

The Honourable Kevin Doherty
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

15-16

**KEEPING
SASKATCHEWAN
STRONG**

**FIRST QUARTER
FINANCIAL REPORT**

2015-16 First Quarter Financial Report
Government of Saskatchewan
August 31, 2015

INTRODUCTION

2015-16 First Quarter Financial Report

Faced with challenges posed by weak oil prices, economic uncertainty, debt struggles in Europe and slower growth in China, Saskatchewan's economy has remained positive.

- Saskatchewan's population and employment continue to grow.
- Saskatchewan continues to have the lowest unemployment rate among provinces.
- The province has posted the strongest growth in wholesale trade in Canada thus far this year.

Nonetheless, the impact of these global economic challenges (particularly on the oil sector), combined with the impact of weather-related challenges this year and last (resulting in an unusually high number of fires this year following significant flooding last year), underpin a deterioration in the Province's fiscal position in 2015-16.

Without any action, a \$292 million deficit is projected for 2015-16 at first quarter.

- Revenue is forecast to be down about \$238 million from budget, primarily reflecting the impact on both resource revenue and consumption taxes of a sluggish performance in the oil sector at the end of last year and through the

first quarter of this year, partially offset by higher-than-expected results in the Crown sector.

- Expense is forecast to be up \$161 million from budget, reflecting an expected \$100 million increase in fire related costs, combined with higher costs related to flooding and additional assistance for family services and persons with disabilities.

It is expected that the province will meet these challenges and restore balance during the course of this fiscal year.

ECONOMIC UPDATE

2015 Performance

Saskatchewan's economic performance in 2015 has been impacted by weak oil prices, economic uncertainty and debt challenges in Europe as well as slower growth in China.

The value of the Canadian dollar has depreciated against the U.S. dollar, largely due to weak oil prices and the recent easing of monetary policy by the Bank of Canada.

Saskatchewan's population and employment, however, continue to grow.

- Through the first seven months of 2015, total employment in Saskatchewan increased by 3,300.
- Over the same period, Saskatchewan continued to have the lowest unemployment rate among provinces at 5.0 per cent.

- Between April 1, 2014 and April 1, 2015, Saskatchewan's population increased by 1.27 per cent, the second-best percentage increase among provinces.

The province has also posted the strongest growth in wholesale trade in Canada thus far in 2015.

Despite signs of slowing down in some economic indicators thus far this year, over the longer term Saskatchewan's economy has remained solid and outperformed other provinces in a number of key areas. Since 2009, Saskatchewan has had:

- the lowest unemployment rate;
- the fastest growth among provinces in wholesale trade;

SURVEY OF CANADIAN DOLLAR FORECASTS* (In US Cents)

	2015	2016	Release Date
IHS Global Insight	78.2	77.3	Aug-15
Conference Board of Canada	80.0	81.0	Jun-15
The Centre for Spatial Economics	78.9	79.2	Aug-15
TD Bank	77.0	74.3	Jul-15
RBC	74.6	76.9	Aug-15
BMO	78.6	78.1	Aug-15
CIBC	78.5	76.8	Jul-15
Scotia Bank	76.9	77.8	Aug-15
Laurentian Bank	77.3	75.0	Aug-15
Private Sector Average	77.8	77.4	
2015-16 Budget Assumption	79.0	81.0	

* As of August 20, 2015.

SASKATCHEWAN ECONOMIC INDICATORS

	2014 Actual	2015 Estimate*	2015 (YTD) % Change	2009 to 2015		
				Saskatchewan		Canada
				% Change	Rank	% Change
Employment (000s)	570.9	574.3	0.6	9.2	3	7.3
Unemployment Rate (%)	3.8	5.0	5.0	4.7**	Lowest	7.5
Consumer Price Index (2002=100)	128.7	130.6	1.5	11.5	4	10.5
Average Weekly Earnings (\$)	975.2	995.1	2.0	24.1	2	16.4
Retail Sales (\$B)	19.1	18.5	(3.4)	26.6	3	24.0
Wholesale Trade (\$B)	26.1	29.7	13.7	84.9	1	34.7
New Motor Vehicle Sales (# of Units)	58,434	55,876	(4.4)	24.5	6	30.9
Manufacturing Sales (\$B)	16.4	14.8	(9.8)	31.7	2	25.2
International Exports (\$B)	35.2	33.1	(6.2)	52.0	3	43.3
Building Permits (\$B)	2.7	2.4	(11.0)	25.7	5	41.4
Housing Starts (# of Units)	8,257	5,508	(33.3)	42.5	4	27.3
Investment in New Housing Construction (\$B)	1.9	1.6	(16.2)	79.0	2	45.8
Investment in Non-residential Building Construction (\$B)	1.8	1.7	(6.4)	14.1	5	21.6

Source: Statistics Canada. As of August 21, 2015.

* Estimates based on 2015 year-to-date growth and 2014 actual, except for the unemployment rate which is the year-to-date average.

** Average of the period.

- the second-highest growth in average weekly earnings, manufacturing and investment in new housing construction; and,
- the third-strongest growth in employment, retail sales and international exports.

Private sector forecasters recently revised down their growth outlook for all oil-producing provinces, mainly due to weak

oil prices. On average, they reduced Saskatchewan's 2015 real GDP growth forecast from 1.4 per cent to 0.4 per cent. The revised average private sector forecast of 0.4 per cent is lower than the 2015-16 Budget forecast of 0.8 per cent, but remains positive.

On average, private forecasters expect Saskatchewan's real GDP to grow by 2.1 per cent in 2016, the third-highest growth among provinces.

PRIVATE SECTOR REAL GDP FORECASTS FOR SASKATCHEWAN* (Per Cent Change)

	2015	2016	Release Date
IHS Global Insight	0.3	1.7	Jul-15
Conference Board of Canada	(0.2)	2.6	Aug-15
The Centre for Spatial Economics	0.1	2.6	Aug-15
TD Bank	0.2	1.9	Jul-15
RBC	1.6	1.9	Jun-15
Bank of Montreal	0.5	2.0	Jul-15
CIBC	0.3	2.6	Jun-15
Scotiabank	0.2	1.5	Jul-15
Laurentian Bank	1.0	2.0	Mar-15
Average of Private Sector Forecasts	0.4	2.1	
Ministry of Finance (2015-16 Budget)	0.8	2.4	

* As of August 20, 2015.

2015-16 BUDGET UPDATE

First Quarter

OVERVIEW

The 2015-16 Budget estimated a surplus of \$106.8 million before the adjustment to account for pension costs on an accrual basis.

At first quarter, a deficit of \$292.0 million is forecast before the adjustment to

account for pension costs on an accrual basis, a \$398.8 million deterioration from budget.

- Revenue is forecast to be down \$237.8 million, or 1.7 per cent, from budget.
- Expense is forecast to be up \$161.0 million, or 1.1 per cent, from budget.

2015-16 BUDGET UPDATE - FIRST QUARTER (Millions of Dollars)

	Budget	First Quarter Forecast	Change
Revenue			
Taxation	6,808.1	6,754.9	(53.2)
Non-Renewable Resources	2,453.2	2,212.6	(240.6)
Other Own-Source Revenue	1,890.8	1,872.4	(18.4)
Transfers from the Federal Government	2,223.0	2,231.9	8.9
Net Income from Government Business Enterprises	904.9	970.4	65.5
Total Revenue	14,280.0	14,042.2	(237.8)
Expense			
Agriculture	721.6	721.6	-
Community Development	531.9	531.9	-
Debt Charges	305.1	305.1	-
Economic Development	256.6	256.6	-
Education	3,661.0	3,661.0	-
Environment and Natural Resources	242.1	292.1	50.0
Health	5,507.0	5,507.0	-
Protection of Persons and Property	625.7	655.1	29.4
Social Services and Assistance	1,209.9	1,241.5	31.6
Transportation	544.1	544.1	-
Other	568.2	568.2	-
Total Expense (prior to further allowance)*	14,173.2	14,284.2	111.0
Further Allowance for Fire Costs	-	50.0	50.0
Total Expense*	14,173.2	14,334.2	161.0
Surplus/(Deficit)*	106.8	(292.0)	(398.8)

* Before adjustment to account for pension costs on an accrual basis.

REVENUE UPDATE

At first quarter, revenue is forecast to be \$14.0 billion, a decrease of \$237.8 million from budget.

2015-16 REVENUE RECONCILIATION	
(Millions of Dollars)	
2015-16 Budget	14,280.0
First Quarter Changes:	
Non-Renewable Resources	(240.6)
Taxation	(53.2)
GBE Net Income	65.5
Other	(9.5)
Total First Quarter Change	(237.8)
2015-16 First Quarter Forecast	14,042.2

Non-renewable resources revenue is forecast to decrease \$240.6 million from budget. This decline reflects the impact of lower-than-budgeted oil prices, as well as lower price forecasts for uranium and potash, partially offset by a lower exchange rate.

West Texas Intermediate (WTI) oil prices averaged US\$57.94 per barrel over the first three months of the fiscal year, higher than the budget assumption of US\$57.15. However, the first quarter forecast incorporates a weaker outlook for WTI oil prices over the remainder of the year on the basis of the price declines experienced in July and August. WTI oil prices are now forecast to average US\$49.50 in 2015-16, a decrease of US\$7.65 from budget.

The first quarter forecast also incorporates a lower exchange rate assumption for 2015-16. After averaging 81.0 U.S. cents over the January to June period, including 81.4 U.S. cents in the April to June period, the value of the Canadian dollar has declined throughout the summer alongside falling WTI oil prices.

Private sector forecasters now expect, on average, the Canadian dollar to be 74.6 U.S. cents over the second half of 2015, resulting in a 2015 calendar-year average of 77.8 U.S. cents. For 2016, the average private sector forecast is 77.4 U.S. cents.

2015-16 NON-RENEWABLE RESOURCES FORECAST ASSUMPTIONS

	Budget	First Quarter Forecast	Change
WTI Oil Price (US\$/barrel)	57.15	49.50	(7.65)
Light-Heavy Differential (% of WTI)	19.1	15.5	(3.6)
Well-head Oil Price (C\$/barrel) ¹	53.01	54.68	1.67
Oil Production (million barrels)	178.7	168.4	(10.3)
Potash Price (mine netback, US\$/KCl tonne) ²	297	294	(3)
Potash Price (mine netback, C\$/K ₂ O tonne) ²	612	620	8
Potash Sales (million K ₂ O tonnes) ²	11.0	11.0	-
Uranium Price (C\$/Kg)	141	125	(16)
Canadian Dollar (US cents)	79.2	77.0	(2.2)

¹ The average price per barrel of Saskatchewan light, medium and heavy oil.

² Ministry of Finance calculations derived from calendar-year forecasts.

This revised private sector outlook, combined with the actual performance of the Canadian dollar over the April to June period, results in a revised 2015-16 fiscal-year exchange rate assumption of 77.0 U.S. cents, a decline of 2.2 U.S. cents from the budget assumption. This decline has somewhat softened the impact of lower resource prices at first quarter.

At first quarter, oil revenue is forecast to decrease \$167.9 million from budget. The decline is due to a lower WTI oil price forecast, partially offset by a lower exchange rate, and a lower production forecast. Oil production is now forecast at 168.4 million barrels, a decrease of 10.3 million barrels (5.8 per cent) from budget.

In addition, Crown land sales revenue is forecast to decrease \$55.0 million from budget against a backdrop of low oil prices. The forecast reflects lower-than-expected revenue from the first three sales of the fiscal year and reduced forecasts for the final three sales of the year.

Other non-renewable resources revenue, including uranium, coal and other minerals, is forecast to decrease \$50.9 million from budget largely due to lower-than-budgeted uranium prices, partially offset by a lower exchange rate.

Finally, potash royalties are forecast to increase \$35.8 million from budget as a lower exchange rate has more than offset a small decline in US-dollar potash prices. The result is a slight increase in average realized prices in Saskatchewan. Prices are now forecast to average C\$620 per

K₂O tonne in 2015-16, up from C\$612 at budget.

Taxation revenue is forecast to decrease \$53.2 million from budget due to reduced outlooks for Provincial Sales Tax (\$31.4 million) and Fuel Tax (\$21.8 million). These declines reflect the effect of falling oil prices and lower oil-sector activity on the broader provincial economy.

Other own-source revenue is forecast to decrease \$18.4 million from budget. Similar to tax revenue, this decrease largely reflects lower-than-expected economic activity in the province, including a \$14.4 million forecast reduction in Motor Vehicle Fees.

Transfers from the federal government are forecast to increase \$8.9 million from budget. The increase is primarily unbudgeted federal disaster assistance revenue related to Provincial Disaster Assistance Program expenses incurred this year.

Government Business Enterprise (GBE) net income is forecast to increase \$65.5 million from budget. The increase is largely a result of higher investment income on funds held for unexpected claims payments at the Saskatchewan Auto Fund and an increase in the net income forecast from SaskPower due to increased demand. These increases are partially offset by a lower net income forecast from Saskatchewan Government Insurance largely as a result of higher-than-expected claims costs from summer storms.

EXPENSE UPDATE

Expense in the first quarter update is consistent with the 2015-16 Budget presentation and is presented before the adjustment to account for pension costs on an accrual basis. Government's current cash pension payment requirements continue to be included in expense and budget balance forecasts.

At first quarter, expense is forecast to be \$14.3 billion, an increase of \$161.0 million from budget.

2015-16 EXPENSE RECONCILIATION

(Millions of Dollars)

2015-16 Budget	14,173.2
First Quarter Changes:	
Environment and Natural Resources	50.0
Social Services and Assistance	31.6
Protection of Persons and Property	29.4
Allowance for Fire Costs	50.0
Total First Quarter Change	161.0
2015-16 First Quarter Forecast	14,334.2

The first quarter forecast includes a \$100 million increase for costs incurred to respond to this year's wildfires. To date, the **Ministry of Environment** has received \$50 million in additional funding for fighting fires.

An additional \$50 million **allowance for fire costs** has been included at first quarter in recognition of the fact that the full cost of responding to wildfires and managing evacuations is unknown at this point in time.

Social Services and Assistance expense is forecast to be up \$31.6 million from budget, largely due to an increase at the Ministry of Social Services to address increased caseloads in the Saskatchewan Assured Income for Disabilities and Rental Housing Supplements programs, as well as increased costs for family services programs.

Protection of Persons and Property expense is forecast to be up \$29.4 million from budget for the Provincial Disaster Assistance Program for claims related to spring flooding and outstanding prior-year claims.

The adjustment to account for pension costs on an accrual basis is estimated at \$822.9 million, an increase of \$2.1 million from budget.

DEBT UPDATE

The Province's debt consists of:

- Government Service Organization Debt – all debt of government entities other than government business enterprises; and,
- Government Business Enterprise Debt – amounts borrowed by self-sufficient government organizations.

Government Business Enterprises have the financial and operating authority to sell goods and services to individuals and organizations outside government as their principal activity. Amounts borrowed by these entities are classified separately because they are expected to be repaid from cash flows generated by these business enterprises. In other words, this debt has been incurred to finance the business activities of Crown corporations, and it is supported by revenue from those Crown business activities.

Public debt is comprised of:

- Gross Debt – the amount of money owed to lenders; less
- Sinking Funds – the amount of money which has been set aside for the repayment of debt.

For 2015-16, public debt is expected to increase by nearly \$1.5 billion from the March 31, 2015 balance. This is primarily due to increased debt for the utility Crown corporations and \$700.0 million to enable the General Revenue Fund (GRF) to finance the Saskatchewan Builds Capital Plan.

Public debt at March 31, 2016 is forecast to be \$23.3 million lower than budgeted, due to decreased debt for government business enterprises.

2015-16 PUBLIC DEBT UPDATE - FIRST QUARTER

As at March 31

(Millions of Dollars)

	2014-15 Actual	2015-16		2015-16 First Quarter Change from	
		Budget ¹	First Quarter Forecast	2015-16 Budget ¹	2014-15 Actual
General Revenue Fund					
- Operating	3,800.0	3,800.0	3,800.0	-	-
- Saskatchewan Builds Capital Plan	-	700.0	700.0	-	700.0
Other Government Service Organizations	588.8	601.4	633.5	32.1	44.7
Government Service Organization Debt	4,388.8	5,101.4	5,133.5	32.1	744.7
Government Business Enterprise Debt	7,296.4	8,081.2	8,025.8	(55.4)	729.4
Public Debt	11,685.2	13,182.6	13,159.3	(23.3)	1,474.1
Guaranteed Debt	18.0	24.5	21.5	(3.0)	3.5

¹ The 2015-16 Budget information reflects balances as at March 31, 2015 as reported in the 2014-15 Public Accounts, adjusted by budgeted changes shown in the 2015-16 Budget.

SCHEDULE OF PUBLIC DEBT

As at March 31

(Millions of Dollars)

	2014-15 Actual	2015-16		
		Budget ¹	First Quarter Forecast	Change from Budget ¹
Government Service Organization Debt				
General Revenue Fund				
- Operating	3,800.0	3,800.0	3,800.0	-
- Saskatchewan Builds Capital Plan ²	-	700.0	700.0	-
Boards of Education	179.4	188.4	191.7	3.3
Global Transportation Hub Authority	17.0	25.0	25.0	-
Regional Health Authorities	99.6	98.2	122.0	23.8
Saskatchewan Housing Corporation	24.7	21.9	21.9	-
Saskatchewan Immigrant Investor Fund Inc.	198.3	185.2	179.8	(5.4)
Saskatchewan Opportunities Corporation	34.3	33.9	43.9	10.0
Water Security Agency	33.2	46.6	46.7	0.1
Other	2.3	2.2	2.5	0.3
Government Service Organization Debt	4,388.8	5,101.4	5,133.5	32.1
Government Business Enterprise Debt				
Municipal Financing Corporation of Saskatchewan	236.7	255.4	255.4	-
Saskatchewan Liquor and Gaming Authority	119.5	119.5	119.5	-
Saskatchewan Power Corporation	4,941.3	5,537.6	5,502.9	(34.7)
Saskatchewan Telecommunications Holding Corporation	833.0	902.4	910.9	8.5
Saskatchewan Water Corporation	44.6	51.2	52.0	0.8
SaskEnergy Incorporated	1,118.4	1,213.8	1,183.8	(30.0)
Other	2.9	1.3	1.3	-
Government Business Enterprise Debt³	7,296.4	8,081.2	8,025.8	(55.4)
Public Debt⁴	11,685.2	13,182.6	13,159.3	(23.3)
Guaranteed Debt	18.0	24.5	21.5	(3.0)

¹ The 2016 Budget information reflects balances as at March 31, 2015, as reported in the 2014-15 Public Accounts, adjusted by budgeted changes shown in the 2015-16 Budget.

² General Revenue Fund - Saskatchewan Builds Capital Plan consists of amounts borrowed by the General Revenue Fund to finance investment in infrastructure assets.

³ GBE debt includes both general debt and GBE-specific debt. General debt of GBEs is the amount transferred from the General Revenue Fund to a GBE and recorded as a loan receivable in the Summary Financial Statements. GBE-specific debt is debt issued by, or specifically on behalf of, GBEs. GBE-specific debt is included in "Investment in government business enterprises" in the Summary Financial Statements.

⁴ Public debt is shown net of sinking funds. Debt repayable in foreign currency is restated in equivalent Canadian dollars.

2015-16 SCHEDULE OF REVENUE

(Millions of Dollars)

	Budget	First Quarter Forecast	Change
Taxation			
Corporation Income	917.9	917.9	-
Fuel	544.1	522.3	(21.8)
Individual Income	2,625.4	2,625.4	-
Property	664.0	664.0	-
Provincial Sales	1,420.8	1,389.4	(31.4)
Tobacco	270.3	270.3	-
Other	365.6	365.6	-
Total Taxation	6,808.1	6,754.9	(53.2)
Non-Renewable Resources			
Crown Land Sales	112.6	57.6	(55.0)
Natural Gas	11.3	8.7	(2.6)
Oil	902.7	734.8	(167.9)
Potash	796.0	831.8	35.8
Resource Surcharge	386.7	386.7	-
Other	243.9	193.0	(50.9)
Total Non-Renewable Resources	2,453.2	2,212.6	(240.6)
Other Own-Source Revenue			
Fees	1,049.5	1,033.8	(15.7)
Insurance	241.6	241.6	-
Investment Income	131.4	131.4	-
Transfers from Other Governments	68.2	68.2	-
Other	400.1	397.4	(2.7)
Total Other Own-Source Revenue	1,890.8	1,872.4	(18.4)
Transfers from the Federal Government			
Canada Health Transfer	1,092.8	1,092.8	-
Canada Social Transfer	412.6	412.6	-
Other	717.6	726.5	8.9
Total Transfers from the Federal Government	2,223.0	2,231.9	8.9
Net Income from Government Business Enterprises			
Municipal Financing Corporation	1.0	1.0	-
Saskatchewan Auto Fund	33.1	91.0	57.9
Saskatchewan Gaming Corporation	25.9	25.9	-
Saskatchewan Government Insurance	36.6	28.3	(8.3)
Saskatchewan Liquor and Gaming Authority	499.8	499.8	-
Saskatchewan Power Corporation	82.1	98.9	16.8
Saskatchewan Telecommunications Holding Corporation	76.8	76.0	(0.8)
Saskatchewan Water Corporation	4.7	4.6	(0.1)
SaskEnergy Incorporated	77.5	77.5	-
Saskatchewan Workers' Compensation Board	72.8	72.8	-
Consolidation Adjustments	(5.4)	(5.4)	-
Total Net Income from Government Business Enterprises	904.9	970.4	65.5
Total Revenue	14,280.0	14,042.2	(237.8)

The Honourable Kevin Doherty
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

15-16

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