Government Direction for 2017-18:
MEETING THE CHALLENGE

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.

Budget 2017-18 meets the challenge the Government of Saskatchewan is facing by controlling and reducing spending, modernizing and expanding the tax base, ensuring the economy remains strong and returning to balance over three years.

The challenge is clear.

Oil and potash prices began dropping three years ago and have stayed stubbornly low. The Government of Saskatchewan's revenue from those key resources has declined significantly.

It's meant a shortfall of more than a billion dollars, as well as hundreds of millions less from tax revenue from the slowdown of those sectors. It's meant fewer people working in mines and the oil patch.

In down times, small and medium-size businesses that serve those important resource sectors are also impacted. The effect is felt by Saskatchewan communities and families.

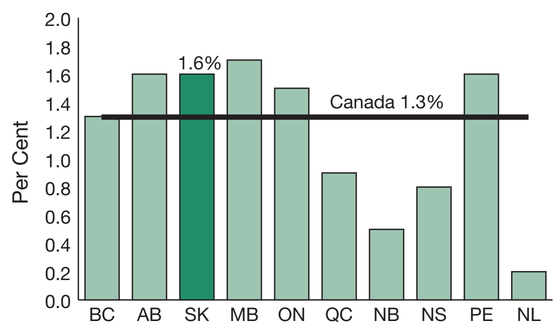
As always, Saskatchewan people are resilient – diverse, strong and ready to meet the challenge.

This year's Budget sets a course to respond to this current challenge and return to balance over three years. It controls spending and modernizes and expands the tax system by shifting toward consumption taxes and away from income tax in order to promote productivity and growth and help keep our economy strong.

Meeting the challenge is vitally important now and for the future.

Our province has seen 160,000 more people call it home in the last decade, growing at the second highest rate in the nation. Government's budget and plan to balance ensures valued services are provided today and are sustainable into the future.

POPULATION GROWTH BY PROVINCE IN 2016



Source: Statistics Canada

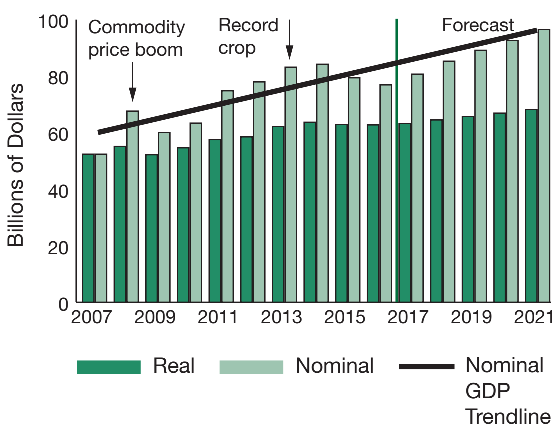
ECONOMIC FOUNDATION

Saskatchewan's economy is poised for growth in 2017.

Commodity prices including oil are forecast to rise slightly, and drilling activity is expected to strengthen. The global economy while far from robust is starting to gain momentum, which in turn is helpful to Saskatchewan's export-based economy.

And while there is no question the effects of low resource prices have and are being felt, parts of Saskatchewan's economy were strong last year. Farmers harvested the second largest crop in the province's history and although there were quality issues and unharvested crops in some areas, overall it exceeded expectations.

SASKATCHEWAN REAL AND NOMINAL GDP LEVEL



Source: Ministry of Finance

Saskatchewan's unemployment rate remains among the lowest in the country.

Economic resilience was seen in manufacturing sales that were $1.3 billion in December, up 11.9 per cent year-over-year representing the second highest growth among provinces in 2016. Investment in non-residential building construction reached $1.9 billion, up by 9.6 per cent, again the second strongest growth in the country last year.

Saskatchewan was named the top jurisdiction in the world for mining investment. *The Fraser Institute Annual Survey of Mining Companies 2016* gave Saskatchewan top place, up from its second place ranking in 2015. Regulatory certainty, permitting efficiency and a competitive tax regime were among the reasons cited by the Institute.

Over the past decade Saskatchewan has created a business investment climate that is the envy of the country. Targeted incentives like the Saskatchewan Commercial Innovation Incentive, or patent box, and the Saskatchewan Research and Development Tax Credit continue to support diversification and growth.

Total capital investment has grown from $8.3 billion in 2007 to a peak of $20 billion in 2014, with a very strong forecast of $14.5 billion for 2017. Part of meeting the challenge is to keep the economy moving in step with Government's *Plan for Growth,* so that all can benefit from its strength.

(More detailed economic information is provided in The Saskatchewan Economy technical paper beginning on page 27.)

FISCAL PICTURE

Just as Saskatchewan's economy continues to show resilience and signs of recovery, our fiscal plan improves the financial outlook over the next four years.

A deficit of $685 million is projected for 2017-18.

A smaller shortfall of $304 million is forecast for 2018-19 with a return to balance in three years – a modest surplus of $15 million in 2019-20 and an increased surplus of $183 million in 2020-21.

Revenue is forecast at $14.17 billion in the 2017-18 Budget, up about $141 million from last year's budget and $471 million higher than the 2016-17 third quarter forecast.

The increase in revenue in the 2017-18 Budget is largely due to the impact of modernizing and expanding the tax system, including an increase to the Provincial Sales Tax (PST) rate, as well as higher projected net income from government business enterprises and a modest increase in non-renewable resource revenue. This is offset by significant reductions in one-time federal transfers and own-source revenue.

Expense is forecast at $14.80 billion in 2017-18, up from the previous year's budget by $342 million, but down $183 million from the 2016-17 third quarter forecast. Higher crop insurance claims and pressures in health and social services due to higher utilization led to higher in-year expense projections in 2016-17.

The 2017-18 Budget includes a reduction of $250 million from total public sector compensation costs, plus a $300 million contingency to protect against unexpected in-year revenue declines and unforeseen expense pressures due to higher-than-projected utilization and natural disasters like forest fires and flooding.

While strategic investments continue in priority areas of health, education and social services and assistance – which make up nearly three-quarters of total expense – difficult decisions were required resulting in substantial reductions, deferrals and suspensions of funding in many areas to help meet the challenge of controlling and reducing expense in the 2017-18 Budget.

Decisions were made with a focus on the priorities of Saskatchewan people while recognizing the financial challenge, the importance of stabilizing revenue without shocking the economy and the importance of returning the budget to balance.

When taken as a whole, the impact on real GDP of the PST base expansions and rate increase, and other revenue measures are largely offset by the positive economic impact of the income tax reductions, the increase in operating spending and ongoing investment in infrastructure.

This result is entirely consistent with previous findings that span almost 20 years.

In its final report in November 1999, the Saskatchewan Personal Income Tax Review Committee noted "A recent study by Jon Kesselman concluded that income taxes have a higher negative

REAL GDP IMPACT OF 2017-18 BUDGET MEASURES

(Percentage Point Change)	**2017**	**2018**	**2019**	**2020**	**2021**
2017-18 Budget Measures:					
PST Measures	(0.11)	(0.23)	(0.20)	(0.15)	(0.14)
PIT/CIT Tax Cut	0.02	0.07	0.13	0.21	0.27
Other Revenue Measures	(0.02)	(0.04)	(0.04)	(0.03)	(0.03)
2017-18 Net Operating Spending	0.14	0.20	0.23	0.24	0.23
2017-18 Infrastructure Spending	(0.03)	(0.04)	(0.05)	(0.05)	(0.05)
Combined Impact of 2017-18 Budget	**0.01**	**(0.05)**	**0.08**	**0.21**	**0.28**

impact on economic efficiency and growth than consumption taxes. He concludes that reducing personal income tax rates, introducing incentives to encourage both savings and capital gains, and increasing consumption taxes would achieve economic efficiency and growth and reduce out migration of skilled workers and entrepreneurs."

Recent research by Jeffrey M. Stupak and Donald J. Marples prepared for the United States Congressional Research Service in January 2016, which examines an option to fundamentally change an overly complicated, unfair tax system by replacing the income tax with a national retail sales tax, concludes such a reform would improve economic efficiency and increase economic output, noting "switching to a consumption tax would lead to an increase in the level of gross domestic product in the long run."

While there are various studies and points of view related to the impact of taxes, the 2017-18 Budget seeks to meet Government's fiscal challenge with a balanced approach that both expands its revenue base and provides reductions to income tax to help the economy grow.

(More information is available in the 2017-18 Financial Outlook, beginning on page 36.)

TRANSFORMATION

Meeting the challenge requires changes in the delivery of services to make it more streamlined, efficient, and customer-focused, while at the same time cost effective. Transformational changes can be complex, requiring time to successfully implement.

Government continues to work with all of its partners across all sectors as changes are made to meet the needs of Saskatchewan people.

Transformation is underway to move to a single health authority, consolidating 12 regional authorities. A thorough and thoughtful approach is being taken to achieve this change by the fall of 2017.

Potential savings of between $10 million and $20 million are estimated to begin in 2018, and while they will occur as a result of greater integration and coordination, the true value of the change is being driven by Government's commitment to improve front-line patient care for Saskatchewan people.

Government's investments into income assistance programs designed to meet the needs of our most vulnerable have improved dramatically over the past 10 years, but they have become unnecessarily complex.

A redesign of income assistance programs is underway, a transformational change that will make programs simpler for clients and workers, focusing on the basic needs of our most vulnerable citizens, and ensuring the programs are sustainable into the future.

In education, the K-12 education governance panel undertook extensive consultation in meetings across the province and online. Support for maintaining the current number of school divisions and elected boards was significant, so the focus of this change is on the appropriate ministerial oversight in ensuring educational and financial targets are met.

To help students and families plan for post-secondary education a new, more transparent student loan program has been developed. Starting in August, students applying for loans will access up-front provincial grants targeted to those who need them most. This new system will let students know how much they can expect to receive in grants and how much they may need to borrow for their education.

Combined with the Saskatchewan Advantage Scholarship and federal grants, the new system will cover most, in some cases all, of a lower income undergraduate student's tuition costs.

These are just a few examples of a number of transformational initiatives being undertaken across the public sector, aimed at delivering vital services to Saskatchewan people while exploring new ways to do things and addressing challenges.

MODERNIZING AND EXPANDING THE TAX SYSTEM

Building on a decade of the largest tax reductions in the province's history, personal and corporate income tax rates are being lowered in this Budget, helping keep life affordable in Saskatchewan and supporting growth.

In addition, the Saskatchewan Commercial Innovation Incentive (patent box) will further reduce the Corporation Income Tax rate for companies that use their intellectual property to create jobs and new investment. The Research and Development Tax Credit is being reformed to better target smaller and medium-sized Saskatchewan innovation companies. As well, the Oil Processing Investment Incentive encourages processing of our oil resources in the province, with royalty credits on new production.

Shifting tax away from income and productivity to consumption helps the economy and improves Government's revenue stability. Changes will generate consistent revenue to pay for valued services like health care, education and social services and needed capital – schools, hospitals and roads. A more stable revenue base keeps vital services sustainable in the long run. The changes also modernize and simplify the tax structure.

A number of PST exemptions are being eliminated. Some of these goods and services are commonly taxed in other jurisdictions and removing the exemptions also simplifies tax rules.

Changes which expand the base include applying PST to children's clothing, restaurant meals and snack foods, insurance premiums, construction services and permanently mounted equipment used in the resource sector. However, the 2017-18 Budget also maintains the current PST exemptions for basic necessities including groceries, heating fuels, residential electricity, prescription drugs and reading materials.

The PST is also being raised by one point, from five per cent to six per cent.

A number of tax expenditure programs are changing, including eliminating the exemption for bulk purchases of gasoline and reducing the exemption for bulk purchases of diesel fuel to 80 per cent of purchases, recognizing the changing nature of farming and primary production operations and the on-road and personal uses of some of this fuel.

In addition, the Personal Income Tax credits for education and tuition expenses and the Employee's Tools Tax Credit are being eliminated, and the Labour-sponsored Venture Capital Tax Credit rate is being reduced. The Corporate Capital Tax rate on large financial institutions is being increased. The provincial tax preference for credit unions is also being phased out and the indexation of the Personal Income Tax (PIT) system is being temporarily suspended.

Tobacco tax rates and liquor mark ups are increased effective budget night.

Education Property Tax (EPT) mill rate adjustments in conjunction with the 2016 reassessment will increase EPT and bring the contribution level to 40 per cent for K-12 school funding.

The Saskatchewan Low-Income Tax Credit will be enhanced to help mitigate the effect of the tax changes.

(More information is included on pages 50 to 54 in the 2017-18 Revenue Initiatives and pages 55 to 58 of Saskatchewan's Tax Expenditures.)

While the PST base expansions provide stability, the PST rate increase and suspension of PIT indexation provide additional revenue needed at this time and, as in the past, the rate can be lowered and indexation restored when the province's finances improve. At the same time Saskatchewan's corporate and personal taxes continue to be among the lowest in the country.

In fact, when fully implemented, Saskatchewan will have the lowest corporate tax rate and the lowest tax rate on manufacturing and processing in the country – a great Saskatchewan advantage for businesses to invest and expand in our province.

In total, measures being taken this year will add a projected $900 million in incremental tax revenue.

(More information is available in 2017 Intercity Comparison of Taxes and Utilities on pages 59 to 63.)

CONTROLLING SPENDING

The cost of compensation across the public sector is approximately $7.0 billion annually, representing the largest single component of Government's expense.

Given the fiscal challenge, there is a reduction in total public sector compensation funding of $250 million, a savings of approximately 3.5 per cent. Employees across the public sector – in ministries, Crowns, agencies, health regions, school divisions, and the post-secondary sector – are being asked to help meet the challenge.

Premier Brad Wall announced that effective April 1, 2017, Ministers and MLAs will take a 3.5 per cent wage rollback and staff in the Premier's office, caucus offices and Ministers' offices will take nine unpaid days off – equivalent to a reduction of about 3.5 per cent.

While Government has made the budgeted funding decision as is appropriate, it has not directed specifically how the savings should be achieved by the public sector employers. This will be determined through negotiation.

In 2017 the Government of Saskatchewan is winding down the Saskatchewan Transportation Company (STC).

Ridership continues to fall, and costs continue to rise. Since 2007 the subsidy to STC has been $112 million. The per passenger subsidy has risen from $25 for every STC bus rider in 2007 to $94 today. If STC continued to operate, it would require another $85 million in subsidies over the next five years.

Last year 77 per cent fewer riders used STC than in its busiest year. The company isn't sustainable, particularly when increasing subsidies are weighed against the spending priorities of the province, including health care and education.

Crown Investments Corporation will oversee the wind-down. There may be situations where private sector or not-for-profit operators will expand services for freight and possibly passenger service, depending on demand.

Use of Executive Air Service has similarly declined, by more than 73 per cent since 2008-09. The decision has been made to wind down the service given challenging financial times.

Expected to save $700,000 to $1 million annually, based on current levels, commercial or charter flight services will be used by government when air travel is required.

Details of other expense reductions, deferrals and suspensions in this year's budget are outlined in media releases and backgrounders from individual ministries, Crowns and agencies.

PRIORITY INVESTMENTS

While the 2017-18 Budget contains considerable cost reduction measures, the overall base of expenditure is significant and provides the programs and services valued by the people of Saskatchewan.

Since 2007-08, total investment into three priority areas – health, education and social services and assistance – has increased by nearly 72 per cent or $4.4 billion.

These three areas make up nearly three-quarters of Government's total expense and are projected to be a combined $10.6 billion in 2017-18, up $107 million, or about 1 per cent over last year.

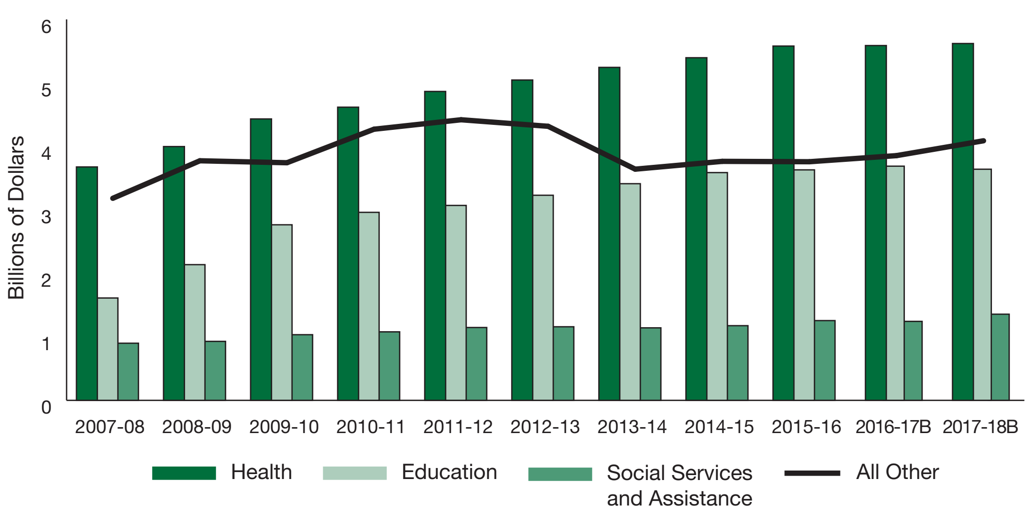
A growing population, demographic pressures, increased caseloads and costs related to covering Saskatchewan's vast distances to provide services, are factors that put pressure on these expenses.

In 2017-18 total spending for health is projected to be $5.6 billion, an increase of $39 million or 0.7 per cent over last year's budget. This includes spending through the Ministry of Health, the Regional Health Authorities, the Saskatchewan Cancer Agency, eHealth, the Health Quality Council, 3sHealth, and the Physician Recruitment Agency.

Overall expense for health has grown 55 per cent over the last decade, from $3.6 billion in 2007-08 to $5.6 billion forecast for this year.

In this Budget, $12 million is targeted to help address overcapacity issues and emergency department wait times in Regina and Saskatoon, and $24.4 million will address service pressures and operating costs. Cancer treatment will be provided to more patients through a $3.3 million increase in budgeted spending in the Saskatchewan Cancer Agency, to $170 million.

SPENDING BY THEME



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

To help address the fiscal challenge facing the province, a number of programs are being phased out, including the hearing aid plan, podiatry services and chiropractic services.

Long-term care fees are increasing, effective July 1, 2017. About 50 per cent of residents will continue to pay the minimum monthly fee of $1,086. For those residents who pay a portion of income to accompany the minimum monthly fee, the percentage of income is rising to 57 per cent from the current 50 per cent.

Total education expense is budgeted at $3.6 billion, down $45.1 million or 1.2 per cent from last year. This includes budgeted spending through the ministries of Advanced Education, Education, and Economy, the Boards of Education, Saskatchewan Polytechnic, Regional Colleges, the Saskatchewan Apprenticeship and Trade and Certification Commission, and the Saskatchewan Student Aid Fund.

Since 2007-08, expense budgeted for education, which includes both the PreKindergarten to Grade 12 and post-secondary sectors, has experienced a 100 per cent increase, from $1.8 billion to its current $3.6 billion. The 2007-08 base does not include Boards of Education because they were not included in the Government Reporting Entity until 2009-10. Since 2009-10 the increase is approximately 30 per cent.

Saskatchewan's 28 school divisions will receive $1.9 billion in school operating funding. While this represents significant financial support for classrooms, it is down $22 million from 2016-17, a 1.2 per cent reduction year-over-year. This reflects the financial challenge facing the province but also the opportunity to seek improvements through innovation and change.

Significant investment in post-secondary education continues in this Budget, including student supports and the continuation of the Graduate Retention Program, providing up to $20,000 in income tax credits to graduates who live and work in Saskatchewan.

While strong support for Saskatchewan post-secondary institutions through $649 million in operating and capital funding continues in this Budget, a five per cent reduction in base operating grants to universities, technical institutes and regional colleges is part of meeting the Province's fiscal challenges.

A number of job training programs have had funding reduced, suspended or eliminated, in response to a combination of utilization experience, program changes and duplication with other similar programs.

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 and Justice. Social services and assistance expense is nearly $1.4 billion in the 2017-18 Budget, an increase of $113 million or 9.1 per cent, over last year, and a 51 per cent increase since 2007-08 when total expense was $900 million.

Child and Family Programs, Disability Programs and Income Assistance are seeing increases through the budget this year, as will the Saskatchewan Employment Supplement, Personal Care Home Benefit and Seniors Income Plan.

Changes will be made to some benefits to help provide savings of $10.6 million, and the First Home Plan for recent graduates has been suspended this year saving $8 million, to help meet the province's fiscal challenge.

INVESTING IN INFRASTRUCTURE

The 2017-18 Budget includes $3.7 billion for investment into Saskatchewan's infrastructure.

The commercial Crown sector is investing $2.1 billion and $1.6 billion is being invested by Executive Government ministries and agencies. Solid capital investment will help Saskatchewan meet the challenge of a growing province and strengthen the economy now and moving forward.

Capital projects lead to construction jobs at a time when sectors like mining or oil and gas are recovering from commodity price downturns.

Investing in roads and highways improves safety and helps Saskatchewan products move to market over an expanded and improved transportation system.

Investments into hospitals and long-term care facilities suited to the delivery of care that is essential to Saskatchewan people help us meet challenges. Investment into elementary and secondary schools, as well as post-secondary institutions, provide better classrooms and spaces for students.

(More in the Saskatchewan Builds Capital Plan on pages 18 to 24.)

In 2017-18 major Crown projects include $1.3 billion at SaskPower, primarily to renew distribution and transmission systems, along with the expansion and renewal of electricity generation assets to meet customers' growing power needs.

Investment of $302 million is projected at SaskTel to increase and upgrade its wireless and wireline networks, improve customer service through network growth and modernization, and continue the roll out of infiNet, its high bandwidth broadband service.

Focused on the growth and integrity of its natural gas transmission and distribution systems, SaskEnergy is forecast to spend $292 million to ensure safe and reliable service that meets continually growing customer demand.

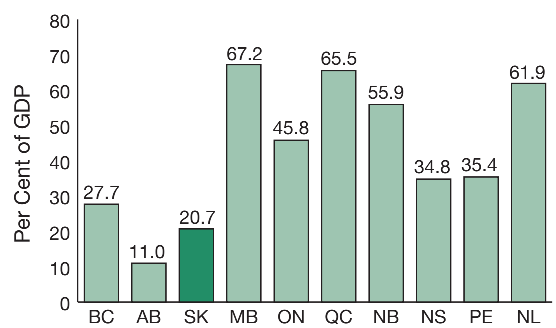
SaskWater plans to invest $81 million in 2017-18 to address aging infrastructure and customer growth.

DEBT MANAGEMENT

Responsible debt management is an important aspect of meeting the fiscal challenge. Saskatchewan's forecasted 20.7 per cent of total debt-to-GDP as of March 31, 2017 is second lowest among the provinces, according to the Dominion Bond Rating Service's most recent analysis. BC is third lowest at 27.7 per cent, and Manitoba has the highest debt-to-GDP ratio at 67.2 per cent.

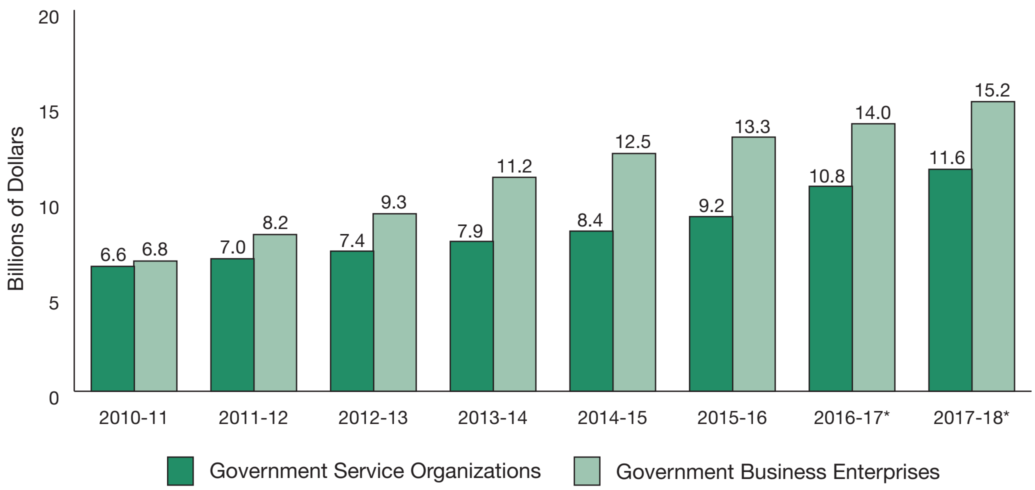
The 2017-18 Budget estimates all government debt, including that of Crown corporations, to remain manageable at $18.2 billion as at March 31, 2018.

2016-17 TOTAL DEBT (PER CENT OF GDP)



Source: DBRS-Adjusted Total Debt as at March 31, 2017, Statistics Canada, Conference Board of Canada

GROWTH OF TANGIBLE CAPITAL ASSETS



* *Forecast*

Government's operating debt has decreased more than 15 per cent since 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 that matches the benefits of the assets with the term of payments.

The additions to capital assets (net of amortization) for 2017-18 is almost $2.1 billion, including $905 million in government service organizations and $1.16 billion in government business enterprises, largely the major Crown corporations. The total budgeted book value of tangible capital assets at March 31, 2018 is $26.8 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 is not passed on to future generations.

(More information on 2017-18 Borrowing and Debt begins on page 47.)

CONCLUSION

Saskatchewan will meet the challenge it is facing.

Our economy is diverse and resilient.

More people than ever are calling Saskatchewan home.

Our people are up to the challenge.

The 2017-18 Budget controls and reduces spending while balancing the need to support the economy. A modernized and expanded tax system provides the stable revenue base needed to ensure programs and services are sustainable. Coupled with new tax incentives and income tax reductions, the 2017-18 Budget continues to support Government's key priority of growth.

This Budget invests in needed infrastructure, in schools, highways and hospitals.

This Budget invests in the priorities of health care, education and social services.

And while the 2017-18 Budget includes difficult decisions, it positions Saskatchewan to return to a balanced budget within three years, and ensures programs and services are sustainable in the long run.

The 2017-18 Budget takes action now.

Other governments have taken a different road, with no plan to balance.

Not here. Saskatchewan will meet the challenge.