

The Honourable Donna Harpauer
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

19-20

THE RIGHT BALANCE

**FIRST QUARTER
FINANCIAL REPORT**

2019-20 First Quarter Financial Report
Government of Saskatchewan
August 29, 2019

INTRODUCTION

2019-20 First Quarter Financial Report

Through the first quarter of 2019-20, both the financial and economic outlook for the province remain consistent with budget.

The surplus is now forecast to be \$25.8 million, a slight decline of \$8.6 million from the \$34.4 million budgeted surplus.

Revenue is forecast to be up \$355.3 million from budget, largely due to higher non-renewable resource revenue, primarily reflecting higher potash prices and a smaller light-heavy oil differential, combined with higher federal transfers.

Expense is forecast to be up \$363.9 million from budget, reflecting higher non-cash pension expense as well as increases in federal flow-through funding for municipalities and infrastructure.

Public debt is forecast to be down \$267.5 million from budget, primarily due to decreased debt for government business enterprises.

The Saskatchewan economy is performing in line with budget expectations.

While challenges remain in the economy, certain indicators show strength.

Employment in the first seven months of 2019 increased by 10,914 and the unemployment rate decreased from 6.4 per cent to 5.6 per cent.

Wholesale trade, average weekly earnings, international goods exports and retail sales have also increased thus far in the year.

Saskatchewan's population continues to grow. Between April 1, 2018 and April 1, 2019, Saskatchewan's population increased by 10,295 to 1,169,131 persons.

Some internal and external challenges remain for the Saskatchewan economy. Building construction investment remains soft and canola exports are being affected by trade restrictions.

Earlier concerns over dry weather during the seeding season, however, have been mitigated by some improvement in soil moisture conditions.

At budget, Saskatchewan's real GDP was forecast to grow by 1.2 per cent. Currently, private sector forecasters have a similar outlook, with an average of 0.9 per cent.

Overall, at first quarter, the 2019-20 budget remains on course.

ECONOMIC UPDATE

2019 Performance

Saskatchewan's economy continues to improve and recover from the oil price collapse in late 2014. The economy bounced back with strong growth of 2.2 per cent in 2017. According to Statistics Canada's estimates, Saskatchewan's real GDP at basic prices grew by 1.6 per cent in 2018.

Economic performance in 2019, while facing challenges, remains on track and positive.

In the first seven months of 2019, total employment in Saskatchewan, on average, increased by 10,914, of which 8,043 were full-time jobs.

The provincial unemployment rate averaged 5.6 per cent, down from an average of 6.4 per cent in the same period last year.

Saskatchewan's population continues to grow. Between April 1, 2018 and April 1, 2019, Saskatchewan's population increased by 10,295 to 1,169,131 persons.

In the first five months of 2019, wholesale trade increased by 8.4 per cent, the third-highest growth among provinces. Average weekly earnings increased by 2.7 per cent, to \$1,039.3 per week.

SASKATCHEWAN ECONOMIC INDICATORS

	2018	2019	2019 (Year to Date)		
	Actual	Estimate*	Value	% Change	Rank**
Population at April 1 (000s)	1,158.8	1,169.1	1,169.1	0.9	8
Employment (000s)	570.0	581.0	577.2	1.9	4
Unemployment Rate (%)	6.2	5.6	5.6	5.6	7
Consumer Price Index (2002=100)	137.5	139.8	139.5	1.7	6
Average Weekly Earnings (\$)	1,014.1	1,041.8	1,039.3	2.7	4
Retail Sales (\$B)	19.5	19.7	7.8	0.9	8
Wholesale Trade (\$B)	26.9	29.2	11.9	8.4	3
New Motor Vehicle Sales (# of Units)	50,224	49,585	20,036	(1.3)	2
Manufacturing Sales (\$B)	17.9	16.9	7.4	(5.6)	9
International Exports (\$B)	30.7	30.8	15.3	0.4	7
Building Permits (\$B)	1.8	1.8	0.9	(2.4)	8
Housing Starts (# of Units)	3,610	2,162	959	(40.1)	10
Investment in Building Construction (\$B)					
Residential	2.5	2.4	0.8	(5.1)	6
Non-residential	1.5	1.4	0.6	(3.3)	8

Source: Statistics Canada.

* Estimates based on 2019 year-to-date growth and 2018 actual, except for the unemployment rate which is the year-to-date average.

** Ranking among provinces.

Thus far, international goods exports and retail sales grew by 0.4 per cent and 0.9 per cent, respectively.

The price of West Texas Intermediate (WTI) oil rose from an average of US\$51.55 per barrel in January to US\$63.87 per barrel in April. The higher oil price pushed the value of oil sales up by 12.5 per cent in the first four months of 2019.

In addition, potash production and average prices remain strong.

In the near term, challenges remain from both internal and external factors. Recent global trade disputes continue to weigh on economic growth.

In March of this year, China suspended Canadian canola seed imports. Saskatchewan is Canada's largest canola seed exporter to China. As a result, this year's canola prices are being affected.

Meanwhile, there were concerns over the impact of hot and dry weather conditions during the seeding season on this year's crop. More recently, soil moisture conditions have improved.

Due to a number of factors investment continues to be soft in building construction in the first five months of 2019.

Private sector forecasters, on average, expect Saskatchewan's real GDP to grow by 0.9 per cent in 2019, ranging from -0.1 per cent to 1.4 per cent. The 2019-20 Provincial Budget economic forecast of 1.2 per cent falls within this range.

The average growth outlook for 2020 is 1.6 per cent, with private sector forecasts ranging from 1.2 per cent to 2.2 per cent.

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

	2019	2020	Cumulative Growth	Release Date
IHS Markit	0.7	1.7	2.4	Jul 2019
Conference Board of Canada	-0.1	1.2	1.1	Aug 2019
TD Bank	0.8	1.2	2.0	Jun 2019
RBC	1.1	2.2	3.3	Jun 2019
Bank of Montreal	0.9	1.2	2.1	Jun 2019
CIBC	0.8	1.3	2.1	Jul 2019
Scotiabank	1.4	1.6	3.0	Jul 2019
National Bank	1.3	1.6	2.9	Jul 2019
Laurentian Bank	1.4	2.0	3.4	Feb 2019
Average of Private Sector Forecasts	0.9	1.6	2.5	
2019-20 Budget	1.2	2.4	3.6	

* As of August 9, 2019.

2019-20 BUDGET UPDATE

First Quarter

OVERVIEW

At first quarter, a surplus of \$25.8 million is forecast – a slight deterioration of \$8.6 million from budget.

Total revenue is forecast to increase \$355.3 million from budget while total expense is forecast to increase \$363.9 million.

2019-20 BUDGET UPDATE - FIRST QUARTER

(Millions of Dollars)	Budget	First Quarter Forecast	Change
Revenue			
Taxation	7,588.5	7,588.5	-
Non-renewable resources	1,826.8	1,972.5	145.7
Net income from government business enterprises	1,080.5	1,098.3	17.8
Other own-source revenue	2,062.1	2,083.9	21.8
Transfers from the federal government	2,467.2	2,637.2	170.0
Total Revenue	15,025.1	15,380.4	355.3
Expense			
Agriculture	841.5	841.5	-
Community development	681.2	742.9	61.7
Financing charges	694.4	676.0	(18.4)
Economic development	227.3	244.3	17.0
Education	3,282.5	3,510.5	228.0
Environment and natural resources	263.9	263.9	-
Health	5,888.2	5,888.2	-
Other	445.8	521.4	75.6
Protection of persons and property	701.1	701.1	-
Social services and assistance	1,432.7	1,432.7	-
Transportation	532.1	532.1	-
Total Expense	14,990.7	15,354.6	363.9
Surplus	34.4	25.8	(8.6)

Totals may not add due to rounding.

REVENUE UPDATE

At first quarter, revenue is forecast to be \$15.4 billion, an increase of \$355.3 million (2.4 per cent) from budget.

2019-20 REVENUE RECONCILIATION	
(Millions of Dollars)	
2019-20 Budget	15,025.1
First Quarter Changes:	
Oil and natural gas revenue	65.8
Potash revenue	71.3
Federal Transfers	170.0
Other	48.2
Total First Quarter Change	355.3
2019-20 First Quarter Forecast	15,380.4

Non-renewable resources revenue is forecast to increase \$145.7 million from budget. This increase primarily reflects the impact of a higher-than-budgeted potash price forecast, a narrower light-heavy oil differential and a lower exchange rate, partially offset by lower-

than-expected Crown land sales and uranium revenue.

Oil and natural gas revenue is forecast to increase \$65.8 million from budget. The increase is primarily due to a narrower light-heavy oil differential, a decrease in the average exchange rate and an increase in oil production, partially offset by a decrease in West Texas Intermediate (WTI) oil prices.

The light-heavy oil differential has decreased from 24.8 per cent at budget to the current forecast of 17.9 per cent, reflecting production curtailments introduced by Alberta at the beginning of 2019.

WTI oil prices are currently forecast to average US\$59.27 per barrel in 2019-20, a decrease of US\$0.48 from budget. WTI oil averaged US\$59.25 per barrel from April to the end of July.

2019-20 NON-RENEWABLE RESOURCES FORECAST ASSUMPTIONS

	Budget	First Quarter Forecast	Change
WTI Oil Price (US\$/barrel)	59.75	59.27	(0.48)
Light-Heavy Differential (% of WTI)	24.8	17.9	(6.9)
Well-head Oil Price (C\$/barrel) ¹	55.46	59.73	4.27
Oil Production (million barrels)	173.1	176.4	3.3
Potash Price (mine netback, US\$/KCI tonne) ²	221	231	10
Potash Price (mine netback, C\$/K ₂ O tonne) ²	470	500	30
Potash Sales (million K ₂ O tonnes) ²	14.1	14.2	0.1
Canadian Dollar (US cents)	77.19	75.54	(1.65)

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

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

The result of these forecast changes is a first quarter well-head oil price forecast, in Canadian dollars, of \$59.73 per barrel, up \$4.27 from the budget assumption of \$55.46.

In addition, oil production is forecast to increase from 173.1 million barrels at budget to 176.4 million barrels at first quarter.

Potash royalties are forecast to increase \$71.3 million from budget, primarily due to higher average realized prices. Prices are now forecast to average US\$231 per KCl tonne (C\$500 per K₂O tonne), up from the budget assumption of US\$221 (C\$470).

The value of the Canadian dollar is now expected to average 75.5 U.S. cents in 2019-20, down 1.7 U.S. cents from the budget assumption of 77.2 U.S. cents. The exchange rate averaged 75.2 U.S. cents from April to the end of July.

Resource Surcharge revenue is forecast to increase \$28.5 million, reflecting higher forecasts for oil and potash sales values and consistent with year-to-date installment payments received.

Finally, Crown land sales revenue is forecast to decrease \$10.2 million from budget, while other non-renewable resources revenue, including uranium, coal and other minerals, is forecast to decrease \$9.7 million from budget, largely due to lower-than-budgeted uranium sales and average prices.

Government Business Enterprise (GBE) net income is forecast to increase \$17.8 million from budget.

This increase in GBE net income reflects increases of \$19.6 million and \$3.3 million, respectively, in Saskatchewan Auto Fund and Saskatchewan Government Insurance net income, primarily due to higher investment earnings.

These increases are partially offset by a decrease of \$5.1 million in SaskPower net income, primarily due to lower revenue from commercial, residential, reseller, and farm customers combined with lower exported electricity sales.

Other own-source revenue is forecast to increase \$21.8 million from budget, primarily reflecting higher expected refunds and casual revenue, as well as recoveries for forest fire-fighting activities billed to other jurisdictions.

Transfers from the federal government are forecast to increase \$170.0 million from budget.

The first quarter forecast includes:

- a \$68.8 million increase in federal funding for Saskatchewan's claim related to fiscal year 2016-17 under the federal Fiscal Stabilization Program that provides financial assistance to provinces with significant year-over-year declines in their own-source revenues;

- a \$61.9 million increase in one-time funding for the Gas Tax Program;
- a \$22.3 million increase in disaster assistance cost-sharing contributions; and,
- one-time funding of \$17.0 million at SaskBuilds received under the Green Infrastructure Stream of the federal Investing in Canada Infrastructure Program.

EXPENSE UPDATE

At first quarter, expense is forecast to be \$15.4 billion, an increase of \$363.9 million (2.4 per cent) from budget.

2019-20 EXPENSE RECONCILIATION	
(Millions of Dollars)	
2019-20 Budget	14,990.7
First Quarter Changes:	
Pension expense	285.2
Community Development	61.7
Economic Development	17.0
Total First Quarter Change	363.9
2019-20 First Quarter Forecast	15,354.6

Pension expense is up \$285.2 million from budget, primarily for the Teachers' Superannuation Plan and the Public Service Superannuation Plan, as a result of actuarial assumptions and a 40-basis point decrease in the discount rate used to value the pension liability on March 31, 2019. This increase is a non-cash item and

results in a \$228.0 million increase in Education and a \$75.6 million increase in Other theme expense, partially offset by an \$18.4 million decrease in Financing Charges.

Community Development is up \$61.7 million from budget, primarily reflecting a one-time increase in federal funding for the Gas Tax Program that will flow to municipalities in 2019-20.

Economic Development is up \$17.0 million from budget, reflecting federal flow-through funding under the Green Infrastructure Stream of the Investing in Canada Infrastructure Program that will support the Meadow Lake Bioenergy Project.

All other expense themes are forecast on 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.

Public debt at March 31, 2020 is forecast to be \$267.5 million lower than budgeted, primarily due to decreased debt for government business enterprises.

2019-20 PUBLIC DEBT UPDATE - FIRST QUARTER

As at March 31

(Millions of Dollars)

	Budget	First Quarter Forecast	Change
General Revenue Fund			
- Operating	6,150.0	6,150.0	-
- Saskatchewan Builds Capital Plan	5,404.0	5,404.0	-
Other Government Service Organizations	380.1	379.7	(0.4)
Government Service Organization Debt	11,934.1	11,933.7	(0.4)
Government Business Enterprise Debt	9,757.8	9,490.7	(267.1)
Public Debt	21,691.9	21,424.4	(267.5)
Guaranteed Debt	19.7	17.7	(2.0)

2019-20 SCHEDULE OF PUBLIC DEBT

As at March 31

(Millions of Dollars)

	Budget	First Quarter Forecast	Change
Government Service Organization Debt			
General Revenue Fund			
- Operating	6,150.0	6,150.0	-
- Saskatchewan Builds Capital Plan ¹	5,404.0	5,404.0	-
Boards of Education	151.2	151.2	-
Global Transportation Hub Authority	40.2	40.2	-
Saskatchewan Health Authority	99.3	99.7	0.4
Saskatchewan Housing Corporation	4.8	4.8	-
Saskatchewan Immigrant Investor Fund Inc.	2.6	2.9	0.3
Saskatchewan Opportunities Corporation	51.6	51.8	0.2
Water Security Agency	25.9	25.9	-
Other	4.5	3.2	(1.3)
Government Service Organization Debt	11,934.1	11,933.7	(0.4)
Government Business Enterprise Debt			
Municipal Financing Corporation of Saskatchewan	205.6	205.6	-
Saskatchewan Gaming Corporation	5.0	5.0	-
Saskatchewan Liquor and Gaming Authority	95.0	94.0	(1.0)
Saskatchewan Power Corporation	6,695.5	6,443.6	(251.9)
Saskatchewan Telecommunications Holding Corporation	1,138.0	1,138.0	-
Saskatchewan Water Corporation	86.0	71.8	(14.2)
SaskEnergy Incorporated	1,532.7	1,532.7	-
Government Business Enterprise Debt ²	9,757.8	9,490.7	(267.1)
Public Debt ³	21,691.9	21,424.4	(267.5)
Guaranteed Debt	19.7	17.7	(2.0)

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.

2019-20 SCHEDULE OF REVENUE

(Millions of Dollars)	Budget	First Quarter Forecast	Change
Taxation			
Corporation Income	729.2	729.2	-
Fuel	568.7	568.7	-
Individual Income	2,555.7	2,555.7	-
Property	768.0	768.0	-
Provincial Sales	2,304.7	2,304.7	-
Tobacco	234.5	234.5	-
Other	427.7	427.7	-
Total Taxation	7,588.5	7,588.5	-
Non-Renewable Resources			
Crown Land Sales	46.6	36.4	(10.2)
Oil and Natural Gas	691.1	756.9	65.8
Potash	618.6	689.9	71.3
Resource Surcharge	385.0	413.5	28.5
Other	85.5	75.8	(9.7)
Total Non-Renewable Resources	1,826.8	1,972.5	145.7
Net Income from Government Business Enterprises			
Municipal Financing Corporation	1.0	1.0	-
Saskatchewan Auto Fund	66.9	86.5	19.6
Saskatchewan Gaming Corporation	21.8	21.8	-
Saskatchewan Government Insurance	59.1	62.4	3.3
Saskatchewan Liquor and Gaming Authority	477.9	477.9	-
Saskatchewan Power Corporation	255.2	250.1	(5.1)
Saskatchewan Telecommunications Holding Corporation	129.5	129.5	-
Saskatchewan Water Corporation	6.7	6.8	0.1
SaskEnergy Incorporated	63.8	63.8	-
Saskatchewan Workers' Compensation Board	(10.7)	(10.7)	-
Consolidation Adjustments	9.3	9.2	(0.1)
Total Net Income from Government Business Enterprises	1,080.5	1,098.3	17.8
Other Own-Source Revenue			
Fees	1,132.2	1,132.2	-
Insurance	302.6	302.6	-
Investment Income	102.9	102.9	-
Transfers from Other Governments	92.3	94.1	1.8
Miscellaneous	432.1	452.1	20.0
Total Other Own-Source Revenue	2,062.1	2,083.9	21.8
Transfers from the Federal Government			
Canada Health Transfer	1,263.8	1,263.8	-
Canada Social Transfer	456.6	456.6	-
Other	746.8	916.8	170.0
Total Transfers from the Federal Government	2,467.2	2,637.2	170.0
Total Revenue	15,025.1	15,380.4	355.3

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