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# Fiscal Pulse

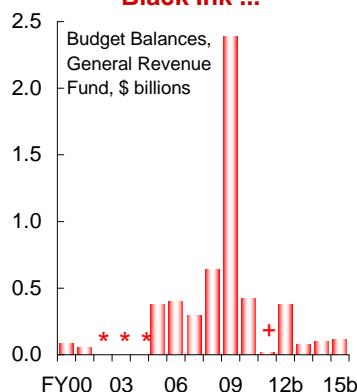
## FY2011-12 Highlights

## Saskatchewan

- On a General Revenue Fund (GRF) basis, given an upswing in revenues, Saskatchewan estimates a \$20 million surplus for fiscal 2010-11 (FY11), based on a positive pre-transfer balance of \$40 million that reverses the *Budget* estimate of a \$174 million pre-transfer shortfall.
- For FY12, half of the projected \$115 million pre-transfer GRF surplus will be deposited to the Province's Growth and Financial Security Fund as required, but \$325 million for General Revenue debt reduction will be withdrawn from this Fund, resulting in a reported \$383 million surplus.
- With the strong global demand anticipated for Saskatchewan's resources, particularly potash and oil, projected GRF surpluses of \$75 million in FY13 rising to \$112.5 million in FY15 could well prove conservative, advancing the government's goal of eliminating its direct debt. The Growth and Financial Security Fund's projected balance of \$711 million in March 2012 is expected to rise to \$1.0 billion by March 2015, underlining Saskatchewan's fiscal options.
- On a fully consolidated Summary basis, the projected \$139 million FY11 deficit is a fraction of the \$623 million *Budget* estimate, and a surplus, forecast at \$54 million, is regained in FY12.
- With the pick-up in Saskatchewan's own-source revenues, this *Budget* offers new tax cuts, considerable infrastructure investment and multiple spending initiatives including measures focused on diversification.
- Saskatchewan's FY11 borrowing requirements contracted to \$789 million from the \$1.07 billion *Budget* estimate. In FY12, total requirements of \$887 million solely reflect Crown corporation borrowing.

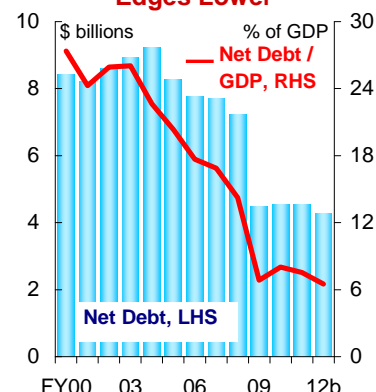
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### Saskatchewan Achieves Black Ink ...



\* Surplus of \$1 million. + Surplus of \$20 million. Source: Saskatchewan Finance.

### ... and Its Debt Burden Edges Lower



Source: historical net debt data: Moody's Investor Service; Statistics Canada; GDP forecasts: Scotia Economics.

### Scotia Economics

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## Overview

The \$1.1 billion surge in Saskatchewan's FY11 own-source GRF revenues above *Budget* underlines the Province's resource-driven rebound after the FY10 slump. Instead of declining 3.1%, total FY11 revenues are now forecast to advance 7.0%. Resource receipts account for 40% of the in-year gain with land sales rising to the second-highest level on record, potash production in 2010 soaring over 100% to levels approaching the pre-2009 peaks and oil wells drilled jumping almost 70%. Tax receipts in FY11 were pushed higher by a \$385 million gain in corporate income tax.

For FY12, *Budget* estimates again indicate a decline in GRF revenues, albeit more modest. Resource receipts are expected to jump a further 10.4%, but tax revenues, in part reflecting the *Budget's* tax cuts, are forecast to rise less than 3% and a \$100 million drop is anticipated in federal transfers as Ottawa's stimulus program winds down and its disaster assistance payments for farmers return to more normal levels. Interest-related earnings will be weaker following one-time gains on the sale of investments in FY11. Transfers from Crown entities, that helped to meet FY10 and FY11 priorities, are expected to fall back, with a \$370 million fall in Crown Investment Corporations' (CIC) dividends. In FY11, a one-time \$195 million CIC dividend was received to finance the construction of a Children's Hospital and an \$8½ million CIC dividend was directed to the Province's Integrated Nuclear Research and Development Strategy.

Saskatchewan expects its real GDP growth to strengthen from 1.7% in 2010 to 4.2% in 2011, assuming a return to an average-size crop after last year's damage from excessive moisture. Its forecast of 9.0% nominal GDP growth this year mirrors buoyant resource prices. In 2012, assumed real GDP growth of 2.8% is slightly below private-sector forecasts.

Program spending, after rising 9.3% in FY11, \$829 million above *Budget*, is expected to fall back 2.5% in FY12. In FY11, in addition to \$186 million of weather-related costs and \$195 million for the Children's Hospital, expenses were higher than anticipated across most larger Departments. As well, from the uptick in year-end revenues, a \$287 million top-up in capital funding to third-party partners elevated the government's total FY11 capital budget to \$1.2 billion.

In 2011, Saskatchewan's Crown sector is expected to invest up to \$1.2 billion. SaskEnergy this year will focus on raising its storage capacity; SaskTel is rolling out its 4G wireless network and working towards 98% provincial wireless coverage; SaskWater is ensuring a water supply for the expanding potash industry; and,

### Saskatchewan's Budget Arithmetic\*

#### General Revenue Fund (GRF)

\$ millions except where noted

	FY11		FY12
	Budget	Rev.	Budget
Tax Revenue	4,859	5,126	5,268
Non-Renewable Resource Rev.	2,108	2,563	2,829
Transfers from Crown Entities	769	957	588
Other Own-Source Revenue	514	673	541
<b>Total Own-Source Revenue</b>	<b>8,250</b>	<b>9,318</b>	<b>9,226</b>
Federal Transfers	1,700	1,669	1,569
<b>Total Revenue</b>	<b>9,950</b>	<b>10,988</b>	<b>10,794</b>
Program Spending	9,689	10,518	10,259
Debt Service	435	430	420
<b>Total Expenditures</b>	<b>10,124</b>	<b>10,948</b>	<b>10,679</b>
<b>Pre-Transfer Balance</b>	<b>-174</b>	<b>40</b>	<b>115</b>
Net Transfer to the GFSF**	0	-20	-58
from the GFSF**	194	0	325
<b>Budget Balance: GRF</b>	<b>20</b>	<b>20</b>	<b>383</b>
<b>Summary Basis</b>	<b>-623</b>	<b>-140</b>	<b>54</b>
<b>Borrowing Requirements</b>	<b>1,068</b>	<b>789</b>	<b>887</b>
Government	132	181	0
Crown Corporations	936	609	887
<b>Memo Items, %</b>			
Own-Source Revenue / GDP	13.7	15.5	14.1
Program Spending / GDP	16.1	17.5	15.6
Budget Balance / GDP	0.0	0.0	0.6
Debt Service / Revenue	4.4	3.9	3.9
<b>Prices: WTI Oil, US\$/barrel</b>	<b>77.50</b>	<b>81.85</b>	<b>93.75</b>
Natural Gas (Fieldgate), C\$/GJ	4.40	3.39	3.65
Potash, US\$/KCl tonne	308	351	393
Canadian Dollar, US¢	95.5	97.7	99.82
<b>Annual Change, %</b>			
Tax Revenue	2.7	8.3	2.8
Non-Renewable Resource Rev.	10.3	34.1	10.4
Total Own-Source Revenue	-4.8	7.6	-1.0
Federal Transfers	6.0	4.1	-6.0
Total Revenue	-3.1	7.0	-1.8
Program Spending	0.7	9.3	-2.5
Total Expenditure	0.3	8.4	-2.5

\* GRF basis excludes Crown corporations, agencies and boards. \*\* The Growth and Financial Security Fund merged the Fiscal Stabilization and the Saskatchewan Infrastructure Funds. Source: Saskatchewan Finance; Statistics Canada; nom. GDP forecasts: Scotia Economics.

SaskPower, with a decade of substantial electrical infrastructure investment, is seeking private-sector participation on a number of projects.

**Expenditure management**, begun a year ago, is focused on restraining the civil service to increases at or below population growth, trimming Crown sector staff through attrition and relying on the “Lean” approach (see p.4) to reassess services such as patient flows through surgery. Regional Health Authorities (RHAs), while receiving a 9.7% (+\$250 million) funding increase in FY12, in part for 5,500 additional surgeries to reduce wait times under the Saskatchewan Surgical Initiative, are saving sizeable amounts by limiting overtime, using shared services and, in FY12, accessing lower generic drug prices.

**In other key areas**, operating funding for schools will rise 2.3% in FY12, and changes to the education funding formula are still being developed. For post-secondary education, in addition to further expansion of doctor, nurse and apprenticeship seats, over \$125 million in FY12 will be directed to greater student financial aid and limiting tuition increases to an average 3%. Social Services will receive an 8.5% funding increase primarily to establish a Children and Youth Agenda that can draw on resources across the government to improve outcomes for youth facing difficulties.

**Municipalities** will receive record revenue sharing of \$217 million on an unconditional basis towards their operating costs in FY12, a 70% jump since the FY08 *Budget*. The Province, after a one-year delay due to negative potash revenues, is raising its transfer from 90% to 100% of one percentage point of its Provincial Sales Tax. Provincial funding for municipal infrastructure is currently more ad hoc, such as the current \$22 million allocation towards flood prevention, prompting the Province to propose a study of best practices in municipal infrastructure funding arrangements.

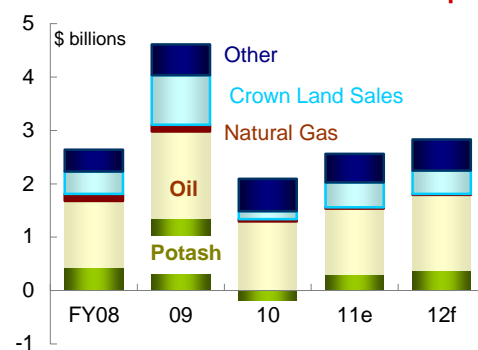
**With its additional revenues**, the Province is proceeding with a further \$60 million personal income tax cut for 2011, a reduction in its small business corporate income tax rate from 4.5% to 2.0% this July offering an \$80 million saving for entrepreneurs, and the final \$56 million stage of its Education Property tax reform. The latter will raise the share of provincial funding versus property tax revenues in education from 40% in the 1990s to 65% in 2011.

## Outlook

**Saskatchewan will meet with ease its legislative requirement** that over a four-year cycle ending in FY12, its total GRF revenues must match or exceed its expenditures. Nevertheless, the Province is well aware of the volatility in its resource-related receipts that have climbed so strongly in recent years. The government estimates that all else equal, a one percentage drop in its nominal GDP will trim revenues by \$85 million, though lags, particularly in Corporate Income Tax and Resource Surcharge receipts could spread the impact into the following fiscal year. Other risks, beyond the sustainability of the global economic recovery, include the potential strength of the Canadian dollar. While the Province has assumed that the Canadian dollar will trade around parity over the next four years, Scotia Economics forecasts that our dollar will rise above parity, averaging over 105¢(US) during 2012. Saskatchewan estimates that a 1¢(US) increase in the value of the Canadian dollar would lead to a \$27 million decline in its resource receipts, an impact greater than the \$19 million boost to oil royalties from a US\$1 increase in WTI oil prices.

**The Province's FY13-FY15 forecast** assumes annual revenue growth of 4.5% alongside expenditure increases of 4.2%. For oil and potash prices and potash sales, there is upside potential, suggesting stronger receipts. However, against the longer-term advantages of accelerating the elimination of its direct debt will be the pressure of near-term spending demands that typically escalate during buoyant economic periods.

## Saskatchewan's Resource Receipts



Source: Saskatchewan Finance.

**Budget Highlights and Major Policy Developments**

**Revenues** (revenue impact of tax reductions and enhanced benefits for calendar 2011 in brackets)

**Personal Income Tax (PIT)** reduction will raise the basic and spousal exemption amounts by \$1,000 for 2011 and the dependent child amounts by \$500 (\$60 million). This builds on the sizeable increases in personal exemption amounts announced in October 2008, that reduced the PIT burden for individuals by \$246 million.

**The Corporate Income Tax (CIT)** rate for small business will be cut from 4.5% to 2.0%, effective July 1, 2011 (\$80 million). Reflecting this rate decrease, the dividend tax credit rate on dividends from small businesses will be trimmed from 6% to 5% in 2011, and to 4% in 2012.

**The Corporation Capital Tax on Financial Institutions** is 3.25% for institutions with aggregate paid-up capital greater than \$1.5 billion and 0.7% for smaller institutions. To avoid penalizing smaller financial institutions' growth, for taxation years on or after October 2009, an institution surpassing the \$1.5 billion threshold, instead of paying the higher rate on all its paid-up capital, will now face the higher rate on only the capital exceeding the threshold.

**For Education Property Taxes**, the final stage of the government's commitment to double the level of relief from this tax will proceed for 2011. Mill rates will decline for Agricultural land from 7.08% to 3.91% (\$31 million); on the second tier rate for Commercial property from 15.75% to 14.75% (\$6 million); and for Residential property from 10.08% to 9.51% (\$19 million). Thus in 2011, the total Education Property tax relief will be: 80.9% for Agricultural land versus 38.0% in 2007; for Commercial property 17.4% versus 6.0% in 2007; and for Residential property, 29% versus 9.7% in 2007.

**Expenditures**

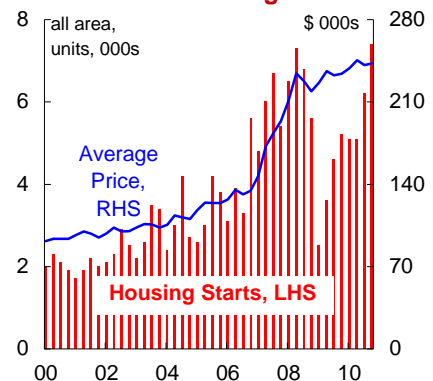
**In health care**, reflecting Saskatchewan's ongoing challenge in retaining health professionals, the Province negotiated a four-year contract with physicians providing an 11% fee increase with a 2% market adjustment and \$33 million in targeted incentives. Saskatchewan has met its commitment to hire 800 new nurses. Following the Province's *Patient First Review* and its recommendations, e-Health Saskatchewan, a Treasury Board Crown corporation created in December, will oversee the completion of the provincial electronic health record system, now underway as the Saskatchewan Health Information Network (SHIN). For rural areas, in addition to air ambulance improvements such as introducing helicopter service, a 24-7 Emergency Medical Technician service is being tested in southwest Saskatchewan.

**A housing strategy** is being developed to increase its affordability and accessibility. As well as affordable rental housing, the *Headstart on Home* program will meet the government's commitment to fund at least 1,000 new entry level homes over five years.

**For First Nations and the Métis**, the government's priority remains eliminating the persistent shortfalls in their education and employment outcomes, with additional FY12 funding covering increased apprenticeships, training allowances and First Nations' business assistance.

**The Lean method** — a client-focused approach that evaluates service delivery relative to best practices, eliminates activities that do not add value and streamlines processes — continues to be applied throughout the entire public service. Enterprise Saskatchewan, for example, decreased its sector teams from 18 to eight and increased its strategic issues councils from three to four in January to operate more efficiently.

**Saskatchewan's Housing Market Surge**



Source: CMHC, Canadian Real Estate Association.

**Budget Highlights and Major Policy Developments — continued**

**The second report by Saskatchewan's Regulatory Modernization Council** in January, as well as an independent study, highlight Saskatchewan's progress in streamlining its regulatory framework with initiatives such as expanding online regulatory solutions, reducing fees, increasing regulatory harmonization and supporting the adoption of compliance alternatives. Specific actions include SaskEnergy's streamlined online application for natural gas service and Energy and Resources' *Oil and Gas Renewal* project to decrease industry costs for filing and obtaining data while increasing the access to information on future development plans.

**An Energy Memorandum of Understanding** was signed by Saskatchewan, Alberta and British Columbia to facilitate greater collaboration on issues such as limiting greenhouse gas emissions and developing Asian markets, building on the three Provinces' *Western Economic Partnership*. **Coal** is the focus of a Memorandum of Understanding between the Province and the Japan Coal Energy Centre (JCOAL) to collaborate on clean coal strategies and carbon capture and storage.

**SaskPower's** Q3 report for the nine months ending September 2010 reports a jump of more than 50% in net income reflecting low natural gas prices, above-average hydroelectricity generation, a 2% cut in operating, maintenance & administration costs in 2010 as targeted and a 4.5% average increase in power rates as of August 2010 following an 8.5% rise in June 2009. The utility is not applying for a rate increase in 2011 and a five-year plan to further trim operations & administration expenses is expected to elevate SaskPower to industry "best practice" levels. Similar to 2010, SaskPower in 2011 will not pay a dividend to the Province's general revenue fund. Instead, retained earnings will help fund a \$0.7-\$1.0 billion capital budget this year, that includes upgrading and increasing transmission capacity for potash mine expansions. Over the next decade, SaskPower expects its capital investment to total \$12 billion.

**Installed wind power capacity**, with the 26.4 MW Red Lily Wind Project coming on stream, climbed to roughly 200 MW in late February. With an additional 30 MW in small projects underway and bids for one or two larger projects totaling 175 MW, SaskPower also is testing the impact of individual wind turbines at community ice rinks. After not proceeding with a large nuclear plant in late 2009 to serve northern Saskatchewan and the Alberta oil sands, the option of smaller, less costly 30MW-300MW nuclear reactors is being researched, mirroring similar efforts in Russia, China, Argentina, France, Korea and Japan.

**SaskEnergy** over the next few years intends to upgrade its technology, raise its storage capacity, install new pipes and pursue growth initiatives such as CO<sub>2</sub> transportation. The utility aims to become net zero in electricity consumption by 2015 with measures such as flare gas capture, waste heat capture from power generating stations and compression equipment upgrades.

**Saskatchewan Government Insurance** continues to provide a 20% rebate on insurance premiums and registration fees for hybrid and other fuel efficient cars.

**A \$26 million renewable diesel program** beginning April 1st for five years to 2016 will provide a 13¢/litre grant to eligible producers of biodiesel fuel from agriculture or forestry biomass. On July 1, 2012, a 2% renewable diesel mandate comes into effect in Saskatchewan.