

Fiscal Fitness

Fiscal Year 11/12

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The Province of Saskatchewan is projecting a \$383 mln surplus in the General Revenue Fund in FY11/12, a rare achievement in a year that will see most Provinces digging their way out of deficit. In addition, this pre-election budget also takes some modest steps to lower taxes, helped by a cushion of strong resource revenues. Note that the reported surplus includes a \$325 mln transfer from the Growth and Financial Security Fund (GFSF), which will be used to pay down debt. Excluding fund transfers, the surplus sits at \$115 mln, or about 0.2% of GDP—still a tall accomplishment in this challenging fiscal environment. The FY10/11 surplus of \$20 mln is unchanged from the most recent update, and the pre-transfer surplus remains \$40 mln. The Province is projecting surpluses in each of

the three following fiscal years, even before GFSF transfers. Transfers into the fund will ultimately prop it up to nearly \$1 bln by the end of FY14/15 from \$711 mln in FY11/12, after the debt payment.

Revenue is expected to dip 1.8% to \$10.8 bln in FY11/12, owing largely to reduced transfers from Crown Corporations. Tax revenues will rise 2.8%, with personal income taxes doing most of the lifting. Resource revenues will total \$2.8 bln, a 10.4% jump from prior-year levels due to both higher prices and production of potash and oil. Potash prices are expected to average US\$393 in FY11/12, while sales are forecast to rise 6.1%. Oil revenues will also rise with prices pegged at US\$93.75/bbl (up 14.5%) and production expected to grow 5.7%. All told, non-renewable resources are projected to make up 26.2% of total revenues in FY11/12, above the 22.6% average of the past ten years—note that at \$1.4 bln, oil revenues far outweigh potash revenues of \$381 mln. Going forward, the Province is assuming revenue growth of 2.9% per year through FY14/15 (4.5% per year after FY11/12), supported by an upward drift in commodity prices—oil is pegged at \$96.25 by the end of the forecast horizon. While we are generally bullish on commodity prices and Saskatchewan's ability to see production growth in the sector, this, as always, is the primary risk to the forecast.

Fiscal Outlook

(C\$ millions)

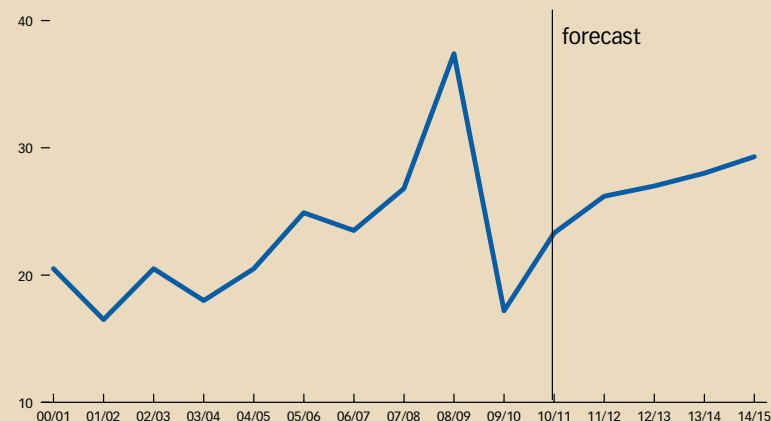
	estimate		— forecast —		
	10/11	11/12	12/13	13/14	14/15
Revenues	10,988	10,794	11,331	11,828	12,319
Spending	10,948	10,679	11,181	11,628	12,094
Pre-transfer balance	40	115	150	200	225
Transfer from (to) GFSF	(20)	268	(75)	(100)	(113)
Budget Balance	20	383	75	100	113
Oil (US\$/bbl)	81.85	93.75	96.00	96.00	96.25
Potash (US\$)	351	393	401	409	416

() = deficit

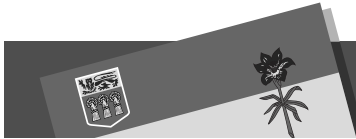
Source: Provincial forecasts

Resource Revenue

(% of total revenues)



Source: Provincial forecasts



Real Total Spending per Capita

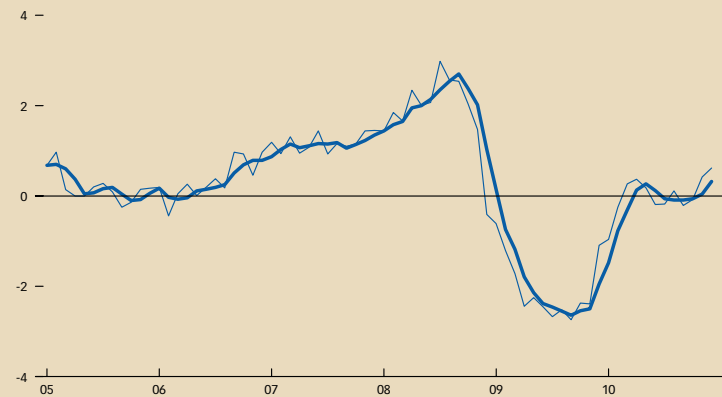
(4-yr. annualized % chng)



Source: Provincial forecasts (assumes 1% population growth)

Provincial Economic Momentum Index

(Dark line = 3-mo. average)



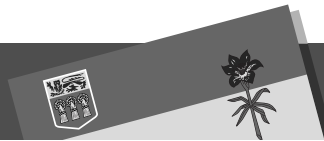
The PEI measures the number of standard deviations economic growth is above or below trend.

There are a few revenue-related policy measures in this budget, most notably a reduction in personal income and property taxes. The basic personal and spousal income tax exemption amounts will rise by \$1,000 to \$14,535, while the dependent child amount will rise \$500 to \$5,514, as of January 1, 2011. This will save taxpayers \$60 mln per year. Also, education property taxes will fall more than initially planned in 2011, allowing for another \$55.6 mln in tax savings. The small business income tax rate will be cut from 4.5% to 2% as of July 1st, 2011.

Total spending is projected to drop 2.4% to \$10.7 bln in FY11/12, but will be 5.5% above the original FY10/11 budget plan—note that spending was lifted during the year as revenues came in well ahead of expectations. Health care spending will dip 2.3% (+6.2% versus the original FY10/11 plan), while education will rise 1.8% (+8.6% from the original plan) as it attempts to hold tuition increases to 3% per year. Going forward, total spending will grow at a 2.5% annualized clip over the four-year forecast horizon which, after accounting for population growth and inflation, represents a contraction on a real per-capita basis of about 1% per year. However, growth from FY11/12 onward will track slightly above 4% per year, more realistic given an economy seeing renewed growth prospects and population growth.

Total borrowing requirements are expected to be \$887 mln in FY11/12 up from \$790 mln in FY10/11, with all of the FY11/12 borrowing done for the purpose of Crown corporations. Government general debt will fall by \$325 mln this coming fiscal year. Total public debt, which includes the Province, Crown Corporations and GBEs, will total \$8.9 bln by the end of FY11/12, or a modest 13.3% of GDP.

After underperforming in 2010 with expected 2% real GDP growth, the province should rebound to the top of the leaderboard with 4% growth in 2011. Heavy flooding had a significant negative impact on crop production in 2010, which masked otherwise strong underlying economic trends. For example, potash production has bounced back to pre-recession levels after a deep dive, the jobless rate is now near the lowest in Canada at just 5.7% and population growth is running near the fastest rate in 25 years. Strong population trends, ongoing investment in the resource sector and no required fiscal restraint should continue to support above-average growth of 3.3% in 2012. The Province has built this budget



around the assumption of 4.2% and 2.8% real GDP growth in 2011 and 2012, which we deem achievable.

The bottom line: This budget does what few others are likely to do this fiscal year—balance the books, and with some tax relief to boot. Still, the wild card remains commodity prices as resource revenues are pegged at more than 26% of total revenues, and rising to nearly 30% by FY14/15. Barring a severe correction in prices, Saskatchewan is Canada's most fiscally fit province.

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