

The Honourable Ken Krawetz  
Deputy Premier  
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

**11-12**

**THE SASKATCHEWAN ADVANTAGE**

**1<sup>ST</sup> QUARTER  
FINANCIAL REPORT**

1<sup>st</sup> Quarter Financial Report  
Government of Saskatchewan  
July 21, 2011

# 1<sup>st</sup> Quarter Financial Report General Revenue Fund Update

## INTRODUCTION

At first quarter, the 2011-12 General Revenue Fund (GRF) pre-transfer surplus is forecast at \$71.7 million – a \$43.3 million reduction from Budget.

- Provincial disaster assistance costs are up \$60 million, offset by \$42 million in federal cost-sharing.
- A tentative teachers' collective bargaining agreement adds \$51 million to Education expense.
- Savings in net interest costs contribute an additional \$20 million to the pre-transfer surplus (\$15 million in revenue and \$5 million in expense savings).

Everything else being equal, this would result in a \$43.3 million reduction in the Summary Statement (SFS) financial position, leaving an \$11.0 million surplus.

Flooding will affect other, non-GRF components of the SFS financial position. On balance, it appears at this time these effects should offset each other.

- While 2011 agricultural production forecasts are not yet available, the very wet spring will likely increase crop insurance payouts.

- At the same time, Crown corporation net income will likely be higher than previously expected, particularly for SaskPower, as the higher water levels generate additional hydro power.

As a result, the province's finances are on track to meet the 2011-12 Budget expectations of a surplus on both a GRF and an SFS basis through the first quarter of the fiscal year.

The magnitude of the flooding will obviously have a significant impact on the agricultural sector in Saskatchewan. And, this in turn will impact overall provincial economic performance in 2011.

At the same time, the rest of the economy appears to be performing at least as well as anticipated in the 2011-12 Budget.

All the key economic indicators are positive relative to last year. On a year-to-date basis, Saskatchewan has posted the fastest growth in retail sales, wholesale trade and building permits, the second highest growth in new housing starts, the lowest unemployment rate and the third lowest inflation rate among Canadian provinces.

And, private sector forecasters continue to see Saskatchewan's real GDP growth near the front of the pack in 2011 and leading the nation in 2012.

## FINANCIAL OVERVIEW

The 2011-12 first quarter report shows:

- **revenue** is up \$64.1 million or 0.6 per cent from budget; and,
- **expense** is up \$107.4 million or 1.0 per cent from budget.

The resulting **pre-transfer surplus** is down \$43.3 million from budget.

The budgeted **Growth and Financial Security Fund (GFSF) transfer** from the GRF is reduced by \$21.6 million, reflecting the reduced pre-transfer surplus.

The **GFSF balance** is forecast to be \$716.9 million at the end of 2011-12. This reflects the additional \$27.7 million added to the GFSF at the end of 2010-11, reduced by the 2011-12 net transfer of \$289.1 million to the GRF.

The budgeted \$325.0 million transfer from the GFSF for debt reduction will reduce **government general public debt** to \$3.8 billion at the end of 2011-12.

### 2011-12 GRF 1<sup>st</sup> Quarter Financial Overview

|  | Budget<br>Estimate | 1 <sup>st</sup> Quarter<br>Forecast | Change from<br>Budget |
|--|--------------------|-------------------------------------|-----------------------|
| <i>(millions of dollars)</i>             |                    |                                     |                       |
| Revenue                                  | \$ 10,794.3        | \$ 10,858.4                         | \$ 64.1               |
| Expense                                  | 10,679.3           | 10,786.7                            | 107.4                 |
| Pre-transfer Surplus                     | \$ 115.0           | \$ 71.7                             | \$ (43.3)             |
| Transfer to GFSF                         | (57.5)             | (35.9)                              | 21.6                  |
| Transfer from GFSF                       | 325.0              | 325.0                               | -                     |
| Net Transfer from (to) GFSF              | 267.5              | 289.1                               | 21.6                  |
| <b>GRF Surplus</b>                       | <b>\$ 382.5</b>    | <b>\$ 360.8</b>                     | <b>\$ (21.7)</b>      |
|  |                    |                                     |                       |
| GFSF Opening Balance *                   | \$ 978.3           | \$ 1,006.0                          | \$ 27.7               |
| Net Transfer from (to) GRF               | (267.5)            | (289.1)                             | (21.6)                |
| <b>GFSF Balance</b>                      | <b>\$ 710.8</b>    | <b>\$ 716.9</b>                     | <b>\$ 6.1</b>         |
|  |                    |                                     |                       |
| <b>Government General Public Debt **</b> | <b>\$ 4,135.2</b>  | <b>\$ 3,810.2</b>                   | <b>\$ (325.0)</b>     |

\* 1st Quarter Forecast of 2011-12 opening balance has been adjusted to reflect 2010-11 actual transfers to the GFSF.

\*\* Budget Estimate figure has been adjusted to the 2010-11 actual level.

## REVENUE UPDATE

At first quarter, GRF revenue is forecast to increase \$64.1 million from budget.

| Revenue Reconciliation<br>(millions of dollars) |                    |
|---|--------------------|
| <b>Budget Estimate</b>                          | <b>\$ 10,794.3</b> |
| <b>First Quarter Changes</b>                    |                    |
| <b>Own-Source Revenue</b>                       |                    |
| Resource Surcharge                              | + 30.0             |
| Interest, Premium, Discount<br>and Exchange     | + 15.1             |
| Oil   | - 21.2             |
| Other net changes                               | - 1.8              |
| <b>Own-Source Change</b>                        | <b>+ 22.1</b>      |
| Federal Transfers                               | + 42.0             |
| <b>Total Change</b>                             | <b>+ 64.1</b>      |
| <b>1<sup>st</sup> Quarter Forecast</b>          | <b>\$ 10,858.4</b> |

Non-renewable resource revenue is forecast to increase \$0.4 million, primarily due to increases in resource surcharge and potash, partially offset by decreased forecasts for oil, other non-renewable resources and natural gas revenue.

- Natural Gas revenue is forecast to decrease by \$1.5 million, primarily due to a decrease in production and a lower average fieldgate price forecast. Production has decreased from 160.2 billion cubic feet (bcf) at budget to 159.2 bcf at first quarter. The average fieldgate price is now forecast to be \$3.40 per gigajoule (GJ), down from the budget assumption of \$3.65 per GJ.

- Oil revenue is forecast to decrease by \$21.2 million, primarily due to a higher average exchange rate forecast, an increase in the light-heavy differential and a decrease in production, partially offset by a higher average West Texas Intermediate (WTI) oil price forecast. Oil production is forecast to decrease from 159.4 million barrels at budget to 147.7 million barrels as a result of the flooding in the southeast part of the province during the spring and summer months of 2011.
- The average exchange rate forecast is 103.16 US cents, up from the budget estimate of 99.82 US cents. The light-heavy differential has increased from 15.3 per cent at budget to 17.2 per cent at first quarter. The average 2011-12 WTI price is now forecast at US\$100.73 per barrel, up from the budget assumption of US\$93.75 per barrel. The above-mentioned factors have resulted in a 2011-12 average well-head price, in Canadian dollars, of \$79.08 per barrel, up from the budget assumption of \$77.38 per barrel.
- Potash revenue is forecast to increase by \$0.3 million, primarily due to higher-than-expected profit taxes as a result of an increase in average price and sales volume. The 2011-12 average price forecasts have been increased to C\$655 per K<sub>2</sub>O tonne (US\$412 per KCl tonne) from the budget assumption of C\$646 per K<sub>2</sub>O tonne (US\$393 per KCl tonne). Total sales in 2011-12 are now forecast at 10.5 million K<sub>2</sub>O tonnes, up slightly

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from the budget assumption of 10.4 million K<sub>2</sub>O tonnes.

- Resource surcharge revenue is forecast to increase by \$30.0 million, primarily due to stronger-than-expected prior-year payments received year-to-date.
- Other non-renewable resource revenue is forecast to decrease by \$7.2 million, primarily due to a lower average price forecast for uranium.

Other own-source revenue is forecast to increase by \$21.7 million, primarily due to higher Interest, Premium, Discount and Exchange revenue reflecting realized gains on the sale of investments, and an increase in Sales, Services and Service fees revenue.

Transfers from the Government of Canada are forecast to increase by \$42.0 million, due to the federal contribution to the Provincial Disaster Assistance Program.

## EXPENSE UPDATE

At first quarter, total GRF expense is forecast to be up \$107.4 million from budget.

| Expense Reconciliation<br>(millions of dollars) |                    |
|---|--------------------|
| <b>Budget Estimate</b>                          | <b>\$ 10,679.3</b> |
| <b>First Quarter Changes</b>                    |                    |
| Education                                       | + 48.1             |
| Teachers' Pensions and Benefits                 | + 2.7              |
| Corrections, Public Safety<br>and Policing      | + 40.0             |
| Highways and Infrastructure                     | + 20.0             |
| Chief Electoral Officer                         | + 1.5              |
| Debt Servicing                                  | - 5.0              |
| Other net changes                               | + 0.1              |
| <b>Total Change</b>                             | <b>+ 107.4</b>     |
| <b>1<sup>st</sup> Quarter Forecast</b>          | <b>\$ 10,786.7</b> |

Increases since budget occurred in the following ministries.

- Education is up \$48.1 million from budget, primarily due to the net increased salary expense related to the Teachers' Collective Bargaining Agreement.
- Education – Teachers' Pensions and Benefits is up \$2.7 million from budget, due increased expense related to the Teachers' Collective Bargaining Agreement.

- Corrections, Public Safety and Policing is up \$40.0 million from budget, due to higher-than-anticipated claims under the Provincial Disaster Assistance Program, mainly related to spring flooding. This is offset by \$32.0 million in federal cost-sharing.
- Highways and Infrastructure is up \$20.0 million from budget, due to emergency repairs related to flooding and extreme weather conditions. This is offset by \$10.0 million in federal cost-sharing.
- Chief Electoral Officer is up \$1.5 million from budget, due to enumeration.

Debt servicing expense is down \$5.0 million from budget, due to lower-than-anticipated requirements for notes issued on behalf of Crown corporations and lower-than-anticipated short-term interest rates.

## DEBT UPDATE

The GRF borrows for government and Crown corporations. Public debt is composed of gross debt less sinking funds.

Government general public debt at March 31, 2012 is currently forecast to be \$3.8 billion, a reduction of \$325.0 million from March 31, 2011 and \$5.3 million lower than the budgeted amount.

Crown corporations are responsible for the principal and interest payments on their debt. Crown corporation debt is incurred in the normal course of business, primarily for investment in infrastructure and business development initiatives which provide revenue streams to service the debt.

Crown corporation debt is divided into two components: Crown corporation general debt and Government business enterprise (GBE) specific debt.

Crown corporation public debt is forecast to be \$427.1 million lower than the amount anticipated for 2011-12 in the budget, primarily due to timing of capital projects and higher-than-expected earnings from operations at SaskPower.

Crown corporation general public debt is forecast to be \$0.7 billion, an increase of \$120.4 million from the 2010-11 actual. GBE specific public debt is forecast to be \$3.9 billion, an increase of \$507.9 million from the 2010-11 actual.

Taken together, Crown corporation public debt is currently forecast to be \$4.6 billion, an increase of \$628.3 million from the 2010-11 actual.

### 2011-12 1<sup>st</sup> Quarter Debt Overview

|  | 2010-11<br>Actual | As at March 31, 2012 |                                     | Change from       |                    |
|--|-------------------|----------------------|-------------------------------------|-------------------|--------------------|
|  |                   | Budget<br>Estimate   | 1 <sup>st</sup> Quarter<br>Forecast | 2010-11<br>Actual | Budget<br>Estimate |
| As at March 31                           |                   |                      |                                     |                   |                    |
| <i>(millions of dollars)</i>             |                   |                      |                                     |                   |                    |
| GRF Government General Public Debt       | \$ 4,135.2        | \$ 3,815.5           | \$ 3,810.2                          | \$ (325.0)        | \$ (5.3)           |
| GRF Crown Corporation Public Debt        |                   |                      |                                     |                   |                    |
| Crown Corporation General                | 609.1             | 742.7                | 729.5                               | 120.4             | (13.2)             |
| Government Business Enterprise Specific  | 3,373.8           | 4,295.6              | 3,881.7                             | 507.9             | (413.9)            |
| <b>GRF Crown Corporation Public Debt</b> | <b>3,982.9</b>    | <b>5,038.3</b>       | <b>4,611.2</b>                      | <b>628.3</b>      | <b>(427.1)</b>     |
| <b>GRF Public Debt</b>                   | <b>\$ 8,118.1</b> | <b>\$ 8,853.8</b>    | <b>\$ 8,421.4</b>                   | <b>\$ 303.3</b>   | <b>\$ (432.4)</b>  |
| Guaranteed Debt                          | \$ 35.4           | \$ 91.3              | \$ 80.4                             | \$ 45.0           | \$ (10.9)          |

**2011-12 1<sup>st</sup> Quarter Financial Report**  
**Province of Saskatchewan**  
**General Revenue Fund**  
**Statement of Revenue**

|  | <b>Budget<br/>Estimate</b>    | <b>1<sup>st</sup> Quarter<br/>Forecast</b> | <b>Change from<br/>Budget</b> |
|--|-------------------------------|--|-------------------------------|
|  | <i>(thousands of dollars)</i> |  |                               |
| Corporation Income                             | \$ 1,080,700                  | \$ 1,080,700                               | \$ -                          |
| Fuel   | 461,300                       | 461,300                                    | -                             |
| Individual Income                              | 1,915,200                     | 1,915,200                                  | -                             |
| Provincial Sales                               | 1,270,700                     | 1,270,700                                  | -                             |
| Tobacco  | 253,200                       | 253,200                                    | -                             |
| Other  | 286,700                       | 286,700                                    | -                             |
| <b>Taxes</b>                                   | <b>\$ 5,267,800</b>           | <b>\$ 5,267,800</b>                        | <b>\$ -</b>                   |
| Crown Land Sales                               | \$ 436,400                    | \$ 436,400                                 | \$ -                          |
| Natural Gas                                    | 22,500                        | 21,000                                     | (1,500)                       |
| Oil  | 1,410,100                     | 1,388,900                                  | (21,200)                      |
| Potash   | 381,300                       | 381,600                                    | 300                           |
| Resource Surcharge                             | 438,300                       | 468,300                                    | 30,000                        |
| Other  | 140,300                       | 133,100                                    | (7,200)                       |
| <b>Non-Renewable Resources</b>                 | <b>\$ 2,828,900</b>           | <b>\$ 2,829,300</b>                        | <b>\$ 400</b>                 |
| Crown Investments Corporation of Saskatchewan  | \$ 110,000                    | \$ 110,000                                 | \$ -                          |
| - Special Dividend                             | 10,000                        | 10,000                                     | -                             |
| Saskatchewan Liquor and Gaming Authority       | 422,000                       | 422,000                                    | -                             |
| Other Enterprises and Funds                    | 45,800                        | 45,800                                     | -                             |
| <b>Transfers from Crown Entities</b>           | <b>\$ 587,800</b>             | <b>\$ 587,800</b>                          | <b>\$ -</b>                   |
| Fines, Forfeits and Penalties                  | \$ 13,200                     | \$ 13,200                                  | \$ -                          |
| Interest, Premium, Discount and Exchange       | 136,500                       | 151,600                                    | 15,100                        |
| Motor Vehicle Fees                             | 162,000                       | 162,000                                    | -                             |
| Other Licences and Permits                     | 24,600                        | 26,800                                     | 2,200                         |
| Sales, Services and Service Fees               | 124,100                       | 128,500                                    | 4,400                         |
| Transfers from Other Governments               | 15,600                        | 15,600                                     | -                             |
| Other  | 65,000                        | 65,000                                     | -                             |
| <b>Other Revenue</b>                           | <b>\$ 541,000</b>             | <b>\$ 562,700</b>                          | <b>\$ 21,700</b>              |
| <b>Own-Source Revenue</b>                      | <b>\$ 9,225,500</b>           | <b>\$ 9,247,600</b>                        | <b>\$ 22,100</b>              |
| Canada Health Transfer                         | \$ 847,100                    | \$ 847,100                                 | \$ -                          |
| Canada Social Transfer                         | 352,700                       | 352,700                                    | -                             |
| Other  | 369,000                       | 411,000                                    | 42,000                        |
| <b>Transfers from the Government of Canada</b> | <b>\$ 1,568,800</b>           | <b>\$ 1,610,800</b>                        | <b>\$ 42,000</b>              |
| <b>Revenue</b>                                 | <b>\$ 10,794,300</b>          | <b>\$ 10,858,400</b>                       | <b>\$ 64,100</b>              |

**2011-12 1<sup>st</sup> Quarter Financial Report**  
**Province of Saskatchewan**  
**General Revenue Fund**  
**Statement of Expense**

|  | <b>Budget<br/>Estimate</b>    | <b>1<sup>st</sup> Quarter<br/>Forecast</b> | <b>Change from<br/>Budget</b> |
|--|-------------------------------|--|-------------------------------|
|  | <i>(thousands of dollars)</i> |  |                               |
| <b>Ministries and Agencies</b>                 |                               |  |                               |
| Advanced Education, Employment and Immigration | \$ 855,905                    | \$ 855,905                                 | \$ -                          |
| Agriculture                                    | 417,880                       | 417,880                                    | -                             |
| Corrections, Public Safety and Policing        | 367,500                       | 407,500                                    | 40,000                        |
| Education                                      | 1,233,792                     | 1,281,852                                  | 48,060                        |
| - Teachers' Pensions and Benefits              | 198,507                       | 201,180                                    | 2,673                         |
| Energy and Resources                           | 37,137                        | 37,137                                     | -                             |
| Enterprise and Innovation Programs             | 27,347                        | 27,347                                     | -                             |
| Enterprise Saskatchewan                        | 41,803                        | 41,803                                     | -                             |
| Environment                                    | 180,539                       | 180,539                                    | -                             |
| Executive Council                              | 12,214                        | 12,214                                     | -                             |
| Finance  | 58,911                        | 58,911                                     | -                             |
| - Public Service Pensions and Benefits         | 280,860                       | 280,860                                    | -                             |
| Finance Debt Servicing                         | 420,000                       | 415,000                                    | (5,000)                       |
| First Nations and Métis Relations              | 82,255                        | 82,255                                     | -                             |
| Government Services                            | 12,802                        | 12,802                                     | -                             |
| Health   | 4,462,620                     | 4,462,620                                  | -                             |
| Highways and Infrastructure                    | 380,311                       | 400,311                                    | 20,000                        |
| Information Technology Office                  | 16,374                        | 16,374                                     | -                             |
| Innovation Saskatchewan                        | 3,467                         | 3,467                                      | -                             |
| Justice and Attorney General                   | 145,465                       | 145,465                                    | -                             |
| Labour Relations and Workplace Safety          | 16,972                        | 16,972                                     | -                             |
| Municipal Affairs                              | 388,713                       | 388,713                                    | -                             |
| Office of the Provincial Capital Commission    | 10,595                        | 10,595                                     | -                             |
| Office of the Provincial Secretary             | 3,579                         | 3,579                                      | -                             |
| Public Service Commission                      | 37,993                        | 37,993                                     | -                             |
| Saskatchewan Research Council                  | 18,133                        | 18,133                                     | -                             |
| Social Services                                | 814,172                       | 814,172                                    | -                             |
| Tourism, Parks, Culture and Sport              | 100,703                       | 100,703                                    | -                             |
| <b>Legislative Assembly and its Officers</b>   |                               |  |                               |
| Chief Electoral Officer                        | 14,284                        | 15,784                                     | 1,500                         |
| Children's Advocate                            | 1,833                         | 1,833                                      | -                             |
| Conflict of Interest Commissioner              | 145                           | 145  | -                             |
| Information and Privacy Commissioner           | 1,114                         | 1,214                                      | 100                           |
| Legislative Assembly                           | 24,225                        | 24,277                                     | 52                            |
| Ombudsman                                      | 2,982                         | 2,982                                      | -                             |
| Provincial Auditor                             | 8,134                         | 8,134                                      | -                             |
| <b>Expense</b>                                 | <b>\$ 10,679,266</b>          | <b>\$ 10,786,651</b>                       | <b>\$ 107,385</b>             |

**2011-12 1<sup>st</sup> Quarter Financial Report**  
**Province of Saskatchewan**  
**General Revenue Fund**  
**Statement of Debt**

|  | 2010-11             |           | 2011-12                 |           | Change from      |
|--|---------------------|-----------|-------------------------|-----------|------------------|
| Debt as at March 31  | Actual              |           | 1 <sup>st</sup> Quarter |           | 2010-11          |
|  |                     |           | Forecast                |           | Actual           |
| <i>(thousands of dollars)</i>                              |                     |           |                         |           |                  |
| <b>Government General Public Debt</b>                      | <b>\$ 4,135,226</b> | <b>\$</b> | <b>3,810,226</b>        | <b>\$</b> | <b>(325,000)</b> |
| <b>Crown Corporation General Debt</b>                      |                     |           |                         |           |                  |
| Information Services Corporation of Saskatchewan           | \$ 13,547           | \$        | 9,900                   | \$        | (3,647)          |
| Municipal Financing Corporation of Saskatchewan            | 6,249               |           | 6,203                   |           | (46)             |
| Saskatchewan Housing Corporation                           | 29,762              |           | 28,316                  |           | (1,446)          |
| Saskatchewan Opportunities Corporation                     | 36,170              |           | 39,574                  |           | 3,404            |
| Saskatchewan Power Corporation                             | 97,823              |           | 96,701                  |           | (1,122)          |
| Saskatchewan Telecommunications Holding Corporation        | -                   |           | 111,400                 |           | 111,400          |
| Saskatchewan Water Corporation                             | 49,151              |           | 55,523                  |           | 6,372            |
| SaskEnergy Incorporated                                    | 376,342             |           | 381,854                 |           | 5,512            |
| <b>Crown Corporation General Public Debt</b>               | <b>\$ 609,044</b>   | <b>\$</b> | <b>729,471</b>          | <b>\$</b> | <b>120,427</b>   |
| <b>Government Business Enterprise Specific Debt</b>        |                     |           |                         |           |                  |
| Municipal Financing Corporation of Saskatchewan            | \$ 97,330           | \$        | 126,906                 | \$        | 29,576           |
| Saskatchewan Gaming Corporation                            | 6,000               |           | 12,800                  |           | 6,800            |
| Saskatchewan Power Corporation                             | 2,415,601           |           | 2,853,706               |           | 438,105          |
| Saskatchewan Telecommunications Holding Corporation        | 369,928             |           | 411,226                 |           | 41,298           |
| SaskEnergy Incorporated                                    | 484,933             |           | 477,076                 |           | (7,857)          |
| <b>Government Business Enterprise Specific Public Debt</b> | <b>\$ 3,373,792</b> | <b>\$</b> | <b>3,881,714</b>        | <b>\$</b> | <b>507,922</b>   |
| <b>Public Debt</b>   | <b>\$ 8,118,062</b> | <b>\$</b> | <b>8,421,411</b>        | <b>\$</b> | <b>303,349</b>   |
| <b>Public Debt by Category</b>                             |                     |           |                         |           |                  |
| Government General Gross Debt                              | \$ 6,111,642        | \$        | 5,814,918               | \$        | (296,724)        |
| Government General Sinking Funds                           | (1,976,416)         |           | (2,004,692)             |           | (28,276)         |
| <b>Government General Public Debt</b>                      | <b>\$ 4,135,226</b> | <b>\$</b> | <b>3,810,226</b>        | <b>\$</b> | <b>(325,000)</b> |
| Crown Corporation Gross Debt                               | \$ 4,438,241        | \$        | 5,127,759               | \$        | 689,518          |
| Crown Corporation Sinking Funds                            | (455,405)           |           | (516,574)               |           | (61,169)         |
| <b>Crown Corporation Public Debt</b>                       | <b>\$ 3,982,836</b> | <b>\$</b> | <b>4,611,185</b>        | <b>\$</b> | <b>628,349</b>   |
| <b>Public Debt</b>   | <b>\$ 8,118,062</b> | <b>\$</b> | <b>8,421,411</b>        | <b>\$</b> | <b>303,349</b>   |
| <b>Guaranteed Debt</b>                                     | <b>\$ 35,428</b>    | <b>\$</b> | <b>80,435</b>           | <b>\$</b> | <b>45,007</b>    |