

The Honourable Kevin Doherty
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

16-17

**KEEP
SASKATCHEWAN
STRONG**

MID-YEAR REPORT

2016-17 Mid-Year Report
Government of Saskatchewan
November 22, 2016

TABLE OF CONTENTS

MID-YEAR REPORT

Introduction	1
Economic Update	3
Budget Update	11

SUPPLEMENTARY INFORMATION

Schedule of Revenue	19
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INTRODUCTION

2016-17 Mid-Year Report

In 2016, the Saskatchewan economy is generally performing as expected. The real GDP growth forecast remains unchanged from the 2016-17 Budget forecast at a decline of 0.6 per cent.

Following a weak performance in 2015, many of the key economic indicators remain below last year's levels through the first three quarters of the 2016 calendar year.

There are a couple of exceptions, including the third-fastest population growth, one of the lowest unemployment rates and the second-fastest increase in non-residential building construction among provinces.

And, positive growth in both retail sales and average weekly earnings through the first eight months of 2016 may indicate the economy's slide has bottomed out.

The outlook for 2017 remains positive. Saskatchewan real GDP is forecast to grow by 1.6 per cent in 2017 as both commodity prices and global demand improve.

Private sector forecasters are even more positive, projecting, on average, a decline of 0.3 per cent in 2016 followed by growth of 1.8 per cent in 2017.

Decreases in resource revenue, primarily due to lower-than-expected potash prices and a corresponding reduction in the Resource Surcharge, combined with reductions in income and consumption tax revenue, primarily related to poor performance in the resource sector in 2015-16 and 2016-17, have reduced the revenue projections from these sources by \$579.6 million from the 2016-17 Budget.

Increases in federal transfers and other own-source revenue – predominantly one-time revenue – largely offset these reductions. In addition, expense restraint in the Crown sector also contributes to higher revenue.

In addition, on June 29, the Workers' Compensation Board announced that, due to an accumulated surplus, \$281.5 million would be distributed to employers in 2016. The earnings that generated the surplus were recorded in the province's financial statements in the years in which they were earned. The effect of this transaction reduces WCB net earnings in the current year by \$281.5 million. Approximately \$46 million was distributed to employers in the Government reporting entity and therefore the net effect on the Summary Budget is \$235.5 million.

At mid-year, total revenue is projected to be \$13.70 billion, a net reduction of \$321.6 million from the 2016-17 Budget.

At the same time, expense is projected to be \$14.74 billion, a net increase of \$285.3 million from the 2016-17 Budget.

About \$360 million in expense increases, including increases related to anticipated higher-than-budgeted crop insurance claims, pressures in the health care system, utilization of income assistance, child and family services and rental housing supplements, disaster assistance, pressures in the courts, higher-than-expected custody counts, and the flow-through of federal post-secondary infrastructure funding are partially offset by restraint measures across the ministries and agencies.

The resulting deficit is projected to be \$1,041.1, including the \$235.5 million net impact of the WCB distribution to employers.

Given the nature and the magnitude of the WCB earnings distribution, it is displayed separately and was exempt from consideration in mid-year financial decisions.

Excluding the net WCB adjustment, the deficit is projected to be \$805.6 million – an increase of \$371.4 million from the 2016-17 Budget.

This larger deficit will require \$500 million in borrowing for government operations. When combined with other forecasted changes, public debt is projected to be \$15.2 billion at March 31, 2017 – up \$447.7 million from the budget estimate.

ECONOMIC UPDATE

INTRODUCTION

In 2016, the Saskatchewan economy is generally performing as expected earlier in the year. The real GDP growth forecast remains unchanged from the 2016-17 Budget forecast.

Like other provincial economies with large mining and oil and gas sectors, Saskatchewan's economy is expected to decline this year.

The outlook for 2017 remains positive. Saskatchewan real GDP is forecast to grow by 1.6 per cent in 2017 as both commodity prices and global demand improve.

GLOBAL ECONOMIC OUTLOOK

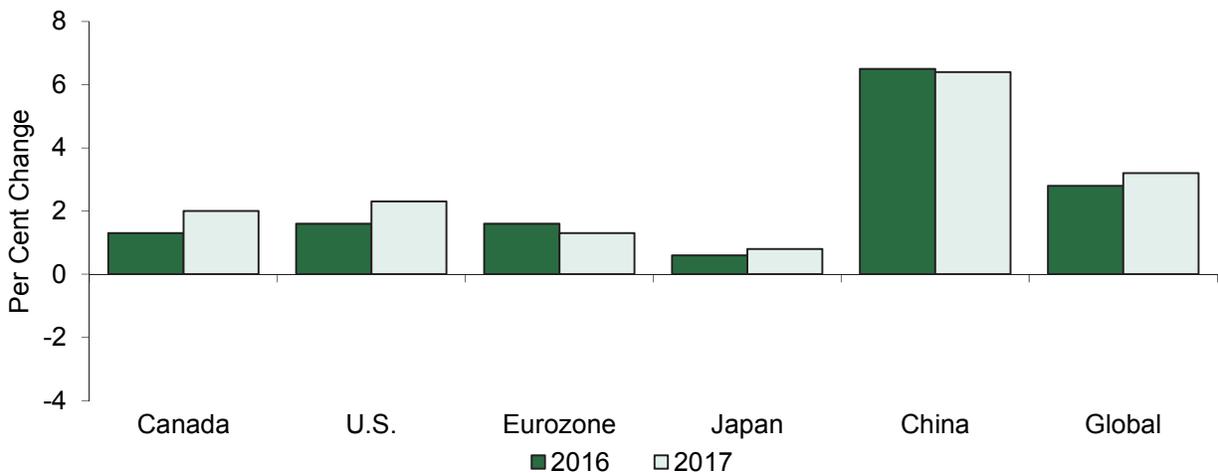
Global economic performance remains weak thus far in 2016 largely due to slower-than-expected U.S. growth.

The Eurozone economic recovery is still moving along at a slow pace but is expected to pick up in the latter part of this year. The Eurozone is forecast to grow by 1.6 per cent and 1.3 per cent in 2016 and 2017, respectively.

The uncertainty associated with the United Kingdom leaving the European Union, a weaker euro and challenges in the financial sector are the major downside risks to the Eurozone's economic outlook.

Japan's economic performance remains subdued despite recent policy efforts such

GLOBAL REAL GDP GROWTH ASSUMPTIONS



Sources: Bank of Canada (October 2016) and Conference Board of Canada (August 2016)

as monetary and fiscal stimulus and structural reforms. Overall, Japan's economy is forecast to grow by 0.6 per cent in 2016 and 0.8 per cent in 2017.

China is expected to be one of the key drivers of global growth. The pace of economic growth in China has slowed down from over 10 per cent in 2010 to about 6.9 per cent in 2015. China's real GDP is expected to grow at about 6.5 per cent in the near-term.

The U.S. economy grew at a weaker-than-expected pace in the first half of 2016, at an annualized rate of 0.8 per cent in the first quarter and 1.4 per cent in the second quarter of 2016.

U.S. real GDP, however, rebounded strongly and grew at an annualized rate of 2.9 per cent in the third quarter.

Overall, U.S. real GDP is expected to grow by 1.6 per cent in 2016 and 2.3 per cent in 2017.

CANADIAN ECONOMIC OUTLOOK

The Canadian economy is still undergoing an adjustment to low commodity prices. Canadian real GDP

grew at an annualized rate of 1.5 per cent in the first quarter but fell by 1.6 per cent in the second quarter of 2016. Weak investment spending in the energy sector, wildfires in Alberta which significantly affected oil production, and a broad-based decline in goods exports are the key factors.

Overall, Canadian real GDP is forecast to grow by 1.3 per cent this year and have stronger growth in 2017 at 2.0 per cent.

Canadian Interest Rates and the Canadian Dollar

Although there are concerns about housing market dynamics and high household debt, the Bank of Canada is maintaining its overnight rate target at 0.5 per cent to stimulate economic growth.

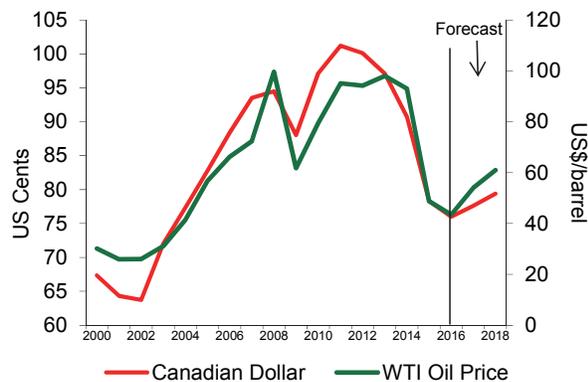
The value of the Canadian dollar has been affected by low commodity prices, in particular, oil prices.

The West Texas Intermediate (WTI) oil price dropped from a high of US\$95.11 per barrel in 2011 to US\$48.79 per barrel in 2015. Meanwhile, the value of the Canadian dollar depreciated from being at par with the U.S. dollar in 2011 to only 78.30 US cents in 2015.

CANADIAN AND U.S. GROWTH ASSUMPTIONS

	Actual 2015	2016-17 Budget			2016-17 Mid-Year		
		2016	2017	2018	2016	2017	2018
Can. real GDP growth (%)	0.9	1.9	2.4	2.5	1.3	2.0	1.8
U.S. real GDP growth (%)	2.6	2.1	2.8	2.7	1.6	2.3	2.3
Short-term Interest Rate (%)	0.50	0.46	1.12	2.29	0.50	0.50	0.72
10-yr Government of Canada Bond (%)	1.53	1.73	2.28	2.84	1.15	1.46	2.13
Canadian Dollar (US cents)	78.30	74.00	77.00	80.00	76.00	77.60	79.40

CANADIAN DOLLAR AND WTI OIL PRICE



Sources: Bank of Canada, Ministry of Finance and Ministry of the Economy

The value of the Canadian dollar is expected to increase along with higher oil prices over the forecast period.

SASKATCHEWAN 2016 PERFORMANCE

Following a weak performance in 2015, many indicators are down again this year due to continuing low commodity prices and modest global growth.

Mining investment, which has been a key driver of economic growth in recent years, continues to ease. For example, 1,831 new oil wells were drilled in the province in 2015, 50 per cent less than in 2014. Through the first nine months of 2016, drilling activity was down by a further 21 per cent.

Oil production fell by 5.6 per cent in 2015 to 177.6 million barrels, and is expected to fall by 6.8 per cent in 2016. Potash production is expected to decline by 1.2 per cent in 2016.

Other indicators, like international goods exports, investment in new housing construction, building permits, wholesale trade, new motor vehicle sales, housing starts and manufacturing sales are also down so far this year.

Despite these challenges, however, certain other indicators remain positive.

SASKATCHEWAN ECONOMIC INDICATORS

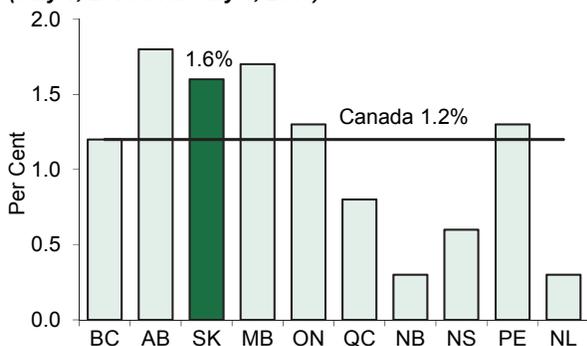
	2015 Actual	2016 Estimate*	2016 (YTD) % Change	2016 Rank	2010 to 2016		
					Saskatchewan % Change	Rank	Canada % Change
Population at July 1 (000s)	1,132.3	1,150.6	1.6	3rd	9.4	2nd	6.7
Employment (000s)	573.7	569.2	(0.8)	7th	7.2	2nd	6.5
Unemployment Rate (%)	5.0	6.3	6.3	3rd lowest	4.9	Lowest	7.3
Consumer Price Index (2002=100)	130.8	132.4	1.2	6th	11.6	3rd	10.2
Average Weekly Earnings (\$)	981.6	988.0	0.6	8th	17.2	2nd	12.2
Retail Sales (\$B)	18.5	18.6	0.9	9th	23.4	3rd	21.3
Wholesale Trade (\$B)	26.5	23.4	(11.9)	10th	33.3	4th	28.0
New Motor Vehicle Sales (# of Units)	55,273	51,438	(6.9)	9th	8.1	8th	25.8
Manufacturing Sales (\$B)	14.1	13.9	(1.3)	6th	28.0	2nd	15.6
International Exports (\$B)	32.6	25.7	(21.2)	9th	8.8	7th	22.8
Building Permits (\$B)	2.9	2.0	(30.5)	10th	(3.5)	6th	14.8
Housing Starts (# of Units)	5,149	4,918	(4.5)	5th	(16.7)	6th	4.1
Investment in New Housing Construction (\$B)	1.4	1.1	(21.9)	9th	11.7	3rd	31.2
Investment in Non-residential Building Construction (\$B)	1.8	2.0	12.6	2nd	25.6	2nd	9.4

Source: Statistics Canada

* Estimates based on 2016 year-to-date growth and 2015 actual, except for the unemployment rate which is the year-to-date average.

Between July 1, 2015 and July 1, 2016, Saskatchewan's population increased by 1.6 per cent. This was the third-highest percentage increase among provinces.

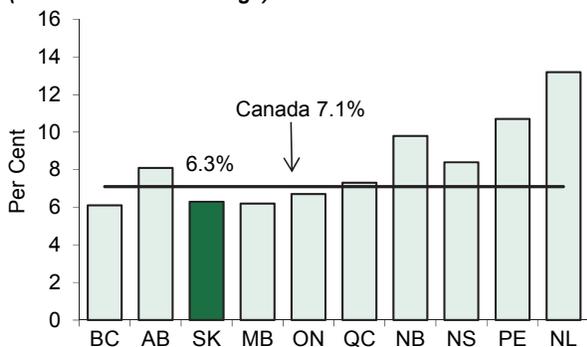
POPULATION GROWTH BY PROVINCE
(July 1, 2016 over July 1, 2015)



Source: Statistics Canada

Saskatchewan also continues to have one of the lowest unemployment rates in the country.

UNEMPLOYMENT RATE BY PROVINCE
(Jan. - Oct. 2016 Average)

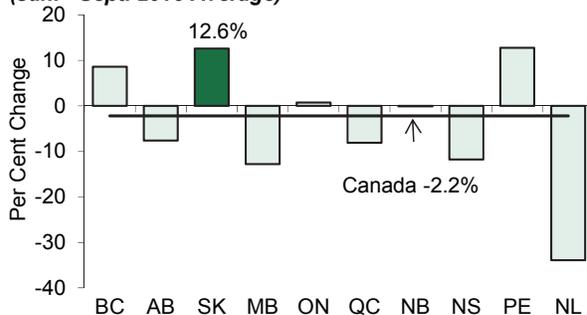


Source: Statistics Canada

Further, through the first nine months of 2016, investment in non-residential building construction was up 12.6 per cent, the second-highest increase among provinces.

INVESTMENT IN NON-RESIDENTIAL BUILDING CONSTRUCTION BY PROVINCE

(Jan. - Sept. 2016 Average)



Source: Statistics Canada

Through the first eight months of the year, retail sales were up by 0.9 per cent and average weekly earnings were up by 0.6 per cent.

Though many indicators are down this year, Saskatchewan's economy has still been one of the strongest economies in all of Canada over the last several years.

From 2010 to 2016, among all Canadian provinces, Saskatchewan's growth ranks:

- second in terms of population, employment, average weekly earnings, manufacturing sales and investment in non-residential building construction;
- third in terms of retail sales and investment in new housing construction; and,
- fourth in terms of wholesale trade.

SASKATCHEWAN ECONOMIC OUTLOOK

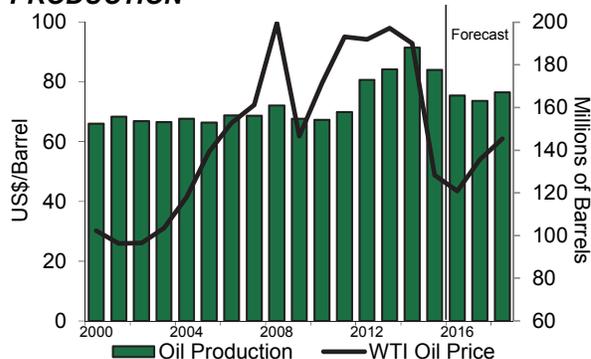
While some indicators are positive, the Saskatchewan economy continues to be affected by low commodity prices and modest global growth.

The price of WTI oil has strengthened somewhat since February of this year when it averaged just US\$30.62 per barrel.

For all of 2016, the price of WTI oil is now expected to average US\$43.50 per barrel, up US\$3.00 per barrel from the 2016 oil price assumption included in the 2016-17 Budget. Despite the slight improvement in the price of WTI oil, it still remains relatively low in comparison to where it was just a few years ago.

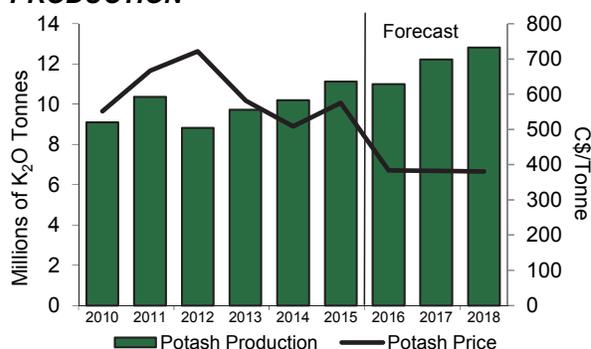
Potash prices continue to ease. The price of potash is now expected to average US\$177.69 per KCl tonne in 2016, down from US\$205.10 per KCl tonne in the 2016-17 Budget.

SASKATCHEWAN WTI OIL PRICE AND PRODUCTION



Source: Ministry of the Economy

SASKATCHEWAN POTASH PRICE AND PRODUCTION



Source: Ministry of the Economy

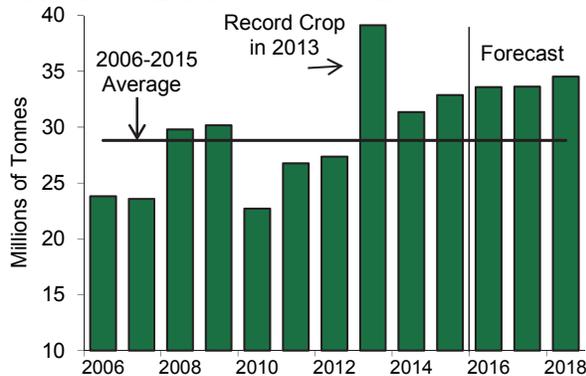
Oil and potash production are both expected to decline slightly from 2015 as a result of low prices.

COMMODITY PRICE ASSUMPTIONS - CALENDAR YEAR

	Actual 2015	2016-17 Budget			2016-17 Mid-Year		
		2016	2017	2018	2016	2017	2018
WTI Oil (US\$ per barrel)	48.79	40.50	51.00	60.00	43.50	54.00	61.00
Natural Gas (C\$ per GJ)	2.55	2.70	3.00	3.30	2.00	3.00	3.10
Potash (C\$ per K ₂ O tonne) ¹	575.44	456.59	445.89	436.43	383.29	381.94	380.75
Potash (US\$ per KCl tonne) ¹	274.85	205.10	209.43	212.98	177.69	180.80	184.41
Wheat (C\$ per tonne)	225.00	211.12	221.46	229.54	217.00	241.18	234.59
Canola (C\$ per tonne)	452.00	475.96	520.52	511.95	452.00	499.43	507.46

¹ The potash industry quotes prices in US dollars per KCl tonne. Provincial royalty calculations, however, are based on the Canadian dollar price per K₂O tonne.

Sources: Ministry of the Economy, Ministry of Agriculture

SASKATCHEWAN CROP PRODUCTION

Source: Ministry of Agriculture

Crop production is expected to increase by 2.2 per cent in 2016. While this is a smaller year-over-year increase than previously expected, it is due to the fact that 2015 crop production was larger than previously estimated. The current forecast assumes 2016 will see the second-largest crop in the province's history, bumping the 2015 crop into third place.

The outlook for housing starts in 2016 has improved since the release of the 2016-17 Budget. The number of housing starts through the first three months of this year was 22 per cent less than in the same period in 2015. More recent data covering the period January through September of

2016, however, indicate a much smaller decline of 4.5 per cent.

The effects of all of the changes since budget are expected to offset one another for the most part. As a result, the real GDP growth forecast for 2016 remains the same as the 2016-17 Budget forecast.

Saskatchewan real GDP is still expected to decline by 0.6 per cent in 2016. Nominal GDP, however, is now forecast to decline by 4.0 per cent, reflecting a much weaker potash price assumption for 2016. Total employment is expected to fall by 4,400.

The outlook for 2017 remains consistent with the 2016-17 Budget forecast as well. The price of WTI oil is expected to increase. As a result, drilling activity is anticipated to rebound. In addition, potash production is expected to pick up as global demand improves.

Overall, Saskatchewan real GDP and nominal GDP are expected to increase by 1.6 per cent and 5.6 per cent in 2017, respectively. Employment is expected to pick up again and increase by 3,100 next year.

SASKATCHEWAN FORECAST AT A GLANCE*(Per cent Change Unless Otherwise Noted)*

	2015*	2016-17 Budget			2016-17 Mid-Year		
		2016	2017	2018	2016	2017	2018
Real GDP	-1.3	-0.6	2.5	3.0	-0.6	1.6	2.3
Nominal GDP	-5.7	-3.0	6.8	6.1	-4.0	5.6	5.3
CPI	1.6	1.3	1.8	2.0	1.3	2.1	1.8
Employment growth (000s)	2.8	-3.2	5.2	4.8	-4.4	3.1	4.1
Unemployment rate (%)	5.0	6.7	6.4	6.4	6.2	6.1	6.0
Retail sales	-3.5	2.0	4.9	5.4	1.0	3.0	2.7

* Actual

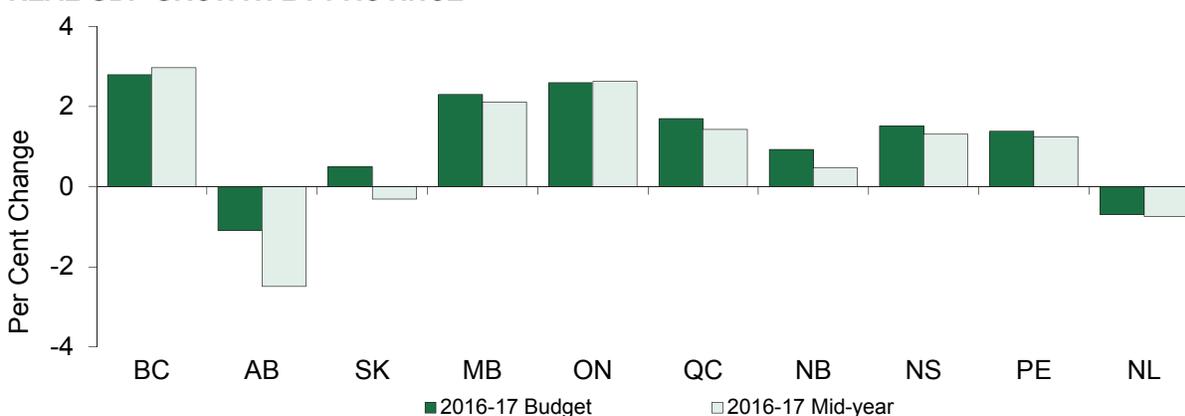
PRIVATE SECTOR FORECASTS

Private sector forecasters continue to revise down their real GDP growth forecasts for most provinces for 2016.

Alberta, Saskatchewan and Newfoundland and Labrador are all expected to post negative growth in 2016 as a result of low oil prices.

The private sector outlook for 2017 remains much the same as at the 2016-17 Budget. Canadian real GDP growth overall is expected to improve. Saskatchewan's economy is expected to grow by 1.8 per cent, the fourth-highest growth rate among provinces.

PRIVATE SECTOR FORECASTS OF 2016 REAL GDP GROWTH BY PROVINCE



Sources: Major Canadian banks, IHS Global Insight, CBOC, C₄SE.
Private sector forecast average as at November 15, 2016.

PRIVATE SECTOR FORECASTS OF REAL GDP GROWTH BY PROVINCE

(Per Cent Change)

	2015		2016		2017	
	Actual*	Rank		Rank		Rank
British Columbia	3.3	1	3.0	1	2.3	1
Alberta	(3.6)	10	(2.5)	10	2.2	2
Saskatchewan	(1.3)	8	(0.3)	8	1.8	4
Manitoba	2.2	4	2.1	3	2.1	3
Ontario	2.5	2	2.6	2	2.3	1
Quebec	1.2	6	1.4	4	1.6	5
New Brunswick	2.3	3	0.5	7	0.8	8
Nova Scotia	1.0	7	1.3	5	1.3	6
Prince Edward Island	1.3	5	1.2	6	1.2	7
Newfoundland and Labrador	(2.0)	9	(0.7)	9	(0.4)	9
Canada	0.9		1.3		2.0	

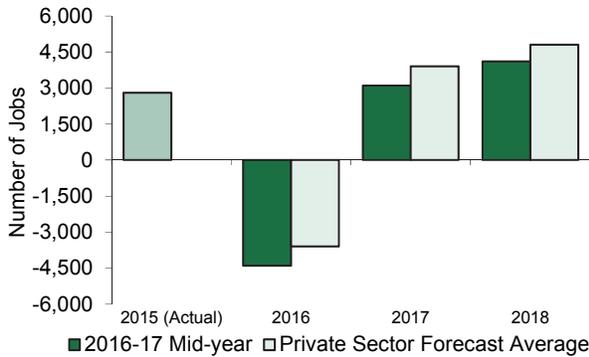
* Statistics Canada, Provincial Economic Accounts, November 9, 2016

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

	2016	2017	Cumulative Growth	Release Date
IHS Global Insight	(0.5)	2.0	1.5	Nov-16
Conference Board of Canada	0.3	1.6	1.9	Aug-16
The Centre for Spatial Economics	0.1	1.8	1.9	Aug-16
TD Bank	(0.4)	1.5	1.1	Sep-16
RBC	(0.9)	1.6	0.7	Sep-16
BMO	0.5	1.8	2.3	Oct-16
CIBC	(0.7)	1.8	1.1	Sep-16
Scotiabank	(0.5)	1.7	1.2	Oct-16
Laurentian Bank	(0.7)	2.0	1.3	Aug-16
Average of Private Sector Forecasts	(0.3)	1.8	1.4	
2016-17 Mid-year	(0.6)	1.6	1.0	

In terms of the employment outlook, the private sector, on average, expects Saskatchewan's employment to rebound and increase by 3,900 in 2017 and 4,800 in 2018.

EMPLOYMENT GROWTH FORECASTS



Sources: Major Canadian banks, IHS Global Insight, CBOC, C₄SE.
Private sector forecast average as at November 15, 2016.

CONCLUSION

Low commodity prices and weak global demand have had a negative effect on Saskatchewan's economy over the last few years. As a result, Saskatchewan real GDP is expected to decline by 0.6 per cent in 2016.

For 2017 and 2018, however, real GDP is forecast to grow by 1.6 per cent and 2.3 per cent, respectively, due to higher expectations for commodity prices and global economic growth. Despite recent challenges, Saskatchewan's economic fundamentals remain relatively strong, supporting a gradual return to growth.

2016-17 BUDGET UPDATE

Mid-Year

OVERVIEW

A mid-year deficit of \$805.6 million is projected, up \$371.4 million from budget, excluding the net Workers' Compensation Board (WCB) earnings distribution and the pension adjustment.

Large declines in taxation and resources revenue, as well as anticipated higher crop insurance claims and cost pressures, particularly in Health and Social Services, are projected.

2016-17 BUDGET UPDATE - MID-YEAR (Millions of Dollars)

	Budget	Mid-Year Projection	Change
Revenue			
Taxation	6,860.9	6,460.9	(400.0)
Non-Renewable Resources	1,484.9	1,305.3	(179.6)
Other Own-Source Revenue ¹	2,088.9	2,246.9	158.0
Transfers from the Federal Government	2,504.8	2,826.3	321.5
Net Income from Government Business Enterprises ¹	1,084.4	862.9	(221.5)
Total Revenue	14,023.9	13,702.3	(321.6)
Expense			
Agriculture	780.3	873.4	93.1
Community development	580.6	575.0	(5.6)
Debt charges ²	297.2	292.4	(4.8)
Economic development	250.2	243.9	(6.3)
Education ²	3,688.4	3,728.9	40.5
Environment and natural resources	237.0	237.7	0.7
Health ²	5,588.1	5,676.2	88.1
Protection of persons and property	640.3	679.7	39.4
Social services and assistance	1,243.9	1,305.2	61.3
Transportation	565.2	553.9	(11.3)
Other ²	586.9	577.1	(9.8)
Total Expense²	14,458.1	14,743.4	285.3
(Deficit)/Surplus^{1,2}	(434.2)	(1,041.1)	(606.9)
Net WCB Earnings Distribution adjustment	-	235.5	235.5
(Deficit)/Surplus (excluding WCB adjustment)²	(434.2)	(805.6)	(371.4)

¹ Including the net impact of the Workers' Compensation Board earnings distribution to employers announced on June 29, 2016.

² Before adjustment to account for pensions on an accrual basis.

These declines have been partially offset by expense restraint, increased federal transfer revenue, increased net income from Government Business Enterprises (excluding the WCB earnings distribution) and other own-source revenue.

Relative to budget:

- revenue is down \$321.6 million, or 2.3 per cent; and,
- expense is up \$285.3 million, or 2.0 per cent.

REVENUE UPDATE

At mid-year, revenue is forecast to be \$13.7 billion, down \$321.6 million from budget.

2016-17 REVENUE RECONCILIATION	
(Millions of Dollars)	
2016-17 Budget	14,023.9
Forecast Changes from Budget:	
Taxation	(400.0)
Non-Renewable Resources	(179.6)
Federal Transfers	321.5
GBE Net Income	(221.5)
Other	158.0
Total Change from Budget	(321.6)
2016-17 Mid-Year Projection	13,702.3

Taxation revenue is projected to decrease by \$400.0 million from budget.

Individual Income Tax revenue is projected to decrease by \$172.1 million from budget primarily due to ongoing weakness in the resource sector and its

impact on employment and wages. Assessments from 2015 are lower than previously anticipated, leading to a larger negative prior-year adjustment in 2016, as well as reducing the revenue base. Further, economic weakness appears to be deeper and more prolonged than previously anticipated, reducing the expected rate of revenue growth in 2016 and 2017.

Provincial Sales Tax and Fuel Tax revenue receipts have been weaker-than-expected through the end of September and are projected to decrease by \$127.8 million and \$20.4 million respectively. These decreases primarily reflect downward revisions to the provincial economic growth forecast.

Corporation Income Tax revenue is projected to decrease by \$81.0 million from budget primarily due to weaker-than-expected 2015 assessments, as the impact of low resource prices continues to impact the profitability of major corporations. This results in a large negative prior-year adjustment in 2016-17.

Non-renewable resources revenue is projected to decrease by \$179.6 million from budget.

Potash revenue is projected to decrease by \$140.8 million from budget primarily due to a decrease in average prices. Average prices in 2016-17 are projected at US\$178 per KCl tonne (C\$383 per K₂O tonne), down from the budget assumption of US\$207 per KCl tonne (C\$454 per K₂O tonne).

Resource Surcharge revenue is projected to decrease by \$57.0 million from budget primarily due to declining potash prices.

Other non-renewable resources revenue, including natural gas, uranium, coal and other minerals, is projected to decrease by a combined \$21.5 million from budget. The decrease is largely due to lower average uranium prices and sales volume.

Oil revenue is projected to increase by \$28.3 million, primarily due to a higher average West Texas Intermediate (WTI) oil price projection, partially offset by an increase in the average exchange rate projection.

The average 2016-17 WTI oil price is projected at US\$48.63 per barrel, up from the budget assumption of US\$44.88 per barrel.

The Canadian dollar is projected to average 77.2 U.S. cents, up from the budget assumption of 75.0 U.S. cents.

Finally, Crown land sales revenue is projected to increase by \$11.4 million from budget reflecting higher-than-expected year-to-date sales.

Other own-source revenue is forecast to increase \$158.0 million from budget.

Higher crop insurance premium revenue of \$40.2 million is expected due to a shift to higher premium rate crops and increased insured acres. Higher own-source revenue of \$38.9 million is forecast for the Regional Health Authorities, mainly due to higher out-of-country and out-of-province patient fees. WCB premium distribution to employers inside the entity, including health regions, school boards and executive government, is expected to increase own-source revenue by \$46.0 million. Higher investment income of \$37.3 million is forecast as a result of net investment gains in numerous government entities.

2016-17 NON-RENEWABLE RESOURCES FORECAST ASSUMPTIONS

	Budget	Mid-Year Projection	Change
WTI Oil Price (US\$/barrel)	44.88	48.63	3.75
Light-Heavy Differential (% of WTI)	21.5	20.6	(0.9)
Well-head Oil Price (C\$/barrel) ¹	41.51	45.23	3.72
Oil Production (million barrels)	162.0	163.2	1.2
Potash Price (mine netback, US\$/KCl tonne) ²	207	178	(29)
Potash Price (mine netback, C\$/K ₂ O tonne) ²	454	383	(71)
Potash Sales (million K ₂ O tonnes) ²	11.3	11.4	0.1
Uranium Price (C\$/Kg) ²	131	120	(11)
Canadian Dollar (US cents)	75.0	77.2	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.

Transfers from the federal government are forecast to increase \$321.5 million from budget. Significant one-time transfers from the federal government are forecast.

An additional \$150.0 million is expected for federal compensation related to the transfer of federal dams to the province with total compensation expected to be \$350.0 million in 2016-17.

An increase of \$63.2 million in federal transfers for the new Post-Secondary Institutions Strategic Investment Fund flows through as additional spending in the Education theme.

An increase of \$20.0 million in P3 funding for the Regina Bypass Project is expected as a result of faster-than-expected progress, as is \$17.6 million in additional federal disaster assistance funding and \$12.4 million in federal housing contributions to the Saskatchewan Housing Corporation for new commitments on Social Infrastructure Fund projects.

Higher federal funding for ongoing programs is also anticipated. The federal contribution towards crop insurance is forecast to be up \$35.9 million as is the Canada Health Transfer (\$11.5 million) and Canada Social Transfer (\$4.9 million).

Government Business Enterprise (GBE) net income is forecast to decrease \$221.5 million from budget primarily due to the WCB employer premium distribution and lower net income at SaskPower, partially

offset by higher net income at SaskTel, the Auto Fund, Workers' Compensation Board and Saskatchewan Government Insurance. This change includes \$50.0 million in Crown sector expense management.

SaskTel's net income is up \$41.0 million from budget mainly due to expense restraint efforts and unrealized gains on sinking funds.

The Saskatchewan Auto Fund's net income is \$30.2 million higher than budget mainly due to higher equity gains in the investment portfolio and expense restraint efforts, partially offset by increased costs for medical care benefits.

Net income for Saskatchewan Government Insurance is up \$17.6 million from budget mostly due to improved investment earnings, favourable underwriting results (mainly a result of lower claim costs in Saskatchewan), and expense restraint efforts.

SaskPower's net income is down \$52.2 million from budget mostly due to lower revenue expected from customer contributions (customer connect activity), electricity sales outside the province, and residential/farm customers (weather related) and higher fuel costs, partially offset by expense restraint efforts and unrealized gains on debt retirement funds.

Other GBE net income is forecast to be up \$2.9 million from budget.

The Workers' Compensation Board (WCB) net income is expected to be down \$261.0 million from budget, reflecting the employer premium distribution and lower revenue partially offset by lower expense mainly due to lower expected claims.

On June 29, 2016, the WCB announced that \$281.5 million would be distributed to employers in 2016. At the WCB's 2015 year end, the funded position exceeded the funding policy target range, substantially due to investment income. After seeking input from worker and employer representatives and weighing several factors, WCB made the decision to distribute half of \$281.5 million to employers in July 2016 and the remaining half by the end of the year.

The WCB is part of the Government Reporting Entity. The earnings generating the surplus and now being distributed were recorded in the province's financial statements in the years in which they were earned. As a result of the timing difference, the effect of this transaction will be to decrease 2016-17 revenue by \$281.5 million.

EXPENSE UPDATE

At mid-year, expense is projected to be \$14.7 billion, an increase of \$285.3 million from budget.

The Province is experiencing significant cost pressures in Agriculture, Health, Social Services and Assistance, Education, and Protection of Persons and Property.

However, expense management initiatives across the Government Reporting Entity are mitigating some pressures. Savings have been identified across all expense categories, including those categories that show net increases from budget.

2016-17 EXPENSE RECONCILIATION

(Millions of Dollars)

2016-17 Budget	14,458.1
Forecast Changes from Budget:	
Agriculture	93.1
Health	88.1
Social Services and Assistance	61.3
Education	40.5
Protection of Persons and Property	39.4
Other	(37.1)
Total Change from Budget	285.3
2016-17 Mid-Year Projection	14,743.4

Agriculture expense is forecast to be up \$93.1 million from budget mainly as a result of anticipated higher than expected Saskatchewan Crop Insurance Corporation claims due to recent unfavourable weather conditions at harvest time.

Health expense is up \$88.1 million from budget largely due to cost pressures in the Regional Health Authorities.

Social Services and Assistance expense is forecast to be up \$61.3 million from budget mainly as a result of utilization pressures in the Ministry of Social Services, particularly in the areas of income assistance, child and family services and rental housing supplements.

Education expense is projected to be up \$40.5 million from budget largely as the result of \$63.2 million in federal flow-through funding from the Post-Secondary Institutions Strategic Investment Fund.

This is partially offset by operational savings at the ministries of Education (\$5.0 million), Advanced Education (\$2.4 million) and Economy (\$5.0 million), as well as reduced transfers to post-secondary institutions (\$7.0 million).

Protection of Persons and Property expense is forecast to be up \$39.4 million from budget.

The increase largely reflects increases at the Ministry of Government Relations for the Provincial Disaster Assistance Program (\$28.8 million) as well as pressures in the Ministry of Justice mostly for higher custody counts (\$11.9 million) and higher-than-budgeted activity in the court system (\$3.3 million).

Other expense is forecast to be down a combined total of \$37.1 million from budget largely as a result of various net operational savings across all other expense themes.

The adjustment to account for pension costs on an accrual basis is estimated at \$124.8 million, a decrease of \$5.3 million from budget.

Consistent with the 2016-17 Budget presentation, the pension adjustment is not included in expense. Government's current cash pension payment requirements are included in the expense budget and forecasts.

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.

Public debt at March 31, 2017 is projected to be \$447.7 million higher than budgeted, primarily due to increased debt for GRF operations.

2016-17 PUBLIC DEBT UPDATE - MID-YEAR

As at March 31

(Millions of Dollars)

	Budget	Mid-Year Projection	Change
General Revenue Fund			
- Operating	4,100.0	4,600.0	500.0
- Saskatchewan Builds Capital Plan	1,685.8	1,685.8	-
Other Government Service Organizations	603.9	592.9	(11.0)
Government Service Organization Debt	6,389.7	6,878.7	489.0
Government Business Enterprise Debt	8,383.2	8,341.9	(41.3)
Public Debt	14,772.9	15,220.6	447.7
Guaranteed Debt	27.0	21.3	(5.7)

2016-17 SCHEDULE OF PUBLIC DEBT

As at March 31

(Millions of Dollars)

	Budget	Mid-Year Projection	Change
Government Service Organization Debt			
General Revenue Fund			
- Operating	4,100.0	4,600.0	500.0
- Saskatchewan Builds Capital Plan ¹	1,685.8	1,685.8	-
Boards of Education	182.7	182.7	-
Global Transportation Hub Authority	25.2	24.9	(0.3)
Regional Health Authorities	156.0	156.0	-
Saskatchewan Housing Corporation	19.3	19.5	0.2
Saskatchewan Immigrant Investor Fund Inc.	123.5	123.9	0.4
Saskatchewan Opportunities Corporation	52.4	41.4	(11.0)
Water Security Agency	42.3	42.5	0.2
Other	2.5	2.0	(0.5)
Government Service Organization Debt	6,389.7	6,878.7	489.0
Government Business Enterprise Debt			
Municipal Financing Corporation of Saskatchewan	218.2	218.2	-
Saskatchewan Liquor and Gaming Authority	100.0	100.0	-
Saskatchewan Power Corporation	5,822.5	5,816.5	(6.0)
Saskatchewan Telecommunications Holding Corporation	936.2	909.6	(26.6)
Saskatchewan Water Corporation	52.3	52.3	-
SaskEnergy Incorporated	1,254.0	1,245.3	(8.7)
Government Business Enterprise Debt²	8,383.2	8,341.9	(41.3)
Public Debt³	14,772.9	15,220.6	447.7
Guaranteed Debt	27.0	21.3	(5.7)

¹ General Revenue Fund - Saskatchewan Builds Capital Plan consists of amounts borrowed by the General Revenue Fund to finance investment in infrastructure assets.

² 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.

³ Public debt is shown net of sinking funds. Debt repayable in foreign currency is restated in equivalent Canadian dollars.

2016-17 SCHEDULE OF REVENUE

(Millions of Dollars)

	Budget	Mid-Year Projection	Change
Taxation			
Corporation Income	967.7	886.7	(81.0)
Fuel	487.2	466.8	(20.4)
Individual Income	2,774.7	2,602.6	(172.1)
Property	666.9	666.9	-
Provincial Sales	1,312.1	1,184.3	(127.8)
Tobacco	261.3	261.3	-
Other	391.0	392.3	1.3
Total Taxation	6,860.9	6,460.9	(400.0)
Non-Renewable Resources			
Crown Land Sales	36.0	47.4	11.4
Natural Gas	9.5	6.5	(3.0)
Oil	509.7	538.0	28.3
Potash	420.4	279.6	(140.8)
Resource Surcharge	339.7	282.7	(57.0)
Other	169.6	151.1	(18.5)
Total Non-Renewable Resources	1,484.9	1,305.3	(179.6)
Other Own-Source Revenue			
Fees	1,159.5	1,158.0	(1.5)
Insurance	264.5	304.7	40.2
Investment Income	123.1	160.4	37.3
Transfers from Other Governments	66.5	69.2	2.7
Other	475.3	554.6	79.3
Total Other Own-Source Revenue	2,088.9	2,246.9	158.0
Transfers from the Federal Government			
Canada Health Transfer	1,127.3	1,138.8	11.5
Canada Social Transfer	417.8	422.7	4.9
Other	959.7	1,264.8	305.1
Total Transfers from the Federal Government	2,504.8	2,826.3	321.5
Net Income from Government Business Enterprises			
Municipal Financing Corporation	1.0	0.7	(0.3)
Saskatchewan Auto Fund	61.7	91.9	30.2
Saskatchewan Gaming Corporation	24.9	25.3	0.4
Saskatchewan Government Insurance	39.6	57.2	17.6
Saskatchewan Liquor and Gaming Authority	511.0	506.1	(4.9)
Saskatchewan Power Corporation	181.3	129.1	(52.2)
Saskatchewan Telecommunications Holding Corporation	104.2	145.2	41.0
Saskatchewan Water Corporation	6.1	7.4	1.3
SaskEnergy Incorporated	117.6	122.0	4.4
Saskatchewan Workers' Compensation Board	42.6	(218.4)	(261.0)
Consolidation Adjustments	(5.6)	(3.6)	2.0
Total Net Income from Government Business Enterprises	1,084.4	862.9	(221.5)
Total Revenue	14,023.9	13,702.3	(321.6)

The Honourable Kevin Doherty
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

16-17

**KEEP
SASKATCHEWAN
STRONG**

MID-YEAR REPORT