Saskatchewan: 2018–19 Budget

PROGRESS TOWARDS BALANCED BOOKS

- Restated *Budget* data affirm Saskatchewan's success in trimming its deficit from $1.5 billion in fiscal 2015–16 (FY16) to $1.2 billion in FY17 and then halving its shortfall in FY18 (side table and chart).
- The FY19 estimates set the stage for balanced books in FY20 and a cumulative $320 million surplus over FY21–FY22.
- Net debt, as measured by the Province, is expected to climb by $1.58 billion (+15.5%) in FY18, but by only $0.87 billion (+7.4%) during FY19. The General Revenue Fund gross operating debt is forecast to stabilize at $6.6 billion from FY20 to FY22.
- Borrowing is projected to climb from $2.37 billion in FY18 to $3.21 billion in FY19, with this year's requirement boosted by $0.6 billion of pre-financing for FY20 capital expenditures.

OVERVIEW

Saskatchewan is accomplishing its three-year plan, set out in last year's *Budget,* of reducing its reliance on resource receipts and regaining some fiscal flexibility following a major price correction for the province's oil & natural gas, potash and uranium resource wealth. The plan still depends upon careful fiscal management, with new initiatives targeted and a cautious mix of tax increases alongside specific tax relief.

As of FY18, Saskatchewan will reference its full pension expense, including its pension costs on an accrual basis, in both its *Budget* estimates and its *Public Accounts.*

RECAPPING FY18

Saskatchewan's Q3 update reported a hefty $101 million improvement in the FY18 deficit relative to *Budget.* Revised expenditures in FY18 are 2.1% below FY17 and $273 million less than *Budget* (table, p.2). This saving more than covers the $222 million shortfall in projected revenues, largely due to weaker-than-expected personal and corporate income taxes (PIT, CIT) in FY18. Cushioned by a $300 million contingency, the Province already had indicated that the $250 million saving expected in FY18 human resources compensation measures would not be realized.

Encouraging in the FY18 update is the 9.2% (+$120 million) rise in non-renewable resource revenues relative to FY17. Crown Land Sales began to recover, potash sales and oil production were higher than forecast and stronger potash prices helped to lift potash royalties $38 million ahead of *Budget.*

TIGHTLY BALANCED FY19 ESTIMATES

Total FY19 revenue growth of 2.2% paces the FY18 increase, but it reflects a much slower 2.4% gain in own-source receipts and a positive, but modest 0.8%

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Saskatchewan's Budget Balances

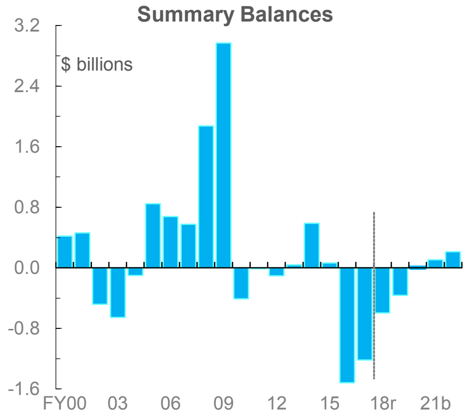
Fiscal 2016–17 (FY17)

Final:	-$1.2bn	*(-1.6% of GDP)*
FY18		
Budget:	-$696mn	*(-0.9% of GDP)*
Q2:	-$581mn	
Q3:	**-$595mn**	***(-0.8% of GDP)***
Budgets:		
FY19b:	**-$365mn**	***(-0.4% of GDP)***
FY20b:	**+$6mn**	**FY21b: +$108mn**
FY22b:	**+$212mn**	

Borrowing Requirements

FY18	
Budget:	$2.72bn
Rev:	**$2.37bn**
FY19b:	**$3.21bn**

Sources: Saskatchewan Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.



Source: Saskatchewan Finance.

rise in federal transfers. Dampening own-source receipts is a 9.1% decline in government business enterprise net income with the FY18 investment income gains at the Workers' Compensation Board and the Auto Fund considered one-time. Underlying the revenue estimates is the government's assumption of only 1.5% real GDP growth in calendar 2017, followed by a 1.3% advance this year, with the latter constrained by a ten-month shutdown of a uranium mine (table, p.3).

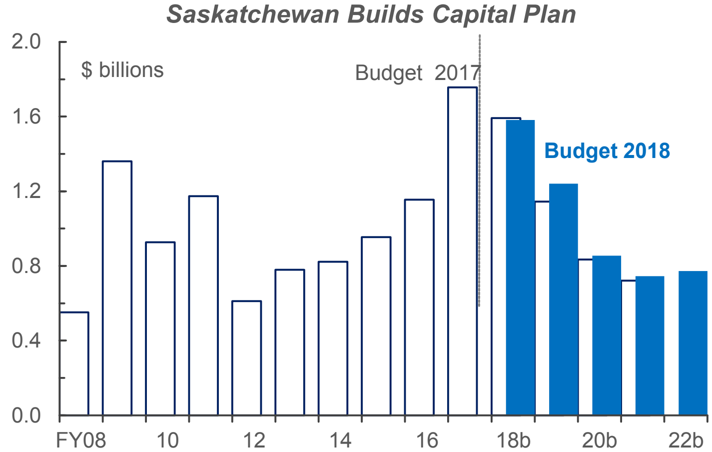
Tax receipts, however, are expected to climb a further 6.2% with personal and corporate income taxes (PIT, CIT) each rebounding to gains over 5.0% and the provincial sales tax (PST) posting a hefty 11.7% surge. On last year's plan of a two-stage cut in PIT bracket rates—a half point on July 1, 2017 and another half point two years later—the Province for now is not proceeding with the second reduction. This leaves a quarter point reduction still intact for calendar 2017 and a further quarter point for 2018. PIT indexation also is paused. Effective January 2018, the threshold for the Province's 2.0% small business CIT was raised from $500,000 to $600,000, the highest level in Canada.

The PST rate remains 6.0%, but the tax is broadened to include used light vehicles plus energy efficient appliances and furnaces. PST receipts in FY19 also are pushed up by the first full year of including insurance premiums. However, exemptions for premiums related to agriculture, individual & group life and health insurance are reinstated retroactive to August 2017. Full refunds will be provided to residents and firms at a $120 million revenue cost in FY19. Estimates of the tax revenue and the expenses related to cannabis legalization are not included in the *Budget.*

Two tax credits are introduced to broaden and deepen economic growth. The *Saskatchewan Value-Added Agriculture Incentive* through December 2022 is a 15% non-refundable tax credit on a corporate investment of at least $10 million to upgrade or transform primary agricultural products. The *Saskatchewan Technology Start-Up Incentive* is a 2½ year pilot program providing a 45% non-refundable tax credit for investing in a small business, headquartered in Saskatchewan, to apply technology to create proprietary products, services or processes that are repeatable and scalable.

Non-renewable resource revenues in FY19 are expected to climb a further 4.4% (+$62 million) in FY19, but they remain just over 50% of the FY12 post-recession high of $2.8 billion. Oil & natural gas receipts are expected to climb just 5.9% with oil

Saskatchewan Builds Capital Plan



Source: Saskatchewan Finance.

Saskatchewan's Budget Arithmetic

$ millions except where noted

	FY18		FY19
	Budget	Q3	Budget
Tax Revenue	7,287	6,796	7,215
Non-Renewable Resource Rev.	1,406	1,420	1,482
Gov't Bus. Enterprises: Net Income	1,054	1,187	1,078
Other Own-Source Revenue	1,965	2,098	2,007
Total Own-Source Revenue	**11,712**	**11,501**	**11,782**
Federal Transfers	2,454	2,442	2,462
Total Revenue	**14,165**	**13,943**	**14,244**
Total Program Spending	14,205	13,935	13,954
Debt Service	606	603	655
Total Expenditure	**14,811**	**14,538**	**14,609**
Employee Compensation Savings	250	-	-
Contingency	-300	-	-
Summary Surplus/Deficit	**-696**	**-595**	**-365**
Own-Source Revenue / GDP	14.8	14.6	14.4
Program Spending / GDP	18.0	17.7	17.0
Budget Balance / GDP	-0.9	-0.8	-0.4
Debt Service / Revenue	4.3	4.3	4.6
Annual Change, %			
Tax Revenue	*14.7*	*7.0*	*6.2*
Non-Renewable Resource Rev.	*8.2*	*9.2*	*4.4*
Total Own-Source Revenue	***9.7***	***7.8***	***2.4***
Federal Transfers	*-17.0*	*-17.3*	*0.8*
Total Revenue	***4.0***	***2.3***	***2.2***
Program Spending	*-0.7*	*-2.6*	*0.1*
Total Expenditure	***-0.2***	***-2.1***	***0.5***
Resources: WTI Oil, US$/bbl	56.25	52.60	58.18
Light-Heavy Differential, % of WTI	19.5	17.3	22.1
Well-head Oil Price*, C$/bbl	55.30	51.62	54.36
Oil Production, mn barrels	163.8	177.0	177.7
Potash, Mine Netback,US$/KCl tonne	176	183	191
Potash Sales, mn K_2O tonnes	11.8	12.2	12.6
Canadian Dollar, US¢	74.95	77.82	78.34

* Average price for Saskatchewan's light, medium and heavy oil. Sources: Saskatchewan Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

production flat, a wider light-heavy differential and a cautious WTI oil price assumption of just over US$58/barrel. After their recovery in FY18, Crown Land Sales in FY19 are expected to be virtually flat, and potash revenues edge only 3.1% higher.

Expenditures in FY19 are held to a 0.5% (+$70 million) increase which leaves program spending virtually flat. Over the three years to FY19, program spending is expected to fall 4¾%, from 18.7% of GDP in FY16 to 17.0% in FY19. Lower pension expense, mirroring a sizeable decrease in the Province's pension liability (as recognition of prior-year actuarial losses completed in FY18), opens up room for the Health, Social Services and Education budgets to be reinforced. Balanced books by FY20 build in savings of $35 million through efficiencies and attrition both this fiscal year and next across the core government and the Crown corporations.

FURTHER EXPENDITURE RESTRAINT FROM FY20 TO FY22

For the three years following FY19, annual spending growth is expected to average just 1.6% in order to achieve and sustain black ink as of FY20. The challenge is projected FY20–FY22 revenue growth averaging just 2.9%, held back by modest advances in government enterprise net income and other own-source receipts apart from taxes and resources revenue. Resource receipts will be boosted by the assumed rise in WTI oil prices to US$69/barrel by FY22, but potash prices are assumed to climb only 1.7% annually and the Canadian dollar's anticipated rise relative to the US dollar further restrains revenue growth.

CAPITAL SPENDING AND BALANCE SHEETS

Saskatchewan's infrastructure investment in FY19 is expected to total $2.7 billion, with investments of $1.5 billion across the commercial Crown sector and $1.2 billion for the *Saskatchewan Builds Capital Plan.* Signature projects in the *Plan* include the Children's Hospital in Saskatoon opening in the Fall of 2019, the new psychiatric care Saskatchewan Hospital in North Battleford opening this Fall, and further funding for the Regina Bypass and the Saskatoon North Commuter Bridge.

Outlays for the *Saskatchewan Builds Capital Plan* in FY18 are expected to be only $10 million less than *Budget* at $1.58 billion. This represents a 10% drop from the peak $1.76 investment in FY17, and the decelerating trend from last year's *Budget* is maintained. Though investment from FY19 to FY21 is raised by a cumulative $140 million from last year's forecast, outlays under the *Plan* still decelerate with a 21.5% drop in FY19 and a further 31% fall in FY20 before averaging just under $760 million in FY21 and FY22 (chart, p.2).

Saskatchewan's Budget Arithmetic

$ millions except where noted

SK Economic Growth, annual % ch.	2017f		2018f	2019f	2020f	2021f	2022f
Real GDP	1.5		1.3	2.5	2.6	2.2	1.9
Nominal GDP	4.9		4.0	4.3	4.2	4.6	4.5

	FY18					
Key Resource Assumptions	**Budget**	**Q3**	**FY19b**	**FY20b**	**FY21b**	**FY22b**
Canadian Dollar, US¢	74.95	77.82	78.34	79.65	81.55	82.58
WTI Oil Price, US$/bbl	56.25	52.6	58.18	59.75	63.50	69.00
Light-Heavy Differential, % of WTI	19.5	17.3	22.1	19.8	17.7	16.7
Well-head Oil Price*, C$/barrel	55.30	51.62	54.36	55.98	59.38	64.82
Oil Production, million barrels	163.8	177.0	177.7	181.0	183.4	185.5
% change	*-3.2*	*4.5*	*0.4*	*1.9*	*1.3*	*1.1*
Potash Price, mine netback,US$/KCl tonne	176	183	191	194	197	201
Potash Sales, million K_2O tonnes	11.8	12.2	12.6	13.2	13.6	14.0

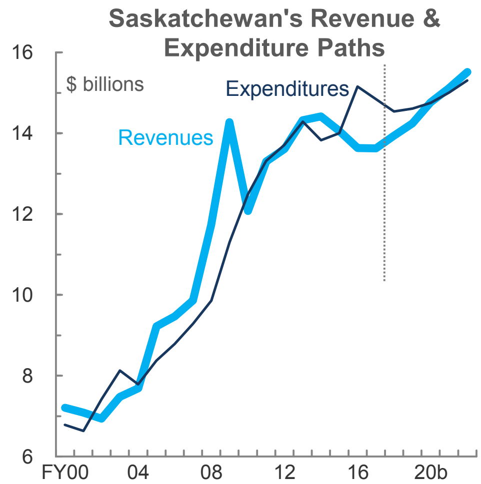
FY19 Sensitivities WTI oil prices**:** +US$1/bbl would lift oil royalties by $16 million;
Potash prices: + US$10 rise per KCl tonne would raise potash royalties by $35 million; and
Canadian dollar: +1¢(US) gain would trim resource receipts by $21 million.

* Average price for Saskatchewan light, medium & heavy oil. Source: Saskatchewan Finance.

Importantly, the Province continues to ensure that borrowing for this *Plan* can be completely repaid at maturity by setting aside and investing at least 2% of the borrowing for the *Plan* each year.

Commercial Crown sector investments in FY19 include $0.88 billion for SaskPower, $0.30 billion for SaskTel as it continues to roll out its high-speed fibre optic internet service and $0.27 billion for SaskEnergy for its gas distribution system. From FY19 to FY22, the Crown corporations forecast average annual investment of $1.4 billion covering both maintenance and new capacity.

General Revenue Fund (GRF) debt to finance the *Saskatchewan Builds Capital Plan* is forecast to reach $4.15 billion by March 2019, relative to the operating debt of $6.15 billion. The broader public debt measure and the GRF operating debt are expected to peak in March 2020 at 25.1% of GDP and 7.6% of GDP, respectively. The operating debt is subsequently forecast to fall to 7.1% of GDP by March 2022.



Source: Saskatchewan Finance.

Crown corporations' borrowing in FY19 is expected to hold steady at $0.7 billion while financing for GRF operating needs climbs by $420 million to $975 million this year. Required FY19 funding for the *Saskatchewan Builds Capital Plan is* expected to decline by $200 million to $900 million, providing the opportunity to pre-borrow $600 million. In FY18 and FY19, Canadian debentures are estimated to meet $1.95 billion and $2.75 billion of the Province's requirements, respectively.

OUTLOOK

As the Saskatchewan government implements its ambitious fiscal repair plan, it has the advantage of an economy with significant diversification across several resource sectors and geographically across multiple export markets. One of the government's key objectives is further expanding Saskatchewan's growth. In the last four years, it is noteworthy that Saskatchewan has ranked as the first or second best jurisdiction for mining investment in the Fraser Institute's global survey in terms of regulatory certainty, competitive taxes and permitting practices.

Saskatchewan's fiscal strategy calls for extended expenditure discipline. There is, however, upside as well as downside risk. The Province's growth assumptions for calendar 2018 and 2019 could well prove conservative and its WTI oil price forecast through 2022 is possibly cautious. This prudence may serve Saskatchewan well if the three major pipeline projects—the Line 3 refurbishment, the Trans Mountain expansion and Keystone XL—do not proceed as planned to address current shortages in pipeline capacity for western Canada's oil exports. Additional rail capacity also is needed for the Province's other exports. But events also may turn out better than the Province has assumed, easing its challenges over the next couple of years.

Other Policy Developments

Apart from infrastructure funding, other funding of $48.5 million for municipalities represents a 15% increase from last year's Budget from the 2017-18 Budget.

n the 2017-18 Budget, the government made the decision to end some payments that had been made to municipalities by SaskPower and SaskEnergy and undertake a complete review in order to find a solution that is equitable to all urban municipalities. The following changes will come into effect in 2018-19.

- **Grants-in-Lieu of Property Tax**
- SaskPower and SaskEnergy will pay grants-in-lieu of property taxes on owned real-estate assets in Saskatchewan (i.e. office buildings), but exclude generation, transmission, and distribution facilities, as well as pipelines and land.
- **SaskEnergy Municipal Surcharge**
- SaskEnergy will now collect a municipal surcharge on behalf of all urban municipalities at a rate of five per cent. This charge will appear on SaskEnergy customer bills. Municipalities can choose to opt-out of this program. Prior to this year, 109 Saskatchewan urban municipalities received the municipal surcharge, while most municipalities were not eligible to receive it. This change ensures fairness for all cities, towns and villages in Saskatchewan.
- **SaskPower Municipal Surcharge**
- There will be no change to this existing surcharge.

Other Policy Developments *(continued)*