Mr. Michael McCracken:** I think it's something we can certainly do. I think it's done in our report to PSAC. We did two such reports—or actually three, I guess. As new information became available we would comment on that information, but the original document would give you a sense of the assumptions we're making, like the residual value.

**Mr. Chris Warkentin:** I'm going to hold you to this.

**Mr. Michael McCracken:** If you want to hold me to it that's fine, but I'm very conscious that we want to make sure we're not violating any confidentiality agreement.

**Mr. Chris Warkentin:** There won't be any confidentiality problems if you were making assumptions, because those would be just your own.

**Mr. Michael McCracken:** Isolated. You'd just like a list of 20 assumptions?

**Mr. Chris Warkentin:** I just want them isolated. That's what I'm after.

**Mr. Michael McCracken:** That's easy. Then sure. As long as I don't have to refer to what it was about, I can give you 20 numbers.

**Mr. Chris Warkentin:** No. It would have to be in terms of what your assumptions were based on.

**Mr. Michael McCracken:** Okay. We'll try to do so. If we can do so without violating the confidentiality agreement, I can give you a long list of things to look at.

The only assurance I would like is for you guys to make sure he reads it, just so there's symmetry in the discussion if I take the time to put it together.

**Mr. Chris Warkentin:** Do you have a CMA for each of the properties?

**Mr. Michael McCracken:** Excuse me?



**Mr. Chris Warkentin:** Do you have a CMA for each of the properties?

**Mr. Michael McCracken:** I'm not understanding your jargon. I'm sorry.

**Mr. Chris Warkentin:** Do you have a CMA for each of the properties?

**Mr. Michael McCracken:** Do I have a CMA for each of the properties?

**Mr. Chris Warkentin:** You're unfamiliar with—

**Mr. Michael McCracken:** I am not familiar with your jargon.

**Mr. Chris Warkentin:** Okay. A CMA is a comparative market analysis. It's something that every realtor who has ever taken a real estate course is very familiar with. It's something that every person in the real estate world is very familiar with. It's something that everyone who has ever purchased a house is extremely familiar with.

Do you have a comparative market analysis for each of the buildings? How many did you receive for each of the buildings?

**Mr. Michael McCracken:** We were not asked to make an evaluation independently of the properties. We were asked to look at the studies that had been done and to ask the question what the valuation would be.

We did look at the studies—

**Mr. Chris Warkentin:** So you—

**Mr. Michael McCracken:** Let me complete my answer.

**The Chair:** Please.

**Mr. Chris Warkentin:** Could I get a little bit extra time then?

**The Chair:** You've already had extra. Let him answer the question and then we'll go on to the next person.

**Mr. Michael McCracken:** And I'll make it brief.

I certainly looked at, as background material to this, the material that was provided.

**Mr. Chris Warkentin:** I'm asking a specific question. Did you ever come up with a value for each of the buildings?

**Mr. Michael McCracken:** Yes.

**Mr. Chris Warkentin:** The only way you'd be able to do that is by having a comparative market analysis.

• (1710)

**Mr. Michael McCracken:** No, I disagree with you. There are other ways of coming up with a value, including the valuation that is being used within the studies themselves.

**Mr. Chris Warkentin:** Every realtor when looking to assess the value of a property will come up with a comparative market analysis. It's the first lesson that any realtor learns. I'm very interested that nothing of that sort was done by your report.

**Mr. Michael McCracken:** If you think you can get a CMA for nine properties and to convey those to the client and all of that for under \$10,000, I welcome you to the business.

**Mr. Chris Warkentin:** Okay. So you're saying you didn't have enough resources to complete a good—

**The Chair:** Thank you, Mr. Warkentin. You are way over your time.

We're going to Madame Bourgeois.

[*Translation*]

**Ms. Diane Bourgeois:** Thank you, Madam Chair.

I just want to make one comment and ask Mr. McCracken two questions.

My comment is for everyone. We have to be careful when we try at times to undermine the credibility of people who come to give evidence.

A document we received today says that Public Works and Government Services Canada, PWGSC, and the CB Richard Ellis group are not able to establish the value of the buildings. That is what Mr. McGrath asked. Nor were they able to do so in 2004, because no one at PWGSC had the skills to do it and the documents they had there were full of errors. You can read it in the document.

My question is for Mr. McCracken. A document from BMO and RBC says that PWGSC stated that its capital costs are higher than the private sector's because the elaborate process of internal approvals takes a lot of time. In addition, it says that internal standards often lead to specifications that are too stringent in comparison to those in the private sector, meaning less than optimal performance.

So that means that government standards are so high that, as I understand it, even the private sector would not meet them.

You must have seen this kind of thing. Can you tell me if it is normal in your world? Then, is it normal, supposedly to protect future deals, to have no information about the deals that took place with these seven buildings?

[*English*]

**Mr. Michael McCracken:** On the first one, again, I don't want to put myself forward as an expert on how to clean a house or a property, but certainly if you're going to compare estimates for the costs of a service, you want to make sure that you're comparing apples to apples. It strikes me that the difficulty, if you have a high standard being imposed by the government on maintenance or on cleaning, and a lower standard in the private sector as they alleged, then you are going to have different costs. One of the reasons the cost may be different is the choice of different standards. If you're trying to make a comparison or draw inferences from that, I think your comment is quite appropriate, that you'd better make sure you know that what you're buying is day-old bread rather than fresh bread, just to use that analogy.

In terms of the second one, I wasn't quite clear on what you were trying to get as a question. But certainly if you are involved in markets, in spite of the economists' assumptions of perfect information always being available and people being able to make informed decisions, the practice of people in markets is obviously to try to hold onto the information they have. The value of that information is repeatedly used in subsequent transactions. So the incentives are not to be open, but rather to hold information quite tightly. That's generally speaking in markets, and that's why we have regulatory frameworks, to try to make sure that doesn't persist.

•(1715)

**The Chair:** Merci.

Mr. Angus.

**Mr. Charlie Angus:** Thank you, Madam Chair.

In Madame Marleau's hometown, we have a federal building that's leased. My colleague Mr. Kramp says some 40% of buildings are leased. This lease operation was basically that a company offered to provide a building to the federal government, they put the building together, and then it was possible to move federal staff into it. In that case of the lease, the owner of the building is taking a considerable amount of risk, and in exchange, they quite reasonably want a 25-year or 15-year guarantee of rent in order to put that kind of income forward.

Madame Ducharme, in that scenario where we're seeing a number of buildings that the government leases and the owners are taking back responsibility for them, is this deal significantly different from other standard leasing deals that the federal government has?

**Ms. Patricia Ducharme:** Yes, it is, and for a host of reasons. The concept of transfer of risk, when you're talking about the ownership being transferred in major urban centres, low risk of any type of downward movement in the economies of Calgary, Vancouver, Montreal, Toronto.... This is not a scenario where someone built a building in a relatively small community to provide workspace for workers and needed guarantee of income flow. And it's also a situation where, quite frankly, the taxpayers of Canada will pay \$2.6 billion to Larco Investments over the next 25 years. It hamstring future governments for their priorities, and there's zero risk when you've paid less than half of what you're going to be paid over the period of 25 years with a 10% escalator clause every five years. So I would say that's significantly different.

**Mr. Charlie Angus:** Thank you.

Mr. McCracken, I had questions about how you had arrived at numbers when I had seen the original extracts of the Informetrica study—again, the interest in the Harry Hays Building, where we jump from \$5 million a year to a cost of \$20 million a year. I'm looking at what has been provided by the BMO Capital Markets study, and it lays out that we're looking immediately, in year one, at a gross rent of \$20 million, projected parking revenue of some \$1.2 million. We have very accurate numbers, right down to the cost of cleaning and per square foot that was provided to you.

Given the fact that we're going to look at an immediate fourfold jump with the Hays Building, it doesn't seem to me there's anything costed in here for other above and beyond costs. Are you aware of any other costs that will be hitting these buildings on top of this very significant increase that's already been laid out in the BMO report?

**Mr. Michael McCracken:** To my knowledge, the operating costs are in neither set, or if they are they are assumed to be the same. So in some sense, unless you're positive that the operating cost would change depending on who owns it, then there is no change there. They specify what they expect the capital costs to be. They are only going after the major ones. Then Larco is saying these are the ones we will take responsibility for.

In the case of the Hays Building, the \$21.7 million identified on the capital cost side, they say they will take responsibility for \$16.1

million. So 74% of the capital costs that have been identified will be assumed by Larco. But any unidentified capital costs that do come up will be paid by the lessee, by the government. That's where the unknown is, if you will, or where the risk is. If they choose to operate the building in a way that yields higher operating costs, then the government will be liable for that too.

They have two incentives to do that. One is that their management fee is tied to the operating cost, and secondly, anything that improves the long-term value of this building will be to their account, to their benefit.

•(1720)

**Mr. Charlie Angus:** Finally, I'm looking at this study, and we're looking at real estate property on Jasper Avenue in Edmonton, René-Lévesque Boulevard and Dorchester Boulevard in Montreal, Sparks Street in Ottawa, Yonge Street in Toronto, Burrard and West Hastings in Vancouver. Of course they kind of blew that one. This is all prime urban real estate we're talking about. The numbers laid out in this offering are, as I said, extremely specific right down to the cost for the cleaning on the square foot.

On top of this, there are the other capital costs that the government will have to have signed onto to secure the sale. You said they're going to agree to.... Was it some \$5 million immediately on the Harry Hays Building that they have to agree to, to cover capital costs? Are you aware of the overall capital cost on top of everything else this government has agreed to, to sweeten this sale of prime urban real estate?

**Mr. Michael McCracken:** Keep in mind that their estimate is that they would have incurred these costs in any case, and their estimate of the total of that is roughly \$105 million on these seven properties. The lessor has agreed to cover roughly \$71.7 million of them. So the difference in that is that they are still on the hook for roughly \$34 million.

**Ms. Patricia Ducharme:** I would just add something as well. I just grabbed a document from my colleague: supplementary estimates, Treasury Board of Canada, for the year 2007-2008. On page 229 of 246 are listed new major capital costs projects: Calgary, Harry Hays Building, fifth floor building repairs and upgrades, \$6,347,000. Then it goes on with additional cost for federal accommodation and holdings for the Skyline Plaza. There are indeed significant additional costs, which I don't think are listed in that, given that this document came out subsequent to the original documentation.

**The Chair:** Thank you, Mr. Angus.

Mr. Holland, I'll give you a very short time, and then we'll go to Mr. Kramp.

**Mr. Mark Holland:** Thank you, Madam Chair.

At the end of the day, I think what should matter to us is the veracity of the information that's put before us, and whether or not this is a good deal. That's what we have to get to the bottom of.

The problem I have is that we've spent a lot of time talking about things that frankly I think are extremely immaterial. We've asked you how long your company has been there. We compared your résumé. We've done all of these various things, which I don't think help us at all.

I can tell you that I have a good deal of respect for some of the companies mentioned. In fact I worked for some of them myself. But I also know that large companies are not infallible, and they often do make mistakes.

I found a great deal of irony in antagonizing you as a witness, Mr. McCracken, to provide information on the one hand, when you then say, if I understood you correctly, that the reason you can't provide it is that they don't want it to be made public. So they're antagonizing you about giving information that they won't let you give, which seems rather ironic. Perhaps what I would ask is whether you would be willing to provide all the information if you could be given an assurance by the government that they would let you share the information you have.

**Mr. Michael McCracken:** I would certainly be willing to do that. I should also indicate that from the first time I tabled this report, a long time ago—it was sunny out—we said we would love to sit down and go over the spreadsheets cell by cell with the people at PWGSC. That was something I was more than willing to do, because my interest was in making sure that we hadn't made a mistake in the process. Now, they're busy people, and they chose not to take us up on that offer. But that offer was put on the table by the union, and I stood behind and said yes, I will do that whenever that comes up. We've been quite willing to make sure that information is made available. If we've made a mistake in the process, we'll be the first to admit it.

**Mr. Mark Holland:** I hope that offer is taken up, because I think that would be valuable.

On the other item, I'm concerned, and I don't know if you share my concern, going back to the point that was made with respect to consultation with the first nations. We had a Federal Court judge rule that consultations did not occur. The challenge to that was that a meeting may have taken place and it says consultation occurred. I agree that consultation can mean a number of things, but you said a minimum of one meeting occurred. That probably isn't the case.

My concern is that if the government's position on consultation with first nations is that a Federal Court judge's decision is irrelevant, and they still feel that they have had adequate consultation, then within the phase two properties—and in fact even within these properties that are impacted with first nations groups—do we not run the same risk that we're going to get other injunctions and other problems going forward?

• (1725)

**Ms. Patricia Ducharme:** Absolutely.

**Mr. Mark Holland:** Thank you, Madam Chair.

**The Chair:** By the way, I just want to say, I've been informed that the minister apparently has said that these two would not go forward at this time. I think it's on his website.

**An hon. member:** At this time.

**The Chair:** For now. It may not go forward at all, or who knows?

**Mr. Chris Warkentin:** I think you're right in saying that, because it's something that I think all members have heard in the media. Although they have tried to paint a different picture, it has been widely circulated that there will not be a phase two. So thank you for making that clarification. We do appreciate that.

**The Chair:** Mr. Kramp.

**Mr. Daryl Kramp:** Madam Chair, I'd like to present a motion to the committee due to conversations we've heard today.

May I just preface it with a statement? We've had many witnesses at this committee on this very issue; as a matter of fact, I'm not even sure of the number. But, regretfully, not all the members here today were able to participate in all of those discussions, talks, inquiries, and questions and answers. I would certainly urge the committee members to, as best as possible, have a chance to review the blues and try to refresh themselves on some of the commentary that has happened and some of the testimony and statements.

It's normal to have differences of opinion, and I certainly understand and respect that. That's the nature of committees: conflicting opinions, directions, and thoughts. They abound here, and that's the nature of democracy and government. I think it's wonderful that we have the luxury of being able to have a difference of opinion.

But I was concerned today about the statement by Mr. McCracken that potentially we have wrong information. I concur with Mr. Holland's thoughts on this matter that we have to have accurate information.

As such, I would like to propose this motion: That this committee invite representatives from Deutsche Bank, BMO, and RBC to respond to the claims by Mr. McCracken.

[*Translation*]

**The Chair:** Ms. Bourgeois.

**Ms. Diane Bourgeois:** Madam Chair, I am going to vote against this motion. First, we heard from the two banks and the Deutsche Bank. Well, perhaps we have not heard from the Deutsche Bank, but we are all capable of going on the Internet and reading committee reports, finding documents and the minutes of meetings where these things were discussed.

Next, I feel that we would not be making so many requests and we would perhaps not be asking so many questions if the minister had had the consideration and the decency to table the documents here and to give us the moratorium we asked for.

I will remind you that, back in June, we had all the information. We asked for the matter to be put on hold, and the minister, with no regard to the respect that was due to us and to this committee, pressed ahead.

For all those reason, I am going to vote against the motion and I ask all my colleagues to do the same, Madam Chair.

[*English*]

**The Chair:** Mr. Kramp.

**Mr. Daryl Kramp:** I'm responding to Madame Bourgeois, her claims.

She's going on about the minister. We're talking about statements that have been made here, and statements have to be verified as being accurate or not. There has been an allegation that we have a problem with information. We cannot afford to have wrong information, regardless of the source, whether it's from government or from a second or third party. We need to have this matter cleared up.

**Some hon. members:** Call the question.

• (1730)

**The Chair:** As long as I have people asking to speak to it, I'll recognize them.

Mr. Holland, and then Mr. Angus.

**Mr. Mark Holland:** I'll be very brief, because I realize we're out of time.

Given the fact that we may have only one more committee meeting before we end for Christmas, perhaps a more productive way of going about this—because even if we did pass the motion, we may not be able to deal with it until February—is to ask to take Mr. McCracken up on his offer, which is that he would sit down with department officials, go through it line by line, and get an opportunity for you to test the veracity of the information he has put forward. And you could come back to the committee with any concerns or any information that you think Mr. McCracken has that's incorrect. So that would accomplish that.

But passing this motion so that we would deal with it, at the earliest, in February, seems to me to not make any sense. I think our best course of action would be to take Mr. McCracken up on his offer.

**The Chair:** Mr. Holland, the motion is only about the Deutsche Bank, BMO, and RBC.

**Mr. Mark Holland:** I'm just saying we have one meeting.

**The Chair:** Mr. Angus.

**Mr. Charlie Angus:** Excuse me, Mr. Warkentin, Mr. Kramp, I do have the floor.

Thank you. No problem.

I think this is an interesting motion. We certainly need to get to the bottom of it. In the interest of time, I would suggest I would like to be able to ask the minister. He knows the information well enough. He should be able to verify if the facts are correct or not. If there are still questions afterwards, I certainly don't have a problem inviting representatives from the banks to come afterwards. I would certainly like to hear from the minister, and I think he knows his facts. So if we have the minister here, we can ask him that and then we can certainly follow this up after.

**The Chair:** The minister is coming on Monday, I believe.

**Mr. Chris Warkentin:** So let's have the banks after.

**The Chair:** Do you want to withdraw your motion, or do you want us to vote on the motion?

**Mr. Daryl Kramp:** We'll leave it there. I accept Mr. Angus' assumption. I think that's the interim solution. But these are serious allegations. They need to be dealt with.

**The Chair:** I think Mr. McCracken wants to make one point before we end the meeting.

**Mr. Michael McCracken:** I have a quick point.

The allegation of misinformation was restricted to the Deutsche Bank study of July 24, 2007, specifically page 27. Again, I'd be happy in discussions with the department or with others to simply show them why I think they're wrong.

**The Chair:** Thank you very much.

I will end the meeting at this time.

**Mr. Chris Warkentin:** Call the question.

**The Chair:** I will call the question.

We seem to have a tie.

According to the clerk here, I should allow the discussion to continue, and therefore I should vote against it.

**Mr. Chris Warkentin:** You vote against? You vote in favour of, so that we can continue the discussion with the witnesses.

**An hon. member:** Absolutely.

**Mr. Chris Warkentin:** We proceed with the question.

**The Chair:** It says that you can come back again. I don't know if it leaves it open. I don't think so. I think you had better give me the English version. We understand it better.

Let me read this:

By convention, the Chair will normally vote in such a way as to maintain the status quo or, when no further discussion on the matter is possible, to keep the matter open for further discussion in the committee or at a subsequent proceeding in the House. Where there is a tie vote on an appeal of a Chair's ruling, the Chair traditionally does not vote.

In this case, I would think that I have to vote in favour of this, and I do.

(Motion agreed to)

• (1735)

**The Chair:** We'll have at least the Deutsche Bank, and we'll ask the minister on Monday. We can always change...whatever.

The meeting is adjourned.







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