



SASKATCHEWAN PROVINCIAL BUDGET

**18-19**

GOVERNMENT DIRECTION FOR 2018-19

# Government Direction for 2018-19: ON TRACK

*The Government has a balanced budget plan and that plan is on track.*

*Saskatchewan's vision is to be the best place in Canada – to live, to work, to start a business, to get an education, to raise a family and to build a life.*

*Four goals set the Government's direction for the province: sustaining growth and opportunities for Saskatchewan people, meeting the challenges of growth, securing a better quality of life for all Saskatchewan people and delivering responsive and responsible government.*

*The foundation for the Government's direction is strong fiscal management and balanced budgets. In 2017-18, the Government charted a three-year plan to reduce the province's dependency on resource revenue and balance the budget in 2019-20.*

*Budget 2018-19 keeps that plan on track by controlling government spending, while at the same time making important new investments targeted in health, education and social services to improve the lives of Saskatchewan people.*

Saskatchewan is on track.

Faced with challenging years marked by resource revenue that declined by more than \$1 billion, due largely to low oil and potash prices, a plan to restore balance was initiated last year. This Budget sticks to that plan, to control spending and reduce Government's reliance on volatile resource revenue.

Saskatchewan's finances are improving and our economy is showing resilience. Oil patch production has increased and potash mines are more active,

reflecting higher resource prices. Agriculture, the service industry, the manufacturing sector, and other engines of the economy are steady, as well.

While positive signs are emerging, challenges remain. To address those challenges, this year's budget makes investments in priorities, supports growth in the economy, carefully manages expenses and stays focused on a return to balance.

The goal to balance is important for many reasons.

Staying on a path to balance ensures the long-term sustainability of the services and programs Saskatchewan people value – among them health care, education and services for those most vulnerable.

Staying on track ensures that investments in infrastructure, including hospitals, highways and schools, continue this year and in the years to come.

Over the last decade our province's population has grown at the second highest rate in the country – over 160,000 more people now call Saskatchewan home.

As it was more than a century ago, Saskatchewan is a place of opportunity, a place where people see growth and prosperity. People look to our province as a place that provides compassion and care.

The Jim Pattison Children's Hospital is on schedule to open in Saskatoon in the fall of 2019. This Budget includes the Province's final investment to complete construction of the hospital and continued phase-in of funding for doctors, nurses and other health professionals that will provide the best care for children.

The new Saskatchewan Hospital North Battleford will open this fall, replacing a hospital that is more than a century old.

This new facility is a significant commitment to address and improve mental health. This Budget includes funding to finish construction, and funding for the men and women who will provide care for people with psychiatric rehabilitation needs.

Investments continue in education, with increased funding for Saskatchewan classrooms and investments in school capital projects.

This Budget provides more funding for social services and assistance, for foster families and those in our communities who provide direct, daily care for our most vulnerable children and adults.

The 2018-19 Budget ensures full coverage of HIV drugs for Saskatchewan people, as well as additional supports.

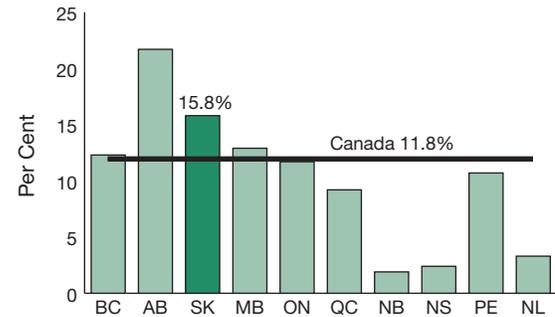
This Budget includes individualized funding for each child under the age of six with Autism Spectrum Disorder, to help children and their families access additional support.

This Budget continues funding for the Regina Bypass, completes funding for the Saskatoon North Commuter Bridge, and invests in transportation capital and maintenance to help people travel more easily and move our products to market, but most importantly to improve safety and save lives.

Those are a few examples of how the 2018-19 Budget demonstrates Government's commitment to ensuring Saskatchewan stays on track.

There's more to do. There are challenges to tackle. The important goal of achieving balance in order to ensure sustainability continues to be pursued, and balance is in sight.

## POPULATION GROWTH BY PROVINCE (January 2018 over January 2008)



Source: Statistics Canada

## ECONOMIC GROWTH

Saskatchewan's economy is projected to have the fourth highest growth in the country in 2018, according to private sector forecasters. In 2019, Saskatchewan is projected to have the third highest economic growth among provinces.

Saskatchewan's export-based economy is fueled by strong global economic growth. The value of the province's exports rose 8.7 per cent to approximately \$28.9 billion last year, up more than \$2 billion from 2016.

Agriculture exports were \$13.5 billion last year, the fourth highest total on record, with sales to 143 countries.

To help further support the economy and this vital sector, this Budget introduces a Saskatchewan Value-added Agriculture Incentive for corporations making a minimum capital investment of \$10 million in an eligible project.

To be eligible, projects must upgrade or transform raw or primary agricultural products. The incentive is provided through a non-refundable income tax credit equal to 15 per cent of the eligible project's qualifying capital investments.

Also important to Saskatchewan's economy is the ability to help create an environment for innovation and support for technology companies in their infancy.

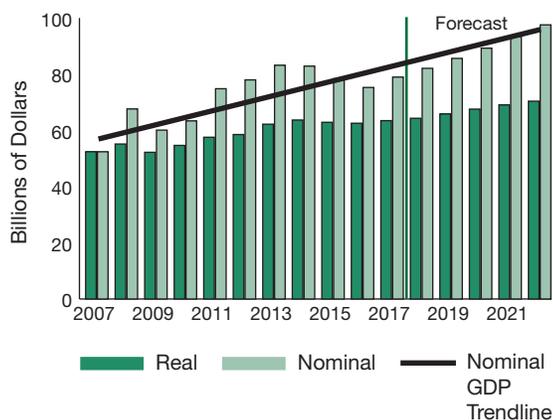
The Saskatchewan Technology Start-up Incentive introduced in this Budget will provide eligible investors with a non-refundable income tax credit equal to 45 per cent of qualifying new investments made in eligible small businesses.

Eligible small businesses are early stage technology start-ups that are developing new technologies, or applying existing technologies in a new way to create new proprietary products, services or processes that are repeatable and scalable.

Eligible small businesses must also be incorporated and headquartered in Saskatchewan and have fewer than 50 employees, the majority of which are located in the province.

Combined with competitive taxes and labour costs, targeted incentives like these continue to support diversification and growth in Saskatchewan's economy.

### SASKATCHEWAN REAL AND NOMINAL GDP LEVEL



Source: Ministry of Finance

A number of indicators point to a Saskatchewan economy that is on track.

Manufacturing sales were \$15.9 billion in 2017, up 12.6 per cent year-over-year, representing the fourth highest growth among provinces in 2017. Sales of new motor vehicles were up 8 per cent, again the fourth highest growth among provinces. Building permits, wholesale and retail trade were all up in 2017, as were oil and potash production.

*The Fraser Institute's Annual Survey of Mining Companies 2017* named Saskatchewan the best place in Canada and the second best jurisdiction in the world for mining investment, based on competitive taxes, regulatory certainty and permitting practices.

The Institute's survey has ranked the province first or second in the world in each of the last four years, as well as first in the nation in all four years.

(More detailed economic information is provided in *The Saskatchewan Economy* technical paper beginning on page 27 and in the *2018-19 Revenue Initiatives* technical paper which begins on page 52.)

### FISCAL PICTURE

Saskatchewan is on track with its financial plan to return to balance, with a steadily improving outlook over the next four years.

A deficit of \$365 million is projected for 2018-19.

A return to balance is forecast for 2019-20 – a modest surplus of \$6 million, with higher surpluses of \$108 million projected in 2020-21 and \$212 million forecast in 2021-22.

Revenue is forecast at \$14.24 billion in the 2018-19 Budget, up about \$80 million from last year's budget and \$300 million higher than the 2017-18 third quarter forecast.

The increase in expected revenue in the 2018-19 Budget over last year is largely attributable to higher non-renewable resource revenue, net income from Government Business Enterprises, and other own-source revenue. Taxation is lower largely due to lower individual and corporation income tax revenue, offset by higher revenue from provincial sales tax.

Expense is forecast at \$14.61 billion in 2018-19, down from the previous year's budget by \$200 million, and up \$70 million from the 2017-18 third quarter forecast.

The 2018-19 Budget provides increases for health, social services and assistance, protection of persons and property, as well as the K-12 and post-secondary education sectors. However, total expense is lower than the previous year's budget as a result of lower pension expense, primarily due to a significant decrease in Government's pension liability. Expenses are also projected to be down across many other areas, as entities are managing spending carefully while continuing to provide high quality services to Saskatchewan people.

(More information is available in the 2018-19 Financial Outlook, beginning on page 36.)

## **IMPROVED REVENUE STABILITY**

Government has worked to modernize the tax system, in order to move away from an over-reliance on volatile resource revenue.

Improved revenue stability helps Government plan and invest in needed priority services, programs, and the infrastructure Saskatchewan people value.

In this Budget, all provincial tax rates, including Provincial Sales Tax (PST), Education Property Tax (EPT), and income tax rates are being held at their current levels.

A measure being taken, consistent with the shift to consumption taxes, is the broadening of the existing application of PST to used light vehicles, effective April 11, 2018.

This measure aligns Saskatchewan's tax treatment on used light vehicles with every other jurisdiction in the country that applies a sales tax. In addition, the trade-in allowance which allows a deduction for the value of a trade-in when determining PST is reinstated, so PST will only be paid on the difference in price between the trade-in vehicle and the purchased vehicle.

Unique to Saskatchewan, PST will not be applied to the private sale of used vehicles with a purchase price of up to \$5,000. Private sales of used vehicles registered for commercial use, as well as dealer sales of used vehicles, are not eligible for the \$5,000 exemption.

And PST will not be charged for used vehicles gifted between qualifying family members – spouses, parents or legal guardians, children, grandparents, grandchildren or siblings.

Also, the PST exemption for ENERGY STAR<sup>®</sup> appliances is removed. Energy efficient appliances are more common and affordable than in the past. Energy cost savings provide a strong incentive for consumers to choose these appliances.

While it remains unclear exactly when the federal government's legalization of cannabis will occur, and the size of the cannabis market and retail pricing is difficult to predict, Saskatchewan will follow a taxation approach agreed to by Canadian Finance Ministers in late 2017.

Saskatchewan intends to formalize its participation by entering into a two-year agreement, where the Province will receive 75 per cent of the federal cannabis excise duty revenue.

PST will also apply to all retail sales of cannabis products in Saskatchewan and the federal excise duty rate will be increased to account for interprovincial sales tax rate differentials. Saskatchewan will receive this revenue from the federal government.

Personal Income Tax (PIT) rates were reduced by half a point in 2017 and are staying the same in the near term, pausing the rate reduction plan announced last year. Income tax bracket indexation has also been paused.

Since 2008, PIT exemptions have removed 112,000 people from the province's income tax roll and PIT reductions introduced over the past decade, as well as last year's half-point rate reduction, are providing over \$606 million in annual income tax savings to Saskatchewan people.

A Saskatchewan family of four pays no provincial income tax on their first \$51,600 of combined income. In 2007, that threshold was much lower, as a family of four began paying provincial income tax once their combined income reached just \$26,150.

A Saskatchewan family of four with \$100,000 in total income pays \$1,945 less in combined provincial income and sales tax in 2018 compared to 2007.

In terms of tax competitiveness for businesses, Saskatchewan has the highest small business income threshold in the country – that is, the amount of income up to which businesses pay tax at the much lower two per cent small business tax rate. The threshold went up from \$500,000 to \$600,000 effective January 1, 2018.

Saskatchewan's 12 per cent corporate income tax rate continues to be among the lowest in the country, matching the rates of the other western provinces.

(More information is included on pages 52 to 56 in the 2018-19 Revenue Initiatives section and pages 57 to 60 of the Saskatchewan's Tax Expenditures section, and in the 2018 Intercity Comparison of Taxes and Utilities on pages 61 to 64.)

## **CONTROLLING SPENDING**

Government continues to control and carefully manage spending in the 2018-19 Budget.

Many ministries and agencies are forecasting lower spending than in the previous fiscal year, while continuing to provide valued core services and programs.

Controlling compensation costs, the largest single component of Government's expense, is key to keeping Saskatchewan's fiscal plan on track. Employers and unions understand the fiscal environment and continue to bargain in good faith. Through the bargaining process, fair and equitable agreements will be achieved.

In addition to negotiated settlements, there is a target to achieve \$70 million in savings over two years, \$35 million in this Budget and a further \$35 million next fiscal year. This is largely through efficiency initiatives and attrition as part of Government's commitment to return to balance in 2019-20.

Using tools like vacancy management, overtime management and internal process improvement, the strategy is specific to Executive Government and the Crown corporations. And while the request hasn't been extended to major third parties, Government expects them to continue to manage their resources in the most efficient way possible.

An example of achieving efficiencies through positive change is the creation of a single Saskatchewan Health Authority.

The consolidation of 12 regional authorities was completed last year to improve front-line patient care for Saskatchewan people.

Greater integration and coordination has resulted in savings of \$19 million in this Budget, from salaries, the amalgamation of IT services, and lower board costs.

Savings continue to be realized across Government, mainly by exploring new ways to address challenges.

The Ministry of Central Services, for example, has reduced the size of its government vehicle fleet budget by 14.7 per cent, saving more than \$5 million, in part by using private rental cars where it proves to be more efficient and cost effective.

These are a few examples of Government seeking changes to improve services while controlling spending in order to meet the challenges of lower revenues and the needs of a growing province.

Overall, Government has managed expense carefully over the past several years. Expense was down 2 per cent in 2016-17 from the previous year.

In 2017-18, expense is forecast to be down a further 2 per cent. And in this Budget, expense is forecast to be about the same level as the 2017-18 third quarter forecast.

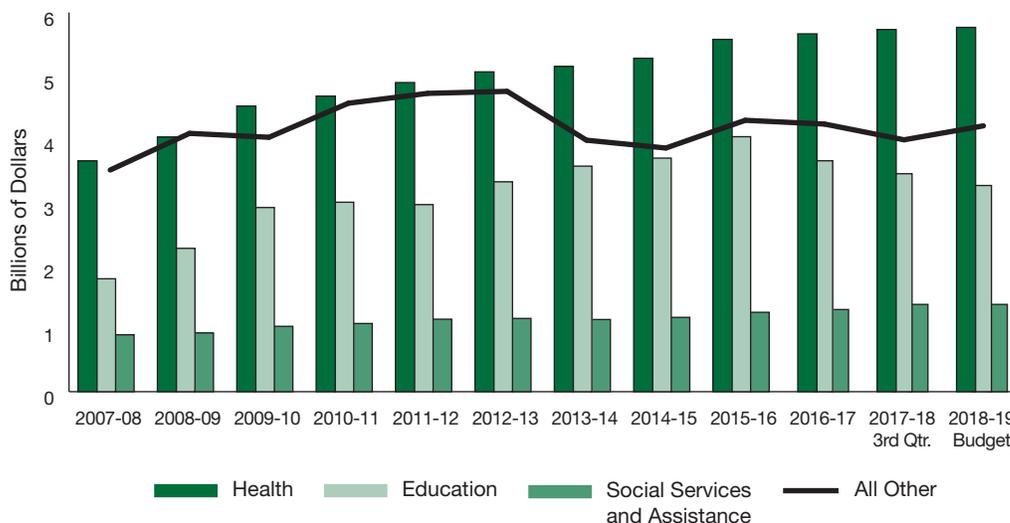
## PRIORITY INVESTMENTS

In Saskatchewan, investment into three priority areas – health, education and social services and assistance is \$10.4 billion in this Budget – an increase of more than 64 per cent or \$4 billion since 2007-08.

This accounts for 70 per cent of overall government spending.

In 2018-19, total spending for **health** is projected to be \$5.77 billion, an increase of \$138 million or 2.5 per cent over last year's budget. This includes spending through the Ministry of Health, the Saskatchewan Health Authority, the Saskatchewan Cancer Agency, eHealth, the Health Quality Council, 3sHealth, and the Physician Recruitment Agency.

## SPENDING BY THEME



Boards of Education did not become part of the Government Reporting Entity until 2009-10.  
Source: Saskatchewan Budget, Public Accounts

This Budget provides \$3.5 billion for Saskatchewan Health Authority base operating funding and targeted programs and services, an increase of \$71.87 million, or 2.1 per cent from 2017-18.

Included is a \$25 million increase for general operations and services, as well as \$11.4 million in new funding for mental health initiatives and \$12 million in additional funding for home and community care initiatives.

There is a \$16.8 million increase for physician and operating capacity for the Jim Pattison Children's Hospital, and \$14.2 million in new funding for operating and accommodations costs at the Saskatchewan Hospital North Battleford.

There is also a \$49.4 million increase for physician services, including existing services and the recruitment of new specialists and primary physicians.

There is additional funding of \$700,000 to increase coverage for HIV drugs to 100 per cent from 91 per cent, as well as provide additional HIV supports.

Higher investments into classrooms highlight **education** expense, budgeted at \$3.26 billion – down \$268 million from last year, primarily due to a decrease in Government's pension liability for the Teachers' Superannuation Plan.

**Education** includes budgeted spending through the Ministries of Advanced Education, Education, and Immigration and Career Training, the Boards of Education, Saskatchewan Polytechnic, Regional Colleges, the Saskatchewan Apprenticeship and Trade Certification Commission, the Saskatchewan Student Aid Fund and the Teachers' Superannuation Plan.

Saskatchewan's school divisions will receive \$1.87 billion in operating funding for the 2018-19 school year, a \$30 million increase over last year.

There is also \$20.8 million in new funding from the federal government through the recently signed Canada-Saskatchewan Early Learning and Child Care Agreement. The funding allows for the continued support of more than 16,000 licensed child care spaces and for the addition of 2,500 more by 2020.

The 2018-19 expense budget for the Ministry of Advanced Education is \$729 million, an increase of \$11 million from last year. It includes an \$18.3 million increase to ensure a successful College of Medicine that provides quality medical education.

This Budget supports the continuation of the Saskatchewan Advantage Scholarship, which assists Saskatchewan students with post-secondary tuition costs, and the Graduate Retention Program, one of the most aggressive and successful youth retention programs in the country, providing up to \$20,000 in income tax credits to graduates who live and work in Saskatchewan.

**Social services and assistance** includes the budgeted spending of the Ministry of Social Services, the Saskatchewan Housing Corporation, the Saskatchewan Legal Aid Commission, as well as portions of the Ministries of Government Relations, Justice and Attorney General and Advanced Education.

Social services and assistance expense is \$1.38 billion in the 2018-19 Budget, an increase of \$25 million, or 1.8 per cent, over last year, and a 53 per cent increase since 2007-08 when total expense was \$900 million.

This Budget includes a \$14.2 million increase to address higher Saskatchewan Assistance Program caseloads.

In this Budget, \$10.4 million will be targeted to those in communities providing direct daily care to adults with intellectual disabilities and mental health challenges, direct supports to families, and daily care for children in need of protection.

This includes funding increases for foster families, community-based organizations (CBOs) that deliver day programs and residential services to persons with intellectual disabilities and other CBOs that provide family-focused services.

The 2018-19 Budget has \$10 million to continue moving residents from Valley View Centre into community-based care, and \$9 million to provide services for adults with intellectual disabilities whose needs have increased.

Significant investment into **protection of persons and property** is prominent in this year's budget. Expense in this area is increasing in the 2018-19 Budget to \$690 million, up \$46 million, or 7.2 per cent, from last year.

Protection of persons and property expense includes portions of the Ministries of Government Relations, Justice and the Attorney General, Corrections and Policing, Labour Relations and Workplace Safety, as well as the entire appropriation for the Advocate for Children and Youth, the Information and Privacy Commissioner and the Ombudsman and Public Interest Disclosure Commissioner, among a number of other accounts and funds.

Combined increases in the Ministries of Justice and the Attorney General and Corrections and Policing, including amounts funded through the new Integrated Justice Services vote, total more than \$45 million.

Highlights include increases of \$13.6 million for the RCMP, \$11.4 million to operate the province's correctional facilities, \$9 million for utilization of court services, \$4.9 million to enhance the Rural

Crime Strategy, and \$1.8 million to expand the Remand Reduction Strategy aimed at reducing corrections and court system pressures.

While expense is being managed carefully, there continues to be significant investments into programs and services across all areas of government in: **agriculture, community development, economic development, environment and natural resources, and transportation.**

Further details of highlights in these areas related to the 2018-19 Budget are outlined in media releases and backgrounders from individual ministries and agencies.

## INVESTING IN INFRASTRUCTURE

The 2018-19 Budget includes \$2.7 billion for investment into Saskatchewan's infrastructure. The commercial Crown sector is investing \$1.5 billion and \$1.2 billion is being invested by Executive Government ministries and agencies.

This Budget includes \$20 million for the final investment of the Province's \$235.5 million commitment to the Jim Pattison Children's Hospital in Saskatoon. The 176-bed facility is scheduled to open in the fall of 2019.

There is \$34 million in this year's budget to complete construction of a unique 284-bed psychiatric care facility, Saskatchewan Hospital North Battleford, which is scheduled to open in the fall of this year. The hospital replaces a facility that is over 100 years old and includes secure beds to provide mental health care for people in custody, a step forward in breaking the cycle of crime and victimization.

Construction of the Regina Bypass continues to move forward, with completion slated for late 2019. This year, \$330 million will be invested in work on phase two, which has and will vastly improve highway safety and traffic flow.

It's part of a \$924 million Ministry of Highways and Infrastructure's budget commitment to build, operate and maintain transportation capital.

In the fall of 2018, Saskatoon's new North Commuter Parkway Bridge will improve traffic flow and safety in Saskatchewan's largest city, and \$15 million provided in this Budget completes Government's \$50 million commitment to the project.

The 2018-19 Budget provides \$10.5 million for a major school consolidation project in Rosthern, and \$12.2 million for a similar project in Weyburn, as well as \$49.6 million for school maintenance and emergency funding, up \$6.4 million from last year.

These are just a few highlights among many, across Executive Government.

In 2018-19, major Crown projects include \$883 million at SaskPower, primarily to connect customers and expand electricity generation assets to meet growing customer power needs. SaskPower also plans to renew its distribution and transmission systems to ensure continued reliable service.

Investment of \$298 million is projected at SaskTel to increase and upgrade its wireless and wireline networks, improve customer service through network growth and modernization, enhance rural services, and continue the roll out of infiNET, its high-speed fibre-optic internet service.

SaskEnergy plans to invest \$268 million to ensure the integrity of its natural gas transmission and distribution system, providing safe and reliable service that meets continually growing customer demand. SaskWater plans to invest \$34 million in 2018-19 for the creation of water and wastewater systems, and the maintenance of infrastructure to ensure the continued delivery of safe and reliable water and wastewater services.

(More detail is in the Saskatchewan Builds Capital Plan on pages 18 to 23.)

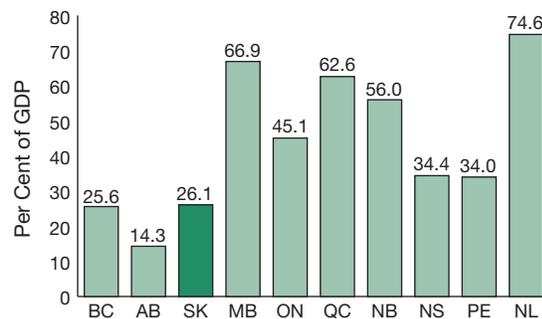
## DEBT MANAGEMENT

Responsible debt management keeps Saskatchewan on track.

Saskatchewan's forecasted 26.1 per cent of total debt-to-GDP as of March 31, 2018 is third lowest among the provinces, according to the Dominion Bond Rating Service's most recent analysis. Prince Edward Island is fourth lowest at 34.0 per cent, and Newfoundland and Labrador has the highest debt-to-GDP ratio at 74.6 per cent.

The 2018-19 Budget estimates all government debt, including that of Crown corporations, to remain manageable at \$20.0 billion as at March 31, 2019.

### 2017-18 TOTAL DEBT (PER CENT OF GDP)



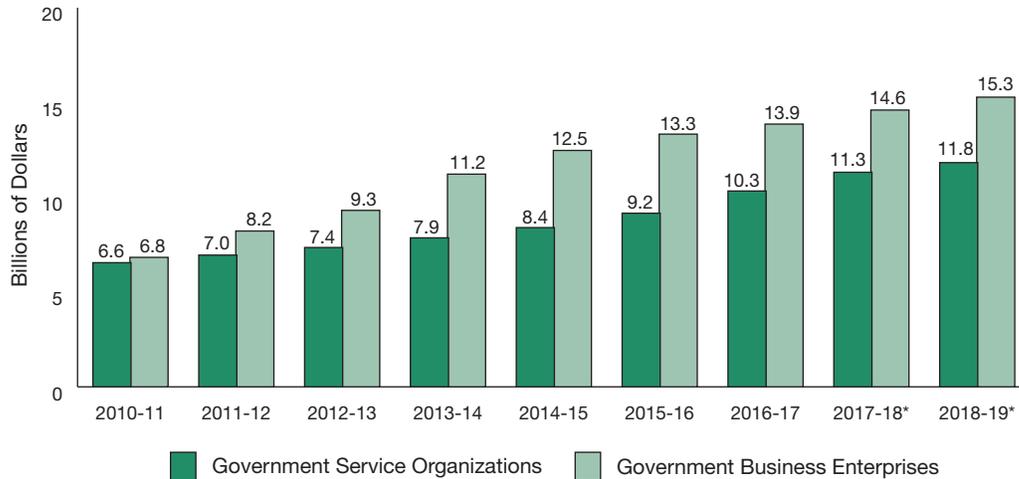
DBRS-Adjusted Total Debt as at March 31, 2018.

Sources: Statistics Canada, Conference Board of Canada

Government's operating debt is nearly 10 per cent lower than it was in 2008, resulting in cumulative savings of over \$1.1 billion in interest payments.

Strong credit ratings, low interest rates and our province's low debt-to-GDP, make this a cost-effective time to finance capital, using a disciplined approach, and matching the benefits of the assets with the term of payments.

## GROWTH OF TANGIBLE CAPITAL ASSETS



\* Forecast

The additions to capital assets (net of amortization) for 2018-19 is almost \$1.2 billion, including \$508 million in government service organizations and \$684 million in government business enterprises, largely the major Crown corporations. The total budgeted book value of tangible capital assets at March 31, 2019 is \$27.1 billion.

A key principal of Government's capital financing plan is the repayment of capital debt upon maturity.

At least two per cent of the value of these borrowings is set aside and invested each year to ensure sufficient cash is available to repay capital debt as it comes due, ensuring it isn't passed on to future generations.

(More information on 2018-19 Borrowing and Debt begins on page 47.)

## CONCLUSION

Saskatchewan is on track. Our province's economy and population are growing, and the Government's three-year plan to return the budget to balance remains on target.

The 2018-19 Budget controls spending and continues to follow a plan that shifts away from over dependence on volatile revenue to a more stable base.

This Budget invests in needed infrastructure, hospitals, schools and highways and supports growth in the Saskatchewan economy. This Budget invests in the priorities of health care, education, social services and the protection of people and property.

Importantly, the 2018-19 Budget is on track with the plan to balance.

The pursuit and ultimate realization of the fiscal plan ensures the long-term sustainability of the services and programs Saskatchewan people value.

A plan to balance ensures a stronger Saskatchewan in the future, better positioned for growth and better able to meet the challenges ahead.