

Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

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The Honourable Michael G. Baker, M.L.A.  
Minister of Finance  
Government Nova Scotia  
7<sup>th</sup> Floor – Provincial Building  
1723 Hollis Street  
P.O. Box 187  
Halifax, NS B3J 2N3

Dear Minister:

Thank you for the recent letter of December 15, 2008 sent by your colleague, the Honourable Jamie Muir, raising issues related to the Equalization program.

At the Finance Ministers Meeting on November 3, I announced changes to ensure Equalization remains sustainable and fair. Equalization will be put on a growth path that is in line with the economy. A new benchmark to ensure fairness will be set at the average post-Equalization per capita fiscal capacity of the Equalization-receiving provinces. I am confident that these changes to Equalization are fair to all provinces and will ensure that the program remains sustainable.

Nova Scotia also receives significant benefits from the October 2007 Agreement. The regulations required to make cumulative best-of payments have been put in place. The regulations are consistent the agreement between our two governments and with your public documentation on how the cumulative best-of payments are supposed to work. The cumulative best-of treats Nova Scotia fairly and provides protection from the declines in Equalization that might have occurred due to the cost-saving measures this government announced on November 3. In addition, Nova Scotia has received \$234 million in Crown Share Adjustment payments this year as part of the October 2007 Agreement.

In your letter, you expressed concerns regarding the calculation of your province's transitional Equalization payment for 2009-10 as it took into account your province's offshore offsets. In the absence of these offsets, the transitional Equalization payment would have been \$74 million higher. I can appreciate your concerns, especially as the offshore offsets calculated for your province do not entail cash payments at this time. Therefore, I am happy to report to you that your province will be provided with a \$74 million transitional adjustment payment in 2009-10 in order to resolve this issue. Given that the Equalization payments for 2009-10 have already been announced, this payment

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will be made outside of the Equalization program and the authority to make it will be included in the forthcoming Budget implementation legislation.

I would like to thank you for your collaborative approach during our very successful Finance Ministers' Meeting on December 16-17, 2008 in which we tackled the important question of how to deal with the current economic situation. I am looking forward to continuing to work with you in the most constructive way.

Sincerely,

James M. Flaherty

c. The Honourable Rodney MacDonald  
The Honourable Jamie Muir