

ATTACHMENT 3

City of Saskatoon 2016 Mid-Year Update

SHAPING OUR FINANCIAL FUTURE
AUGUST 15, 2016

Mid-Year Report Economic Update

INTRODUCTION

As a result of a sustained reduction in commodity prices, Saskatoon's economy experienced some major challenges in 2015. According to the Conference Board of Canada, real Gross Domestic Product (GDP) declined by 0.9 percent in 2015, following five years of annual average growth of almost 6 percent. Retail sales declined by

However, population and employment continued to grow in 2015 demonstrating the economy's diversity in mitigating the negative effects from lower commodity prices. Population grew by 2.6 percent in 2015, while total employment increased by 300 jobs.

Although low commodity prices—especially for oil, potash and uranium—continue to persist in 2016, it is expected that Saskatoon's economy will experience modest growth in 2016. The Conference Board of Canada is predicting that Saskatoon's economy will grow by 1 percent in 2016. Population is anticipated to grown by 2 percent, largely from international migration, but employment is expected to decrease by 1 percent in 2016, primarily due to declines in the resources, construction, and manufacturing sectors.

SASKATOON'S ECONOMY AT SECOND QUARTER OF 2016

The continued reduction in commodity prices are still having an effect on several economic indicators in the second quarter of 2016. The number of housing starts and investment in new residential construction are down relative to the same time in previous years. Similarly, total employment is also down relative to previous years.

Table 1:

Saskatoon CMA Key Economic Indicators

| Saskatoon CMA | 2016 Q2 | 2015 Q2 | Change |
|---------------------------------|----------------|----------------|---------------|
| *Population (000) July 1 | 310.3 | 304.4 | 5.9 |
| *Real GDP (\$ 2007 Millions) | 17,288.6 | 17,120.3 | 148.3 |
| *Retail Sales (Millions \$) | 7069.9 | 7003.9 | 63 |
| Employment (000) | 166.3 | 168.4 | -2.1 |
| Unemployment Rate (%) | 6.6 | 5.5 | 1.1 |
| Building Permits (\$Millions) | 67.6 | 81.9 | -17.5 |
| Housing Starts (Units '000) | 546 | 585 | -41 |
| Consumer Price Index (2002=100) | 133.6 | 131.7 | 1.9 |

Sources: Statistics Canada, Conference Board of Canada, CMHC

*Estimates

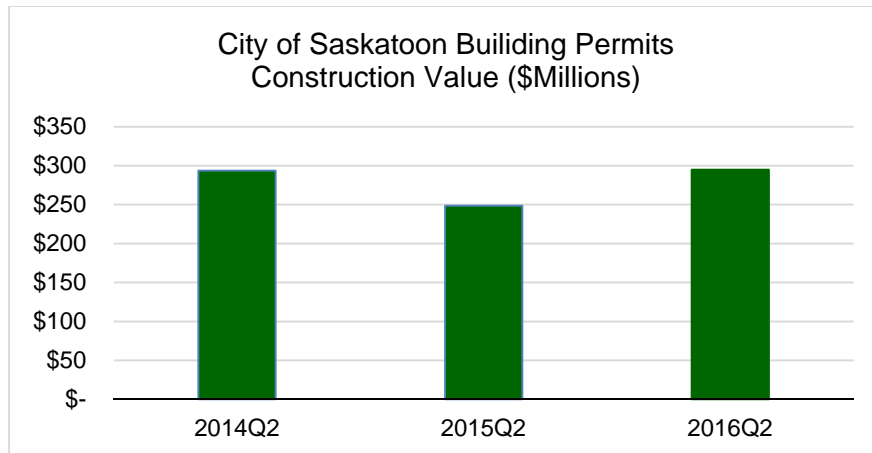
Investment

Investment in residential and non-residential structures are showing mixed results. On the one hand, residential and industrial investment are showing declines in 2016. On the other hand, commercial and institutional investment are seeing increases relative to the same period one year ago. As of June 30, 2016, the year to date construction value of all permits have declined by 13.1% when compared to 2015.

**Table 2:
Building Permit Statistics for YTD June 30, 2016 vs June 30, 2015**

| Category | Construction Value (\$million) | | |
|--|--------------------------------|----------|----------|
| | YTD 2016 | YTD 2015 | Change % |
| Residential | \$136.5 | \$138.5 | -1.5% |
| Apartments & Housing Projects | \$34.9 | \$133.8 | -73.9% |
| Commercial | \$63.7 | \$60.8 | 4.8% |
| Industrial | \$30.8 | \$54.5 | -43.6% |
| Institutional & Assembly | \$118.5 | \$44.3 | 167.7% |
| Other (includes demolition permits) | \$1.4 | \$11.9 | -88.5% |
| TOTAL | \$385.8 | \$443.9 | -13.1% |

On a quarterly basis, however, investment is up in the second quarter of 2016 relative to the second quarter of 2015. This is primarily due to a substantial increases in institutional/assembly projects, such as the four new joint use schools that are under construction in Saskatoon.



Source: City of Saskatoon

The declines in residential investment has had an impact on employment in Saskatoon.

Employment

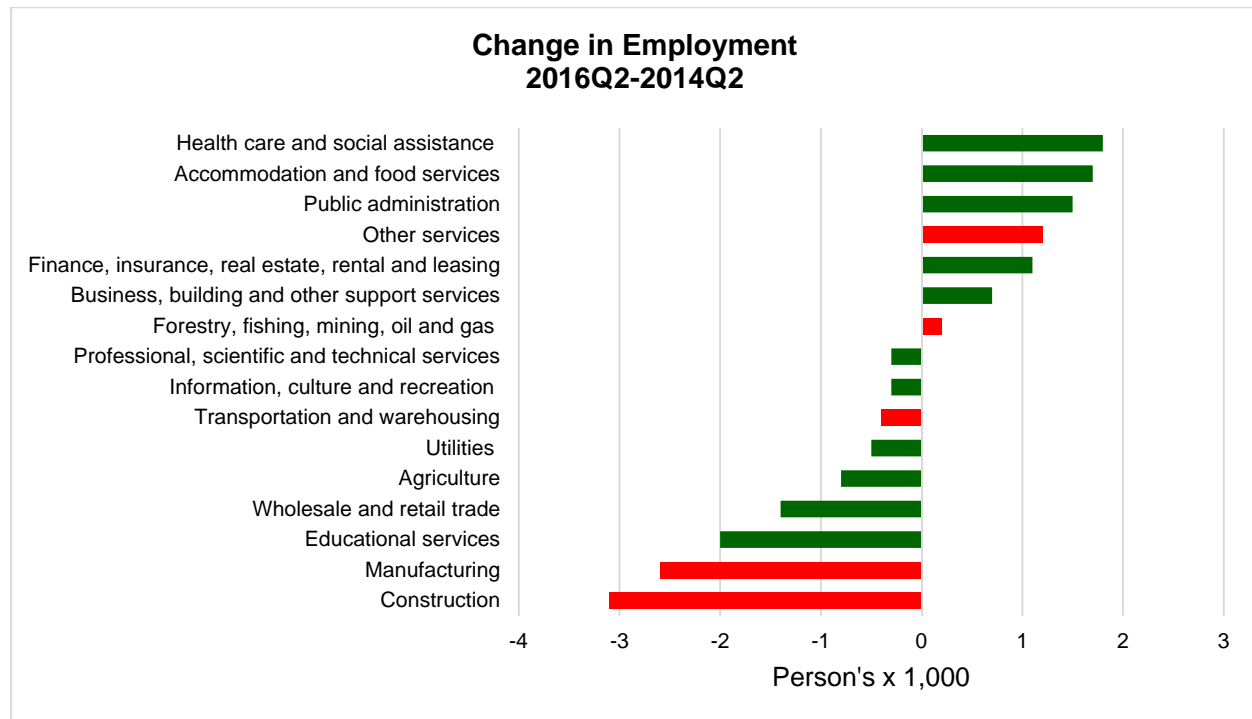
At the second quarter of 2016, total employment in Saskatoon has declined by 2,100 compared to the same period in 2015, seasonally adjusted. This has resulted in a higher unemployment rate, which sits at 6.6 percent in the second quarter of 2016.

**Table 3:
Saskatoon Employment Statistics Seasonally Adjusted**

| | 2016 Q2 | 2015 Q2 | 2014 Q2 | Change from 2014 |
|---------------------------------|---------|---------|---------|---------------------|
| <i>Labour Force (000)</i> | 178 | 178.3 | 175.3 | 2.7 |
| <i>Total Employment (000)</i> | 166.3 | 168.4 | 168.7 | -2.4 |
| <i>Unemployed Persons (000)</i> | 11.7 | 9.8 | 6.6 | 5.1 |
| <i>Unemployment Rate (%)</i> | 6.6 | 5.5 | 3.8 | 2.8 |

Source: Statistics Canada CANSIM 282-0135

The employment declines in Saskatoon are largely concentrated in the goods producing sectors of the economy (e.g., construction and manufacturing). In fact, since the second quarter of 2014, the goods sector saw employment declines of 6,700 when compared to the second quarter of 2016 (unadjusted). However, this has been offset by increases of 3,700 jobs in the services sector (unadjusted).



Source: Statistics Canada: CANSIM 282-0130

Despite the declines in total employment at the second quarter, Saskatoon is still experiencing solid population growth, albeit at a slower pace.

Population

Although we do not have the most recent population estimates for Saskatoon for the second quarter of 2016, we do have estimates relative as at July 1, 2015 (or the second quarter of 2015). As of July 1, 2015, Saskatoon's (city) population stood at 258,068, an increase of almost 4,700 persons over the previous year. This resulted in a growth rate of 1.9 percent. It is anticipated that the City will experience a similar growth rate for 2016.

As of July 1, 2015, the population for the Saskatoon CMA stood at 304,975, an increase of 6,043 persons over the previous year. This result in a growth rate of 2 percent. It is anticipated that the CMA population will grow at a similar rate in 2016.

Saskatoon's population growth is being driven by two components: natural increases (meaning births over deaths) and net international immigration (meaning new people coming from other countries). However, over the last couple of years, the City has been experiencing declines in net interprovincial migration, meaning that more people are moving to communities in other provinces, than those moving to Saskatoon. This is largely correlated to the employment declines in the resource and construction sectors. In fact, on a net basis, Saskatoon saw 1,194 people move to other provinces.

Table 4
Components of Population Growth

| Components of Population Change | Year over Year Change | | | | |
|---|------------------------------|------------------|------------------|------------------|------------------|
| | 2010/2011 | 2011/2012 | 2012/2013 | 2013/2014 | 2014/2015 |
| <i>Net Births</i> | 1785 | 1795 | 1881 | 1950 | 2011 |
| <i>Net Residents from Other Countries</i> | 3199 | 5085 | 4270 | 4781 | 4390 |
| <i>Net Residents from Other Provinces</i> | 499 | 930 | -46 | -805 | -1194 |
| <i>Net Residents from Saskatchewan</i> | 2074 | 2258 | 2114 | 1941 | 1941 |

Source: Statistics Canada, CANSIM 051-0056; 051-0063

Forecast at a Glance

According to the Conference Board of Canada's Metropolitan Outlook, 2016, Saskatoon's Economy is expected to see positive growth across many indicators in the latter half of 2016 through to 2018. However, this will depend upon on how the economy can adapt to sustained period of lower commodity prices. Given Saskatoon's diverse economy, this challenge can be overcome.

| Economic Indicators | 2015 Actual | 2016f | 2017f | 2018f |
|------------------------------------|--------------------|--------------|--------------|--------------|
| <i>Real GDP (2007 \$ millions)</i> | 17,258 | 17,452 | 17,955 | 18,371 |
| <i>percentage change</i> | -0.9 | 1.1 | 2.9 | 2.3 |
| <i>Total Employment (000)*</i> | 170 | 169 | 170 | 173 |
| <i>percentage change</i> | 0.3 | -0.7 | 0.7 | 2.1 |
| <i>Unemployment Rate (%)*</i> | 5.8 | 5.8 | 5.6 | 5.4 |
| <i>Population (000)</i> | 308 | 315 | 322 | 329 |
| <i>percentage change</i> | 2.6 | 2.2 | 2.3 | 2.2 |
| <i>Housing Starts (units)</i> | 2,293 | 1,800 | 1,688 | 1,811 |
| <i>Retail Sales (\$ millions)</i> | 7,258 | 7,336 | 7,498 | 7,746 |
| <i>percentage change</i> | -1.1 | 1.1 | 2.2 | 3.3 |
| <i>CPI (2002= 100)</i> | 131 | 133.4 | 136.2 | 139.1 |
| <i>percentage change</i> | 1.9 | 1.8 | 2.1 | 2.1 |

Financial Performance Update

Overview

As of mid-year, a net surplus of \$403,000 is currently projected after transfers of a projected Snow and Ice Surplus of \$1.0 million to reserve and transfers from the Interest Stabilization reserve of \$279,000 due to lower than budget interest earnings are completed. This is a \$1.549 million improvement from the first quarter update.

City of Saskatoon 2016 Operating Projection (in 000's)

| | Budget | First Quarter Forecast | Mid-Year Projection | Mid-Year Change From | |
|--|-----------|------------------------|---------------------|----------------------|----------------|
| | | | | Budget | First Quarter |
| Mill Rate Programs | | | | | |
| Community Support | 13,678 | 13,768 | 13,696 | 18 | (72) |
| Corporate Asset Management | 8,136 | 7,659 | 7,240 | (896) | (419) |
| Corporate Gov. & Finance | 51,384 | 51,310 | 50,411 | (973) | (899) |
| Environmental Health | 12,659 | 13,895 | 13,899 | 1,240 | 4 |
| Fire Services | 46,617 | 46,617 | 46,697 | 80 | 80 |
| Arts, Culture & Events Venues | 7,207 | 7,207 | 7,207 | - | - |
| Policing | 84,324 | 84,484 | 84,484 | 160 | - |
| Recreation & Culture | 27,075 | 27,483 | 27,649 | 574 | 166 |
| Taxation & General Revenues | (358,968) | (358,968) | (359,025) | (57) | (57) |
| Transportation | 102,225 | 101,075 | 100,955 | (1,270) | (120) |
| Urban Planning & Development | 5,663 | 5,616 | 5,663 | - | 47 |
| Mill Rate Deficit/(Surplus) | - | 146 | (1,124) | (1,124) | (1,270) |
| Utility Programs | | | | | |
| Light & Power | - | 810 | (356) | (356) | (1,166) |
| Storm Water | - | 17 | (100) | (100) | (117) |
| Waste Services | - | - | - | - | - |
| Wastewater Utility | - | (1,145) | (1,032) | (1,032) | 113 |
| Water Utility | - | 446 | 354 | 354 | (92) |
| Transfer to Utility Stabilization | - | (128) | 1,134 | 1,134 | 1,262 |
| Utility Deficit/(Surplus) | - | - | - | - | - |
| Transfer to Snow & Ice Reserve | - | 1,000 | 1,000 | 1,000 | - |
| Transfer from Interest Stabilization | - | - | (279) | (279) | (279) |
| Total Projected Municipal (Surplus)/Deficit | | 1,146 | (403) | (403) | (1,549) |

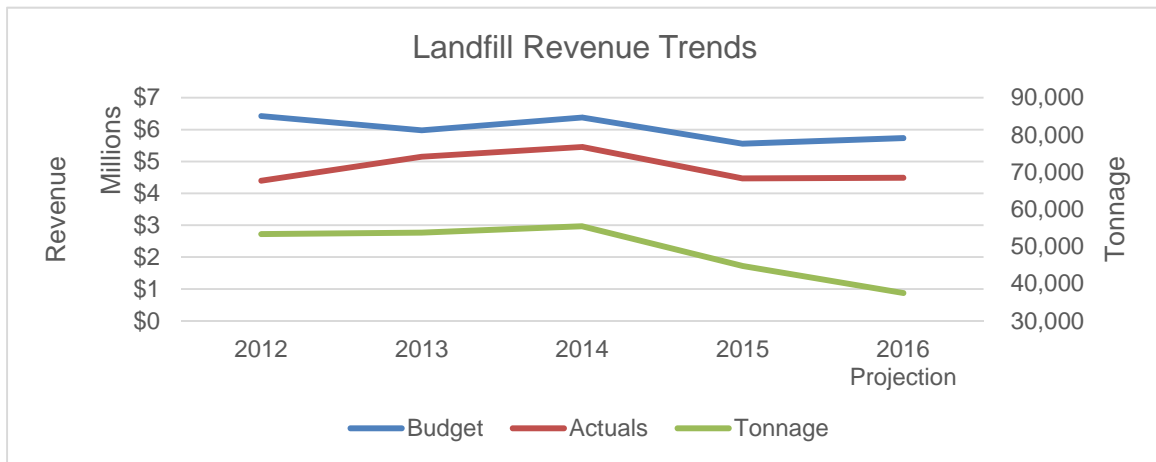
Relative to first quarter forecasts:

- The Corporate Governance and Finance business line has improved its forecast by \$899,000 to a projected surplus of \$973,000. This increase is largely due to a \$1.524 million surplus refund received from WCB due to the City's excellent safety history.
- A \$419,000 improvement to the Corporate Asset Management Business Line in order to reflect anticipated Energy and Fuel savings from lower commodity prices

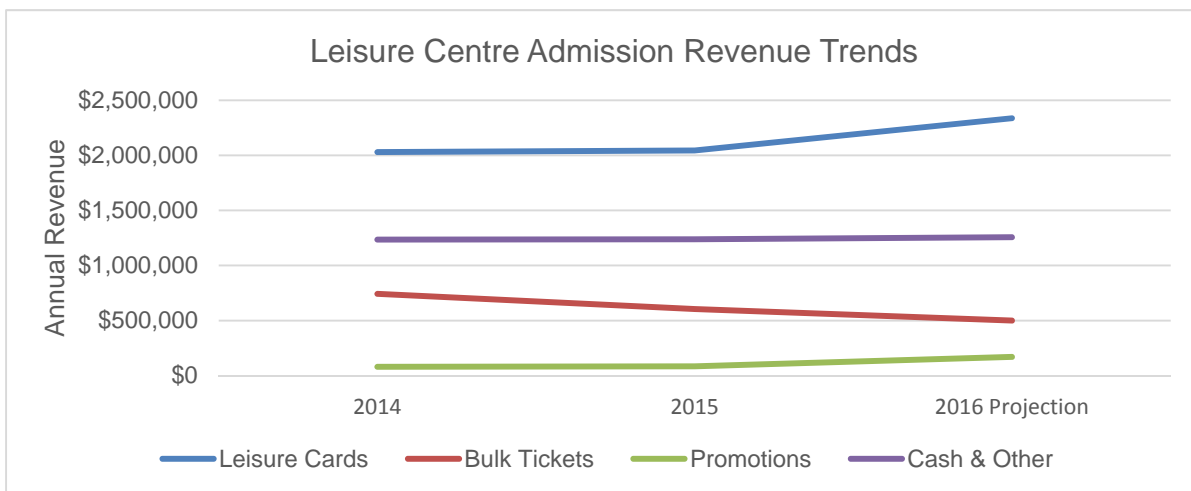
and a mild first part of winter from January - March

In total, changes from the approved budget include:

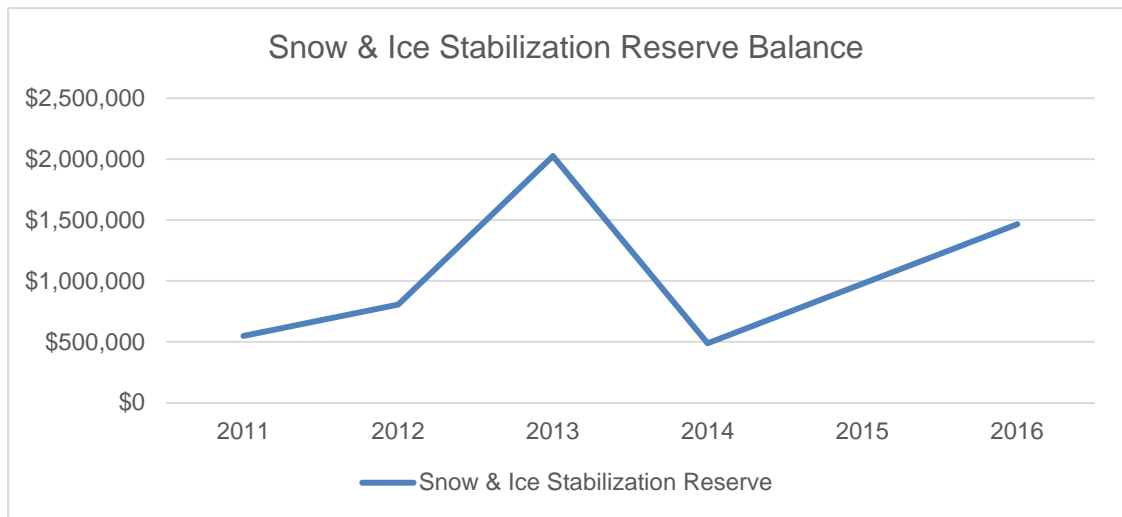
- Environmental Health is projecting a \$1.240 million deficit largely due to increased competition in the landfill sector which has resulted in several lost commercial haulers and associated tonnages.



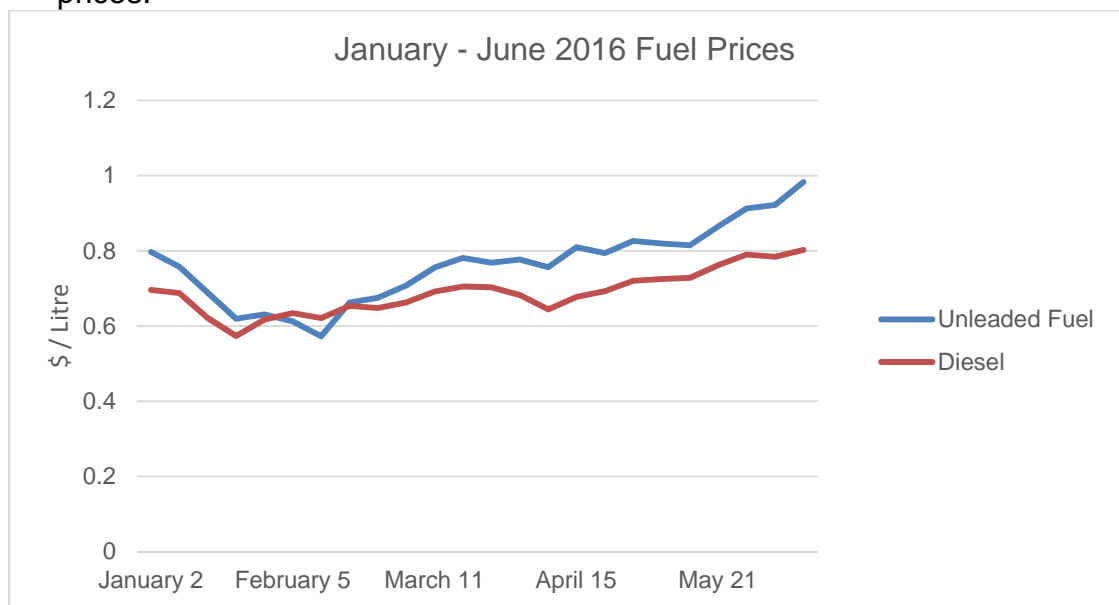
- A \$574,000 deficit in Recreation & Culture, largely due to a \$391,000 unfavourable variance in Recreation Facilities from lower paid admissions, Leisure Card and bulk ticket sales than originally budgeted. Although the projection is less than budget, recreation facilities continue to see positive growth in year over year actuals as a result of the marketing campaign and new pricing structure started in 2015. 2014 and 2015 total admissions were \$4.085 million and \$3.969 million respectively, while 2016 is projecting \$4.264 million in paid admissions.



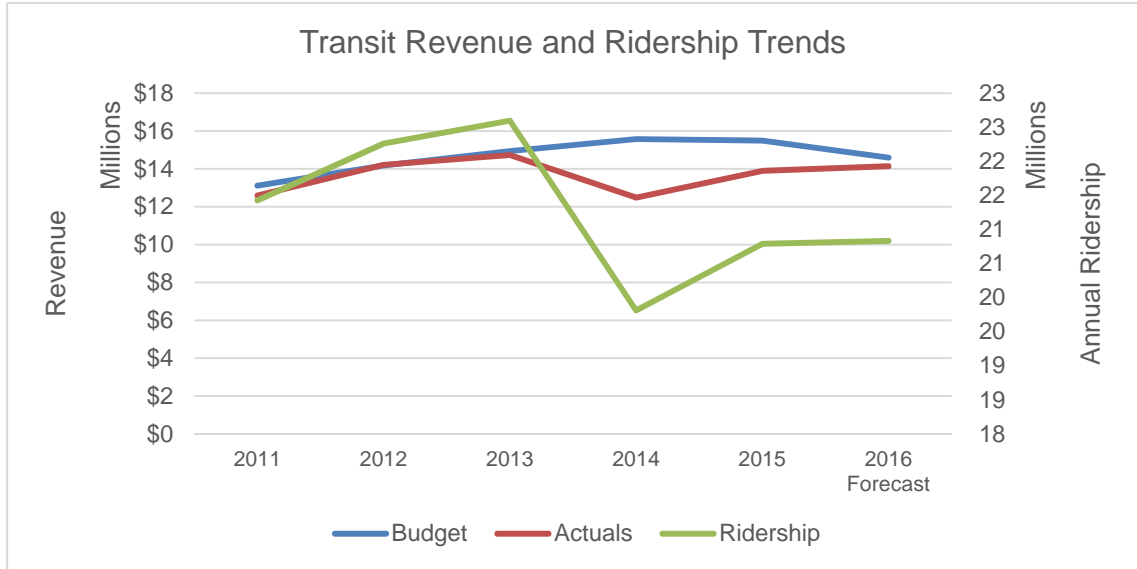
- The Transportation business line is currently projecting a \$1.270 million surplus, mainly due to the following:
 - A \$1.0 million surplus in Snow & Ice Management due to the mild winter and snowfall which was experienced from January to March. Pending a normal snowfall and winter conditions from October to December, this surplus will be realized. This surplus is currently forecasted to be allocated to the Snow & Ice Stabilization Reserve; however, the Reserve currently has a \$1.465 million balance. Pending actual results, an alternative allocation of this surplus may be recommended at year end.



- A \$605,000 positive variance in Transit Operations, which is largely due to anticipated fuel savings of \$1.611 million from historically low oil and gas prices.



Overall, transit ridership continues to see modest increases in 2016 over 2015; however, these increases still result in an anticipated \$455,000 in revenues below budget.



Debt Overview

As reported in the 2015 Annual Report, total accumulated debt as at December 31, 2015 was \$261.27 million.

City of Saskatoon 2016 Debt Projection (in 000's)

| | Dec 31, 2015 Balance | Mid-Year Projection | Projected Change |
|--|-------------------------|------------------------|---------------------|
| Tax Supported Debt | | | |
| Hybrid Buses | 451 | 338 | (113) |
| Circle Drive South | 12,981 | 11,254 | (1,727) |
| River Landing | 1,976 | 1,688 | (288) |
| Soccer Centre | 4,951 | 4,043 | (908) |
| Shaw Centre | 4,862 | 3,305 | (1,557) |
| TCU Place Expansion | 5,276 | 4,619 | (657) |
| New Police Headquarters | 90,252 | 87,099 | (3,153) |
| Truck Radio System | 2,235 | 1,938 | (297) |
| Remai Modern Art Gallery of Saskatchewan | 14,328 | 12,960 | (1,368) |
| Civic Operations Centre P3 Debt | 35,000 | 112,023 | 77,023 |
| North Commuter Parkway & Traffic Bridge | - | 50,000 | 50,000 |
| Total Tax Supported Debt | 172,312 | 289,267 | 116,955 |
| Gas Tax Supported Debt | | | |
| Circle Drive South | 23,776 | 19,324 | (4,452) |
| Circle Drive Bridge Widening | 5,513 | 3,747 | (1,766) |
| Total Gas Tax Supported Debt | 29,289 | 23,071 | (6,218) |
| Utility Supported Debt | | | |
| Sludge Recovery | 216 | 188 | (28) |
| New Water Intake | 15,266 | 11,812 | (3,454) |
| UV Disinfection System | 4,616 | 4,001 | (615) |
| Grit & Screen Handling | 2,885 | 2,501 | (384) |
| Sludge Reclamation | 921 | 691 | (230) |
| 42 nd Street Reservoir Roof | 171 | 116 | (55) |
| Standby Generator | 1,270 | 1,112 | (158) |
| Reservoir Capacity Projects | 27,514 | 34,377 | 6,863 |
| Wastewater Digester | 2,270 | 2,009 | (261) |
| Wastewater Facility Upgrades | 4,539 | 4,073 | (466) |
| 42 nd Street Pump House | - | 1,800 | 1,800 |
| Acadia Reservoir Pump Replacement | - | 2,000 | 2,000 |
| Wastewater Odour Abatement | - | 5,600 | 5,600 |
| Wastewater Energy Recovery | - | 350 | 350 |
| Total Utility Supported Debt | 59,668 | 70,630 | 10,962 |
| Total Municipal Debt | 261,269 | 382,968 | 121,699 |

Aside from regular debt repayments, an anticipated \$146.57 million in new debt is anticipated to be added by the end of 2016. This new debt is largely related to the Civic Operations Centre (\$77.02 million) and North Commuter Parkway & Traffic Bridge (\$50.00 million). As the debt for these two projects relate to a PPP agreement, the debt will be issued and held by the selected proponent, however, will still be reflected in the City’s financial statements and debt limit. The remaining anticipated new debt issuances relate to the following capital projects:

| Capital Project | New Debt (millions) |
|--|---------------------|
| 2198 – Reservoir Capacity Expansion | \$9.80 |
| 713 – Reservoir Pump House Capacity - | \$1.80 |
| 2557 – Acadia Reservoir Pump House Replacement | \$2.00 |
| 1234 – Wastewater Odour Abatement System | \$5.60 |
| 1247 – Wastewater Energy Recovery | \$0.35 |

All anticipated borrowings have been approved through the Capital Budget process and subsequent public notice.

As reported in the 2015 annual report, the City of Saskatoon’s current debt holdings is approximately 32% of annual operating revenues. This rate is expected to climb to 45% in 2016, largely as a result of the two PPP projects currently underway, however, with this increase Saskatoon’s debt continues to project as one of the most favourable ratios in western Canada.

