SASKATCHEWAN BUDGET 2010

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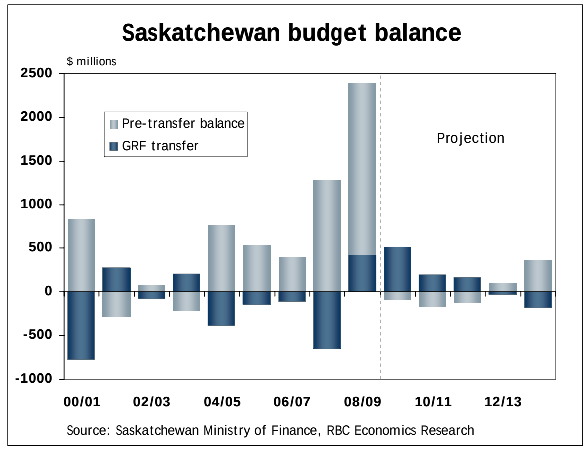
Tightening the purse strings

Despite hints three weeks ago, when the third quarter fiscal update was released, that "an overall improvement in the government's financial outlook" was taking place (thanks to higher oil revenues, increased Crown Land sales and "stronger-than-anticipated income growth" boosting tax revenues), Saskatchewan Finance Minister Rod Gantefoer unveiled his government's 2010 budget yesterday that projects a larger operating deficit in the upcoming year. Although, officially, the government forecasts a small $20 million surplus, this is entirely accomplished by a transfer of $194 million from the province's *Growth and Financial Security Fund* (GFSF). Without this transfer, the Province is showing an operating deficit of $174.2 million, more than double the expected operating shortfall of $85.6 million for the fiscal year ending this month – although it, too, will be accompanied by a substantial transfer from the GFSF that will allow the government to officially report a $425 million surplus. Budget 2010 offers few significant new measures and instead focuses on fiscal discipline.

Revenues are projected to fall for the second straight year, although the estimated decline of $76.8 million (or -0.8%) represents a smaller drop than the huge $2.3 billion (18.6%) seen in 2009/10. The main reason for the further fall-off in revenues in the upcoming year is the lower dividend from crown corporations, after a large special dividend in 2009/10 relating to the sale of the Province's stake in fertilizer plant Saskferco in 2008. In 2010/11, crown corporations will contribute just $10 million, down from $570 million in the year ending this month. Oil royalties are projected to decline by $90.0 million (7.6%), reflecting the appreciation of the Canadian dollar and a higher percentage of oil receiving lower royalty rates. Partly offsetting the decline are projected increases in potash revenues to $221.0 million (reflecting a higher sales volume forecast), federal transfers of $93.3 million (or 5.8%), personal income tax revenues of $75.0 million (or 4.0%) and retail sales tax revenues of $55.7 million (or 4.9%). In terms of new measures, the Saskatchewan government is cancelling a proposed reduction in the education property tax rate that was to save taxpayers $53 million and hiking taxes on tobacco products and alcohol beverages bought at liquor stores.

Expenditures are slated to rise by $11.8 million (or 0.1%) to $10.1 billion in 2010/11, marking a significant slowing in public spending relative to the average growth of 7.7% since 2003/04. In order to reach this goal, the government is not moving forward with the second phase of municipal revenue sharing in the upcoming year (however, it is committed to resume in 2011/12). Further, the government is winding down programs that aren't "delivering the desired results", such as the Work Based Training Program and intends to reduce the size of the civil service by 4% through attrition. Healthcare spending, which has grown at an annual rate of more than 8% since 2007, will rise by a slower 6.4% ($251 million) pace, while infrastructure investment will fall by a third of last year's level to $632 million.

The Budget sets out a **four-year fiscal plan** that projects a third consecutive operating deficit in 2011/12 ($121.3 million) before achieving operating surpluses of $102 million and $360 million in the subsequent two years. In order for this fiscal projection to comply with the *Growth and Financial Security Act*, which requires the four-year plan to show an overall balance or surplus in the General Revenue Fund (GRF), the government intends to offset the operating deficits with transfers from the *Growth and Financial Security Fund* (its rainy day fund built up from past budget surpluses). At the end of 2008/09, the balance of this account was $1.2 billion. It is projected to decline to $705 million at the end of 2009/10 and $511 million in 2010-11 before troughing at $339.5 million in 2011/12. It is then projected to rise to $546.5 million at the end of 2013/14. The presence of the GFSF means that the Saskatchewan does not need to take on additional debt to fund its deficits and as a result general public debt will remain unchanged over the forecast period at $4.1-billion.



The 2010 Budget forecasts real GDP growth of 2.6% for 2010, 3.3% for 2011, far more conservative than RBC's forecasts of 3.6% and 4.6%, respectively. Growth is forecast to slow is the subsequent years, rising by 2.0% in 2012, 1.9% in 2013 and 1.5% in 2014.

Saskatchewan's fiscal plan

($ millions)	Actual	Forecast	Estimated	Projected		
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Total revenues	12,325	10,027	9,950	10,104	10,532	10,998
Total expenditures	10,355	10,112	10,124	10,225	10,430	10,638
Pre-transfer surplus	1,970	(86)	(174)	(121)	102	360
Transfer to GFSF	(985)				(51)	(180)
Transfer from GFSF	1,404	510	194	171	24	
Net transfers	419	510	194	171	(27)	(180)
GRF Surplus	2,389	425	20	50	75	180

Source: Saskatchewan Ministry of Finance, RBC Economics Research