Report re Fiscal and Self-Government Issues in connection with Devolution

Prepared for

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by

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EXECUTIVE SUMMARY

In early November 2010, we were asked by Richard Nerysoo, President of the GTC, to undertake studies and to make a report or reports:

- To assess the fiscal implications for the GTC of the draft Canada/GNWT AIP on Devolution (GNWT Devolution AIP), and the implications post devolution of Resource Revenue sharing between GNWT and GTC, or other Aboriginal groups, as previously outlined in the 2007 Resource Revenue Sharing AIP or otherwise, and

- To develop options and make recommendations for GTC, for the immediate and longer term, concerning fiscal and self-government matters in relation to GNWT devolution and post devolution, including suggestions for relationships with other Aboriginal groups in NWT

These issues are covered in the Sections of the report as follows:

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This Executive Summary is intended to cover the major conclusions and recommendations of the report. The various issues tend to be quite intertwined. We have touched on the history of developments, including that of the Provincial Equalization Program and the Territorial Formula Financing (TFF), to put the present concerns and positioning of governments into perspective. We have also provided historical statistics, for example, of NWT resource revenues and GNWT budgets, again to give perspective and context. The workings of the present Equalization Program and the TFF are explained and are used in setting up the basis for the forecasts.

The report includes three forecasts of NWT resource revenues and GNWT budgets, without and with devolution, and with the proposed AIP and with a Modified AIP. The forecasts are a Low Case, a Middle Case and a High Case. In the Middle and High Cases it is assumed that the Mackenzie Gas Project (MGP) goes ahead, beginning in 2018. Devolution is assumed to be accomplished in 2015. Dollar amounts are current dollars, assuming a 2% inflation rate in the future. The details of the forecasts show the probable scope of GNWT revenues and expenditures. Major conclusions appear in this Summary and minor conclusions and recommendations also appear in the text.

PROVINCIAL EQUALIZATION payments in 2010/2011 are $17.0 billion, with $14.4 billion going to six of the provinces. **Territorial Formula Financing** is $2.7 billion and the NWT presently receives $920 million, usually referred to as the annual TFF grant.

Equalization

Equalization Payments to Provinces and Territorial Formula Financing (millions$)

Fiscal years		2005	2006	2007	2008	2009	2010
	to	2006	2007	2008	2009	2010	2011
Newfoundland and Labrador		861	687	477	0	0	0
Prince Edward Island		277	291	294	322	340	330
Nova Scotia		1,344	1,386	1,465	1,465	1,391	1,110
New Brunswick		1,348	1,451	1,477	1,584	1,689	1,581
Quebec		4,798	5,539	7,160	8,028	8,355	8,552
Ontario		0	0	0	0	347	972
Manitoba		1,801	1,709	1,826	2,063	2,063	1,828
Saskatchewan		89	13	228	0	0	0
Alberta		0	0	0	0	0	0
British Columbia		590	459	0	0	0	0
TOTAL for Provinces		11,108	11,535	12,927	13,462	14,185	14,373
Yukon		501	517	544	564	612	653
NWT		737	757	843	805	864	920
Nunavut		821	844	893	944	1,022	1,091
TOTAL for Territories		2,059	2,118	2,280	2,313	2,498	2,664
TOTAL for Canada		13,167	13,653	15,207	15,775	16,683	17,037

Note: Remember that the source of these payments are Federal general revenues such as personal and company income taxes. It is a matter of redistribution. For example, Alberta doesn't receive any Equalization payments but its citizens and companies pay taxes to the Federal government which in part are used for the Equalization program. In effect, we estimate that the Equalization program costs the people of Alberta about $2.1 billion annually. Quebec receives the largest amount of Equalization, but it is estimated to contribute about $2.9 billion to Ottawa towards the Equalization program, through its taxes. Thus the net transfer to Quebec is about $5.7 billion.

Source of data: Canada Department of Finance

- The Equalization process, although administered by the federal government is a process for sharing revenues between the Provinces. It has some similarities to Territorial Formula Financing but it is not the same.

The Equalization receipts and the estimated indirect contributions of the provinces are as follows

Net Equalization Payments

Equalization Payments Less Indirect Contributing Federal Taxes Estimated Net Transfers (millions $) in 2010/2011			
Province	Equaliz Pymnts	Tax Contrib	Net
Newfoundland and Labrador	0	-213	-213
Prince Edward Island	330	-40	290
Nova Scotia	1,110	-336	774
New Brunswick	1,581	-224	1,357
Quebec	8,552	-2,875	5,677
Ontario	972	-5,831	-4,859
Manitoba	1,828	-397	1,431
Saskatchewan	0	-443	-443
Alberta	0	-2,117	-2,117
British Columbia	0	-1,896	-1,896
Total	14,373	-14,373	0
Note: The provinces do not directly pay amounts to the Federal government for the Equalization program, but the Federal government uses its general tax revenues to pay the Equalization recipients. We have estimated the effectve indirect contribution of each province, according to population and non-resource income.			
Source: Estimated with Equalization model, and based on Fed Dept Finance data			

- As an example of the process, the province of Quebec receives the largest equalization payment, of $8.6 billion, but indirectly its citizens contribute an estimated $2.9 billion to the program. Alberta receives no equalization but its citizens and companies pay indirectly some $2.1 billion towards the inter-provincial sharing.

- In calculating the equalization payments, 50% of resource revenues are included in a Province's fiscal revenues. This inclusion of 50% of resource revenues in the provincial equalization formula is a matter of balance between the provinces – some having far more resource potential than others. Over the history of equalization, resource revenues have been treated in many different ways. Sometimes they have been excluded altogether and sometimes included 100%, or the resource rich provinces have been excluded – having a similar effect. Or, other changes have been made in response to the circumstances.

- The central reason why the equalization program presently only includes 50% of resource revenues rather than 100% is simply that the total amount of equalization payments would increase from 14.4 billion to 22.4 billion.

- There have been many revisions to all of the equalization calculations. Especially this has been true in the case of natural resource revenues. There have also been special arrangements for Newfoundland & Labrador to ensure that they don't lose the promised resource revenue benefits from the Atlantic Accords.[1] There is also an option for a province to either include 50% of resource revenues or exclude them entirely, in calculating its entitlement. A summary of the history of the treatment of resource revenues in provincial equalization is shown below:

Resource Revenues in Equalization

Treatment of Resource Revenues in Equalization	
1962	100% included
1963	excluded but a 50% RR Override deducted from a recipient province
1967 - 1973	100% included
1973 - 1976	Only prior years' RR included plus 1/3 of New Energy RR
1977	Resource Cap introduced by which Energy RR not greater than 1/3 of equalization payments, and only 50% of Non-renewable RR in formula.
1982	100% included, but Standard for Equalization changed to 5 Provinces, excluding AB and Atlantic provinces (FPS).
2004	Formula changed to only allocate between provinces. Total amounts fixed by federal government
2005	Special Arrangements for Newfoundland and Nova Scotia.
2007	50% included, following O'Brien report, and subject to Cap for fairness between provinces.
Source: Section 1.1 dealing with History of Equalization	

- The present inclusion of 50% of resource revenues is simply a pragmatic resolution to the issue of sharing between provinces when Alberta has much larger energy resources than any other province. The calculations of Provincial Equalization deal with the horizontal fiscal balances between the Provinces rather than the vertical fiscal balances between the federal government and GNWT.

- There are simply no principles in the calculations of equalization that properly relate to devolution and Territorial Formula Financing.

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[1] Newfoundland & Labrador and Nova Scotia are guaranteed to do at least as well as agreed in the 2005 Atlantic Accords, which allow the provinces to keep all their offshore oil and gas revenues, with no claw back from the then-existing equalization program.

RESOURCE REVENUES are the revenues captured by government, as owner of a resource. They may consists of royalties, rentals, certain fees such as stumpage fees in forestry (but not user fees), penalties and payments such as cash bonuses, and water rentals in hydro electric projects. They are assessed at the level of the mine or an oil field rather than at the level of a corporation. This reflects the rationale for resource revenues: that they are designed to capture the "economic rents" directly attributable to a particularly profitable mine, an oil or gas field, a forestry operation, or hydro project, and so forth.

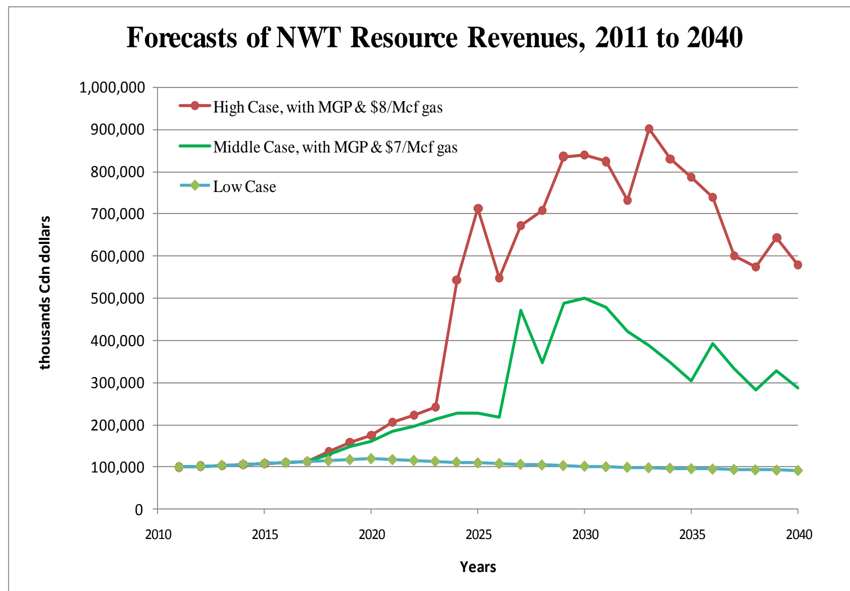
- The Provincial Equalization program defines resource revenues as including all renewable and non-renewable resources of all kinds, and we would concur with this definition in the context of devolution in the NWT.

- NWT resource revenues collected by the federal government over the past seven years have averaged about $100 million per year, with 80% being royalties from diamond production, and some $20 million per year from oil and gas activities.

  The devolution AIP proposes that GNWT should receive the benefit of 50% of NWT resource revenues, subject to a cap of 5% of GNWT annual expenditures (GEB), as a Net Fiscal Benefit, which would not be clawed back under the calculations of the Territorial Transfer Funding (TFF) arrangements. This proposal however does not include the revenues from the federal government's 1/3 interest in the Norman Wells oil field, which we estimate yields some $100 million per year at the present time.

- Without including the Norman Wells revenues, we have made three forecasts of resource revenues for the period to 2040.

Resource Revenue Forecasts



In the Middle and High Cases we include the Mackenzie Gas Project (MGP), beginning with shipments of gas and NGLs in 2018. The NWT resource revenues are forecast to increase substantially. Note that we have not included any offshore developments in these forecasts.

THE NET FISCAL BENEFIT is supposed to provide GNWT with the incentive to manage resources efficiently, cover unexpected contingencies, and to promote capacity building in both the GNWT and Aboriginal governments. The GNWT has indicated it will share up to 25% of the NFB with Aboriginal governments in the NWT.

- The AIP argues that, to be consistent with the Provincial Equalization Program, only 50% of NWT resource revenues should be a net benefit to GNWT and the amount should be capped. But our in-depth review of equalization shows that

  - The reference to the parameters of Provincial equalization in the AIP is a slight-of-hand which should not be tolerated. The cap in the provincial equalization formula and the reasons for including only 50% of Provincial resource revenues in the equalization calculation are both completely different in concept and outcomes from the NWT devolution process.

  - the provincial equalization formula and its parameters are not good guides for what should be done in the NWT – indeed they are misleading.

- The revenues from the Norman wells oil field are presently the largest single NWT resource revenue accruing to the government. And our research of the issue strongly suggests that the revenue from the 1/3 federal interest is a resource revenue. The government never made any investments and the Crown Interest may be viewed as a form of net royalty, which is almost the same in structure as the net royalty in the provisions of the existing Canadian Petroleum Resources Act (CPRA).

- These issues come to a head when the estimated NFB is compared to the expected budget expenditures of the GNWT. The Net Fiscal Benefit, under the terms of the AIP is estimated to be less than 5% of expenditures (reflecting in part the 5% cap) even in our High Case forecast, and therefore it appears to be too small in relation to the expenditure budget of the GNWT. It would not provide for sufficient contingency funding and nor would it be adequate as incentive to manage resources effectively.

- The important O'Brien report, released in 2006, dealing with Equalization and Territorial Financing concluded much the same thing when it recommended that resource revenues should be fully excluded from Territorial Formula Financing.

- The proposed cap of 5% is particularly onerous as it claws back for the federal government as much as 72% of the NWT resource revenues in the High forecast.

- We conclude that the proposed calculations for a Net Fiscal Benefit are arbitrary and inadequate for the task of managing the NWT resources which are being devolved to the GNWT and to Aboriginal governments.

- Given the proposed AIP, the resulting Net Fiscal Benefits in the forecast Cases appear to be too small in relation to GNWT expenditures.

A MODIFIED NET FISCAL BENEFIT appears to be necessary to assure that devolution is financially viable for GNWT and subsequently for the Aboriginal governments.

- In order to cover the uncertainties and risks inherent in devolution of responsibilities for resource management, a satisfactory sharing for GNWT should aim to provide in the order of a 10% potential surplus over and above the cumulative budgeted expenditures. To achieve this, some modifications of the AIP are necessary. The NFB should include 100% of NWT resource revenues, including the revenues from the Norman Wells Crown Interest, and the Cap should be increased to 15% of GEB.

- Both the proposed 50% sharing and the 5% of GEB as a cap appear to us as problems. However, the most egregious problem is that the proposed cap is too low.

  We recommend that:

  - One hundred percent of NWT resource revenues should be the basis for the proposed Net Fiscal Benefit.
  - The revenues from the Norman Wells Crown Interest should be included with other NWT resource revenues in any calculation of Net Fiscal Benefit.
  - If the same general approach as in the AIP is acceptable, then the cap should be 15% rather than the proposed 5%.
  - Alternatively, a new vision for the Net Fiscal Benefit should be developed.

VALUE OF NFB TO ABORIGINAL GROUPS is estimated as follows

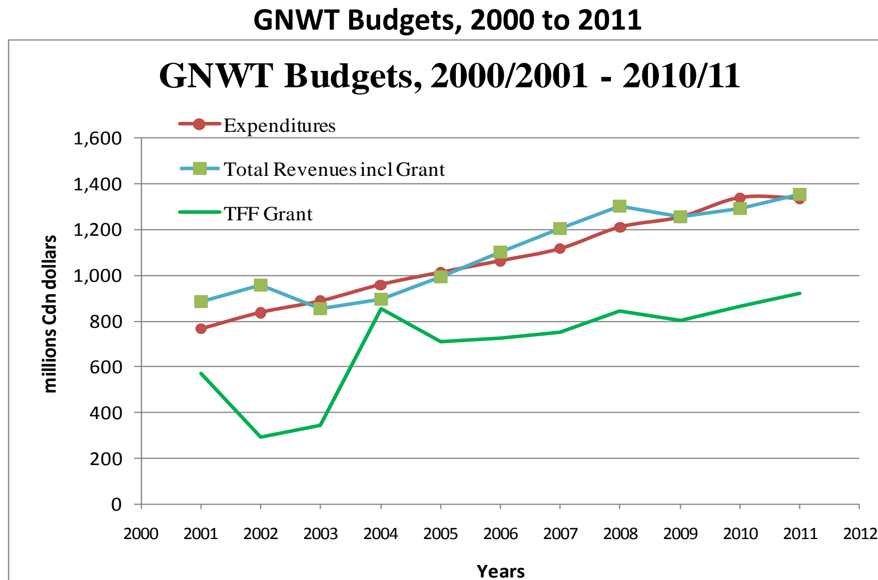
Value of Share of NFB

Value of Aboriginal Shares of NWT Resource Revenues, with Devolution					
	All Aboriginal Groups in NWT			**Gwich'in**	
Forecast Cases	**per AIP**	**per Modified AIP including Norman Wells**		**per AIP**	**per Modified AIP including Norman Wells**
	(Present value in 2010, $millions)				
Low	159.6	444.5		22.8	63.5
Midde	315.0	835.1		45.0	119.3
High	360.5	1,051.4		51.5	150.2
Notes:					
Present Values assuming a 5% interest rate.					
These amounts do NOT include the shares of Mackenzie Valley royalties, through settled Land Claims.					

- Assuming the proposed AIP, the Middle Case forecast indicates that the present value of the Gwich'in share of the NFB is $45 million. It could be as high as $119.3 million with a Modified AIP. Thus we conclude that accepting the proposed AIP would be beneficial, but not optimal.

THE GNWT BUDGET - HISTORY of revenues and expenditures over the past decade provides a framework for considering the AIP and its components.

GNWT Budgets, 2000 to 2011



- The federal government plays a huge role in financing GNWT. The principal source of GNWT own-financing is a combination of personal income taxes, corporate income taxes and payroll taxes, which however only account for 13.7% of total revenues. The Grant and other transfer payments account for close to 80% of revenues. The federal government keeps the territory on a tight leash and in addition it limits the net debt of GNWT to $500 million.

- The GNWT budget in 2010/11 can be summarized as follows. The annual TFF grant is $920 million.

GNWT Budget 2010/11

GNWT Budget, 2010-2011		
	$million	**Per Capita**
		$
Revenues		
Own Revenues (OSR)	347	7,936
Grant	920	21,043
Other Transfers to GNWT	90	2,058
Total	1,357	31,037
Operations Expenses	1,293	29,573
Misc Adjustments	44	1,006
Operating Surplus	20	457
NWT Population	43,725	
Source: GNWT Financial Statements, 2010		

THE GNWT BUDGET - FORECAST without devolution. The small percentage improvements in the Middle Case and High Case are the result of increased income and other taxes derived from activities associated with the MGP but they do not include resource revenues because this is without devolution.

GNWT Budget Forecasts, without Devolution

Cumulative Results of Alternative Forecasts of GNWT Budget , 2011 to 2040			
WITHOUT DEVOLUTION			
$ millions			
	CASES		
	LOW	MIDDLE	HIGH
BUDGET ITEMS			
Own Revenues	15,615	19,800	22,225
TFF	56,897	60,380	65,801
Total Revenues	75,432	83,342	91,455
Expenditures	75,432	82,775	90,503
Potential Surplus	0	567	952
surplus as % Expenditures	0.0%	0.7%	1.1%
KEY ASSUMPTIONS			
Annual Inflation	2.00%	2.00%	2.00%
NWT Pop Growth	0.50%	1.00%	1.50%
Canada Pop Growth	1.00%	1.00%	1.00%
Canada GDP Growth	4.50%	4.50%	4.50%
MGP goes ahead	no	yes	yes
NOTES			
Potential Surplus might be placed in a Contingency Fund			
Source: Estimated for report			

THE GNWT BUDGET – FORECAST with devolution and proposed AIP:

(with 50% Net Fiscal Benefit and 5% Cap, per AIP)

Cumulative Results of Alternative Forecasts of GNWT Budget , 2011 to 2040			
WITH DEVOLUTION			
$ millions			
	CASES		
	LOW	MIDDLE	HIGH
BUDGET ITEMS			
Own Revenues	16,982	22,914	25,925
TFF	60,416	64,255	70,072
Total Revenues	80,317	90,330	99,426
Expenditures	78,950	86,650	94,775
Potential Surplus	1,367	3,680	4,651
surplus as % Expenditures	1.7%	4.2%	4.9%
KEY ASSUMPTIONS			
Annual Inflation	2.00%	2.00%	2.00%
NWT Pop Growth	0.50%	1.00%	1.50%
Canada Pop Growth	1.00%	1.00%	1.00%
Canada GDP Growth	4.50%	4.50%	4.50%
MGP goes ahead	no	yes	yes
NOTES			
50% resource revenue sharing per Devolution AIP and 5% GEB Cap			
Source: Estimated for report			

- The potential Surpluses are increased as a result of devolution but they are only between 1.7% and 5% of the cumulative expenditures over the forecast period. This leaves little margin for error in budgeting or for covering costs of unexpected impacts.

THE GNWT BUDGET – FORECAST with devolution and Modified AIP:

(with 100% Net Fiscal Benefit and 15% Cap, per Modified AIP)

Cumulative Results of Alternative Forecasts of GNWT Budget , 2011 to 2040			
WITH DEVOLUTION			
$ millions			
	CASES		
	LOW	**MIDDLE**	**HIGH**
BUDGET ITEMS			
Own Revenues	19,167	27,683	32,843
TFF	60,416	64,255	70,072
Total Revenues	82,502	95,100	106,344
Expenditures	78,950	86,650	94,775
Potential Surplus	3,552	8,450	11,569
surplus as % Expenditures	4.5%	9.8%	12.2%
KEY ASSUMPTIONS			
Annual Inflation	2.00%	2.00%	2.00%
NWT Pop Growth	0.50%	1.00%	1.50%
Canada Pop Growth	1.00%	1.00%	1.00%
Canada GDP Growth	4.50%	4.50%	4.50%
MGP goes ahead	no	yes	yes
NOTES			
100% resource revenue sharing after devolution & Norman Wells Crown Interest, & 15% Cap			
Source: Estimated for report			

- The modified AIP would provide a contingency surplus of 9.8% in the Middle Case forecast and 12.2% in the High Case forecast, which should be satisfactory for GNWT.

SHARING OF THE NET FISCAL BENEFIT by Aboriginal Parties to the AIP

Illustrative Sharing

ILLUSTRATIVE SHARING OF NET FISCAL BENEFIT AMONGST ABORIGINAL PARTIES						
				Percent Share by Alternative Calculations		
Seven Main Groupings	2010 Price Index	Approximate Population in NWT	Population X Price Index	Population Weighted by Price Index	1/7 Equal Share	Population Share
	#	#	#	%	%	%
Inuvialuit	173	3,710	642,312	20.2%	14.3%	17.2%
Gwich'in	160	2,200	352,000	11.1%	14.3%	10.2%
Sahtu	183	2,100	383,460	12.1%	14.3%	9.7%
Metis	126	3,800	478,800	15.1%	14.3%	17.6%
Tlicho	139	4,100	568,875	17.9%	14.3%	19.0%
NWT Treaty 8	129	2,800	359,800	11.3%	14.3%	13.0%
Dehcho	135	2,900	390,659	12.3%	14.3%	13.4%
Yellowknife	100					
Totals		21,610	3,175,906	100.0%	100.0%	100.0%
Notes:						
Average Community Price Index and populations, estimated from GNWT Statistics Bureau data.						
Deline is incl with Sahtu.						
Salt River FN is incl with NWT Treaty 8.						
Estimates as of Jan 15 2011.						

- We conclude that the best way for GTC to share the NFB amongst the Aboriginal groups is to share equally with each regional Aboriginal group (including the Northwest Territory Metis Nation) and let each group determine internally how best to share the regional allocation amongst their membership. However, it is recognized that this may not be acceptable to the groups with larger population bases or internal tensions and may leave the North Slave Metis out completely. As a secondary position we would suggest that NWT population weighted by a cost of living index would be best for GTC. And thirdly, if simplicity is paramount as it may be, the straight per capita allocation would be the next best outcome for its simplicity and equity for all groups. The more complex the sharing formula, the more controversy will arise.

- In the proposed AIP, the GNWT retains 75% of the NFB and the Aboriginal groups receive 25%. It follows that the Aboriginal groups in effect receive the benefit of 62.5% of the NFB (50% X 75% plus 25%). This is because they are half of the NWT population and they would receive the benefits from being ordinary citizens under the overall jurisdiction of GNWT as well as receiving their specific share. Therefore, provided that there are no specific program strings attached to the initial 25% sharing of the NFB going to Aboriginal groups, we conclude that the proposed 25% share is reasonable.

RESOURCE REVENUES AND SELF-GOVERNMENT FINANCING:

- The Net Fiscal Benefit (NFB) will be a source of revenue for Aboriginal governments, separate and distinct from subsequent revenue transfers for specific government programs and services, pursuant to a self-government agreement. It will be important for GTC to clarify that the initial 25% share has no strings attached to it. The 2007 resource revenue sharing AIP was clear that additional shares of the NFB would be made available to Aboriginal governments if and when they assumed responsibility to deliver territorial-like programs and services.

- The treatment of resource revenues between Canada and GNWT will set the pattern for treatment between GNWT and Aboriginal self-governments. It is for this reason that the GTC should, as a first line of defense, support the best possible financial outcome for the GNWT in the present devolution negotiations. It seems unlikely that the federal or territorial governments could defend treatment of the GTC in a manner less favourable than GNWT is treated.

- The GTC should:

  - Support the best fiscal deal possible for the GNWT through the Devolution process as it will be relevant and possibly critical to GTC self-government financing negotiations

  - In its negotiations concerning self-government financing, argue for a better financial arrangement respecting resource revenues than any achieved by the GNWT on the basis that the impacts of resource development on Gwich'in citizens and the GTC self-government will be greater than the proportional impact on the general public and GNWT.

DEVOLUTION AND PROGRAM FUNDING

- The provisions for **ongoing funding** in the draft Devolution AIP should not be accepted until the following:

  1. The assumptions and calculations are provided upon which the base transfer amount of $65.3 million was made, and the Aboriginal Parties have had adequate time to review and question these;
  2. The federal government agrees that the base transfer funding will be escalated by the TFF PAGE between 2005 and the Devolution Agreement Effective Date;
  3. That the Aboriginal Parties have opportunity to confirm that adequate provision is made within the base funding amount for all federal overhead costs associated with the transferring program;
  4. That the Aboriginal Parties have opportunity to assess the incremental cost the GNWT (or others) may face to operate the transferred program;

5. That the work in Chapter 6 – Post Devolution Resource Management is completed and any resulting changes to the land and water management regime are determined and any associated cost increase is calculated and included in the base transfer amount;
6. That the Net Fiscal Benefit be increased to mitigate the risks being assumed by the GNWT and/or Aboriginal Parties with respect to program cost escalation that may be associated with resolving third party interests and addressing unforeseen and future risks;
7. That provision be made for funding the costs of participation by Aboriginal Parties in the IPC and IWGs; and
8. That clarity is provided concerning the basis for the $3 million offer of ongoing funding for Aboriginal Parties.

- The draft provisions for **one-time funding** of the Devolution AIP should not be accepted until the following:

1. The assumptions and calculations are provided upon which the one-time funding of $3.9 million for Aboriginal Parties was made, and the Aboriginal Parties have had adequate time to review and question same;
2. The federal government agrees that whatever one-time funding is provided it will be escalated to current year dollar values; and
3. That the Aboriginal parties have the opportunity to review and assess in which transitional activities and tasks they wish to directly participate, and funding to allow such participation is determined and agreed.

Assistance and Report re Fiscal and Self-Government Issues in connection with Devolution

Preface

In early November 2010, we were asked by Richard Nerysoo, President of the GTC, to undertake studies and to make a report or reports:

- To assess the fiscal implications for the GTC of the draft Canada/GNWT AIP on Devolution (GNWT Devolution AIP), and the implications post devolution of Resource Revenue sharing between GNWT and GTC, or other Aboriginal groups, as previously outlined in the 2007 Resource Revenue Sharing AIP or otherwise, and

- To develop options and make recommendations for GTC, for the immediate and longer term, concerning fiscal and self-government matters in relation to GNWT devolution and post devolution, including suggestions for relationships with other Aboriginal groups in NWT

In mid December 2010 we completed the first phase of this work, consisting of the four Sections described below, which have been designed to set the stage for subsequent analysis of the AIP and consideration of options. The workplan outlined the modules as follows.

1.1 Provide a summary of the treatment of Resource Revenues in the Federal-provincial equalization system and an overview of special off-shore funding arrangements entered into between the federal and provincial governments (e.g. the Atlantic Accord).[1]

1.2 Provide a discussion of potential definitions of Resource Revenues, supported by argument and precedents, with a view to recommending a suitable definition for the GNWT Devolution AIP. This may also involve differential consideration of offshore resource developments.

1.3 Provide a set of two Benchmark forecasts, High and Low, of probable Resource Revenues in NWT, 2010 to 2040, showing resources by type, and any relevant variations; for example in Resource Revenue definition or offshore developments versus onshore.

1.4 Provide an overview of the GNWT revenues and expenditures for the past 5 years and trend lines for future income and spending to provide a context for assessing the magnitude of Resource Revenue sharing in the context of the GNWT's fiscal situation. This will also consider other key variables such as population statistics.

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[1] The "O'Brien Report", published in 2006 recommended various changes to equalization and many were incorporated in the Federal 2007 budget. Generally these changes were designed to encourage the development of resources in the Provinces.

We have also completed an annex concerning the Norman Wells oil field and we have begun but not completed the first section dealing directly with analysis of the AIP.

In our workplan proposal we described the background leading up to this work and we believe it is worthwhile to repeat it here, in a slightly edited form.

Background

Yukon

The Yukon reached a devolution agreement with the federal government in October 2001, however, Yukon First Nations were not signatories to this agreement (the Yukon devolution agreement did contain non-derogation clauses – Section 1.6 to 1.11). Section 1.3 also refers to the mutual intent of the federal government and Yukon government to conclude self-government agreements as a "matter of the highest priority". The Yukon Agreement had significant limitations on the Net Fiscal Benefit the Yukon Government would derive from collection of Resource Revenues (see Section 7.27). The Yukon Devolution Agreement contains a $3 million cap on the annual Net Fiscal Benefit. Any Resource Revenues beyond the $3 million cap are offset 100% from the Yukon Formula Financing Grant. The cap amount was subject to a joint review after five years (see Section 7.28). There is no provision in the Yukon devolution agreement for the sharing of Resource Revenues with Yukon First Nations although Section 7.29 of the agreement obligates the Yukon to consult with First Nations respecting any proposed amendment to section 7.27.

Nunavut

There is no devolution agreement yet between the federal government and Nunavut although negotiations have been occurring.

NWT

The federal and territorial governments have been attempting to negotiate devolution of land and water management (including Resource Revenues) for over twenty years. Despite numerous attempts the parties have not been successful due to their inability to come to terms over jurisdictional scope (e.g. the offshore), resources (e.g. A-Base transfer for assumed federal responsibilities and programs), Resource Revenues (e.g. Net Fiscal Benefit to the NWT) and a number of smaller issues.

Devolution negotiations have also been hindered by a lack of wide support from NWT Aboriginal governments. The lack of support from Aboriginal governments has often been ascribed to:

1. the reluctance of Aboriginal governments without a comprehensive claim agreement to limit what they may directly negotiate respecting land and water management and Resource Revenues,
2. a general reluctance among Aboriginal governments to support an increase in GNWT powers in the absence of a common vision of future NWT constitutional development, and
3. an inability to achieve adequate fiscal benefit for Aboriginal governments.

Resource Revenues and land and water management are also subject matters that have relevance to Aboriginal self-government negotiations regarding jurisdictional authorities and fiscal relations and tax sharing.

In the NWT, the Aboriginal governments have been directly involved in devolution discussions since 2001 when a MOI on Devolution and Resource Revenue Sharing was endorsed by the Inter-governmental Forum. The MOI made provision for the "Net Fiscal Benefit" from devolution to be shared between the GNWT and Aboriginal Governments.

In March 2004 a NWT Lands and Resources Devolution Framework Agreement was signed by the federal government, GNWT and Aboriginal Summit (minus the Deh Cho). This Agreement acknowledged that Aboriginal governments would share in the responsibilities, decision making and Resource Revenues associated with devolution. The Agreement also provided for the federal government to take back devolved powers if such was necessary to implement a future comprehensive claim or self-government agreement. The Aboriginal Summit as a party to the Agreement was able to assign a Chief Negotiator to represent its interests in the devolution negotiations.

GNWT Expenditures and Budget

It should be remembered that GNWT annual budget expenditures are approximately $1.3 billion, of which about 68% is provided by the Federal government through Formula Financing and about 32% is provided through GNWT taxation and so forth within the NWT. Formula Financing is reviewed every 5 years and the present arrangements are in place until March 31, 2014. The proposed GNWT Devolution AIP would allow for 50% of NWT Resource Revenues, subject to a cap, to be considered as a Net Fiscal Benefit to GNWT and thus not offset by a reduction in the annual grant to GNWT. There are some questions as to the proper definition of Resource Revenues, but usually they include royalties, rentals, related fees and penalties, and cash bonuses, but not user fees or corporate taxes in relation to resource development and production. The draft GNWT Devolution AIP, Section 12.4, calls for "resource Revenues" to be defined in the final Devolution Agreement.

Draft GNWT Devolution AIP

The release of a draft AIP document in September 2010 disclosed that the federal government and GNWT had been having bilateral negotiations on devolution without Aboriginal government participation. The draft AIP provides that any Aboriginal government can become a signatory to the AIP but it appears that it would not be able to negotiate amendments. However, if an Aboriginal government signs the AIP it appears it could appoint a Chief Negotiator to participate in the negotiations of a final devolution agreement. The AIP (Section 6.3 to 6.11) requires that the GNWT negotiate mechanisms for "coordination and cooperation with respect to the management of Public Lands and Settlement Lands and rights in respect of Water" with Aboriginal governments. Any such management agreement is to be appended to the Devolution Agreement.

The AIP (Section 11.2) provides for up to $3.9 million in one-time funding to go to Aboriginal governments for the required transitional activities (Appendix 2 to Chapter 11) - in spite of the fact that Aboriginal governments may not be party to the AIP. The Financial Matters Chapter (Chapter 11) makes references throughout to the federal government negotiating agreements with Aboriginal governments, with a view to them participating in activities required by the AIP. Section 11.10 provides that the GNWT shall receive $65.3 million in an A-base transfer to assume the responsibilities presently being delivered by the federal government. How this was calculated is not disclosed. Section 11.11 states that the Devolution Agreement will provide for an annual payment by Canada of up to $3.0 million (in

aggregate) to Aboriginal governments who sign the deal. What this payment is for, or how it was derived, is not disclosed.

Chapter 12 addresses Net Fiscal Benefit. It provides that 50% of NWT Resource Revenues would form a Net Fiscal Benefit to the NWT. The other 50% would be fully offset against the Formula Financing Grant. However, the 50% Net Fiscal Benefit is subject to a cap of 5% of the GNWT Gross Expenditure Base (GEB). The GEB is calculated according to a federal regulation and the GNWT no longer discloses the calculation in its budget documents. However, the objective is that the GEB in any year should approximate the Territorial expenditure need, and GEB will likely be between $1.2 and $1.3 billion at the present time. This means that at present the cap on the Net Fiscal Benefit would be in the area of $60 to $70 million. Section 12.3 states that the GNWT and Aboriginal governments, who participate in the AIP, must make an agreement on the sharing of the Net Fiscal Benefit, and such agreement will be appended to the final Devolution Agreement. It could also be construed that if no Aboriginal governments chose to become party to the AIP that no sharing agreement would be required.

Post GNWT Devolution: Resource Revenue Sharing AIP

In 2007 a Resource Revenue Sharing Agreement in Principle was signed between the GNWT, IRC, GTC, SSI, and Northwest Territory Metis Nation (omitting the Tlicho, Deh Cho, Akaitcho and North Slave Metis). This Agreement was restricted to how the "Net Fiscal Benefit" (NFB) to the NWT would be shared among the GNWT and Aboriginal governments. It provided that up to 25% of the NFB would accrue to Aboriginal governments in the NWT to promote political development and capacity building. The total Aboriginal government percentage share would be calculated as 3.57 times the number of Aboriginal governments participating, giving a maximum of 25% (3.57 X 7). How the Aboriginal governments would split their Net Fiscal Benefit share among themselves was left to the Aboriginal governments to determine. The Agreement made provision for further sharing of the Net Fiscal Benefit with those Aboriginal governments that assumed government program and service responsibilities through a self-government agreement. The Agreement made provision for the Tlicho, Deh Cho or Akaitcho to become parties to the Agreement later (with the consent of the GNWT) but the Agreement was silent respecting the North Slave Metis.

Recent GTC Action

On October 29 2010 Richard Nerysoo, on behalf of GTC, wrote to the GNWT Premier and the Minister of INAC saying that the Gwich'in could no longer support the draft GNWT Devolution AIP and nor could they support the 2007 Resource Revenue Sharing AIP. This set the stage for GTC to reconsider these issues.

Issues

In our workplan we described the major issues as follows:

1. the overall reasonableness and fairness of the proposed Resource Revenue sharing and Net Fiscal Benefit for the NWT as a whole in consideration of:
    a. NWT Resource Revenue potential;
    b. the expenditure needs of NWT public and Aboriginal governments;
    c. the resource sharing precedents found in similar federal/provincial arrangements including reference to past oil and gas accords.
    d. the proposed inclusions and exclusions from the definition of Resource Revenues.

2. the manner in which, and basis upon which, any Net Fiscal Benefit may be distributed among NWT public and Aboriginal governments;
3. the linkages between Resource Revenue sharing and the fiscal aspects of Aboriginal self-government, for negotiations and in eventual arrangements;
4. the adequacy of the proposed funding pursuant to the draft GNWT Devolution AIP, Chapter 11, for the one-time, transitional and ongoing costs associated with the transfer of resource management responsibilities and programs to NWT governments.

Second Phase of Work Plan

Further work modules which deal with analysis, options and recommendations, were defined as follows. These have now been completed, as follows.

2.1 Provide analysis and commentary respecting the proposed and alternative calculations of the Net Fiscal Benefit[2] and its relationship to the expenditure need of NWT governments with a view to providing an opinion on the overall reasonableness and fairness of the proposed Net Fiscal Benefit.

2.2 Identify and discuss some of the more practical bases upon which the Net Fiscal Benefit from devolution could be shared among NWT public and Aboriginal governments and provide an analysis and recommendations as to which may be best defended and aligned with GTC interests.[3]

2.3 Identify and discuss the relationship between Resource Revenue sharing/Net Fiscal Benefit and GTC interests respecting self-government financing.

2.4 Identify and discuss GTC interests and risks respecting the adequacy of funding for one-time, transitional and ongoing responsibilities and programs associated with the transfer of resource management to the NWT.

Third Phase of Work Plan

3. Additional analyses are likely to suggest themselves as the foregoing steps are accomplished. These will be identified, and after discussion with the client, will be undertaken as further modules as part of a comprehensive coverage of the issues.

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[2] Alternative ways of calculating the Net Fiscal Benefit could include: an alternative Offset fraction instead of 50%, averaging of several annual amounts (e.g. moving averages to smooth annual variations), alternative "caps", a broader definition of Resource Revenues, possibly including the revenues from the Norman Wells oil field Crown Interest, increasing the Aboriginal share of GNWT's share, and so forth. At the same time the Federal government, especially the Department of Finance is proverbial Scrooge.

[3] Sharing arrangements, for example, could be based on population weighted by income per capita, or simply population, or possibly the extent of settlement areas, geography, local geology, etc. Each of these alternatives involves various measurement difficulties, and fairness issues.

1.1 EQUALIZATION, TERRITORIAL FORMULA FINANCING (TFF) and RESOURCE REVENUES

PROVINCIAL EQUALIZATION PROGRAM

INTRODUCTION

Equalization is a federal program of transfer payments to the so-called Have-Not provinces. By compensating the poorer provinces, the objective of equalization is to ensure that all Canadians have access to approximately the same level of provincial government services, at similar levels of taxation, regardless of where in the country they live.

The equalization program, although administered by the federal government addresses the "horizontal fiscal imbalances" between the provinces. And although equalization payments are made by the federal government, they come from its general revenues. So the net effects are transfers between the provinces. Other federal programs such as the Canada Health Transfer are supposed to address vertical imbalances between levels of government, as between the federal and provincial governments.

The provinces do not have to pay directly for the program. The above-average provinces receive no equalization payments and the Have-Not provinces receive equalization payments, determined by an equalization formula (with some exceptions), and according to the applicable federal regulations under the Federal-Provincial Fiscal Arrangements Act, 1985.[4] Parts of the same Act and regulations also determine the Territorial Formula Financing (TFF). The Act and Regulations are renewed every five years, at which time the federal government and the provinces work together to negotiate any changes to the program. The legislation is then passed by the federal parliament. Within the five year period, the federal government can and does modify the regulations. There are no strings attached to the equalization payments or the TFF. A receiving province or territory can spend the funds according to its own priorities.

The existing equalization formula includes all ten provinces and it both determines the total amount of equalization to be paid and the allocation of equalization between the provinces.

HISTORY [5]

The origins of the equalization program can be traced back to the Rowell-Sirois Commission of 1937/1940 but it was not given its present form until 1957, and was updated in the existing 1985 Act and present regulations. The most recent revisions of methodology were made in the 2007 federal budget, following the O'Brien report published in 2006.[6] The program has rested partly on principle and often on political considerations.

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[4] In 1982 the principle of equalization was enshrined in the Canadian Constitution, as section 36(2) as follows: Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

[5] Two sources have been particularly useful in tracing the history: *In Brief, Canada's Equalization Formula*, by Michael Holden, Nov 10 2008, and *A Short History of Equalization*, by Thomas Courchene, in Options Politiques, March 2007.

[6] *Achieving a National Purpose: Putting Equalization Back on Track*, May 2006, chaired by Al O'Brien.

Many adjustments and even major changes have been made to equalization over the years. It is mind numbing to consider all the changes. But for our purposes it is useful to note the major changes in the treatment of resource revenues.

Natural resource revenues first entered the calculations in 1962. The concern at that time was that resource rich Alberta had previosuly been receiving equalization. But in 1963 the new Pearson government excluded resource revenues in the calculation and introduced a “resource revenue override” by which 50% of resource revenues would be deducted from a province’s equalization payments – another way of excluding Alberta from receiving equalization payments. In the period from 1967 to 1973, before the energy crisis in 1973, one hundred percent of resource revenues (including energy resource revenues) were included. After 1973, along with controlling energy prices in Canada, the federal government reduced resource revenues in equalization to those existing prior to 1973 plus 1/3 of new energy resource revenues. Then in 1977 a resource cap was introduced: energy related equalization could not exceed 1/3 of total equalization, and also that 50% of non-renewable resource revenues should be included in the formula. One result of the latter changes, plus the second peaking of oil prices in 1981/82 was that Ontario would have become an equalization recipient. To prevent that, the federal government introduced a “personal income override” in 1981 which led to Ontario being prevented from becoming an equalization recipient.

In 1982 the standard for equaliztion was changed to just five provinces (FPS) and thereby it side stepped the issue of volatile energy resource revenues.[7] Excluded were energy rich Alberta on the one hand and the energy poor four Atlantic provinces on the other, and 100% of resource revenues (of the five provinces) were re-included in the formula. This was yet another way to exclude Alberta’s energy resource revenues from the equalization formula. But the formula later caused trouble as Sakatchewan increased its oil and gas resource revenues and actually would have lost revenue from new resource development as a result of the equalization process. Various arbitrary restrictions were introduced by the federal government to save the system.

In 2004 a decision was made to fix the total amount of equalization and the role of the formula was only to allocate this pool of funds between the provinces. Somewhat later Prime Minister Martin made the special deals with Newfoundland & Labrador and Nova Scotia. However, the basic FPS arrangement lasted up until the recent 2007 revisions to equalization in which 50% of resource revenues are included and all ten provinces are in the formula, and the formula calculates both the total amount of equalization and the allocation of it between provinces – subject to various options and exceptions we will mention below.[8]

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[7] The five Province Standard (FPS) included BC, Saskatchewan, Manitoba, Ontario and Quebec. Also, note that in the 1957 initial arrangement, a two province standard, BC and Ontario (then the two richest provinces) had been used.

[8] A final historical note is that Prime Minister Stephen Harper promised in his election platform of 2006 that resource revenues would be excluded from the equalization program, but that has not been done.

EQUALIZATION AMOUNTS

A summary of equalization payments is shown in table 1.1.1. The total value of equalization payments in 2010/2011 is $17.0 billion, with $14.4 billion going to six of the provinces, and $2.7 billion going to the territories. It may be noted that NWT presently receives $920 million, usually referred to as the annual TFF grant.

Table 1.1.1

Equalization Payments to Provinces and Territorial Formula Financing (millions$)

Fiscal years		2005	2006	2007	2008	2009	2010
	to	2006	2007	2008	2009	2010	2011
Newfoundland and Labrador		861	687	477	0	0	0
Prince Edward Island		277	291	294	322	340	330
Nova Scotia		1,344	1,386	1,465	1,465	1,391	1,110
New Brunswick		1,348	1,451	1,477	1,584	1,689	1,581
Quebec		4,798	5,539	7,160	8,028	8,355	8,552
Ontario		0	0	0	0	347	972
Manitoba		1,801	1,709	1,826	2,063	2,063	1,828
Saskatchewan		89	13	228	0	0	0
Alberta		0	0	0	0	0	0
British Columbia		590	459	0	0	0	0
TOTAL for Provinces		11,108	11,535	12,927	13,462	14,185	14,373
Yukon		501	517	544	564	612	653
NWT		737	757	843	805	864	920
Nunavut		821	844	893	944	1,022	1,091
TOTAL for Territories		2,059	2,118	2,280	2,313	2,498	2,664
TOTAL for Canada		13,167	13,653	15,207	15,775	16,683	17,037

Note: Remember that the source of these payments are Federal general revenues such as personal and company income taxes. It is a matter of redistribution. For example, Alberta doesn't receive any Equalization payments but its citizens and companies pay taxes to the Federal government which in part are used for the Equalization program. In effect, we estimate that the Equalization program costs the people of Alberta about $2.1 billion annually. Quebec receives the largest amount of Equalization, but it is estimated to contribute about $2.9 billion to Ottawa towards the Equalization program, through its taxes. Thus the net transfer to Quebec is about $5.7 billion.

Source of data: Canada Department of Finance

In order to understand the present workings of the equalization program we have put together an Excel spreadsheet model of the main calculations used for determining equalization payments.[9] But before delving into the details of the program we should remember that the source of the equalization payments are federal general revenues, and those revenues come from the taxes paid to the federal government by citizens and corporations in the provinces. Thus, it should be clear that the final outcome of the program is essentially a set of fiscal transfers between the provinces. To charcaterize the process: “direct” equalization payments are made by the federal government to the Have Not

[9] The model is summarized with example input and output in Schedule 1.1.2

provinces and at the same time the federal government receives "indirect" individual and corporate income taxes from entities in all of the provinces. We have estimated these indirect contributions for the provinces in Table 1.1.2.

Table 1.1.2

Equalization Payments
Less Indirect Contributing Federal Taxes
Estimated Net Transfers (millions $)
in 2010/2011

Province	Equaliz Pymnts	Tax Contrib	Net
Newfoundland and Labrador	0	-213	-213
Prince Edward Island	330	-40	290
Nova Scotia	1,110	-336	774
New Brunswick	1,581	-224	1,357
Quebec	8,552	-2,875	5,677
Ontario	972	-5,831	-4,859
Manitoba	1,828	-397	1,431
Saskatchewan	0	-443	-443
Alberta	0	-2,117	-2,117
British Columbia	0	-1,896	-1,896
Total	14,373	-14,373	0

Note: The provinces do not directly pay amounts to the Federal government for the Equalization program, but the Federal government uses its general tax revenues to pay the Equalization recipients. We have estimated the effectve indirect contribution of each province, according to population and non-resource income.

Source: Estimated with Equalization model, and based on Fed Dept Finance data

As an example of the process, we note that the province of Quebec receives the largest equalization payment, of $8.6 billion, but indirectly its citizens contribute an estimated $2.9 billion to the program. And at the heart of the program is the relationship between Quebec and Ontario. Ontario became a Have Not province in 2009 and although it receives $972 million in equalization, its indirect contribution is estimated at $5.8 billion. Thus, some people have argued that the main outcome of equalization is a transfer of about $5 billion from Ontario to Quebec. The resource rich province, Alberta, receives no equaliztion but indirectly its citizens and companies are estimated to contribute $2.1 billion to the program. All these results, in terms of dollar amounts rather than per capita amounts, reflect the widely different populations of each provinces, as well as the per capita fiscal differences.

EQUALIZATION CALCULATIONS

The equalization calculations are based on the per capita fiscal revenues available to each provincial government. The province of PEI with the smallest provincial population of 142 thousand receives the

largest per capita equalization payment of $2,320 per capita.[10] Ontario, with a population of 13.2 million, receives an equalization payment of $74 per capita.

In calculating the equalization payments, the federal government assesses each province's per capita ability to generate its own source revenues and then compares that "fiscal capacity" to the average fiscal capcity for all the provinces. All the provincial government revenue sources, except for user fees, are included into one of five categories: personal income taxes, business income taxes, sales taxes, propery taxes, and natural resource revenues. With the exception of natural resources, the equalization calculations refer to standardized tax rates which could be applied by all provinces.[11] In the case of natural resource revenues, actual resource revenues are used.[12]

To determine which provinces qualify for equalization, each province's per capita fiscal capacity is compared to the average fiscal capaciy of all ten provinces. If a province has below average fiscal capacity it qualifies for equalization payments to make up the difference. A province whose fiscal capacity is above the average does not receive any equalization.

NATURAL RESOURCE REVENUES

Over past years there have been many revisions to all of the equalization calculations. Especially this has been true in the case of natural resource revenues. Immediately prior to 2007, 100% of resource revenues were included (but with the FPS) and earlier, at times, resource revenues were entirely excluded. Since 2007, 50% of natural resource revenues are included. However presently, each province has the option of receiving equalization payments based on including 50% of resouce revenues or based on excluding resource revenues entirely.[13] There are also special provisions for Newfoundland & Labrador to ensure that they don't lose the promised resource revenue benefits from the Atlantic Accords. [14]

Natural resource revenues include non-renewable and renewable resource revenues.[15] They include all royalties, rentals, fees, penalties and payments such as cash bonuses, stumpage fees, and water rentals as in hydro electric plants, applicable to natural resource activities.

It should be mentioned that corporate income taxes, assessed on a company engaged in a resource activity such as mining or oil and gas development, are not classified as resource revenues. Resource revenues are assessed at the level of a mine or an oil field rather than at the level of a corporation. In

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[10] See Schedule 1.1.2 where the detailed per capita revenues and payments are shown.

[11] The standardized tax rates are sometimes called a Representative Tax System, or simply RTS

[12] At present 50% of resource revenues are included, but in earlier years 100% were included. The principal reason for not including 100% is that it would significantly increase the total amount of equalization payments. We estimate that it would increase provincial equalization payments to $21.4 billion rather than $14.37 billion.

[13] In practice, the federal government pays to a recipient province whichever option gives the largest payment.

[14] Newfoundland & Labrador and Nova Scotia are guaranteed to do at least as well as agreed in the 2005 Atlantic Accords, which allow the provinces to keep all their offshore oil and gas revenues, with no claw back from the then-existing equalization program.

[15] Some economists have argued that non-renewable resource revenues should be entirely excluded from equalization on the basis that such resources get to be used up. The O'Brien report didn't accept this contention saying that in practice so-called renewable resources often get used up while non-renewable resources are augmented through exploration.

the jargon of economics, the resource revenues are supposed to capture the “economic rents” directly attributable to a particular mine, oil or gas field, forestry operation, hydro project, and so forth.

THE FISCAL CAP

The equalization program includes a cap that can limit provinces’ per capita entitlements. This became necessary as a matter of fairness between the provinces, because of the inclusion of only 50% of resource revenues. The cap ensures that an equalization recipient province does not end up with a per capita fiscal capacity (including 100% of its resource revenues) greater than that of the poorest non-recipient province. In the past, payments to Manitoba must have been capped but presently our modeling suggests that none of the provinces are capped.

OTHER ASPECTS OF EQUALIZATION CALCULATIONS

Equalization payments in any year are based on a weighted three year moving average, lagged two years. The equalization program also includes calculations that ensure that the total payments should increase in line with Canada’s GDP growth, other things remaining constant. Both these features tend to stabilize equalization payments year to year and make it easier for budgetary planning.

The equalization program is based on a mixture of principle and political necessity (ad hoc-ery). A recent example of political expediency is in the present federal Economic Action Plan that has assured Have-Not provinces that they will receive at least as much equalization in 2010-2011 as in 2009-2010, whatever the formula might indicate.

SENSITIVITY ANALYSES OF EQUALIZATION SYSTEM

Using our equalization model we can test for the expected outcomes as a result of changing the level of key inputs such as the resource revenues of a province – according to the equalization formula, applied to 2010 data. Some of the more relevant sensitivity test we have run are as follows:

> An increase of $100 per capita of resource revenues in Alberta leads to a net gain of $94.8 per capita. i.e. virtually all the increase is retained by Alberta residents.
>
> An increase of $100 per capita of resource revenues in BC leads to a net gain of $95.3 per capita. The slight difference from Alberta is because of BC’s larger population.
>
> An increase in $100 per capita of resource revenues in Saskatchewan leads to a net gain of $98.9 per capita.
>
> An increase in $100 per capita of resource revenues in Manitoba leads to a net gain of $52.2 per capita. Manitoba is an equalization recipient and so only a little more than half of its incremental resource revenue is retained. The reason for more than 50% being retained is that the total equalization amount is reduced through the federal claw back. The comparable test for New Brunswick shows it would retain $51.3%.
>
> As we have discussed, under special agreements both Newfoundland & Labrador and Nova Scotia will retain close to or exactly 100% of incremental resource revenues.

The inclusion of 100% of resource revenues in the equalization formula would increase the total amount of equalization, from 14.4 billion to 22.4 billion – showing the central reason why the program only includes 50% of resource revenues. With 100% resource revenues, all the recipient provinces would gain equalization payments, particularly Ontario and Quebec. The non-recipient provinces such as Alberta would lose.[16]

CONCLUSIONS

Some economists have argued that the equalization program contributes to financial and economic dependency and stifles adaptation and growth in the provinces. It tends to lessen the incentives for a province to strengthen its economy. And for example It could tend to reduce the incentives to develop natural resources since additional resource revenues could reduce the receipt of equalization payments. The inclusion of only 50% of resource revenues in the formula and other ad hoc special arrangements such as those for Newfoundland & Labrador and Nova Scotia have been recent attempts to address such concerns.

- Supporters of the special treatment of Newfoundland & Labrador and Nova Scotia have argued that the offshore oil and gas industry is still in its infancy and therefore it cannot be expected to reward the provinces like a mature oil patch such as in Alberta.[17] This argument is even more appropriate for the NWT.

It is also argued that equalization, unfairly although indirectly, redistributes tax dollars from the citizens of the richer provinces to the others. As we outlined in Table 1.1.2, in effect all provinces share in providing equalization payments according to their ability to pay.[18] The issue is whether all citizens of Canada should be entitled to the same level of social services, regardless of where they live?

- History shows that in practice the equalization program has been much less than an affair of principle.

This is not surprising since it deals with the murky issue of fairness between regions in a very large country. However, it also underlines that special conditions have and will continue to call for special solutions.

- We therefore think that the provincial equalization formula and its parameters are not good guides for what should be done in the NWT.

- It may be bureaucratically convenient to compare the cap in the provincial equalization formula to the proposed cap in the draft GNWT Devolution AIP but they are completely different in concept and will have completely different outcomes.

The present day inclusion of 50% of resource revenues in the provincial equalization formula is a matter of balance between the provinces – some having far more resource potential than others. As we have

[16] This Sensitivity case is shown in Schedule 1.1.3.
[17] In development economics, this is called “the infant industry” argument.
[18] The case of Ontario, as both a recipient of equalization payments and the largest indirect contributor, appears fairer than the case of Alberta, which receives no equalization but is the second largest indirect contributor.

outlined in discussing the history of equalization, resource revenues have been treated in many different ways. Sometimes they have been excluded altogether and sometimes included 100%, or the resource rich provinces have been excluded – having a similar effect. Or, other changes have been made in response to the circumstances.

- As mentioned previously, the central reason why the equalization program presently only includes 50% of resource revenues rather than 100% is simply that the total amount of equalization payments would increase from 14.4 billion to 22.4 billion.

That would be unacceptably large for the federal government and likely for provinces, anyway for the non-recipient provinces. We may ask; would inclusion of 60% be more fair, or 75%? The 50% benchmark is arbitrary and simply a practical solution, now being used by the program. The history of the program suggest that 50% will be a temporary arrangement.

- Referring back to our introduction, devolution is essentially a matter of vertical fiscal balance between the federal government and the GNWT (and Aboriginal governments in NWT such as the GTC), rather than an issue of horizontal balance between provinces, or between territories.

With respect to Territorial Formula Financing (TFF), the first conclusion of the O'Brien report was that "The situation in canada's territories is vastly different from the challenes faced by the provinces…" and the second conclusion was that "Although the three territories share common aspirations and dreams for the north, there are substantial differences among the three territories that call into question the efectiveness of one-size-fits-all solutions" and the fifth conclusion was "There is great potential for economic development from natural resources in the territories; however there are significant financial and social costs involved. Additional investment is needed to address these costs and achieve the territories' fiscal, economic and social potential" and finally the report says that the foregoing points "underscore the reason why TFF is distinctly different from the Equalization program in approach, in objectives, and in design."

- We can only underline these conclusions. Even in the context of devolution the O'Brien report recommended that resource revenues should be fully excluded from Territorial Formula Financing.[19] That means, of course, that after devolution, none of NWT resource revenues should be clawed back by the federal government – neither directly nor indirectly, nor through a cap.[20]

TERRITORIAL FORMULA FINANCING

INTRODUCTION

Territorial Formula Financing (TFF) has not been around as long as provincial equalization but its objectives are similar. The TFF is intended to allow the GNWT and the other Territories to provide reasonably comparable levels of service to their residents at reasonably comparable levels of taxation.

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[19] Recommendation # 6, page 4 of the Executive Summary of the O'Brien report.

[20] The draft GNWT Devolution AIP, Chapter 12, calls for 50% of resource revenues to be offset against the formula financing annual grant, and that the Net Fiscal Benefit from resource revenues should be capped at 5% of the GNWT Gross Expenditure Base (GEB).

The role of government in the NWT economy is much more significant than it is for the average of the provinces. GNWT spends an annual total of about $31,000 per capita, as shown in table 1.1.3. This is much higher than the provincial average which is around $10,000 per capita.[21] Thus the role of the TFF is much more important to GNWT than equalization is to any of the provincial governments. At the same time, GNWT's own source revenues per capita (GNWT fiscal capacity per capita) exceed $7,000 which is slightly greater than the average for the provinces, which is in the vicinity of $6,000. [22] This seeming paradox is because the GNWT expenditure needs are so much greater on a per capita basis than those of the provincial governments. And, the absolute level of needs are much greater than GNWT's fiscal capacity. Consequently, an alternative approach from the provincial equalization program is required for the territories. As we have mentioned previously, the TFF deals with the vertical fiscal balance between the federal government and GNWT rather than horizontal fiscal balance across the provinces.

In its 2006 Report, the Expert Panel on Equalization and TFF described the objectives of TFF this way:[23]

> *"The TFF formula was designed to fill the gap between expenditure needs (how much money a territory needs to cover the costs of providing reasonably comparable public services to its citizens) and revenue capacity (how much money a territory can potentially raise from a combination of taxes, fees, and some other federal transfers)."*

HISTORY

Prior to 1985-86, staff of the GNWT (and Yukon) had to go to Ottawa each year, cap in hand, to negotiate with INAC bureaucrats on a line by line basis how much money the GNWT would get the following year to fund administration, programs and government services for NWT residents. These negotiations were subject to federal Treasury Board guidelines for federal department budgeting and to arbitrary decisions by INAC staff. This was not an approach that supported responsible government in the NWT, particularly as NWT elected politicians had no role in this process.

In 1985-86 the first Territorial Formula Financing Agreement was entered into between the federal government as represented by the INAC Minister and the GNWT Minister of Finance. The NWT Legislative Assembly also passed the Financial Agreement Act to provide the authority to the Minister of Finance to bind the GNWT to this Agreement. Pursuant to the new TFF, the level of federal funding support to the GNWT was for the first time determined by a formula and the GNWT was free to spend this amount anyway it saw fit.

The original 1985-86 TFF was fairly simple. A Gross Exenditure Base (GEB), the measure of the GNWT's expenditure need, was determined. To establish the initial GEB, the GNWT's 1982-83 total funding was used as a proxy for expenditure need. A comprehensive review of actual expenditure needs was never performed although some adjustments to the 1982-83 revenues were negotiated. Then, the definition of Eligible Own Source Revenues (OSR) was negotiated and calculated (the measure of the GNWT's own fiscal capacity).

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[21] National Income and Expenditure Accounts, and GNWT Financial Statements
[22] See Schedule 1.1.2
[23] O'Brien Report, Executive Summary concerning TFF

The difference between the GEB and Eligble OSR became the amount of the Grant.

GEB – Eligible OSR = Grant [24]

Each year after 1985-86 the GEB was escalated by a formula so that it kept pace with inflation and other factors impacting provincial and local government spending. The escalation formula was based on the year over year growth in provincial and local government spending in Canada (on a 3 year moving average basis). This escalation was termed the Provincial Local Escalator (PLE). By matching growth in provincial and local government spending across Canada, the adequacy of the GEB to meet GNWT expenditure needs was supposed to be maintained.

In the years following 1985-86 many changes were made to TFF arrangements, most motivated by the federal government's emphasis on reducing its costs and its exposure to the growth of TFF Grant entitlements. Some of the more significant changes were:

- In 1988, a GDP cap (3 year moving average) was instituted to limit the annual PLE to the growth of national GDP. The federal government argued that its ability to pay was tied to growth in the national economy and it could not afford to increase the GEB at the rate provincial and local government spending was increasing. This meant that the growth in the annual grant would be constrained below the growth of provincial government spending. [25]

- In 1990 a population growth rate adjustment was added to take into account any difference in the population growth rate of the NWT compared to Canada overall (again a 3 year moving average was used to smooth out yearly fluctuations). This adjustment was made to the annual escalator and the PLE became the Population Adjusted Gross Expenditure (PAGE) escalator. If NWT population grew at a faster rate than Canada as a whole this was positive for the GNWT. However, if NWT population growth rates were less than the national average this was negative for the GNWT (more on this later).

- Also in 1990 the Tax Effort Adjustment Factor (TEAF) was introduced by the federal government to provide an incentive to the GNWT to tax at a level comparable to the provinces. Eligible Revenues were then calculated based on how much the GNWT could generate from its tax base at national average tax rates (a version of Equalization's Representative Tax System). If the GNWT did not tax at RTS rates then its total revenue would be lowered as the Grant would be adjusted down.

- In 1995 the Economic Development Incentive (EDI) was introduced that excluded 20% of the GNWT's Eligible OSR from the Grant determination. The GEB was reduced by an equivalent amount so the initial introduction of the EDI would be revenue neutral. The EDI worked to the GNWT's favour when tax revenues were growing but worked to its disadvantage when they declined.

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[24] Not all OSR was included in the calculation of the Grant. Some OSR were excluded (Ineligible Revenues) from the calculation of the Grant and served to increase the amount of revenues available to the GNWT.

[25] This policy appears quite contradictory to any objective of northern development.

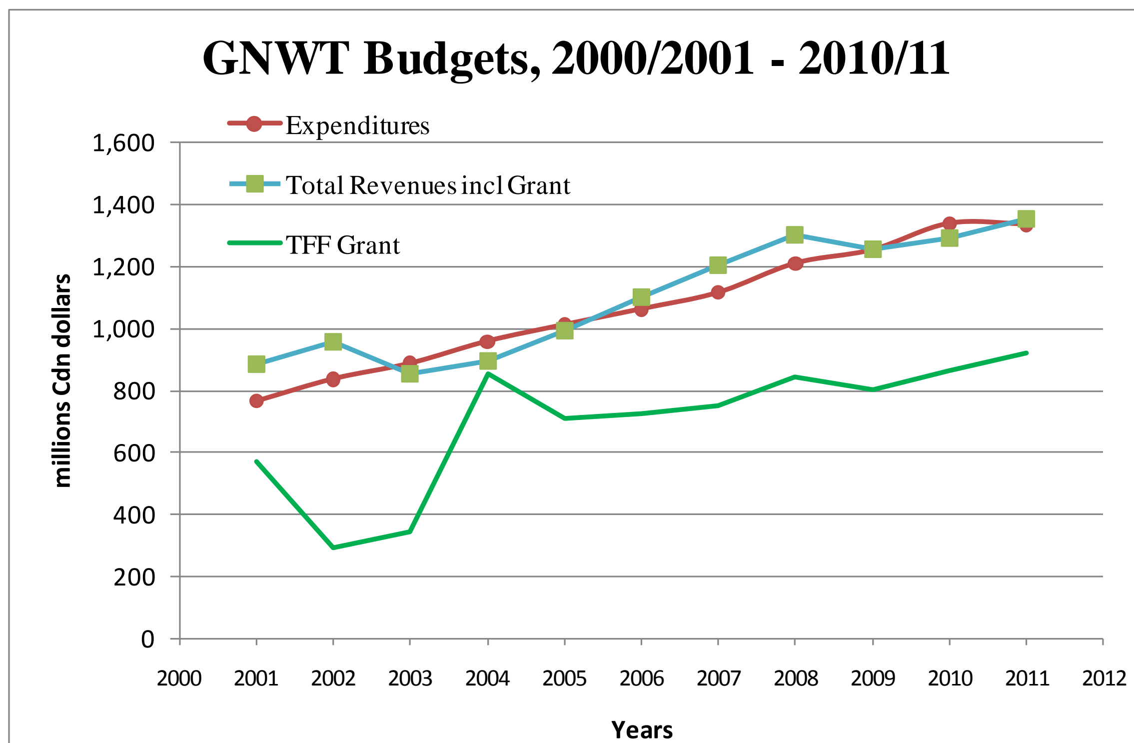
- In 1995-96 the TFF Grant was frozen at 1994-95 levels and then the 1996-97 GEB was reduced by 5%. These were arbitrary federal actions related to federal restraint and creation of the Canada Health and Social Transfer (CHST) that further eroded any growth in GNWT's ability to spend in comparison to the provinces.

- In 2004-05 the previous TFF was replaced by new federal legislation (*Federal-Provincial Fiscal Arrangements Act*). Under the new arrangements a fixed pool of funding was established for the three territories ($1.9 billion for 2004-05, $2 billion for 2005-06, and $2.07 billion for 2006-07). After 2006-07 the pool was to grow by a fixed 3.5% per year. Each Territory's share of the pool was based on its respective share of TFF funding in the previous 3 years.

In 2005/06 the federal government established the Expert Panel on Equalization and Territorial Formula Financing (TFF). In May 2006 the Expert Panel submitted its recommendations.[26] In 2007-08 most of the Panel's recommendations respecting TFF were implemented and these new TFF arrangements are in place today.

The trend of GNWT expenditures, Own revenues and the TFF Grant are shown in Chart 1.1.1.

Chart 1.1.1



Source: Schedule 1.4.1 in Section 1.4

[26] The O'Brien report

PRESENT TFF ARRANGEMENTS for NWT

Pursuant to the recommendations of the O'Brien report, the funding for each territory is now determined separately, although the formula is standardized and is established through a federal regulation. As was the case before 2004-05, these formulas are designed to fill the gap between expenditure need and own-source fiscal capacity. The basic structure of the formula is now:

Previous Year GEB X PAGE = Current year GEB – 70% of OSR = Grant

The overall picture at present is shown in Table 1.1.3

Table 1.1.3

GNWT Budget, Own Revenues and Grant, 2010-2011 ($millions)			
	Budget	**TFF**	**Per Capita** $
GEB		1,163	26,598
GNWT Own Revenues (OSR)	347		7,936
70% of GNWT Own Revenues		243	
Grant	920	920	21,043
Other Transfers to GNWT	90		2,058
Total GNWT Budget	1,357		31,037
NWT Population	43,725		
Source: GNWT Financial Statements, 2010			

Highlights of the formula are:

- the GDP cap on the PAGE has been eliminated.
- the PAGE is still a three year moving average but is now lagged by 2 years so the formula responds very slowly to changes in population and provincial/local expenditures
- OSR is determined using a simplified Representative Tax System (RTS) approach which eliminated the previous complex Tax Effort Adjustment Factor while achieving the same ends. However, OSR is calculated for the 7 primary tax sources (Personal Income Tax, Business Income Revenues, Tobacco Taxes, Fuel Taxes, Deisel Fuel Taxes, Sale of Alcoholic Beverages, and Payroll Taxes)) for each year based on a three year moving average lagged 2 years for each tax source. This makes the formula slow to respond to changing GNWT revenue trends

- The balance of OSR is comprised of the Revenue Block, which is a measure of how much the GNWT could raise from all other sources of revenue excluding the seven primary tax sources identified above. This Revenue Block is escalated at a fixed rate of 2% per year.

- The 20% EDI is replaced by the exclusion of 30% of the territories' measured revenue capacity from the calculation of the Grant. This increases the risks and rewards the GNWT faces from swings in its own-source revenues

CONCLUSIONS

The current TFF arrangements were not negotiated but were introduced by the federal government, albeit after extensive consultation and following the recommendations of the O'Brien report. From this it could be concluded that the TFF arrangements should serve the NWT fairly well. But several features of TFF could cause problems, especially in the context of possible devolution.

Notable concerns are:

- The original 1985-86 GEB was not based on any comprehensive review of GNWT expenditure need. Rather it was assumed that GNWT total funding in 1982-83 (escalated for inflation) was an acceptable proxy for expenditure need, even though these revenues were primarily made up of a negotiated federal funding level that had been constrained by federal budgetary restraint for many years prior to 1982-83. Given the territories' socio-economic conditions then and now, it is questionable whether the TFF provides adequate resources for the territories.

- The insensitivity of the GEB and the PAGE to unique regional expenditure pressures from things like major resource developments (e.g. the diamond mines, MGP).

- The failure of the GEB and PAGE to recognize the underdeveloped economic and social infrastructure in the NWT (e.g. highways, communications, housing, etc.) as compared to the rest of Canada.

- The impact of differential population growth rates between the NWT and Canada. Given the mobility of much of the NWT workforce, there is significant out-migration when the NWT economy slumps. Yet this does not translate into lower GNWT expenditure needs for a number of reasons.

- Our modeling indicates that under certain conditions, the difference between the population growth rate in NWT and that of Canada could significantly constrain prospective TFF Grant revenues. [27]

Finally, we must point out again that the concepts and calculations for the TFF have never been the same as those for the provincial equalization program, further underlining that the parameters used for equalization, such as the 50% inclusion of resource revenues, should not be relied upon in any devolution AIP. Those parameters are not relevant for the situation in NWT.

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[27] See Schedule 1.1.1 and our Low Case forecast in subsequent Sections where the TFF grant is forecast to be constrained by as much as $2 billion over the period to 2030 because of the PAGE escalator reflecting slow population growth in NWT relative to Canada. Negative population growth in NWT is doubly damaging.

SCHEDULE 1.1.1

Sensitivity Tests of the PAGE Escalator

Sensitivity Analysis of GEB, to Variations in NWT Population Growth				
Population Growth Rates		**GDP Growth Rate**	**GEB Growth Rate**	**Loss (-) or Gain (+) in GEB as a result of PAGE**
NWT	**Canada**	**Canada**	**NWT**	(2011-2029)
% per yr	% per yr	% per yr	% per yr	$000
0.50%	1.00%	4.50%	3.98%	-1,895,286
1.00%	1.00%	4.50%	4.50%	-32,959
1.01%	1.00%	4.50%	4.51%	0
1.50%	1.00%	4.50%	5.02%	1,949,561
2.00%	1.00%	4.50%	5.53%	4,060,296
0.00%	1.00%	4.50%	3.47%	-3,644,945
-0.10%	1.00%	4.50%	3.36%	-3,981,986
-0.50%	1.00%	4.50%	2.95%	-5,288,996
-1.00%	1.00%	4.50%	2.43%	-6,834,057
-1.50%	1.00%	4.50%	1.91%	-8,286,334

Notes: Canada GDP assumed to increase at 4.5% per yr in nominal terms, with 2% inflation. Canada population assumed to increase at 1% per yr. The overall dollar loss or gain in the cumulative GEB, as a result of having the PAGE escalator, is calculated over the 19 year period from 2011 to 2029. The PAGE escalator maintains the growth in GEB per capita in NWT equal to the growth of Canada's GDP per capita.

SCHEDULE 1.1.2

Federal-Provincial Equalization Model, Base Case

Equalization Calculations					BASE CASE for 2010							Weighted Averages or Sums		
Provinces (revenues per capita)		1	2	3	4	5	6	7	8	9	10			
		AB	BC	SK	MB	ON	QC	NB	NS	PEI	NL			
Non-resource Fiscal Revenues (per RTS formula)		**8,050**	**5,920**	**6,000**	**4,550**	**6,246**	**5,145**	**4,220**	**5,050**	**4,010**	**5,920**	Avge	5,983	
100% of actual Resource Revenues		**4,010**	**1,000**	**750**	**600**	**20**	**206**	**13**	**204**	**0**	**1,030**	Avge	694	
Total Revenues available		12,060	6,920	6,750	5,150	6,266	5,351	4,233	5,254	4,010	6,950	Avge	6,677	
Percent incl. of Resource Revenues	**50%**	2,005	500	375	300	10	103	7	102	0	515	Avge	347	
Revenues Included in equalization		10,055	6,420	6,375	4,850	6,256	5,248	4,227	5,152	4,010	6,435	Avge	6,330	
Equalization calculation before Cap														
to bring "Have-Nots" up to average		0	0	0	1,480	74	1,082	2,103	1,178	2,320	0			
First Step Results														
NRR+100% RR+Equalization before Cap		12,060	6,920	6,750	6,630	6,340	6,433	6,336	6,432	6,330	6,950	Avge	7,099	
Cap on resource rich Have-Not provinces = 1	1	0	0	0	0	0	0	0	0	0	0			
Equalization after applying the Cap		0	0	0	1,480	74	1,082	2,103	1,178	2,320	0	per capita	423	Fed pays to Provinces
Second Step Results														
NRR+100% RR+Equalization after Cap		12,060	6,920	6,750	6,630	6,340	6,433	6,336	6,432	6,330	6,950	Avge	7,099	
Indirect Payments to Fed, mainly PIT and CIT														
assumed to share according to Provincial														
Non-resource revenues as source of Fed Transfer		-569	-418	-424	-322	-441	-364	-298	-357	-283	-418	per capita	-423	People pay to Fed
Third Step, Final revenues per capita		11,491	6,502	6,326	6,308	5,898	6,069	6,038	6,075	6,046	6,532	Avge	6,677	equal to revenues available
Final Effective Transfers, per capita		-569	-418	-424	1,158	-368	718	1,805	821	2,036	-418	per capita	0	
TOTALS														
Populations (000) per Stat Can for Q3 2010		**3,721**	**4,531**	**1,046**	**1,235**	**13,211**	**7,907**	**752**	**943**	**142**	**510**	Sum	33,997	000 people
Total Equalization Payments ($000)		0	0	0	1,827,881	971,940	8,552,398	1,580,995	1,109,869	329,996	0	Sum	14,373,080	000$ total Eq payments
Total Effective Transfers ($000)		-2,116,758	-1,895,544	-443,351	1,430,649	-4,859,135	5,677,387	1,356,808	773,514	289,681	-213,251	Sum	0	from one pocket to another

SCHEDULE 1.1.3

Federal-Provincial Equalization Model, Sensitivity Case with 100% Resource Revenues

Equalization Calculations					SENSITIVITY CASE WITH 100% RESOURCE REVENUES INCLUDED						Weighted Averages or Sums		
Provinces (revenues per capita)	1	2	3	4	5	6	7	8	9	10			
	AB	BC	SK	MB	ON	QC	NB	NS	PEI	NL			
Non-resource Fiscal Revenues (per RTS formula)	**8,050**	**5,920**	**6,000**	**4,550**	**6,246**	**5,145**	**4,220**	**5,050**	**4,010**	**5,920**	Avge	5,983	
100% of actual Resource Revenues	**4,010**	**1,000**	**750**	**600**	**20**	**206**	**13**	**204**	**0**	**1,030**	Avge	694	
Total Revenues available	12,060	6,920	6,750	5,150	6,266	5,351	4,233	5,254	4,010	6,950	Avge	6,677	
Percent incl. of Resource Revenues **100%**	4,010	1,000	750	600	20	206	13	204	0	1,030	Avge	694	
Revenues Included in equalization	12,060	6,920	6,750	5,150	6,266	5,351	4,233	5,254	4,010	6,950	Avge	6,677	
Equalization calculation before Cap													
to bring "Have-Nots" up to average	0	0	0	1,527	411	1,326	2,444	1,423	2,667	0			
First Step Results													
NRR+100% RR+Equalization before Cap	12,060	6,920	6,750	6,677	6,677	6,677	6,677	6,677	6,677	6,950	Avge	7,305	
Cap on resource rich Have-Not provinces = 1 **1**	0	0	0	0	0	0	0	0	0	0			
Equalization after applying the Cap	0	0	0	1,527	411	1,326	2,444	1,423	2,667	0	per capita	628	Fed pays to Provinces
Second Step Results													
NRR+100% RR+Equalization after Cap	12,060	6,920	6,750	6,677	6,677	6,677	6,677	6,677	6,677	6,950	Avge	7,305	
Indirect Payments to Fed, mainly PIT and CIT													
assumed to share according to Provincial													
Non-resource revenues as source of Fed Transfer	-845	-621	-630	-478	-656	-540	-443	-530	-421	-621	per capita	-628	People pay to Fed
Third Step, Final revenues per capita	11,215	6,299	6,120	6,199	6,021	6,137	6,234	6,147	6,256	6,329	Avge	6,677	equal to revenues available
Final Effective Transfers, per capita	-845	-621	-630	1,049	-245	786	2,001	893	2,246	-621	per capita	0	
TOTALS													
Populations (000) per Stat Can for Q3 2010	**3,721**	**4,531**	**1,046**	**1,235**	**13,211**	**7,907**	**752**	**943**	**142**	**510**	Sum	33,997	000 people
Total Equalization Payments ($000)	0	0	0	1,886,010	5,424,621	10,482,209	1,837,007	1,340,832	379,370	0	Sum	21,350,049	000$ total Eq payments
Total Effective Transfers ($000)	-3,144,272	-2,815,677	-658,562	1,295,953	-3,236,969	6,211,611	1,503,995	841,204	319,485	-316,767	Sum	0	from one pocket to another

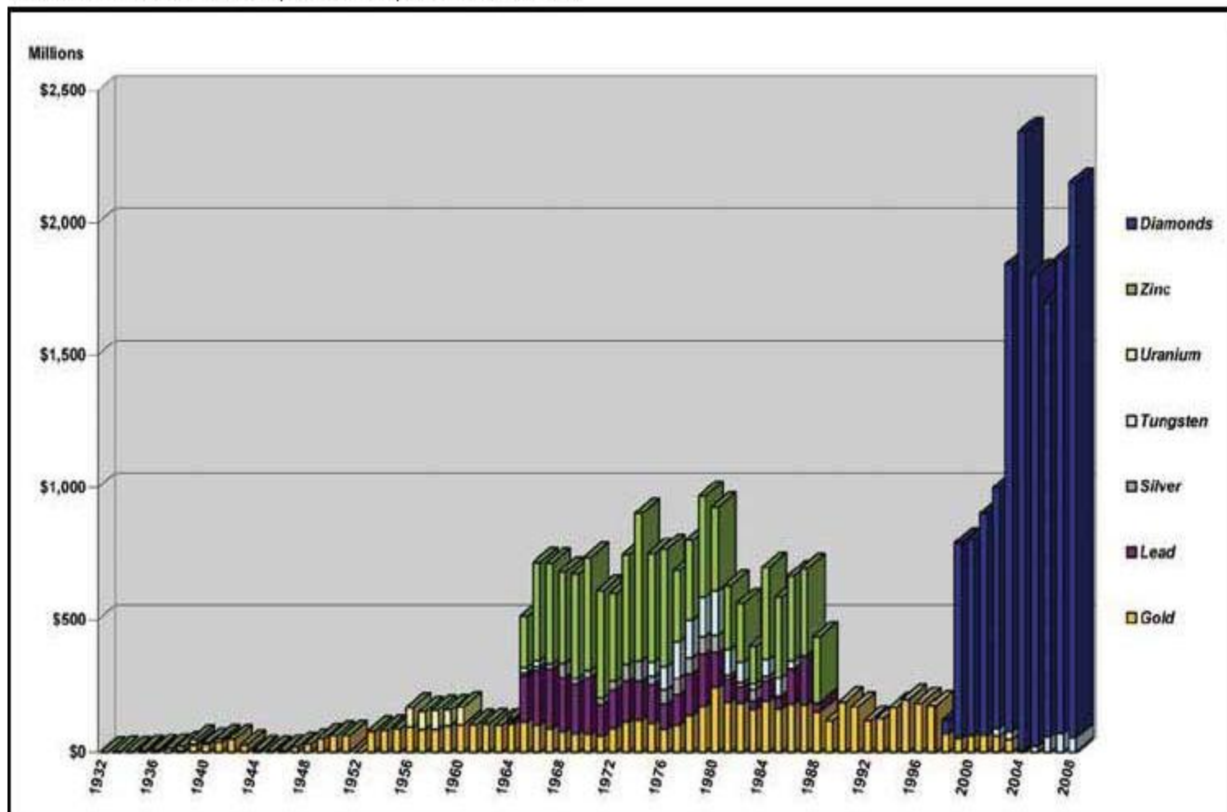
	AB	BC	SK	MB	ON	QC	NB	NS	PEI	NL		All	
Base Equalization per capita	0.00	0.00	0.00	1,479.57	73.57	1,081.57	2,103.07	1,177.57	2,319.57	0.00	avge	422.77	Fed pays to Provinces
New Equalization per capita	0.00	0.00	0.00	1,526.62	410.62	1,325.62	2,443.62	1,422.62	2,666.62	0.00	avge	627.99	
Change in Equalization per capita	0.00	0.00	0.00	47.05	337.05	244.05	340.55	245.05	347.05	0.00	avge	205.22	
Base Indirect Payments to Fed per capita	-568.88	-418.35	-424.01	-321.54	-441.39	-363.59	-298.22	-356.87	-283.38	-418.35	avge	-422.77	People pay to Fed
New Indirect Payments to Fed per capita	-845.02	-621.43	-629.83	-477.62	-655.65	-540.08	-442.98	-530.11	-420.94	-621.43	avge	-627.99	
Change in Indirect Payments to Fed per capita	-276.14	-203.08	-205.82	-156.08	-214.26	-176.49	-144.76	-173.23	-137.56	-203.08	avge	-205.22	
Change in Equalization + Indirect payments per cap	-276.14	-203.08	-205.82	-109.03	122.79	67.56	195.79	71.82	209.49	-203.08		0.00	
Base amount of Equalization ($000)	0	0	0	1,827,881	971,940	8,552,398	1,580,995	1,109,869	329,996	0	Sums	14,373,080	Fed pays to Provinces
New Equalization ($000)	0	0	0	1,886,010	5,424,621	10,482,209	1,837,007	1,340,832	379,370	0	Sums	21,350,049	
Change in amount of Equalization ($000)	0	0	0	58,129	4,452,682	1,929,811	256,012	230,963	49,374	0	Sums	6,976,969	
Base Indirect Payments to Fed ($000)	-2,116,758	-1,895,544	-443,351	-397,233	-5,831,075	-2,875,012	-224,187	-336,355	-40,315	-213,251	Sums	-14,373,080	People pay to Fed
New Indirect Payments to Fed ($000)	-3,144,272	-2,815,677	-658,562	-590,057	-8,661,591	-4,270,597	-333,012	-499,628	-59,885	-316,767	Sums	-21,350,049	
Change in Indirect Payments to Fed ($000)	-1,027,515	-920,133	-215,211	-192,824	-2,830,516	-1,395,586	-108,825	-163,273	-19,570	-103,516	Sums	-6,976,969	
Change in Equalization + Indirect payments ($000)	-1,027,515	-920,133	-215,211	-134,696	1,622,166	534,225	147,187	67,690	29,804	-103,516	Sums	0	

1.2 NWT RESOURCE REVENUES – HISTORY AND DEFINITIONS

INTRODUCTION

As an introduction it is useful to view the following chart showing the longer term history of mineral production in NWT. The value of produced diamonds since the Ekati mine opened in 1998 has shown an extraordinary increase in a short time. This upsurge has made a significant contribution to the resource revenues generated by activities in NWT during the past decade.

Chart 1.2.1



Source: Mining and Exploration, Northwest Territories, 2008 Overview, NWT & Nunavut Chamber of Mines, page 48

DIAMOND MINING

The first diamond production began in 1998 at Ekati mine and the total value of production In NWT became large in 2003, over $1.5 billion dollars.[28] Production at Ekati peaked in 2003 at close to 7 million carats. Then in 2004 Diavik became the largest producer. Total NWT production continued to increase

[28] Total value of production in NWT is estimated to have peaked in 2004, at about $2.3 billion.

until 2007 but has since leveled off. Diamond prices softened in recent years but are expected to firm up as the world economies emerge from the recession. Present production is believed to be around 13 million carats with a value of about $2 billion.

The newest mine is Snap Lake which began in 2007. In 2010, the three mines are operating and NWT's possible fourth mine, the Gahcho Kue, is in the initial stages of the regulatory process.

Table 1.2.1

NWT Diamond Mining, 1998 to 2008

Calendar Year	Ekati	Diavik	Snap Lake	NWT TOTAL Carats	NWT TOTAL Approx Value
	000 carats	000 carats	000 carats	000 carats	million $
1998	278			278	80
1999	2,496			2,496	740
2000	2,533			2,533	750
2001	3,691			3,691	850
2002	4,975			4,975	900
2003	6,964	3,833		10,797	1,750
2004	5,096	7,575		12,671	2,300
2005	4,031	8,270		12,301	1,700
2006	3,148	9,840		12,988	1,600
2007	4,581	11,910	81	16,572	1,750
2008	3,563	9,225	926	13,714	2,000
Totals	41,356	50,653	1,007	93,016	14,420

Note: values taken from graph on page 48 of Chamber of Mines report

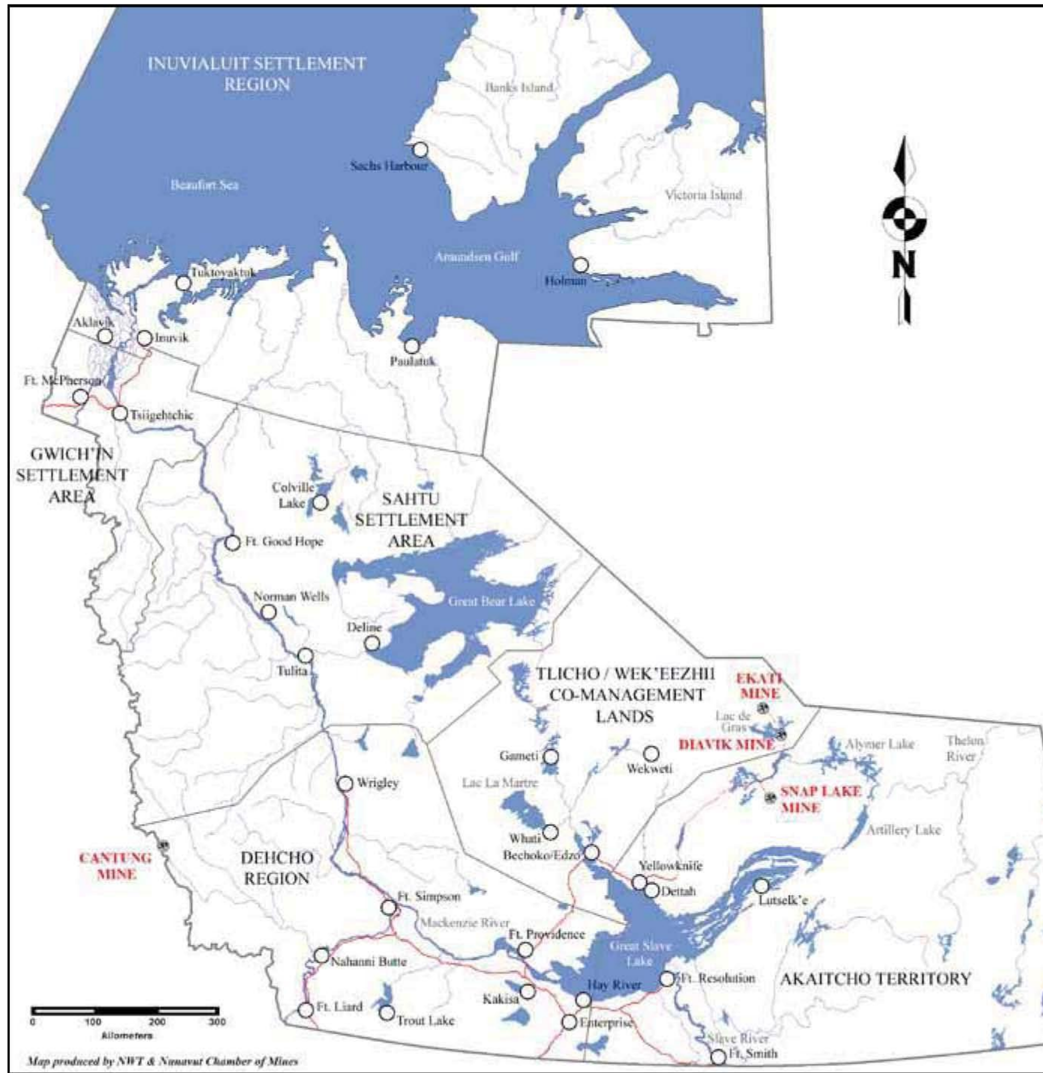
Sources: NWT & Nunavut Chamber of Mines, and Annual reports

Two features of diamond mining are particularly important: the quality of the output (gem quality or industrial quality) and the costs of production, determined much by the amount of material which must be moved to access the diamonds. The quality of diamonds at Diavik is reported to have been high and their in-situ reserves are estimated at 63 million carats. The mine began as an above ground open pit operation but it commenced underground mining in 2010. Ekati is both open pit and underground and Snap Lake is entirely underground. It must be assumed that generally costs in the industry are increasing. The expected lives of the Diavik and Snap Lake mines have been estimated at about 20 years or more and both mines should sustain production over the coming decade.

Exploration is continuing, both in and around the existing mine sites and in new areas, and overall it can be expected that production from the existing and possible new mines will continue at present levels for

at least another 10 years. However, after around 2020 production and consequent resource revenues must be expected to begin decreasing.

Map Showing Diamond Mines



Source: Mining and Exploration, Northwest Territories, 2008 Overview, NWT & Nunavut Chamber of Mines, page 4

OTHER MINING

While in the past there were several gold mines in operation in NWT such as Giant and Lupin, and zinc, lead and silver were important in the period 1965 to 1985, the only other mine now operating is the Cantung Tungsten mine which in 2008 had an output worth about $55 million. It is one of the largest Tungsten mines in the world. However, its economics are affected by grade control and other factors and it is unlikely to contribute in any significant way to the royalties or resource revenues of the NWT.

New discoveries and new mines are very likely to occur, especially with present high minerals prices such as for gold and copper, but we have not included any such speculative mines in our forecasts – not even in our High Case forecast, described below.

OIL AND NATURAL GAS

Recent and existing royalty revenues from oil and gas in NWT are approximately $20 million per year and much of this is from the 5% royalty (gross royalty) on production from the Norman Wells oil field. At the same time the federal government's so-called Crown Interest (1/3 interest) in the field yields about $100 million per year but it is deemed by the government to be a return on investment rather than a royalty or resource revenue, although the government never made any investment.[29] Included in the $20 million oil and gas royalties are modest amounts collected from the oil and gas production in the southern NWT.

In the past very substantial amounts of oil and gas resources have been discovered in the onshore NWT and essentially these are awaiting the Mackenzie Gas Project (MGP) to be developed and produced. And, while the MGP is a project to develop natural gas and NGLs, there are also significant crude oil discoveries in the Mackenzie Valley and in the onshore Delta, which likely will be connected if and when the MGP goes ahead. The development of those oil resources has not been included thus far as part of the MGP. In addition, there have been very large oil and gas discoveries in the offshore. Amauligak is the largest.

RESOURCE REVENUES

Economists' Definition of Resource Revenues

Any discussion of the definition of resource revenues must begin with the economists' concept of economic rent, but few definitions of economic rent are fully satisfactory because the concept is blurred by the uncertainties and dynamics of the real world. The starting point is David Ricardo's definition of "pure economic rent." Ricardo's pure resource rent refers to payments made to landlords for the use of the "original and indestructible powers of the soil." [30] The soil is regarded as both nonaugmentable and nondepletable. Therefore, payments for it as a factor of production are simply residuals, determined by the gross revenues from production less the costs of all the other factors. As a result, conceptually, the economic rent could be wholly captured by the landlord without affecting the production process. The economic rents collected by the landlord are called resource revenues.[31] It may be noted that Ricardo's definition of economic rents referred to the indestructible powers of the soil. Today we would refer to those as the resource revenues from renewable resources.

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[29] Annex A discusses the issues surrounding the Norman Wells Crown Interest.
[30] *Principles of Political Economy and Taxation*, by David Ricardo, 1817.
[31] See Page 39 of the book *Connections: An Energy Strategy for the Future*, published by the Economic Council of Canada, 1985 for a more complete discussion of economic rent and royalties.

Natural resources are often distinguished between renewable and non-renewable, but this distinction gets blurry in the real world. Many resources we consider renewable have in fact become extinct while non-renewable resources such as coal have been mined for centuries.[32]

It is a big step from Ricardo's starting point to issues arising in the real world. Non-renewable resources such as oil and natural gas fields become depleted, but exploration can increase the supply of fields. Discovered fields may not be connected to transportation networks, as in the Mackenzie Delta. Resource development takes place in stages such as: pre-drilling exploration, drilling exploration, delineation of reserves, development, production, and finally field abandonment.[33] Economists sometimes speak of "quasi-rents" as the economic rents attributable to each stage of the process.

Resource revenues are the revenues captured by government, as owner of the resource, at each stage. They may consists of royalties, rentals, certain fees such as stumpage fees in forestry (but not user fees), penalties and payments such as cash bonuses, and water rentals in hydro electric projects. We should underline that resource revenues may be realized through competitively bid cash bonus payments at the beginning of the exploration process, or at other stages.

The bonus payments are a useful component of a government's fiscal regime because they act like a shock absorber that will contract if production royalties are increased, down to the point where it will not appear worthwhile to bid. Alternatively, if production royalties are reduced, the size of the bonuses will increase – assuming always that other things remain equal. The value of Bonus payments reflects the present value of the expected future excess profitability available from an exploration or development program. [34]

We dwell briefly on the subject of bonuses because they are the payments made by industry for accessing the right to undertake exploration and subsequent development after a discovery, or simply for development where a discovery has already been made. The government, as owner of the resource Rights (mineral Rights), sells its Rights to the highest bidder. The winning bidder becomes the operator and he buys the right to produce and sell whatever production he can accomplish. At the same time he rents the surface lands necessary to undertake his project.

Corporate income taxes, assessed on a company engaged in a resource activity such as mining or oil and gas development, are not classified as resource revenues. Resource revenues are assessed at the level of a mine or an oil field rather than at the level of a corporation. This reflects the rationale for resource revenues: that they are designed to capture the "economic rents" directly attributable to a particularly profitable mine, an oil or gas field, a forestry operation, or hydro project, and so forth. It may also be noted that tax specialists refer to corporate income taxes as "direct taxes" whereas resource revenues such as royalties are "indirect taxes."

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[32] The O'Brien report made the same observation when considering if non-renewable resource revenues should be treated differently from renewable, for purposes of the provincial equalization program.
[33] Parallel stages exist for all resource developments; renewable (e.g. hydro projects) and other non-renewable resources.
[34] Bonus payments in Alberta and BC are a significant part of those provinces' resource revenues.

Resource Revenues in Equalization Program

As we have described In section 1.1 of this report, the definition of resource revenues in the provincial equalization program and in the Territorial Formula Financing includes all the categories we have described above, and it includes all renewable and non-renewable resource revenues.

Norman wells Oil Field

Attached to this report is Annex A, describing the origins of the 1/3 “Crown Interest” in the Norman Wells oil field. The federal government has insisted – anyway since the field became profitable after the Norman Wells pipeline was built – that revenue from its Crown Interest is not a resource revenue. Our analysis strongly suggests that the revenue from the Crown Interest should be classified as a resource revenue, fully consistent with the definitions we have outlined. The facts are that the Crown Interest was negotiated with Imperial Oil in lieu of other royalty and bonus arrangements, as a means of facilitating the development of the field under wartime conditions. The government never made any investments and the Crown Interest may be viewed as a form of net royalty, which is almost the same in structure as the net royalty in the provisions of the existing Canadian Petroleum Resources Act (CPRA). In 1999, the Sahtu challenged the government in this respect, referring to the definition of royalty in their Claim Agreement (same as Gwich’in), and won the case in federal court. An out-of-court settlement was made by the federal government in favor of the Sahtu and Gwich’in in 2002.

The same issue arises again in the context of devolution. In the past, the GNWT have debated with the federal government about the classification of the Norman Wells revenues, but without success. The draft devolution AIP states that the Norman Wells Proven Area would remain under federal legislation and regulation, and that the Crown Interest would not be considered as NWT resource revenue. [35]

Gwich’in Comprehensive Land Claim Agreement

The GCLCA defines a “royalty” as “any payment, whether in money or kind, in respect of production of a resource in, on or under the Mackenzie Valley, including the Norman Wells Proven Area, paid or payable to government as owner of the resource, but does not include any payment for a service, for the issuance of a right or interest or for the granting of an approval or authorization.” [36] We believe that this definition covers cash bonus payments, but it might be worth checking with legal advice.

Offshore Resource Revenues

The normal definition of resource revenue would apply equally to the offshore as to the onshore. In addition, it is our view that the existing royalty regulations, under the CPRA, are generally suitable for both the onshore and the offshore.

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[35] The Norman Wells oil field is the largest oil field operated in Canada by Imperial Oil and probably the most profitable, and the Crown Interest presently yields about $100 million dollars annually to the federal government, which is the largest single source of resource revenues in NWT.

[36] It should be noted that the royalties referenced in the Claim are those “in, on or under the Mackenzie Valley” which does not include the Inuvialuit Settlement Region in the Mackenzie Delta.

RESOURCE REVENUES IN NWT DURING PAST DECADE

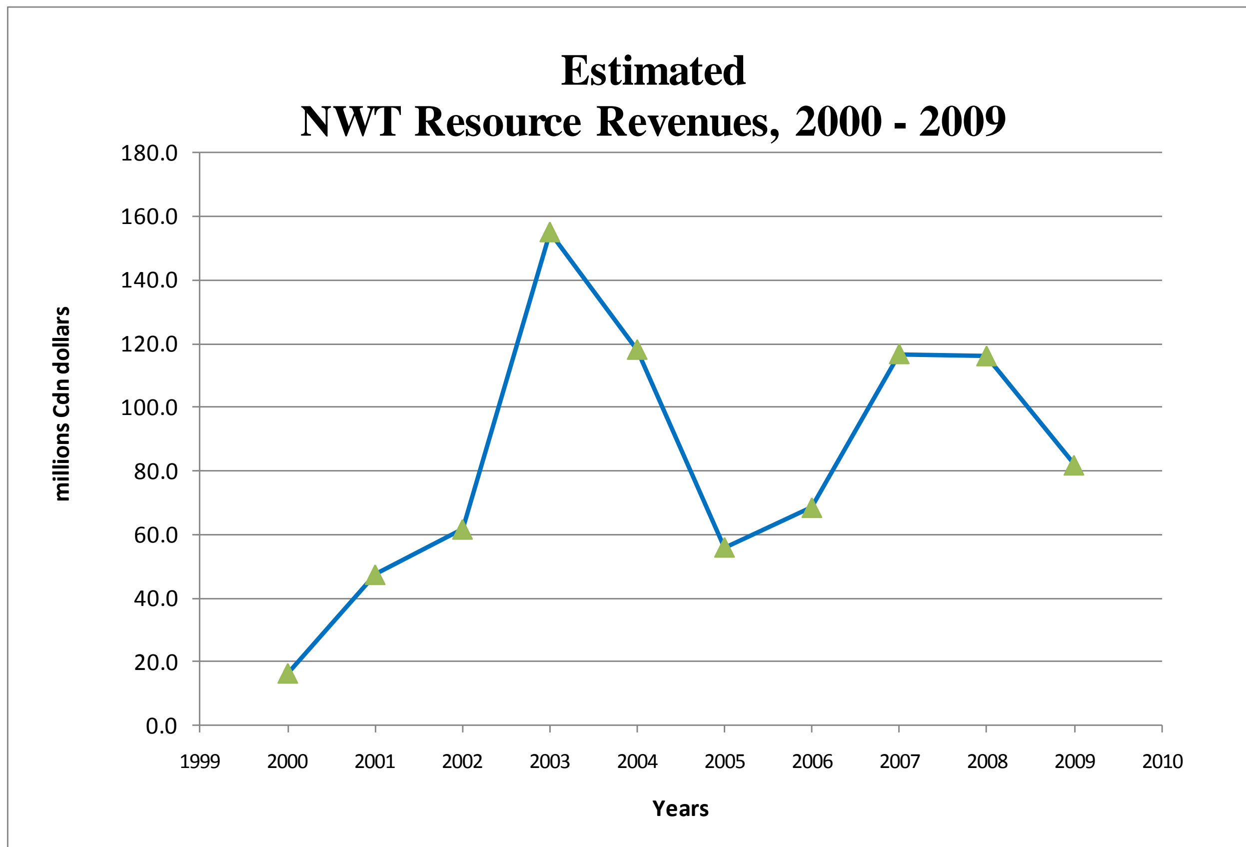
The published data on total resource revenues in NWT shows differences from one source to another. We have therefore based our estimates of total historical resource revenues in the NWT on the actual payments of royalty share received by the Gwich'in, consistent with the GCLCA. We have then checked our estimates against data in publications of INAC and federal Treasury Board and found them to be roughly consistent. The results are shown in Table 1.2.2.

Table 1.2.2

Estimated NWT Resource Revenues, 2000 to 2009	
Calendar Years	**Million $**
2000	16.4
2001	47.4
2002	61.6
2003	155.0
2004	118.1
2005	56.0
2006	68.4
2007	116.7
2008	116.0
2009	81.7
Notes: approximately 80% of the resource revenues in this period were from the diamond mines. About $20 million per year came from Oil and Gas operations. Quarrying and other rentals were about $4 million per year. The amount for 2009 is estimated since not all royalties have been recorded yet.	
Source: based on actual royalty payments to Gwich'in plus published statistics from federal Treasury Board and INAC	

The average of estimated NWT resource revenues over the past seven years, since the diamond mines have been in full production, has been $102 million per year. On this basis, it appears reasonable to estimate a level of NWT resource revenues for the starting year of our forecasts, in 2011, as $100 million.

Chart 1.2.2



1.3 NWT RESOURCE REVENUES - FORECASTS

THREE ALTERNATIVE FORECASTS OF RESOURCE REVENUES IN NWT

As briefly reviewed previously the recent level of resource revenues in NWT is approximately $100 million per year.[37] We have used that as a starting point in forecasting scenarios or Cases of possible future resource revenues. We have specified three Cases: Low Case, Middle Case and High Case, as summarized in the tables below.[38]

LOW CASE

In the Low Case we assume that the Mackenzie Valley Gas Project does not go ahead, anyway in the time frame we are considering to 2040. No additional oil or natural gas is produced. Diamond

[37] We note that on the basis of Statements by Minister Miltenberger about the lost Net Fiscal Benefit over the past five years the average annual NWT resource revenue would be equal to $83.4 million. However, from our statistics it appears that a base of $100 million for 2011 is reasonable, particularly given the recessionary conditions in 2008/2009.

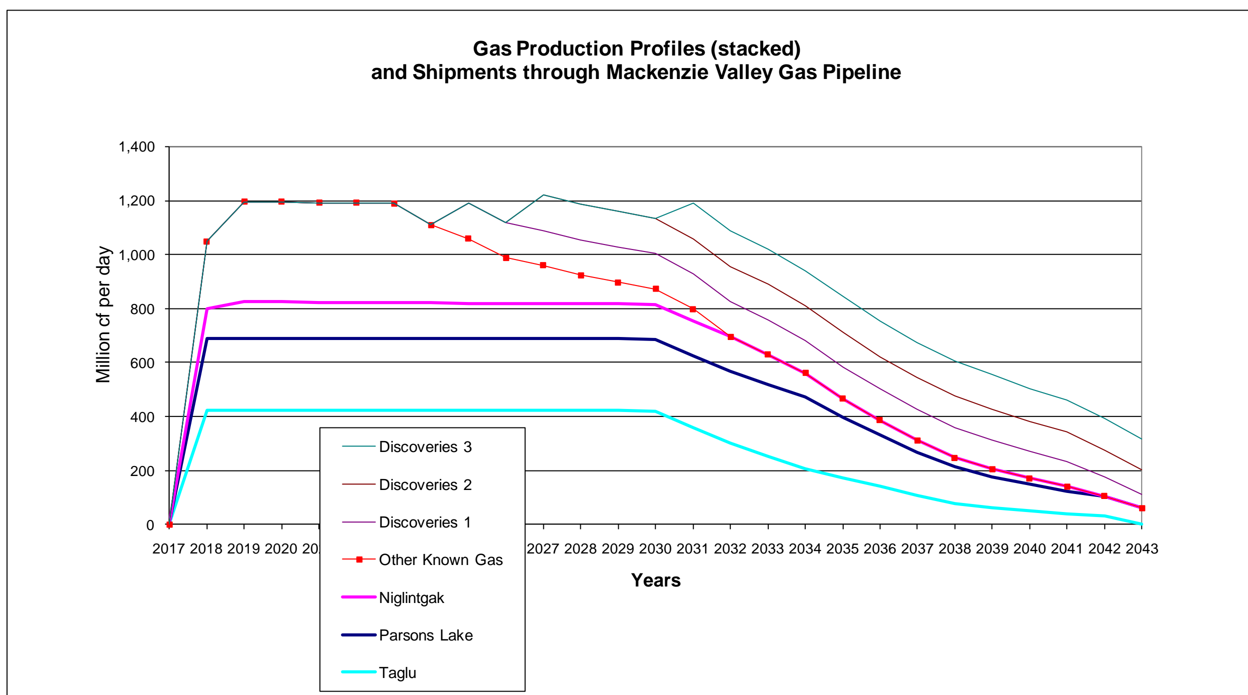
[38] The detailed annual forecasts are shown in Tables 1.3.1, 1.3.2 and 1.3.3

production is assumed to continue at around present levels until 2020 after which it begins to decline by 5% per year. The NWT population grows at 0.5% (1/2 of a percent) per year and the GNWT budget is constrained by the arrangements which are presently in place.

MIDDLE CASE

In both our Middle Case and our High Case we have assumed that the MGP goes ahead, with gas production levels as specified in the Wright Mansell report (WMR) for the report's middle level production cases.[39] However we have assumed the first year of production is 2018 rather than 2015 as in the WMR. The gas production profile is as follows. [40]

Chart 1.3.1 MGP Gas Production, Middle and High Cases



Source: Wright Mansell report, 2007

The natural gas prices used by the WMR ranged from US$6/Mcf to US$8/Mcf, based on the price at Chicago. The WMR focuses attention on gas prices of either US$6/Mcf or US$8/Mcf, but the report also discusses a case with US$7/Mcf. We have chosen to use the US$7/Mcf case as our Middle Case, for forecasting resource revenues from the MGP.

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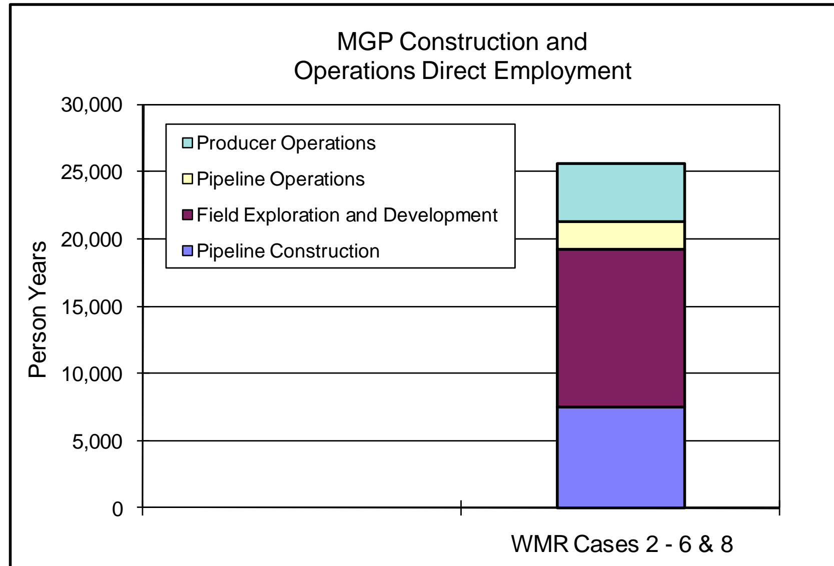
[39] In the terminology of the WMR, these cases are Cases 2-X, such as Case 2-6, Case 2-7, and Case 2-8, all with the same production levels of a maximum of 1.2 Bcf/day for 14 years and then decline, but with varying price assumptions. Our Middle Case is the same as Case 2-7, which is discussed on page 52 of the WMR.

[40] Adapted as to startup year but total production otherwise the same as in the Wright Mansell report, page 31. All the details of such MGP cases and their impacts on the economies of the NWT and Canada are contained in the published WMR, available from the GNWT website.

The MGP has been estimated to induce substantial employment and it is useful to understand that the largest part of it will be from employment in exploration and development of the gas fields. The direct employment in pipeline construction is the second largest component and will be concentrated over four or five years – we assume from 2012 to 2018 – and pipeline operations will be the smallest.

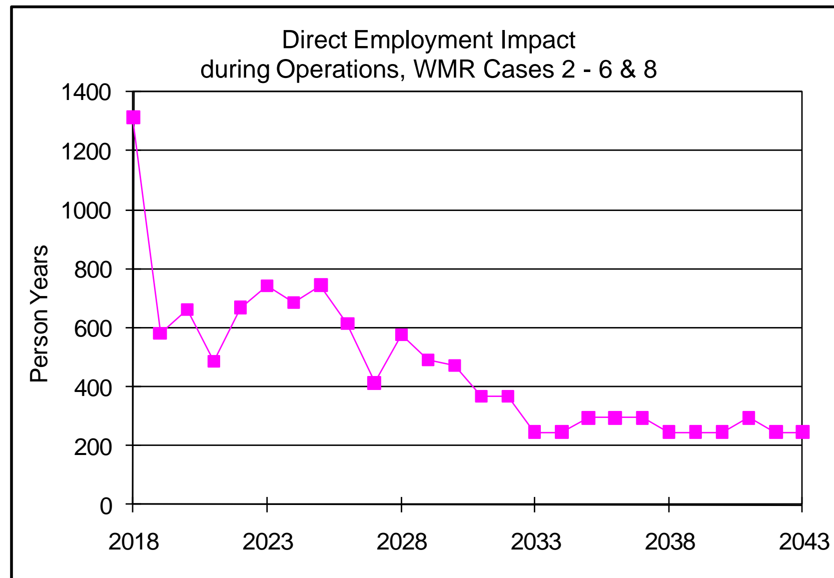
Chart 1.3.2 MGP Direct Employment in Investment and Operations Phases



Source: Wright Mansell report, 2007, Table 2.13 edited.

The ongoing direct employment in the operations phase, was estimated in the WMR as follows:

Chart 1.3.3 MGP Direct Employment in Operations Phase



Source: Wright Mansell report, 2007, Table 2.15, adjusted to 2018 startup date.

During the first decade of operations the average person years per year is about 600 and later it declines to about 300 person years, giving an overall average of about 400 person years per year of direct employment over the whole forecast period. Much of this employment would likely be in the NWT, particularly because much of it involves exploration and gas field development & operations.

Diamond production is assumed to proceed at the same level as in the Low Case. The GNWT budget is still constrained by aspects of the TFF but expenditures are assumed to respond to the infrastructure demands of the MGP.[41] The promised federal funding of $500 million in assistance for social and other infrastructure related to the MGP is assumed to be received and utilized.[42]

We conclude that in this Case, the growth in NWT population would be at least 1% per year averaged over the whole forecast period.[43]

HIGH CASE

We have based the resource revenues from the MGP on the WMR Case 2-8. Again, as in the Middle Case, we have assumed that initial production is in 2018. Diamond production is assumed as in the Low and Middle Cases but because of the higher gas prices we assume that activity in the oil and gas sector is stronger than in the Middle Case, especially in exploration and gas field development, and as a result the NWT population is assumed to grow at the rate of 1.5% per year on average over the period.

CONCLUSIONS

It should be noted that we have assumed that offshore oil and gas discoveries and the known onshore crude oil resources will not be developed in the 30 year time frame, even in the High Case.

Although we believe that the resource revenues from the Norman Wells Crown Interest should be included in these basic forecasts, we have not included them – per the GNWT Devolution AIP.

The three forecasts of NWT resource revenues are shown in Chart 1.3.4 and the tables on the following pages; a Low Case, a Middle Case and a High Case. The boost in resource revenues from the MGP and its contingent exploration and development is evident in the Middle and High Cases.

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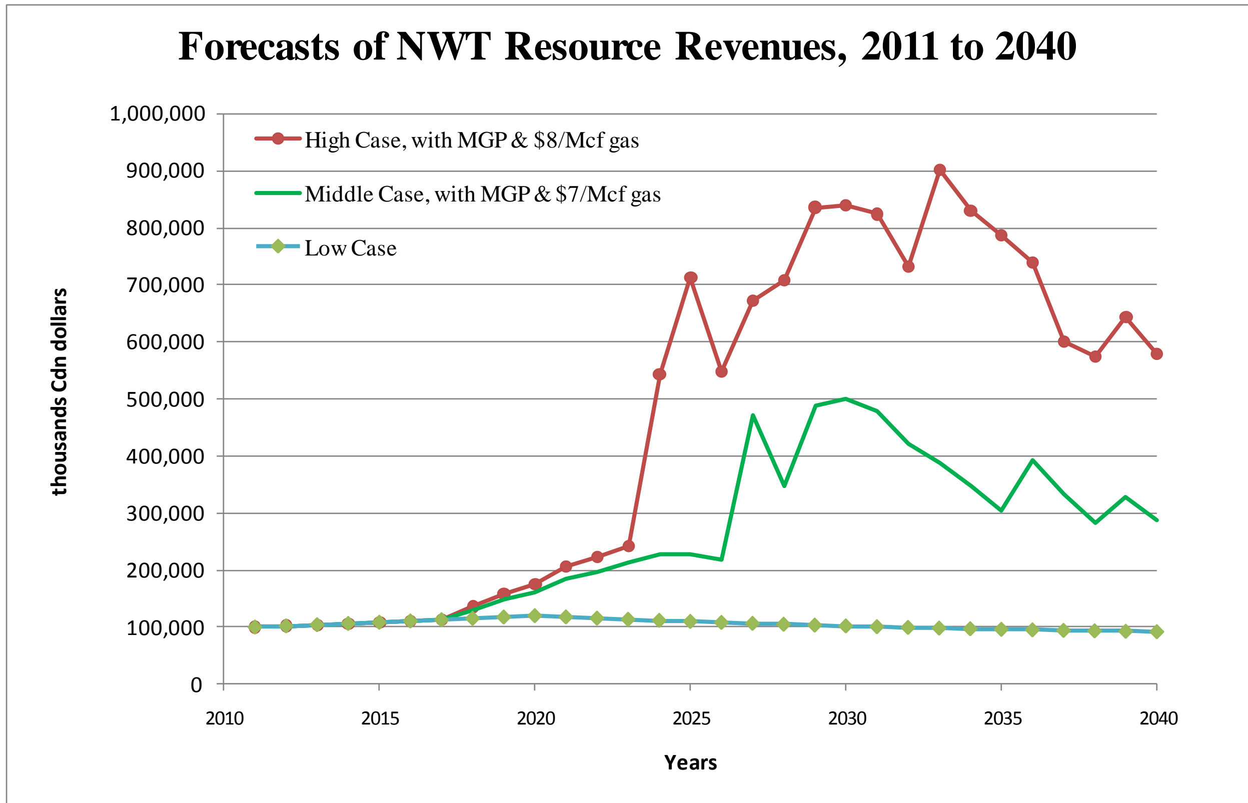
[41] See Section 1.4, dealing with forecasts of the GNWT budget expenditure needs.

[42] The Mackenzie Gas Project Impact Fund (MGPIF) will provide $500 million over ten years to Aboriginal groups in NWT to ease social, cultural and economic impacts of the MGP.

[43] The WMR discusses NWT population growth on page 80. Their Cases 2-x assumes a basis of 1% per year growth which at the time was the official forecast of the NWT Statistics Bureau. However in the WMR higher cases, such as their Cases 3-x and Cases 4-x, it was assumed that NWT population growth would increase to 2% per year.

Chart 1.3.4



NWT Resource Revenue Forecasts, 2011 to 2040.

Table 1.3.1 LOW CASE (without MGP)

	Forecast of NWT Resource Revenues - Low Case without MGP				
	Diamond & Mining	**Other Oil & Gas**	**Other**	**MGP**	**TOTAL**
	Royalties	Royalties	Resource	Royalties	**Resource**
	post 2020 decl rate	and rents	Revenues		**Revenues**
	5.00%		(incl renewables)	No MGP	**in NWT**
	$000	**$000**	**$000**	**$000**	**$000**
				Inflation of	2.00%
				Nominal Cdn dollars	
2011	76,000	20,000	4,000	0	100,000
2012	77,520	20,400	4,080	0	102,000
2013	79,070	20,808	4,162	0	104,040
2014	80,652	21,224	4,245	0	106,121
2015	82,265	21,649	4,330	0	108,243
2016	83,910	22,082	4,416	0	110,408
2017	85,588	22,523	4,505	0	112,616
2018	87,300	22,974	4,595	0	114,869
2019	89,046	23,433	4,687	0	117,166
2020	90,827	23,902	4,780	0	119,509
2021	88,102	24,380	4,876	0	117,358
2022	85,459	24,867	4,973	0	115,300
2023	82,895	25,365	5,073	0	113,333
2024	80,409	25,872	5,174	0	111,455
2025	77,996	26,390	5,278	0	109,664
2026	75,656	26,917	5,383	0	107,957
2027	73,387	27,456	5,491	0	106,334
2028	71,185	28,005	5,601	0	104,791
2029	69,050	28,565	5,713	0	103,327
2030	66,978	29,136	5,827	0	101,942
2031	64,969	29,719	5,944	0	100,631
2032	63,020	30,313	6,063	0	99,396
2033	61,129	30,920	6,184	0	98,233
2034	59,295	31,538	6,308	0	97,141
2035	57,516	32,169	6,434	0	96,119
2036	55,791	32,812	6,562	0	95,165
2037	54,117	33,468	6,694	0	94,279
2038	52,494	34,138	6,828	0	93,459
2039	50,919	34,820	6,964	0	92,703
2040	49,391	35,517	7,103	0	92,012
Sums	2,171,937	811,362	162,272	0	3,145,570

Table 1.3.2 MIDDLE CASE

	Forecast of NWT Resource Revenues - Middle Case				
	Diamond & Mining Royalties post 2020 decl rate 5.00%	**Other Oil & Gas** Royalties and rents	**Other** Resource Revenues (incl renewables)	**MGP** Royalties Wright Mansell Case 2-7 delayed	**TOTAL Resource Revenues in NWT**
	$000	**$000**	**$000**	**$000**	**$000**
				Inflation of	2.00%
				Nominal Cdn dollars	
2011	76,000	20,000	4,000	0	100,000
2012	77,520	20,400	4,080	0	102,000
2013	79,070	20,808	4,162	0	104,040
2014	80,652	21,224	4,245	0	106,121
2015	82,265	21,649	4,330	0	108,243
2016	83,910	22,082	4,416	0	110,408
2017	85,588	22,523	4,505	0	112,616
2018	87,300	22,974	4,595	14,899	129,767
2019	89,046	23,433	4,687	30,460	147,626
2020	90,827	23,902	4,780	42,045	161,554
2021	88,102	24,380	4,876	67,017	184,375
2022	85,459	24,867	4,973	82,250	197,550
2023	82,895	25,365	5,073	98,929	212,263
2024	80,409	25,872	5,174	115,835	227,290
2025	77,996	26,390	5,278	116,779	226,442
2026	75,656	26,917	5,383	110,669	218,627
2027	73,387	27,456	5,491	366,225	472,558
2028	71,185	28,005	5,601	242,798	347,589
2029	69,050	28,565	5,713	383,646	486,974
2030	66,978	29,136	5,827	397,396	499,338
2031	64,969	29,719	5,944	376,869	477,500
2032	63,020	30,313	6,063	321,694	421,090
2033	61,129	30,920	6,184	288,703	386,936
2034	59,295	31,538	6,308	251,049	348,190
2035	57,516	32,169	6,434	207,193	303,312
2036	55,791	32,812	6,562	298,028	393,194
2037	54,117	33,468	6,694	239,109	333,388
2038	52,494	34,138	6,828	189,678	283,137
2039	50,919	34,820	6,964	234,413	327,117
2040	49,391	35,517	7,103	196,076	288,088
Sums	2,171,937	811,362	162,272	4,671,763	7,817,333

Table 1.3.3 HIGH CASE

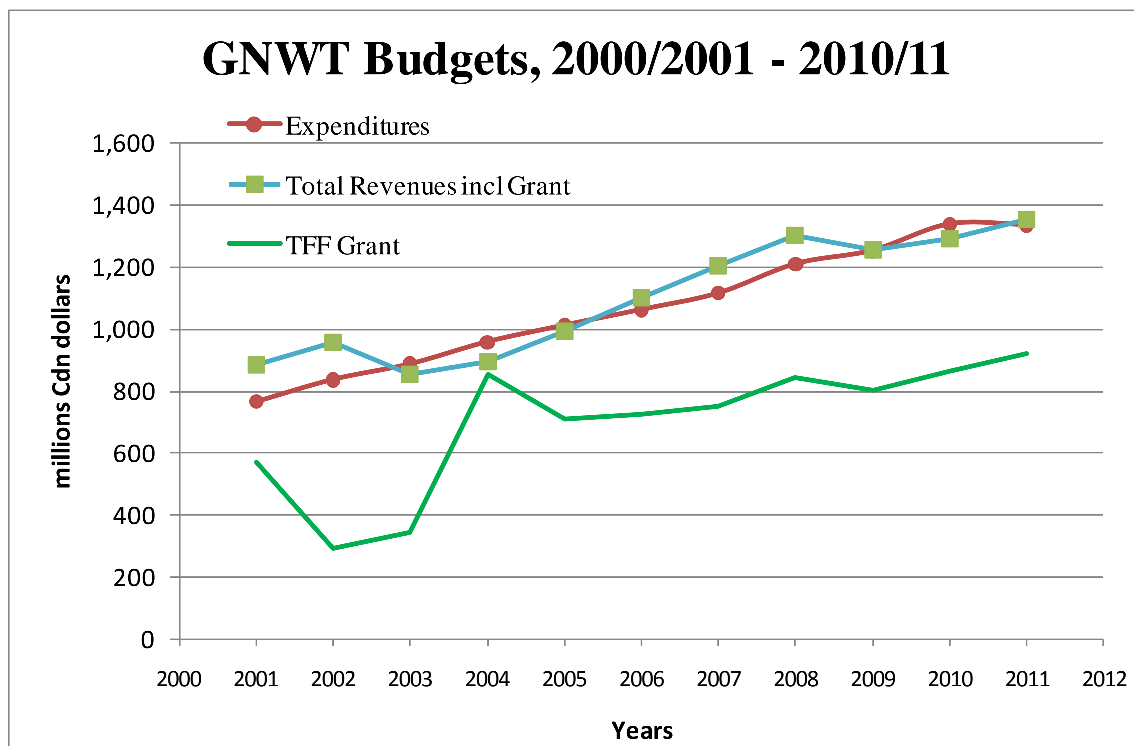
	Forecast of NWT Resource Revenues - High Case				
	Diamond & Mining Royalties post 2020 decl rate 5.00%	**Other Oil & Gas** Royalties and rents	**Other** Resource Revenues (incl renewables)	**MGP** Royalties Wright Mansell Case 2-8 delayed	**TOTAL Resource Revenues in NWT**
	$000	**$000**	**$000**	**$000**	**$000**
				Inflation of Nominal Cdn dollars	2.00%
2011	76,000	20,000	4,000	0	100,000
2012	77,520	20,400	4,080	0	102,000
2013	79,070	20,808	4,162	0	104,040
2014	80,652	21,224	4,245	0	106,121
2015	82,265	21,649	4,330	0	108,243
2016	83,910	22,082	4,416	0	110,408
2017	85,588	22,523	4,505	0	112,616
2018	87,300	22,974	4,595	20,764	135,633
2019	89,046	23,433	4,687	40,628	157,794
2020	90,827	23,902	4,780	55,846	175,355
2021	88,102	24,380	4,876	88,081	205,439
2022	85,459	24,867	4,973	107,249	222,549
2023	82,895	25,365	5,073	128,125	241,458
2024	80,409	25,872	5,174	432,207	543,662
2025	77,996	26,390	5,278	602,912	712,576
2026	75,656	26,917	5,383	440,401	548,358
2027	73,387	27,456	5,491	566,180	672,513
2028	71,185	28,005	5,601	603,037	707,828
2029	69,050	28,565	5,713	732,227	835,554
2030	66,978	29,136	5,827	736,963	838,904
2031	64,969	29,719	5,944	723,550	824,182
2032	63,020	30,313	6,063	632,665	732,060
2033	61,129	30,920	6,184	802,583	900,815
2034	59,295	31,538	6,308	733,320	830,461
2035	57,516	32,169	6,434	691,037	787,156
2036	55,791	32,812	6,562	643,364	738,530
2037	54,117	33,468	6,694	505,889	600,168
2038	52,494	34,138	6,828	481,048	574,507
2039	50,919	34,820	6,964	550,413	643,116
2040	49,391	35,517	7,103	486,802	578,813
Sums	2,171,937	811,362	162,272	10,805,290	13,950,860

1.4 GNWT BUDGET – HISTORY AND FORECASTS

HISTORY

As shown in Chart 1.4.1, the historical trend of GNWT "operations expenditures" over the past decade has followed closely the trend of available revenues (including the Grant). But, it must be pointed out that fairly significant dollar amounts of capital investments are included within these expenditure numbers. A total of approximately $1.3 billion has been invested in capital projects over the eleven year period, financed almost totally by either small surpluses (total revenues less expenditures) or from non-cash allocations in the expenditure accounts (i.e. through depreciation or similar accounting entries). The actual debt of the territory has increased over the period by 141 million.[42] In accounting terms, the so-called "operations expenditures" cover all the costs of operations including depreciation or amortization of capital assets. In economists' terms they include both variable cash operating costs and non-cash allocations such as for depreciation of capital investments.

Chart 1.4.1



Source: Schedule 1.4.1

There is nothing wrong with this but it does seem that the GNWT budget accounts could do a better job in presenting clearly their financial situation. On the revenue side, almost all the revenues are cash receipts.

[42] See Schedule 1.4.1 for more details.

It can be seen from the Chart that since 2006 the growth rate of expenditures has been slightly higher than revenues. Capital investments have increased in this period relative to the earlier five year period, as a result of the "Stimulus" capital program introduced by GNWT, in parallel with the Canada's Economic Action Plan, in response to the 2008/2009 recession. The GNWT program tended to curtail normal operating expenses while increasing capital investments. Generally, GNWT has also followed a policy of fiscal restraint in recent years.

The foregoing features of the budget are not surprising in view of the huge role played by the federal government in financing GNWT. The principal source of GNWT own-financing is a combination of personal income taxes, corporate income taxes and payroll taxes, which however only account for 13.7% of total revenues. The Grant and other transfer payments account for close to 80% of revenues. The federal government keeps the territory on a tight leash and in addition it limits the net debt of GNWT to $500 million.

PRESENT GNWT REVENUES & EXPENDITURES

An overview of the 2010/2011 budget is a shown in Table 1.4.1

Table 1.4.1

GNWT Budget, 2010-2011		
	$million	**Per Capita**
		$
Revenues		
Own Revenues (OSR)	347	7,936
Grant	920	21,043
Other Transfers to GNWT	90	2,058
Total	1,357	31,037
Operations Expenses	1,293	29,573
Misc Adjustments	44	1,006
Operating Surplus	20	457
NWT Population	43,725	
Source: GNWT Financial Statements, 2010		

The small operating surplus plus plans to undertake capital spending of $178 million, and other cash inflows and outflows, are expected to cause a cash deficiency of $89 million by the end of the 2010-2011 fiscal year. Presumably this will slightly increase the outstanding debt.

A quick review of GNWT Budget Speeches and Budget documents over the past five years shows that GNWT is following a tight fisted expenditure policy. Looking to the future, the GNWT 2010-11 Fiscal Review states that:

> *"Starting in 2011-12, expenditure growth, net of compensation increases, will be capped at 3 per cent, or about $32 million, for new spending each year for both forced growth and new investments. Reductions may be identified through program reviews and could allow adjustments to these targets."*

Other things equal, we must expect the future growth of GNWT expenditures to be restricted below the average growth rates of the past decade, which were in the order of 5.7%.[43]

FORECASTS

Forecast Cases

In the following Sections of this report we will be evaluating the proposals contained in the GNWT Devolution AIP, and other arrangements such as the possible sharing formulas between the Aboriginal groups and GNWT, and also between Aboriginal groups. The objective of this Section is to set the stage in terms of the financial condition of the GNWT, *prior to Devolution*, under the three scenarios we have identified in Section 1.3. We ask, for example, whether there is likely to be a GNWT revenue gap or whether funds may become available for a Contingency Fund, or possibly a Heritage Fund.

The financial condition of the GNWT will be the backdrop against which the Devolution proposals should be evaluated and against which the Aboriginal groups will have to judge their prospects for sharing.

In Section 1.3 we outlined three forecasts of NWT resource revenues.[44] In the Base Case we assume that the NWT population grows at the relatively slow rate of ½% per year and that the MGP does not go ahead.

In our Middle Case forecast we assume the MGP goes ahead with a startup date of 2018, based on the scenario described in the Wright Mansell report (WMR) as Case 2-7. Natural gas prices are assumed to be US$7/Mcf in Chicago.[45] Employment in NWT would get a substantial jolt, especially in the four to five year construction phase, prior to 2018. There would also be an ongoing employment impact particularly through exploration and development of the gas fields, required for sustaining the pipeline. In this case we have assessed that NWT population would grow at least at 1% per year over the 30 year period from 2011 to 2040.

Our High Case, based on the WMR Case 2–8, assumes higher natural gas prices but the same volume of production. As a result of the higher natural gas prices, the resource revenues (and income and other taxes) derived from the project would be substantially higher than the Middle Case. [46] The GDP of the

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[43] See Schedule 1.4.1
[44] See Tables 1.3.1, 1.3.2 and 1.3.3
[45] All the details of the MGP development cases can be reviewed in the Wright Mansell report, except that we have assumed a delay of the pipeline startup from 2015 in the report to 2018. Case 2-7 is discussed on page 80 of the WMR. It differs from Case 2-6 and Case 2-8, which are described in detail throughout the report, only in so far as the price of gas is concerned.
[46] Exploration would likely be accelerated, above the Middle Case, but that is not assumed in the WMR.

NWT would also be higher than in the Middle Case. Therefore we assume in the High Case that NWT population will grow at the rate of 1.5% per year.

The other assumptions underlying our forecasts are set out in a later paragraph dealing with the results. But, before describing the detailed inputs and outcomes of our three forecast Cases, we briefly review some issues which are at stake.

Expenditure needs

As discussed previously, the GNWT has been in a protracted state of expenditure restraint. This has limited its ability to address NWT socio-economic conditions. And as we have reviewed in Section 1.1, the benefits of principled formula financing have often been overridden by unilateral federal government actions to limit their costs. The post 2007 TFF has certainly been an improvement but there remains a real and significant issue concerning the base level of the GEB.[47]

- The shortcomings of the TFF should be of concern to the Aboriginal groups who are contemplating devolution of government responsibilities to them or sharing with GNWT.

Impact of resource development – without devolution

In its submission to the Joint Review Panel (JRP), the GNWT estimated its incremental forced expenditure growth associated with the MGP would be approximately $365 million over 10 years. [48] At the present time, there is no source of financing for those requirements.

The JRP addressed this concern in its Chapter 16.

> *"The GNWT information, along with participants' comments, indicates that the NWT's health, social service and policing institutions are understaffed and overburdened. Without advance preparation, the Project would overwhelm these services."*

The JRP continued to say that:

> *In the Panel's view, existing health, social and policing services in the region are already over-extended in relation to current needs, and are at further risk during the construction phase from*

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[47] Issues can be summarized as follows

1. the TFF assumes the 2005-06 TFF funding levels closely approximate expenditure need when this has never been established;
2. the use of the PAGE will likely constrain TFF funding growth below provincial and local government spending growth in the rest of Canada over the next 20 years if NWT population growth does not keep up with national population growth;
3. the TFF provides no resources for proactive economic and infrastructure investment to stimulate development of the NWT economy and reduce cost of living;
4. the TFF does not respond to regional socio-economic impacts of resource development on government programs and services.

[48] JRP report, Chapter 15

indirect Project impacts, notwithstanding the provisions of the SEA and the policies and commitments of the Proponent to minimize those impacts."

To address the limitations of the TFF, the JRP concluded that a new resource revenue sharing agreement would be needed between Canada and the GNWT:

"The GNWT would carry the chief burden of costs in dealing with the Project, other than the MGPIF. However, the GNWT would receive little Project revenue directly and, to the extent that its revenues are increased, much of this increase would be offset by the TFF. Under any scenario, a revenue sharing agreement between Canada and the GNWT is needed to increase the revenues flowing directly to NWT governments." [49]

Budget Forecasts – Without Devolution - Results

The key features of the resulting GNWT budget revenues and expenditures, for each case are shown in Table 1.4.2.

Table 1.4.2

Cumulative Results of Alternative Forecasts of GNWT Budget , 2011 to 2040			
WITHOUT DEVOLUTION			
$ millions			
	CASES		
	LOW	**MIDDLE**	**HIGH**
BUDGET ITEMS			
Own Revenues	15,615	19,800	22,225
TFF	56,897	60,380	65,801
Total Revenues	75,432	83,342	91,455
Expenditures	75,432	82,775	90,503
Potential Surplus	0	567	952
surplus as % Expenditures	0.0%	0.7%	1.1%
KEY ASSUMPTIONS			
Annual Inflation	2.00%	2.00%	2.00%
NWT Pop Growth	0.50%	1.00%	1.50%
Canada Pop Growth	1.00%	1.00%	1.00%
Canada GDP Growth	4.50%	4.50%	4.50%
MGP goes ahead	no	yes	yes
NOTES			
Potential Surplus might be placed in a Contingency Fund			
Source: Estimated for report			

[49] JRP, Panel Recommendation 15-11

The details of the Cases can be seen in Schedules 1.4.2, 1.4.3 and 1.4.4. In the Low Case, expenditures match revenues over the longer term, which is consistent with present GNWT policy. Small annual surpluses are offset by small deficits, and no substantial debt is incurred by the Territory.

In the Middle and High Cases, the revenues going to GNWT, in the form of personal and corporate income taxes, associated with the Mackenzie Gas Project, boost the budget accounts and indeed are assumed to significantly boost the economy. In the Middle Case we assume that the NWT population begins to grow again, at the average rate of 1% per year and in the High Case at 1.5% per year. [50]

Additional expenditures associated with the MGP have been estimated at $365 million, as previously stated by the GNWT. We have spread those costs over the period 2013 to 2022.

CONCLUSIONS

It must be emphasized that the improvement in the GNWT budget balance in the Middle and High Cases stems from just the increases in GNWT income taxes, and not from resource revenues. The possible surpluses of some $½ billion to about $1 billion, over the 30 year period, would be an improvement but they are only about 1% of the total expenditures over the period. Many people would say they are a drop in the bucket in comparison with expenditure needs in NWT.

The shortcomings of TFF and the pressure exerted by the federal government to keep a lid on GNWT Grant revenues, sometimes by unilateral actions, should be a concern to Aboriginal groups who are contemplating the devolution of government responsibilities, or sharing of responsibilities with GNWT.

[50] The total direct impact on GNWT income taxes of the MGP is derived from the WMR, Appendix Table A.3

SCHEDULE 1.4.1

GNWT Budgets, 2000/2001 to 2010/2011 (millions Cdn Dollars)

	2000/ 2001 Actuals	2001/ 2002 Actuals	2002/ 2003 Actuals	2003/ 2004 Actuals	2004/ 2005 Actuals	2005/ 2006 Actuals	2006/ 2007 Actuals	2007/ 2008 Actuals	2008/ 2009 Actuals	2009/ 2010 *Revised Estimates	2010/ 2011 Budget	Ten Yr AAGrowth 2000/01 to 2010/11	Five Yr AAGrowth 2005/06 to 2010/11
GNWT Revenues	**884**	**957**	**854**	**894**	**996**	**1,101**	**1,204**	**1,306**	**1,256**	**1,292**	**1,357**	**4.4%**	**4.3%**
GNWT Own Revenues & Other	313	667	507	40	285	374	450	463	451	428	437	3.4%	3.1%
TFF Grant	571	290	346	854	711	728	753	843	805	864	920	4.9%	4.8%
Grant as % GNWT Total Revenues	65%	30%	41%	96%	71%	66%	63%	65%	64%	67%	68%		
GNWT Expenditures (incl deprec.)	**765**	**837**	**888**	**959**	**1,013**	**1,063**	**1,116**	**1,211**	**1,254**	**1,340**	**1,337**	**5.7%**	**4.7%**
**Social Programs	460	501	548	606	629	637	691	740	762	779	773	5.3%	3.9%
Other GNWT Programs	306	336	340	353	384	426	426	471	492	561	564	6.3%	5.8%
GNWT Capital Investments	**45**	**98**	**107**	**84**	**74**	**92**	**91**	**100**	**132**	**310**	**178**	**14.7%**	**14.2%**
GNWT Total Debt	**138**	**133**	**142**	**139**	**143**	**148**	**156**	**167**	**183**	**211**	**279**		

* Revised Estimates used as Public Accounts not available

** Social Programs calculated as all of Health & Social Services, Justice, and Education Culture & Employment, plus the contribution to the NWT Housing Corporation, but amounts designated for the NWT Housing Corp in 2010/11 budget are estimated at $40 million.

Note: GNWT debt is limited to $500 million by the Federal government.

Source - GNWT Budget Speeches and Attachments, and Public Accounts - figures may not fully reflect all accounting restatements.

SCHEDULE 1.4.2

NOTE: WITHOUT DEVOLUTION

GNWT BUDGET FORECAST - 2010 to 2040 - LOW CASE (assumes 2% inflation)

	REVENUES									EXPENDITURES					
Calendar Year	GEB	GEB: New Rev from Dev A base Tr	GNWT Own Revenues: Basic	GNWT Own Revenues: New from MGP (taxes etc)	GNWT Own Revenues: New from Dev Res Rev NFB	Fraction of OSR for TFF Calculation 70.00%	**TFF**	GNWT Other Transfers	**GNWT Total Budget Revenues**	Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other	**GNWT Total Expenditures**	**GNWT Surplus/ Deficit**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	347,000	0	0	242,900	920,505	90,000	1,357,505	1,293,000	44,000	0	0	1,337,000	20,505
2011	1,212,886	0	355,675	0	0	248,973	963,913	90,450	1,410,038	1,342,279	45,676	0	0	1,387,955	22,083
2012	1,261,191	0	364,567	0	0	255,197	1,005,994	90,902	1,461,463	1,393,436	47,416	0	0	1,440,851	20,612
2013	1,311,420	0	373,681	0	0	261,577	1,049,843	91,357	1,514,881	1,446,542	49,222	0	0	1,495,764	19,117
2014	1,363,649	0	383,023	0	0	268,116	1,095,533	91,814	1,570,370	1,501,673	51,097	0	0	1,552,770	17,600
2015	1,417,959	0	392,599	0	0	274,819	1,143,140	92,273	1,628,011	1,558,905	53,043	0	0	1,611,948	16,064
2016	1,474,432	0	402,414	0	0	281,690	1,192,742	92,734	1,687,890	1,618,318	55,063	0	0	1,673,381	14,509
2017	1,533,154	0	412,474	0	0	288,732	1,244,422	93,198	1,750,093	1,679,995	57,160	0	0	1,737,156	12,938
2018	1,594,214	0	422,786	0	0	295,950	1,298,264	93,664	1,814,714	1,744,023	59,338	0	0	1,803,361	11,353
2019	1,657,706	0	433,355	0	0	303,349	1,354,358	94,132	1,881,845	1,810,492	61,598	0	0	1,872,089	9,756
2020	1,723,728	0	444,189	0	0	310,933	1,412,795	94,603	1,951,587	1,879,493	63,944	0	0	1,943,437	8,150
2021	1,792,378	0	455,294	0	0	318,706	1,473,672	95,076	2,024,042	1,951,124	66,380	0	0	2,017,504	6,538
2022	1,863,763	0	466,676	0	0	326,673	1,537,089	95,551	2,099,316	2,025,486	68,908	0	0	2,094,394	4,923
2023	1,937,990	0	478,343	0	0	334,840	1,603,150	96,029	2,177,522	2,102,681	71,533	0	0	2,174,214	3,308
2024	2,015,174	0	490,302	0	0	343,211	1,671,963	96,509	2,258,773	2,182,818	74,257	0	0	2,257,076	1,698
2025	2,095,432	0	502,559	0	0	351,792	1,743,640	96,991	2,343,191	2,266,010	77,086	0	0	2,343,096	95
2026	2,178,886	0	515,123	0	0	360,586	1,818,299	97,476	2,430,899	2,352,372	80,022	0	0	2,432,394	-1,495
2027	2,265,664	0	528,002	0	0	369,601	1,896,063	97,964	2,522,028	2,442,026	83,070	0	0	2,525,096	-3,068
2028	2,355,898	0	541,202	0	0	378,841	1,977,057	98,454	2,616,712	2,535,096	86,234	0	0	2,621,330	-4,618
2029	2,449,725	0	554,732	0	0	388,312	2,061,413	98,946	2,715,091	2,631,714	89,518	0	0	2,721,233	-6,142
2030	2,547,290	0	568,600	0	0	398,020	2,149,270	99,441	2,817,311	2,732,014	92,928	0	0	2,824,942	-7,632
2031	2,648,740	0	582,815	0	0	407,970	2,240,770	99,938	2,923,523	2,836,137	96,468	0	0	2,932,604	-9,082
2039	3,620,155	0	710,103	0	0	497,072	3,123,083	104,006	3,937,192	3,825,436	130,095	0	0	3,955,530	-18,338
2040	3,764,334	0	727,856	0	0	509,499	3,254,835	104,526	4,087,217	3,971,231	135,050	0	0	4,106,281	-19,064
Sums to 2011 to 2040		0	15,615,094	0	0	10,930,566	56,897,491	2,919,727	75,432,313	72,950,832	2,481,481	0	0	75,432,313	0
Note: NWT annual population growth				0.50%											

SCHEDULE 1.4.3

NOTE: WITHOUT DEVOLUTION

GNWT BUDGET FORECAST - 2010 TO 2040 - MIDDLE CASE (assumes 2% inflation)

	REVENUES									**EXPENDITURES**					
	GEB		**GNWT Own Revenues**												
Calendar Year		New Rev from Dev A base Tr	Basic	New from MGP (taxes etc)	New from Dev Res Rev NFB	Fraction of OSR for TFF Calculation 70.00%	**TFF**	GNWT Other Transfers	**GNWT Total Budget Revenues**	Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other	**GNWT Total Expenditures**	**GNWT Surplus/ Deficit**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	**347,000**	0	0	242,900	920,505	**90,000**	1,357,505	**1,293,000**	**44,000**	0	0	1,337,000	20,505
2011	1,216,904	0	357,410	0	0	250,187	966,717	90,900	1,415,027	1,348,744	45,896	0	0	1,394,640	20,388
2012	1,271,665	0	368,132	0	0	257,693	1,013,972	91,809	1,473,914	1,406,891	47,874	0	0	1,454,764	19,149
2013	1,328,890	0	379,176	40,000	0	293,423	1,035,467	92,727	1,547,370	1,467,545	49,936	36,500	0	1,553,981	-6,611
2014	1,388,690	0	390,552	80,000	0	329,386	1,059,304	93,654	1,623,510	1,530,814	52,088	36,500	0	1,619,402	4,108
2015	1,451,181	0	402,268	100,000	0	351,588	1,099,593	94,591	1,696,452	1,596,810	54,333	36,500	0	1,687,643	8,810
2016	1,516,484	0	414,336	150,000	0	395,035	1,121,449	95,537	1,781,322	1,665,652	56,674	36,500	0	1,758,826	22,496
2017	1,584,726	0	426,766	200,000	0	438,736	1,145,990	96,492	1,869,248	1,737,461	59,116	36,500	0	1,833,077	36,171
2018	1,656,039	0	439,569	200,000	0	447,698	1,208,340	97,457	1,945,366	1,812,367	61,663	36,500	0	1,910,530	34,837
2019	1,730,560	0	452,756	200,000	0	456,929	1,273,631	98,432	2,024,819	1,890,502	64,320	36,500	0	1,991,322	33,497
2020	1,808,436	0	466,339	150,000	0	431,437	1,376,998	99,416	2,092,753	1,972,005	67,092	36,500	0	2,075,597	17,157
2021	1,889,815	0	480,329	100,000	0	406,230	1,483,585	100,410	2,164,324	2,057,022	69,982	36,500	0	2,163,505	819
2022	1,974,857	0	494,739	100,000	0	416,317	1,558,540	101,414	2,254,693	2,145,705	72,998	36,500	0	2,255,203	-510
2023	2,063,725	0	509,581	100,000	0	426,707	1,637,019	102,428	2,349,028	2,238,210	76,143	0	0	2,314,354	34,675
2024	2,156,593	0	524,869	100,000	0	437,408	1,719,185	103,453	2,447,506	2,334,704	79,424	0	0	2,414,128	33,378
2025	2,253,640	0	540,615	100,000	0	448,430	1,805,209	104,487	2,550,311	2,435,358	82,847	0	0	2,518,205	32,107
2026	2,355,054	0	556,833	100,000	0	459,783	1,895,270	105,532	2,657,636	2,540,351	86,416	0	0	2,626,768	30,868
2027	2,461,031	0	573,538	100,000	0	471,477	1,989,554	106,587	2,769,680	2,649,871	90,140	0	0	2,740,011	29,669
2028	2,571,777	0	590,744	100,000	0	483,521	2,088,256	107,653	2,886,654	2,764,112	94,024	0	0	2,858,136	28,518
2029	2,687,507	0	608,467	100,000	0	495,927	2,191,581	108,730	3,008,777	2,883,278	98,076	0	0	2,981,354	27,423
2030	2,808,445	0	626,721	90,000	0	501,704	2,306,741	109,817	3,133,278	3,007,582	102,302	0	0	3,109,884	23,394
2031	2,934,825	0	645,522	80,000	0	507,866	2,426,960	110,915	3,263,397	3,137,245	106,710	0	0	3,243,955	19,442
2039	4,173,617	0	817,728	60,000	0	614,410	3,559,207	120,105	4,557,041	4,397,401	149,546	0	0	4,546,948	10,093
2040	4,361,429	0	842,260	60,000	0	631,582	3,729,847	121,306	4,753,414	4,586,982	155,990	0	0	4,742,972	10,442
Sums to 2011 to 2040		0	17,003,929	2,796,000	0	13,859,951	60,379,815	3,161,947	83,341,691	79,699,170	2,711,017	365,000	0	82,775,186	566,505
Note: NWT annual population growth				1.00%											

SCHEDULE 1.4.4

NOTE: WITHOUT DEVOLUTION

GNWT BUDGET FORECAST - 2010 TO 2040 - HIGH CASE (assumes 2% inflation)

	REVENUES									**EXPENDITURES**					
	GEB		**GNWT Own Revenues**			Fraction of OSR for TFF		GNWT	**GNWT**					**GNWT**	**GNWT**
Calendar Year		New Rev from Dev A base Tr	Basic	New from MGP (taxes etc)	New from Dev Res Rev NFB	Calculation 70.00%	**TFF**	Other Transfers	**Total Budget Revenues**	Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other	**Total Expenditures**	**Surplus/ Deficit**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	347,000	0	0	242,900	920,505	90,000	1,357,505	1,293,000	44,000	0	0	1,337,000	20,505
2011	1,220,923	0	359,145	0	0	251,402	969,522	91,350	1,420,017	1,355,209	46,116	0	0	1,401,325	18,692
2012	1,282,181	0	371,715	0	0	260,201	1,021,980	92,720	1,486,416	1,420,411	48,334	0	0	1,468,744	17,671
2013	1,346,512	0	384,725	52,720	0	306,212	1,040,300	94,111	1,571,857	1,488,750	50,658	36,500	0	1,575,907	-4,051
2014	1,414,071	0	398,190	105,440	0	352,541	1,061,530	95,523	1,660,683	1,560,376	53,094	36,500	0	1,649,970	10,712
2015	1,485,019	0	412,127	131,800	0	380,749	1,104,270	96,956	1,745,153	1,635,449	55,647	36,500	0	1,727,596	17,557
2016	1,559,528	0	426,552	197,700	0	436,976	1,122,552	98,410	1,845,213	1,714,134	58,323	36,500	0	1,808,957	36,256
2017	1,637,774	0	441,481	263,600	0	493,557	1,144,218	99,886	1,949,185	1,796,604	61,128	36,500	0	1,894,232	54,952
2018	1,719,947	0	456,933	263,600	0	504,373	1,215,574	101,384	2,037,491	1,883,043	64,068	36,500	0	1,983,610	53,881
2019	1,806,242	0	472,925	263,600	0	515,568	1,290,674	102,905	2,130,105	1,973,640	67,149	36,500	0	2,077,288	52,817
2020	1,896,867	0	489,478	197,700	0	481,024	1,415,843	104,449	2,207,469	2,068,595	70,378	36,500	0	2,175,473	31,996
2021	1,992,039	0	506,609	131,800	0	446,887	1,545,153	106,015	2,289,578	2,168,120	73,762	36,500	0	2,278,382	11,196
2022	2,091,986	0	524,341	131,800	0	459,299	1,632,688	107,606	2,396,434	2,272,432	77,309	36,500	0	2,386,242	10,193
2023	2,196,948	0	542,693	131,800	0	472,145	1,724,803	109,220	2,508,516	2,381,764	81,027	0	0	2,462,791	45,725
2024	2,307,176	0	561,687	131,800	0	485,441	1,821,735	110,858	2,626,080	2,496,355	84,924	0	0	2,581,279	44,802
2025	2,422,935	0	581,346	131,800	0	499,202	1,923,733	112,521	2,749,400	2,616,460	89,008	0	0	2,705,467	43,932
2026	2,544,501	0	601,693	131,800	0	513,445	2,031,056	114,209	2,878,758	2,742,343	93,288	0	0	2,835,631	43,127
2027	2,672,167	0	622,752	131,800	0	528,187	2,143,981	115,922	3,014,455	2,874,283	97,774	0	0	2,972,057	42,398
2028	2,806,239	0	644,549	131,800	0	543,444	2,262,795	117,661	3,156,804	3,012,570	102,476	0	0	3,115,046	41,758
2029	2,947,037	0	667,108	131,800	0	559,236	2,387,801	119,426	3,306,135	3,157,511	107,404	0	0	3,264,915	41,220
2030	3,094,899	0	690,457	118,620	0	566,354	2,528,546	121,217	3,458,839	3,309,425	112,569	0	0	3,421,994	36,845
2031	3,250,181	0	714,623	105,440	0	574,044	2,676,137	123,035	3,619,235	3,468,648	117,982	0	0	3,586,631	32,604
2039	4,808,340	0	941,022	79,080	0	714,071	4,094,269	138,598	5,252,969	5,051,518	171,792	0	0	5,223,310	29,659
2040	5,049,590	0	973,957	79,080	0	737,126	4,312,464	140,677	5,506,178	5,294,557	180,053	0	0	5,474,610	31,568
Sums to 2011 to 2040		0	18,540,026	3,685,128	0	15,557,608	65,800,884	3,429,159	91,455,197	87,173,215	2,965,235	365,000	0	90,503,450	951,746
Note: NWT annual population growth				1.50%											

2.1 NET FISCAL BENEFIT

INTRODUCTION

The objective of this Section is:

- To provide analysis and commentary respecting the proposed and alternative calculations of the Net Fiscal Benefit[51] and its relationship to the expenditure need of NWT governments with a view to providing an opinion on the overall reasonableness and fairness of the proposed Net Fiscal Benefit.

DRAFT GNWT DEVOLUTION AIP

The relevant Chapters of the AIP are 11 and 12. Section 11.10 provides that the GNWT shall receive $65.3 million in an A-base transfer to assume the responsibilities presently being delivered by the federal government. Section 11.11 states that the Devolution Agreement will provide for an annual payment by Canada of up to $3.0 million (in aggregate) to Aboriginal governments who sign the deal.

Chapter 12 addresses the Net Fiscal Benefit. It provides that 50% of NWT Resource Revenues would form a Net Fiscal Benefit to the NWT. The other 50% would be fully offset against the Formula Financing Grant. However, the 50% Net Fiscal Benefit is subject to a cap of 5% of the GNWT Gross Expenditure Base (GEB). The AIP contends that these parameters are consistent with the treatment of resource revenues in the provincial equalization program – which is something we challenge. The stated objective of the GEB in any year is to approximate the Territorial expenditure need, and the GEB is some $1.2 billion at the present time.[52] This means that at present the cap on the Net Fiscal Benefit would be $60.6 million. Chapter 12 also states that the GNWT and Aboriginal governments, who participate in the AIP, must make an agreement on the sharing of the Net Fiscal Benefit, and such agreement will be appended to the final Devolution Agreement.[53]

RESOURCE REVENUES IN PROVINCIAL EQUALIZATION

As we have described in Section 1.1, since its beginning, there have been many revisions to all of the equalization calculations. Especially this has been true in the case of natural resource revenues. There have also been special arrangements for Newfoundland & Labrador to ensure that they don't lose the promised resource revenue benefits from the Atlantic Accords.[54] There is also an option for a province to either include 50% of resource revenues or exclude them entirely, in calculating its entitlement. A summary of the history of the treatment of resource revenues in provincial equalization is shown in Table 2.1.1.

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[51] Alternative ways of calculating the Net Fiscal Benefit could include: an alternative Offset fraction instead of 50%, averaging of several annual amounts (e.g. moving averages to smooth annual variations), alternative "caps", a broader definition of Resource Revenues, possibly including the revenues from the Norman Wells oil field Crown Interest, increasing the Aboriginal share of GNWT's share, and so forth.

[52] See Schedule 2.1.4

[53] Chapter 12, clause 12.3

[54] Newfoundland & Labrador and Nova Scotia are guaranteed to do at least as well as agreed in the 2005 Atlantic Accords, which allow the provinces to keep all their offshore oil and gas revenues, with no claw back from the then-existing equalization program.

Table 2.1.1

Treatment of Resource Revenues in Equalization	
1962	100% included
1963	excluded but a 50% RR Override deducted from a recipient province
1967 - 1973	100% included
1973 - 1976	Only prior years' RR included plus 1/3 of New Energy RR
1977	Resource Cap introduced by which Energy RR not greater than 1/3 of equalization payments, and only 50% of Non-renewable RR in formula.
1982	100% included, but Standard for Equalization changed to 5 Provinces, excluding AB and Atlantic provinces (FPS).
2004	Formula changed to only allocate between provinces. Total amounts fixed by federal government
2005	Special Arrangements for Newfoundland and Nova Scotia.
2007	50% included, following O'Brien report, and subject to Cap for fairness between provinces.
Source: Section 1.1 dealing with History of Equalization	

As we have concluded in section 1.1, the treatment of resource revenues has ranged from total inclusion to total exclusion in the equalization formula. We concluded that the present inclusion of 50% of resource revenues is simply a pragmatic resolution to the issue of sharing between provinces when Alberta has much larger energy resources than any other province. We concluded:

- the central reason why the equalization program presently only includes 50% of resource revenues rather than 100% is simply that the total amount of equalization payments would increase from 14.4 billion to 22.4 billion.
- That would be unacceptably large for the federal government and likely for provinces, anyway for the non-recipient provinces. We may ask; would inclusion of 60% be more fair, or 75%? The 50% benchmark is arbitrary and simply a practical solution, now being used by the program. The history of the program suggest that 50% will be a temporary arrangement.

IMPACT OF RESOURCE REVENUE INCREASES IN EQUALIZATION

In Section 1.1 we showed several sensitivity analyses of incremental increases of resource revenues in the provinces. For example, we showed that Alberta would receive about 98% of an increment of resource revenues and an equalization recipient province would receive about 52%.

THE FISCAL CAP

The equalization program includes a cap that can limit provinces' per capita entitlements. This became necessary as a matter of fairness between the provinces, because of the inclusion of only 50% of

resource revenues, in the 2007 budget. The cap ensures that an equalization recipient province does not end up with a per capita fiscal capacity (including 100% of its resource revenues) greater than that of the poorest non-recipient province.

PROVINCIAL EQUALIZATION PROGRAM -CONCLUSIONS

In summary, we have concluded in Section 1.1 that:

- the provincial equalization formula and its parameters are not good guides for what should be done in the NWT.

- It may be bureaucratically convenient to compare the cap in the provincial equalization formula to the proposed cap in the draft GNWT Devolution AIP but they are completely different in concept and will have completely different outcomes.

We have also emphasized that our conclusions do not stand alone because the O'Brien report concluded essentially the same thing. The O'Brien report recommended that resource revenues should be fully excluded from Territorial Formula Financing.[55] That means, of course, that after devlolution, none of NWT resource revenues should be clawed back by the federal government – neither directly nor indirectly, nor through a cap.[56]

DEFINITION OF RESOURCE REVENUES

We are in agreement with the equalization and TFF regulations that all resource revenues, including renewable and non-renewable resources, should be included as resource revenues. However, we have suggested that the revenues from the Crown Interest in the Norman Wells oil field should also be included as NWT resource revenues.[57] We summarize and conclude, as in Section 1.2, that:

- In the past, the GNWT have debated with the federal government about the classification of the Norman Wells revenues, but without success. The draft devolution AIP states that the Norman Wells Proven Area would remain under federal legislation and regulation, and that the revenues from the Crown Interest would not be considered as NWT resource revenues. We conclude however that, notwithstanding the contractual nature of the Crown Interest and that the field may have to remain under federal legislation and regulation, the revenues from the Crown Interest should devolve to GNWT, as all other NWT resource revenues.

FORECASTS OF NWT RESOURCE REVENUES

In Section 1.3 of the report we have defined three forecasts of resource revenues in NWT. Each case represents our best assessment of three alternative feasible outcomes in terms of resource

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[55] Recommendation # 6, page 4 of the Executive Summary of the O'Brien report.

[56] The draft GNWT Devolution AIP, Chapter 12, calls for 50% of resource revenues to be offset against the formula financing annual grant, and that the Net Fiscal Benefit from resource revenues should be capped at 5% of the GNWT Gross Expenditure Base (GEB).

[57] See Section 1.2 of report and Annex A.

development in NWT over the period to 2040. The Low Case assumes that development continues along the lines of the existing situation and the MGP is not developed. The Middle Case assumes that the MGP is developed with a start up in 2018, and with gas production volumes and gas prices as were assumed in the Wright Mansell report Case 2-7. The High Case assumes that the MGP is developed with a start up in 2018, and with the same gas volumes as the Middle Case, but with slightly higher gas prices based on the WMR Case 2-8. [58]

In Section 1.4 we have integrated the three resource revenue forecasts with forecasts of the GNWT budget, without devolution. We now consider the forecasts with devolution, which is assumed to be realized in the year 2015. Thus, each case shows us the expected NWT resource revenues, the effects of the proposed AIP on the Net Fiscal Benefit and the effects on both the revenue side of the GNWT budget and the expenditure side.[59] In addition, the parameters of the AIP can be varied in the forecast modeling, so that sensitivity tests can be made.

While each case has been assembled as realistically as possible, for example using the detailed calculations for the GEB and details from the WMR, the range of inputs and outcomes is not as wide as we could have made. For example, the WMR includes cases which have less natural gas production and other cases with much more production than we have assumed.[60] We therefore believe that the Cases demonstrate the likely order of magnitude of impacts from development and devolution.

Although we have limited the range of possible input assumptions, the outcomes are significantly different. The Low Case shows NWT resource revenues of $2.7 billion over the forecast period from 2015 to 2040. The Middle Case shows $7.4 billion and the High Case shows $13.5 billion. The estimated Net Fiscal Benefit (NFB) varies from Case to Case but not by as much as the resource revenues because of the Cap. The results are summarized in table 2.1.2.

ANALYSIS OF AIP PROPOSAL

Before proceeding to the analysis of the proposed sharing under the AIP, we should mention that the resource revenues from the Mackenzie Valley are already shared in a limited manner by Canada through the various Land Claim settlements.[61] As presently and following devolution, we assume that these payments will continue to be made from Canada's share of NWT resource revenues and they would not alter the total amount of resource revenues available for Canada-GNWT sharing under the proposals of the AIP. It will be important to clarify this point, as well as other aspects of Chapter 12 of the AIP.

A second preliminary point to make is that as long as a devolution agreement is not in place the NWT resource revenues of some $100 million per year are received by the federal government. The federal government also receives the revenues from the Norman Wells Crown Interest – valued at around another $100 million. Thus, it could be argued – anyway conceptually - that GNWT loses as much as $200 million every year that devolution is delayed. At least it is safe to say that the annual loss to GNWT

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[58] The NWT resource development Cases are described in more detail in Section 1.3

[59] We should mention that each case was developed before considering the workings of the AIP.

[60] The WMR includes a case with only the Anchor gas fields being produced and cases with 1.4 Bcf/day of gas production. Our Cases have a maximum of 1.2 Bcf/day of production for a limited time.

[61] On the basis of existing and prospective Land Claims in the NWT we estimate that Canada will be obliged to pay a total in the range of 12% to 13% of resource revenues from the Mackenzie Valley to Aboriginal groups. The Gwich'in and Sahtu Claims call for 7.5% of first $2 million + 1.5% of residual. The Tlicho Sept 4, 2002 Agreement calls for 10.429% of first $2 million + 2.086% of residual. The DehCho AIP calls for 12.25% of first $2 million + 2.45% of residual. The Dogrib AIP, of Jan 7, 2000, mentions a share of royalties from the Mackenzie Valley but of unspecified amount. It is not known what arrangements are or might be made for the Akaitcho.

ranges from a minimum of about $50 million to a maximum of around $200 million. We have not included the revenues from the Norman Wells Crown Interest in our cases based on the AIP.

SHARING OF RESOURCE REVENUES BETWEEN CANADA AND GNWT

In Table 2.1.2 we consider the sharing of NWT resource revenues, between Canada and GNWT, over the period following the year it is assumed a devolution agreement is put in place: that is from 2015 to 2040. And to highlight the role of the proposed cap, we show results according to the AIP, but with and without the proposed cap (5% of annual GEB).

Table 2.1.2

Cumulative Results of Alternative Forecasts of Resource Revenues , 2015 to 2040 WITH DEVOLUTION, & Proposed Shares and Cap $ millions			
SHARING BETWEEN CANADA	**CASES**		
AND GNWT	**LOW**	**MIDDLE**	**HIGH**
Net Fiscal Benefit without Cap			
Total NWT Resource Revenues	2,733	7,405	13,539
NFB to GNWT (no Cap)	1,367	3,703	6,769
GNWT Percent Share	50.0%	50.0%	50.0%
Canada Percent Share	50.0%	50.0%	50.0%
Net Fiscal Benefit with Cap			
Total NWT Resource Revenues	2,733	7,405	13,539
NFB to GNWT (with Cap)	1,367	3,114	3,699
GNWT Percent Share	50.0%	42.0%	27.3%
Canada Percent Share	50.0%	58.0%	72.7%
KEY ASSUMPTIONS			
NWT Pop Growth	0.50%	1.00%	1.50%
MGP goes ahead	no	yes	yes
NOTES			
Before sharing by GNWT with seven Aboriginal groups.			
Assumes 50% Res Rev Sharing,			
& Cap is 5% of GEB, per AIP.			
Devolution begins in year	2015		
Source: Estimated for report			

In the Low Case, the cap does not bind and sharing of 50/50 is realized. However, in the High Case the cap reduces the NFB going to GNWT from $6.8 billion to $3.7 billion – a huge reduction. The resulting share that is received by GNWT is reduced to 27%. It appears that in both the Middle Case and the High

Case the "share plus cap" approach gives the impression of being unfair. In addition, especially in the High Case the incentive for efficient management of NWT resources by the GNWT would be greatly reduced, as GNWT would only receive the benefit from 27% of NWT resource revenues, which would translate to only about 20% after sharing with the Aboriginal groups.

The cap in the Middle Case is binding some of the time and only to a limited degree. The share going to GNWT is pushed down from 50% to 42%. In this rather modest Middle Case it seems onerous on GNWT to have its share reduced at all. [62]

We have examined these issues further through the use of sensitivity analysis, by varying the percentage share or the cap, with results as shown in Table 2.1.3

Table 2.1.3

Sensitivity Tests of Proposed Net Fiscal Benefit Share and Cap

Cumulative Results of Alternative Forecasts of Resource Revenues , 2015 to 2040

WITH DEVOLUTION, & Changes in Proposed Shares and Cap

NET FISCAL BENEFIT to GNWT	**CASES**					
	LOW	**MIDDLE**	**HIGH**	**LOW**	**MIDDLE**	**HIGH**
		($millions)		% Change from 50% Share & 5% Cap		
Changes in the Cap						
50% Share and 5% Cap	1,367	3,114	3,699	0%	0%	0%
50% Share and 6% Cap	1,367	3,341	4,304	0%	7%	16%
50% Share and 7% Cap	1,367	3,497	4,797	0%	12%	30%
50% Share and 8% Cap	1,367	3,606	5,206	0%	16%	41%
50% Share and 10% Cap	1,367	3,703	5,977	0%	19%	62%
50% Share and 15% Cap	1,367	3,703	6,769	0%	19%	83%
Changes in the Share						
55% Share and 5% Cap	1,503	3,240	3,738	10%	4%	1%
60% Share and 5% Cap	1,640	3,330	3,765	20%	7%	2%
65% Share and 5% Cap	1,777	3,393	3,786	30%	9%	2%
70% Share and 5% Cap	1,902	3,433	3,801	39%	10%	3%
KEY ASSUMPTIONS						
NWT Pop Growth	0.50%	1.00%	1.50%			
MGP goes ahead	no	yes	yes			
NOTES						
Before sharing by GNWT with seven Aboriginal groups.						
Devolution begins in year	2015					
Source: Estimated for report						

[62] The prospective GNWT budgetary gain in the Middle Case over the forecast period is only 4.2% of cumulative forecast expenditures, as summarized in Table 2.1.4.

The sensitivity results highlight the problems of the approach. In the Low Case, the Cap does not constrain the NFB and the Share is the critical variable: increasing the Share from 50% to 70% leads to an increase of 39% in the NFB. In contrast, in the High Case the Cap is the critical variable: increasing the Cap from 5% to 15% leads to an increase of 83% in the NFB and restores the 50/50 sharing. Indeed, the Cap is extremely limiting in the High Case. It constrains the NFB going to GNWT in all years after the sixth year of devolution. In the late 2020s Canada is forecast to receive more than 80% of annual NWT resource revenues.[63] As we have seen from Table 2.1.2, in the High Case, GNWT would only receive the benefit of some 27% of NWT resource revenues, over the forecast period.

The Middle Case shows some balance between the Share and the Cap. An increase from 5% to 7% of the Cap leads to an increase of 12% in the NFB, and an increase of Share from 50% to 70% leads to an increase of 10% in the NFB. But, as we have mentioned, In this Case the GNWT share of resource revenues would be reduced to 42%.

RATIONALE

The governments have argued that the rationale for the 50% share and the 5% cap is based on the present arrangements for provincial equalization. However, we have shown in previous Sections of this report, notably in section 1.1, that the parameters used for provincial equalization are simply not relevant to the territories, and they are not even used in the same manner as has been proposed in the devolution AIP. We have described the historical and present workings of the equalization system and the facts speak for themselves.

Neither the rationale for 50% of resource revenues being included in the calculations for provincial equalization nor the way the equalization cap is determined are applicable to devolution in NWT. The proposed 50% sharing may give the appearance of consistency with the provincial equalization formula but it is only the number itself which is consistent. The rationale for not allowing 100% of resource revenues to be included in equalization is simply that the total equalization payments would become too large, mainly as a result of Alberta's energy resources. There is no such issue in the context of devolution to the GNWT. The cap in provincial equalization was introduced as a measure of fairness between the provinces, as we have explained. The rationale is completely different from the proposed cap in the devolution AIP.[64]

We therefore believe that an alternative approach to sharing should be explored which would serve the objectives of both the federal government and GNWT. Or we believe that the parameters for sharing and for the cap should be changed.

CONTEXT OF GNWT BUDGET

The proportionate sharing of NWT resource revenues between NWT Governments (GNWT and Aboriginal governments) and the federal government is very different depending on the various outcomes of our three forecasts. In particular, as resource revenues are forecast to be larger, the

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[63] See Schedule 2.1.3

[64] See discussion and Conclusions in Section 1.1

proportionate split becomes more and more in favour of the federal government, and dramatically so in the High Case. Is there any justification for this?

A summary of the GNWT budget, with devolution, in each forecast case is shown in Table 2.1.4. [65]

Table 2.1.4

(with 50% Net Fiscal Benefit and 5% Cap, per AIP)

Cumulative Results of Alternative Forecasts of GNWT Budget , 2011 to 2040			
WITH DEVOLUTION			
$ millions			
	CASES		
	LOW	**MIDDLE**	**HIGH**
BUDGET ITEMS			
Own Revenues	16,982	22,914	25,925
TFF	60,416	64,255	70,072
Total Revenues	80,317	90,330	99,426
Expenditures	78,950	86,650	94,775
Potential Surplus	1,367	3,680	4,651
surplus as % Expenditures	1.7%	4.2%	4.9%
KEY ASSUMPTIONS			
Annual Inflation	2.00%	2.00%	2.00%
NWT Pop Growth	0.50%	1.00%	1.50%
Canada Pop Growth	1.00%	1.00%	1.00%
Canada GDP Growth	4.50%	4.50%	4.50%
MGP goes ahead	no	yes	yes
NOTES			
50% resource revenue sharing per Devolution AIP and 5% GEB Cap			
Source: Estimated for report			

While the potential Surpluses may appear large, they are only between 1.7% and 5% of the cumulative expenditures over the forecast period. This leaves little or no margin for error in budgeting or for covering costs of unexpected impacts.

[65] See Schedules 2.1.4, 2.1.5 and 2.1.6. Also note that the Forecast Cases without devolution are in Table 1.4.2

Earlier in this report we quoted the JRP Report on the MGP when they concluded that:

> *"The GNWT would carry the chief burden of the costs in dealing with the Project, other than the MGPIF. However, the GNWT would receive little Project revenue directly, and to the extent that its revenues are increased, much of this increase would be offset by the TFF. Under any scenario, a revenue sharing agreement between Canada and the GNWT is needed to increase the revenues flowing directly to NWT governments."*

In its submission to the JRP, the GNWT estimated that it would incur $365 million in forced expenditure growth over ten years just in relation to the MGP. On top of this there would no doubt be other impacts on social programs and infrastructure that would be related to the level of further exploration and development that the MGP would induce.[66] Post devolution, the NWT Governments would also be faced with 100% of the responsibility for increases in regulatory costs associated with resource development activity. With responsibility for land and water, the Governments would also face increased risks associated with environmental impacts. The recent case of cleaning up arsenic contamination after the failure of the Giant Mine in Yellowknife is instructive. The federal government was left holding the bag. Hopefully, the more hands-on regulation by GNWT in its own back yard can mitigate such risks but they cannot be eliminated.

It is safe to conclude that NWT governments are going to bear the costs and risks of development post-devolution. It is also safe to conclude that these costs and risks will be considerable and grow with the level of resource development activity that is realized. Post-devolution, the federal government shares none of these costs and risks, yet under the proposed NFB provisions the federal government will take the lion's share of NWT resource revenues. The issue becomes extreme in our High Case which is the case most likely to lead to high contingent costs associated with socio-economic and environmental impacts (which we have not included in our budget schedules).

The remoteness of resource operations and the large scale mining involved in many developments in the NWT also calls for additional government oversight. The regional impact of non-renewable resource development is a major concern. Mines become played out (e.g. Giant Gold Mine, Con Gold Mine, Lupin, Pine Point Mine, in the future the diamond mines) and oil fields will dry up (e.g. Norman Wells which has been forecast to shut down within our forecast period). As each mine, oil field or gas field is exploited and new discoveries come into play, environmental cleanup becomes a major concern (as in Alberta).

In addition to managing and regulating a vital level of resource development, the governments should be ensuring that longer term prospects are enhanced, by investing in economic diversification, work force development, and sustainable public infrastructure such as roads and communications. We know that infrastructure costs are high in the NWT.[67] A Devolution Agreement must provide an NFB sufficient to address these needs, to invest in economic diversification and infrastructure, and to underpin a

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[66] The WMR includes substantial amounts of oil and gas exploration, contingent on the MGP going ahead.
[67] The extension of the Mackenzie Valley Highway is estimated at $1.8 billion, the Taltson Hydro Electric Expansion Project is estimated at $700 million. `

positive vision for the development of NWT. We do not think that the provisions of the draft Devolution AIP meet this test.

ALTERNATIVE CANADA/GNWT SHARING AND CAP

In our view, in order to cover the uncertainties and risks inherent in devolution of responsibilities for resource management, a satisfactory sharing for GNWT, given favourable development conditions, should aim to provide at least a 10% potential surplus over and above the cumulative budgeted expenditures. To achieve this, some modifications of the AIP are necessary. As we have recommended elsewhere in this report, the NFB would include 100% of NWT resource revenues, including the revenues from the Norman wells Crown Interest, and the Cap would be increased to 15% of GEB. The detailed results are shown in Schedules 2.1.7 to 2.1.12, and a summary of the resulting GNWT budget is shown in Table 2.1.5.

Table 2.1.5

(with 100% Net Fiscal Benefit and 15% Cap, per Modified AIP)

Cumulative Results of Alternative Forecasts of GNWT Budget , 2011 to 2040			
WITH DEVOLUTION			
$ millions			
	CASES		
	LOW	**MIDDLE**	**HIGH**
BUDGET ITEMS			
Own Revenues	19,167	27,683	32,843
TFF	60,416	64,255	70,072
Total Revenues	82,502	95,100	106,344
Expenditures	78,950	86,650	94,775
Potential Surplus	3,552	8,450	11,569
surplus as % Expenditures	4.5%	9.8%	12.2%
KEY ASSUMPTIONS			
Annual Inflation	2.00%	2.00%	2.00%
NWT Pop Growth	0.50%	1.00%	1.50%
Canada Pop Growth	1.00%	1.00%	1.00%
Canada GDP Growth	4.50%	4.50%	4.50%
MGP goes ahead	no	yes	yes
NOTES			
100% resource revenue sharing after devolution & Norman Wells Crown Interest, & 15% Cap			
Source: Estimated for report			

The Potential surpluses over budgeted expenditures are 9.8% and 12.2% in the Middle and High Cases, respectively. These results bracket the desirable contingency of 10%. They are significant improvements over the proposed AIP, and may be considered acceptable.[68]

In the Middle Case, the potential Gwich'in share of the NFB over the forecast period is increased from a cumulative total of $111.3 million per the proposed AIP to $281.8 million with the Modified NFB.[69] On an annual basis this is an increase from $4.3 million per year to $10.8 million per year – over the 26 years forecast post devolution in 2015. [70]

CONCLUSIONS and RECOMMENDATIONS

We conclude that the proposed calculations for a Net Fiscal Benefit are arbitrary and inadequate for the task of managing the NWT resources which are being devolved to the GNWT and to Aboriginal governments. The resulting Net Fiscal Benefits in the Cases we have examined are too small in relation to the risks and to the expenditures needed for developing a vital northern economy. Both the proposed 50% sharing and the 5% of GEB as a cap appear to us as problems. However, given the 50% sharing, the most egregious problem is that the proposed cap is too low.

We recommend that:

- One hundred percent of NWT resource revenues should be the basis for the proposed Net Fiscal Benefit.
- The revenues from the Norman Wells Crown Interest should be included with other NWT resource revenues in any calculation of Net Fiscal Benefit.
- If the same general approach as in the AIP is acceptable, then the cap should be 15% rather than the proposed 5%.
- Alternatively, a new vision for the Net Fiscal Benefit should be developed.

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[68] In the High Case, Canada would still claw back an estimated $3.7 billion of NWT resource revenues over the post-devolution forecast period, equal to 25% of NWT resource revenues: see Schedule 2.1.9
[69] See Schedules 2.1.2 and 2.1.8
[70] See also Table 2.2.2 where the present value of the Gwich'in share is shown.

SCHEDULE 2.1.1 LOW CASE - WITH DEVOLUTION, with Proposed AIP Net Fiscal Benefit & 2007 AIP Resource Revenue Sharing

					WITH DEVOLUTION IN YEAR	2015					
	Forecast of NWT Resource Revenues - Low Case without MGP					**Net Fiscal Benefit & sharing by GNWT**			**Sharing by GTC**		
	Diamond & Mining Royalties post 2020 decl rate 5.00%	**Other Oil & Gas** Royalties and rents	**Other** Resource Revenues (incl renewables)	**MGP** Royalties No MGP	**TOTAL Resource Revenues in NWT**	**Initial Calculation of GNWT Share** 50.00%	**Clawed Back by Canada**	**Net Fiscal Benefit** Max limited to 5% of GEB	**Potential for Gwich'in** 25% of NFB X 14.30% of Ab. Share	**Canada's Share of NWT Resource Revenues**	Recent Estimate of Norman Wells 1/3 Federal "Crown Interest" yes
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**%**	**$000**
				Inflation of	2.00%						
				Nominal Cdn dollars							excluded
2011	76,000	20,000	4,000	0	100,000	0	0	0	0	100.0%	110,591
2012	77,520	20,400	4,080	0	102,000	0	0	0	0	100.0%	103,650
2013	79,070	20,808	4,162	0	104,040	0	0	0	0	100.0%	97,130
2014	80,652	21,224	4,245	0	106,121	0	0	0	0	100.0%	89,877
2015	82,265	21,649	4,330	0	108,243	54,122	0	54,122	1,935	50.0%	88,381
2016	83,910	22,082	4,416	0	110,408	55,204	0	55,204	1,974	50.0%	82,804
2017	85,588	22,523	4,505	0	112,616	56,308	0	56,308	2,013	50.0%	76,929
2018	87,300	22,974	4,595	0	114,869	57,434	0	57,434	2,053	50.0%	71,743
2019	89,046	23,433	4,687	0	117,166	58,583	0	58,583	2,094	50.0%	66,680
2020	90,827	23,902	4,780	0	119,509	59,755	0	59,755	2,136	50.0%	61,981
2021	88,102	24,380	4,876	0	117,358	58,679	0	58,679	2,098	50.0%	59,257
2022	85,459	24,867	4,973	0	115,300	57,650	0	57,650	2,061	50.0%	55,482
2023	82,895	25,365	5,073	0	113,333	56,667	0	56,667	2,026	50.0%	51,398
2024	80,409	25,872	5,174	0	111,455	55,728	0	55,728	1,992	50.0%	47,698
2025	77,996	26,390	5,278	0	109,664	54,832	0	54,832	1,960	50.0%	44,021
2026	75,656	26,917	5,383	0	107,957	53,979	0	53,979	1,930	50.0%	40,509
2027	73,387	27,456	5,491	0	106,334	53,167	0	53,167	1,901	50.0%	37,144
2028	71,185	28,005	5,601	0	104,791	52,395	0	52,395	1,873	50.0%	34,068
2029	69,050	28,565	5,713	0	103,327	51,664	0	51,664	1,847	50.0%	
2030	66,978	29,136	5,827	0	101,942	50,971	0	50,971	1,822	50.0%	
2031	64,969	29,719	5,944	0	100,631	50,316	0	50,316	1,799	50.0%	
2039	50,919	34,820	6,964	0	92,703	46,352	0	46,352	1,657	50.0%	
2040	49,391	35,517	7,103	0	92,012	46,006	0	46,006	1,645	50.0%	
Sums	2,171,937	811,362	162,272	0	3,145,570	1,366,705	0	1,366,705	48,860		1,219,342
					100.0%	**43.4%**	**0.0%**	**43.4%**	**1.6%**	**56.6%**	
NPV in 2010 at	**5%**			0	1,639,734	637,400	0	637,400	22,787		
Note: NWT annual population growth equal to		0.50%			**100.0%**	**38.9%**	**0.0%**	**38.9%**	**1.4%**	**61.1%**	
Sums 2015 to 2040					2,733,410	1,366,705		1,366,705	48,860	**50.0%**	

SCHEDULE 2.1.2 MIDDLE CASE - WITH DEVOLUTION, with Proposed AIP Net Fiscal Benefit & 2007 AIP Resource Revenue Sharing

WITH DEVOLUTION IN YEAR 2015

	Forecast of NWT Resource Revenues - Middle Case					Net Fiscal Benefit & sharing by GNWT			Sharing by GTC		
	Diamond & Mining Royalties post 2020 decl rate 5.00%	**Other Oil & Gas** Royalties and rents	**Other** Resource Revenues (incl renewables)	**MGP** Royalties Wright Mansell Case A2-7 delayed	**TOTAL Resource Revenues in NWT**	**Initial Calculation of GNWT Share** 50.00%	**Clawed Back by Canada**	**Net Fiscal Benefit** Max limited to 5% of GEB	**Potential for Gwich'in** 25% of NFB X 14.30% of Ab. Share	**Canada's Share of NWT Resource Revenues**	Recent Estimate of Norman Wells 1/3 Federal "Crown Interest"
	$000	$000	$000	$000	$000	$000	$000	$000	$000	%	$000
				Inflation of	2.00%						
				Nominal Cdn dollars							excluded
2011	76,000	20,000	4,000	0	100,000	0	0	0	0	100.0%	110,591
2012	77,520	20,400	4,080	0	102,000	0	0	0	0	100.0%	103,650
2013	79,070	20,808	4,162	0	104,040	0	0	0	0	100.0%	97,130
2014	80,652	21,224	4,245	0	106,121	0	0	0	0	100.0%	89,877
2015	82,265	21,649	4,330	0	108,243	54,122	0	54,122	1,935	50.0%	88,381
2016	83,910	22,082	4,416	0	110,408	55,204	0	55,204	1,974	50.0%	82,804
2017	85,588	22,523	4,505	0	112,616	56,308	0	56,308	2,013	50.0%	76,929
2018	87,300	22,974	4,595	14,899	129,767	64,884	0	64,884	2,320	50.0%	71,743
2019	89,046	23,433	4,687	30,460	147,626	73,813	0	73,813	2,639	50.0%	66,680
2020	90,827	23,902	4,780	42,045	161,554	80,777	0	80,777	2,888	50.0%	61,981
2021	88,102	24,380	4,876	67,017	184,375	92,188	0	92,188	3,296	50.0%	59,257
2022	85,459	24,867	4,973	82,250	197,550	98,775	32	98,743	3,530	50.0%	55,482
2023	82,895	25,365	5,073	98,929	212,263	106,131	2,945	103,186	3,689	51.4%	51,398
2024	80,409	25,872	5,174	115,835	227,290	113,645	5,815	107,830	3,855	52.6%	47,698
2025	77,996	26,390	5,278	116,779	226,442	113,221	539	112,682	4,028	50.2%	44,021
2026	75,656	26,917	5,383	110,669	218,627	109,313	0	109,313	3,908	50.0%	40,509
2027	73,387	27,456	5,491	366,225	472,558	236,279	113,228	123,052	4,399	74.0%	37,144
2028	71,185	28,005	5,601	242,798	347,589	173,795	45,206	128,589	4,597	63.0%	34,068
2029	69,050	28,565	5,713	383,646	486,974	243,487	109,111	134,375	4,804	72.4%	
2030	66,978	29,136	5,827	397,396	499,338	249,669	109,247	140,422	5,020	71.9%	
2031	64,969	29,719	5,944	376,869	477,500	238,750	92,009	146,741	5,246	69.3%	
2039	50,919	34,820	6,964	234,413	327,117	163,558	0	163,558	5,847	50.0%	
2040	49,391	35,517	7,103	196,076	288,088	144,044	0	144,044	5,150	50.0%	
Sums	2,171,937	811,362	162,272	4,671,763	7,817,333	3,702,586	588,925	3,113,662	111,313		1,219,342
					100.0%	**47.4%**	**7.5%**	**39.8%**	**1.4%**	**60.2%**	
NPV in 2010 at	**5%**			1,697,453	3,337,187	1,486,126	226,630	1,259,496	45,027		
Note: NWT annual population growth equal to		1.00%			**100.0%**	**44.5%**	**6.8%**	**37.7%**	**1.3%**	**62.3%**	
Sums 2015 to 2040					7,405,172	3,702,586		3,113,662	111,313	**58.0%**	

SCHEDULE 2.1.3 HIGH CASE - WITH DEVOLUTION, with Proposed AIP Net Fiscal Benefit & 2007 AIP Resource Revenue Sharing

					WITH DEVOLUTION IN YEAR		2015				
	Forecast of NWT Resource Revenues - High Case					**Net Fiscal Benefit & sharing by GNWT**			**Sharing by GTC**		
	Diamond & Mining Royalties post 2020 decl rate 5.00%	**Other Oil & Gas** Royalties and rents	**Other** Resource Revenues (incl renewables)	**MGP** Royalties Wright Mansell Case 2-8 delayed	**TOTAL Resource Revenues in NWT**	**Initial Calculation of GNWT Share** 50.00%	**Clawed Back by Canada**	**Net Fiscal Benefit** Max limited to 5% of GEB	**Potential for Gwich'in** 25% of NFB X 14.30% of Ab. Share	**Canada's Share of NWT Resource Revenues**	Recent Estimate of Norman Wells 1/3 Federal "Crown Interest"
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**%**	**$000**
				Inflation of	2.00%						
				Nominal Cdn dollars							excluded
2011	76,000	20,000	4,000	0	100,000	0	0	0	0	100.0%	110,591
2012	77,520	20,400	4,080	0	102,000	0	0	0	0	100.0%	103,650
2013	79,070	20,808	4,162	0	104,040	0	0	0	0	100.0%	97,130
2014	80,652	21,224	4,245	0	106,121	0	0	0	0	100.0%	89,877
2015	82,265	21,649	4,330	0	108,243	54,122	0	54,122	1,935	50.0%	88,381
2016	83,910	22,082	4,416	0	110,408	55,204	0	55,204	1,974	50.0%	82,804
2017	85,588	22,523	4,505	0	112,616	56,308	0	56,308	2,013	50.0%	76,929
2018	87,300	22,974	4,595	20,764	135,633	67,816	0	67,816	2,424	50.0%	71,743
2019	89,046	23,433	4,687	40,628	157,794	78,897	0	78,897	2,821	50.0%	66,680
2020	90,827	23,902	4,780	55,846	175,355	87,677	0	87,677	3,134	50.0%	61,981
2021	88,102	24,380	4,876	88,081	205,439	102,719	3,117	99,602	3,561	51.5%	59,257
2022	85,459	24,867	4,973	107,249	222,549	111,275	6,675	104,599	3,739	53.0%	55,482
2023	82,895	25,365	5,073	128,125	241,458	120,729	10,882	109,847	3,927	54.5%	51,398
2024	80,409	25,872	5,174	432,207	543,662	271,831	156,472	115,359	4,124	78.8%	47,698
2025	77,996	26,390	5,278	602,912	712,576	356,288	235,141	121,147	4,331	83.0%	44,021
2026	75,656	26,917	5,383	440,401	548,358	274,179	146,954	127,225	4,548	76.8%	40,509
2027	73,387	27,456	5,491	566,180	672,513	336,257	202,648	133,608	4,776	80.1%	37,144
2028	71,185	28,005	5,601	603,037	707,828	353,914	213,602	140,312	5,016	80.2%	34,068
2029	69,050	28,565	5,713	732,227	835,554	417,777	270,425	147,352	5,268	82.4%	
2030	66,978	29,136	5,827	736,963	838,904	419,452	264,707	154,745	5,532	81.6%	
2031	64,969	29,719	5,944	723,550	824,182	412,091	249,582	162,509	5,810	80.3%	
2039	50,919	34,820	6,964	550,413	643,116	321,558	81,141	240,417	8,595	62.6%	
2040	49,391	35,517	7,103	486,802	578,813	289,407	36,927	252,480	9,026	56.4%	
Sums	2,171,937	811,362	162,272	10,805,290	13,950,860	6,769,350	3,069,854	3,699,496	132,257		1,219,342
					100.0%	**48.5%**	**22.0%**	**26.5%**	**0.9%**	**73.5%**	
NPV in 2010 at		**5%**		3,883,110	5,522,844	2,578,955	1,138,221	1,440,734	51,506		
Note: NWT annual population growth equal to			1.50%		**100.0%**	**46.7%**	**20.6%**	**26.1%**	**0.9%**	**73.9%**	
Sums 2015 to 2040					13,538,700	6,769,350		3,699,496	132,257	**72.7%**	

SCHEDULE 2.1.4 GNWT BUDGET – LOW CASE - WITH DEVOLUTION in 2015, with AIP proposed Net Fiscal Benefit

NOTE: WITH DEVOLUTION

GNWT BUDGET FORECAST - 2010 to 2040 - LOW CASE (assumes 2% inflation)

	REVENUES									EXPENDITURES					
	GEB		**GNWT Own Revenues**			Fraction of OSR for TFF									
Calendar Year		New Rev from Dev A base Tr	Basic	New from MGP (taxes etc)	New from Dev Res Rev NFB	Calculation 70.00%	**TFF**	GNWT Other Transfers	**GNWT Total Budget Revenues**	Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other	**GNWT Total Expenditures**	**GNWT Surplus/ Deficit**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	347,000	0	0	242,900	920,505	90,000	1,357,505	1,293,000	44,000	0	0	1,337,000	20,505
2011	1,212,886	0	355,675	0	0	248,973	963,913	90,450	1,410,038	1,342,279	45,676	0	0	1,387,955	22,083
2012	1,261,191	0	364,567	0	0	255,197	1,005,994	90,902	1,461,463	1,393,436	47,416	0	0	1,440,851	20,612
2013	1,311,420	0	373,681	0	0	261,577	1,049,843	91,357	1,514,881	1,446,542	49,222	0	0	1,495,764	19,117
2014	1,363,649	0	383,023	0	0	268,116	1,095,533	91,814	1,570,370	1,501,673	51,097	0	0	1,552,770	17,600
2015	1,417,959	79,588	392,599	0	54,122	274,819	1,222,728	92,273	1,761,721	1,558,905	53,043	0	79,588	1,691,535	70,185
2016	1,474,432	82,757	402,414	0	55,204	281,690	1,275,500	92,734	1,825,851	1,618,318	55,063	0	82,757	1,756,138	69,713
2017	1,533,154	86,053	412,474	0	56,308	288,732	1,330,475	93,198	1,892,455	1,679,995	57,160	0	86,053	1,823,209	69,246
2018	1,594,214	89,481	422,786	0	57,434	295,950	1,387,745	93,664	1,961,628	1,744,023	59,338	0	89,481	1,892,842	68,787
2019	1,657,706	93,044	433,355	0	58,583	303,349	1,447,402	94,132	2,033,472	1,810,492	61,598	0	93,044	1,965,134	68,339
2020	1,723,728	96,750	444,189	0	59,755	310,933	1,509,545	94,603	2,108,092	1,879,493	63,944	0	96,750	2,040,187	67,904
2021	1,792,378	100,603	455,294	0	58,679	318,706	1,574,275	95,076	2,183,324	1,951,124	66,380	0	100,603	2,118,107	65,217
2022	1,863,763	104,610	466,676	0	57,650	326,673	1,641,699	95,551	2,261,576	2,025,486	68,908	0	104,610	2,199,004	62,573
2023	1,937,990	108,776	478,343	0	56,667	334,840	1,711,926	96,029	2,342,965	2,102,681	71,533	0	108,776	2,282,990	59,975
2024	2,015,174	113,108	490,302	0	55,728	343,211	1,785,071	96,509	2,427,609	2,182,818	74,257	0	113,108	2,370,184	57,425
2025	2,095,432	117,613	502,559	0	54,832	351,792	1,861,253	96,991	2,515,636	2,266,010	77,086	0	117,613	2,460,709	54,927
2026	2,178,886	122,297	515,123	0	53,979	360,586	1,940,597	97,476	2,607,175	2,352,372	80,022	0	122,297	2,554,691	52,484
2027	2,265,664	127,168	528,002	0	53,167	369,601	2,023,231	97,964	2,702,363	2,442,026	83,070	0	127,168	2,652,264	50,099
2028	2,355,898	132,233	541,202	0	52,395	378,841	2,109,289	98,454	2,801,340	2,535,096	86,234	0	132,233	2,753,563	47,777
2029	2,449,725	137,499	554,732	0	51,664	388,312	2,198,912	98,946	2,904,254	2,631,714	89,518	0	137,499	2,858,732	45,522
2030	2,547,290	142,975	568,600	0	50,971	398,020	2,292,245	99,441	3,011,257	2,732,014	92,928	0	142,975	2,967,917	43,339
2031	2,648,740	148,669	582,815	0	50,316	407,970	2,389,439	99,938	3,122,508	2,836,137	96,468	0	148,669	3,081,274	41,234
2039	3,620,155	203,193	710,103	0	46,352	497,072	3,326,276	104,006	4,186,737	3,825,436	130,095	0	203,193	4,158,724	28,014
2040	3,764,334	211,286	727,856	0	46,006	509,499	3,466,121	104,526	4,344,509	3,971,231	135,050	0	211,286	4,317,567	26,942
Sums to 2011 to 2040		3,518,064	15,615,094	0	1,366,705	10,930,566	60,415,555	2,919,727	80,317,081	72,950,832	2,481,481	0	3,518,064	78,950,377	1,366,705
Note: NWT annual population growth				0.50%											

SCHEDULE 2.1.5 GNWT BUDGET – MIDDLE CASE - WITH DEVOLUTION in 2015, with AIP proposed Net Fiscal Benefit

NOTE: WITH DEVOLUTION

GNWT BUDGET FORECAST - 2010 TO 2040 - MIDDLE CASE (assumes 2% inflation)

	REVENUES									**EXPENDITURES**					
	GEB		**GNWT Own Revenues**			Fraction of OSR for TFF		GNWT	**GNWT**					**GNWT**	**GNWT**
Calendar Year		New Rev from Dev A base Tr	Basic	New from MGP (taxes etc)	New from Dev Res Rev NFB	Calculation 70.00%	**TFF**	Other Transfers	**Total Budget Revenues**	Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other	**Total Expenditures**	**Surplus/ Deficit**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	347,000	0	0	242,900	920,505	90,000	1,357,505	1,293,000	44,000	0	0	1,337,000	20,505
2011	1,216,904	0	357,410	0	0	250,187	966,717	90,900	1,415,027	1,348,744	45,896	0	0	1,394,640	20,388
2012	1,271,665	0	368,132	0	0	257,693	1,013,972	91,809	1,473,914	1,406,891	47,874	0	0	1,454,764	19,149
2013	1,328,890	0	379,176	40,000	0	293,423	1,035,467	92,727	1,547,370	1,467,545	49,936	36,500	0	1,553,981	-6,611
2014	1,388,690	0	390,552	80,000	0	329,386	1,059,304	93,654	1,623,510	1,530,814	52,088	36,500	0	1,619,402	4,108
2015	1,451,181	81,452	402,268	100,000	54,122	351,588	1,181,046	94,591	1,832,026	1,596,810	54,333	36,500	81,452	1,769,095	62,931
2016	1,516,484	85,118	414,336	150,000	55,204	395,035	1,206,567	95,537	1,921,644	1,665,652	56,674	36,500	85,118	1,843,943	77,700
2017	1,584,726	88,948	426,766	200,000	56,308	438,736	1,234,938	96,492	2,014,504	1,737,461	59,116	36,500	88,948	1,922,025	92,479
2018	1,656,039	92,951	439,569	200,000	64,884	447,698	1,301,291	97,457	2,103,201	1,812,367	61,663	36,500	92,951	2,003,481	99,720
2019	1,730,560	97,133	452,756	200,000	73,813	456,929	1,370,764	98,432	2,195,766	1,890,502	64,320	36,500	97,133	2,088,455	107,310
2020	1,808,436	101,505	466,339	150,000	80,777	431,437	1,478,503	99,416	2,275,035	1,972,005	67,092	36,500	101,505	2,177,101	97,934
2021	1,889,815	106,072	480,329	100,000	92,188	406,230	1,589,657	100,410	2,362,584	2,057,022	69,982	36,500	106,072	2,269,577	93,007
2022	1,974,857	110,845	494,739	100,000	98,743	416,317	1,669,385	101,414	2,464,281	2,145,705	72,998	36,500	110,845	2,366,048	98,233
2023	2,063,725	115,833	509,581	100,000	103,186	426,707	1,752,852	102,428	2,568,048	2,238,210	76,143	0	115,833	2,430,187	137,861
2024	2,156,593	121,046	524,869	100,000	107,830	437,408	1,840,231	103,453	2,676,382	2,334,704	79,424	0	121,046	2,535,174	141,208
2025	2,253,640	126,493	540,615	100,000	112,682	448,430	1,931,703	104,487	2,789,486	2,435,358	82,847	0	126,493	2,644,698	144,789
2026	2,355,054	132,185	556,833	100,000	109,313	459,783	2,027,456	105,532	2,899,134	2,540,351	86,416	0	132,185	2,758,953	140,181
2027	2,461,031	138,134	573,538	100,000	123,052	471,477	2,127,688	106,587	3,030,865	2,649,871	90,140	0	138,134	2,878,144	152,721
2028	2,571,777	144,350	590,744	100,000	128,589	483,521	2,232,606	107,653	3,159,592	2,764,112	94,024	0	144,350	3,002,486	157,107
2029	2,687,507	150,845	608,467	100,000	134,375	495,927	2,342,426	108,730	3,293,998	2,883,278	98,076	0	150,845	3,132,199	161,798
2030	2,808,445	157,633	626,721	90,000	140,422	501,704	2,464,374	109,817	3,431,334	3,007,582	102,302	0	157,633	3,267,517	163,817
2031	2,934,825	164,727	645,522	80,000	146,741	507,866	2,591,687	110,915	3,574,865	3,137,245	106,710	0	164,727	3,408,682	166,183
2039	4,173,617	234,258	817,728	60,000	163,558	614,410	3,793,465	120,105	4,954,857	4,397,401	149,546	0	234,258	4,781,206	173,651
2040	4,361,429	244,800	842,260	60,000	144,044	631,582	3,974,647	121,306	5,142,258	4,586,982	155,990	0	244,800	4,987,772	154,485
Sums to 2011 to 2040		3,874,743	17,003,929	2,796,000	3,113,662	13,859,951	64,254,558	3,161,947	90,330,096	79,699,170	2,711,017	365,000	3,874,743	86,649,929	3,680,167
Note: NWT annual population growth				1.00%											

SCHEDULE 2.1.6 GNWT BUDGET – HIGH CASE - WITH DEVOLUTION in 2015, with AIP proposed Net Fiscal Benefit

NOTE: WITH DEVOLUTION

GNWT BUDGET FORECAST - 2010 TO 2040 - HIGH CASE (assumes 2% inflation)

	REVENUES									**EXPENDITURES**					
Calendar Year	**GEB**	GEB: New Rev from Dev A base Tr	**GNWT Own Revenues**: Basic	GNWT Own Revenues: New from MGP (taxes etc)	GNWT Own Revenues: New from Dev Res Rev NFB	Fraction of OSR for TFF Calculation 70.00%	**TFF**	GNWT Other Transfers	**GNWT Total Budget Revenues**	Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other	**GNWT Total Expenditures**	**GNWT Surplus/ Deficit**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	347,000	0	0	242,900	920,505	90,000	1,357,505	1,293,000	44,000	0	0	1,337,000	20,505
2011	1,220,923	0	359,145	0	0	251,402	969,522	91,350	1,420,017	1,355,209	46,116	0	0	1,401,325	18,692
2012	1,282,181	0	371,715	0	0	260,201	1,021,980	92,720	1,486,416	1,420,411	48,334	0	0	1,468,744	17,671
2013	1,346,512	0	384,725	52,720	0	306,212	1,040,300	94,111	1,571,857	1,488,750	50,658	36,500	0	1,575,907	-4,051
2014	1,414,071	0	398,190	105,440	0	352,541	1,061,530	95,523	1,660,683	1,560,376	53,094	36,500	0	1,649,970	10,712
2015	1,485,019	83,352	412,127	131,800	54,122	380,749	1,187,622	96,956	1,882,626	1,635,449	55,647	36,500	83,352	1,810,948	71,678
2016	1,559,528	87,534	426,552	197,700	55,204	436,976	1,210,085	98,410	1,987,951	1,714,134	58,323	36,500	87,534	1,896,491	91,460
2017	1,637,774	91,926	441,481	263,600	56,308	493,557	1,236,143	99,886	2,097,418	1,796,604	61,128	36,500	91,926	1,986,158	111,260
2018	1,719,947	96,538	456,933	263,600	67,816	504,373	1,312,112	101,384	2,201,845	1,883,043	64,068	36,500	96,538	2,080,148	121,697
2019	1,806,242	101,381	472,925	263,600	78,897	515,568	1,392,056	102,905	2,310,383	1,973,640	67,149	36,500	101,381	2,178,670	131,714
2020	1,896,867	106,468	489,478	197,700	87,677	481,024	1,522,311	104,449	2,401,615	2,068,595	70,378	36,500	106,468	2,281,941	119,674
2021	1,992,039	111,810	506,609	131,800	99,602	446,887	1,656,963	106,015	2,500,989	2,168,120	73,762	36,500	111,810	2,390,192	110,798
2022	2,091,986	117,420	524,341	131,800	104,599	459,299	1,750,108	107,606	2,618,453	2,272,432	77,309	36,500	117,420	2,503,661	114,792
2023	2,196,948	123,311	542,693	131,800	109,847	472,145	1,848,114	109,220	2,741,674	2,381,764	81,027	0	123,311	2,586,102	155,572
2024	2,307,176	129,498	561,687	131,800	115,359	485,441	1,951,233	110,858	2,870,937	2,496,355	84,924	0	129,498	2,710,777	160,160
2025	2,422,935	135,995	581,346	131,800	121,147	499,202	2,059,728	112,521	3,006,542	2,616,460	89,008	0	135,995	2,841,463	165,079
2026	2,544,501	142,819	601,693	131,800	127,225	513,445	2,173,875	114,209	3,148,802	2,742,343	93,288	0	142,819	2,978,449	170,352
2027	2,672,167	149,984	622,752	131,800	133,608	528,187	2,293,965	115,922	3,298,048	2,874,283	97,774	0	149,984	3,122,041	176,007
2028	2,806,239	157,510	644,549	131,800	140,312	543,444	2,420,304	117,661	3,454,625	3,012,570	102,476	0	157,510	3,272,556	182,070
2029	2,947,037	165,412	667,108	131,800	147,352	559,236	2,553,214	119,426	3,618,899	3,157,511	107,404	0	165,412	3,430,327	188,572
2030	3,094,899	173,712	690,457	118,620	154,745	566,354	2,702,257	121,217	3,787,296	3,309,425	112,569	0	173,712	3,595,706	191,590
2031	3,250,181	182,427	714,623	105,440	162,509	574,044	2,858,564	123,035	3,964,171	3,468,648	117,982	0	182,427	3,769,058	195,113
2039	4,808,340	269,884	941,022	79,080	240,417	714,071	4,364,153	138,598	5,763,270	5,051,518	171,792	0	269,884	5,493,194	270,076
2040	5,049,590	283,425	973,957	79,080	252,480	737,126	4,595,889	140,677	6,042,083	5,294,557	180,053	0	283,425	5,758,035	284,048
Sums to 2011 to 2040		4,271,076	18,540,026	3,685,128	3,699,496	15,557,608	70,071,959	3,429,159	99,425,768	87,173,215	2,965,235	365,000	4,271,076	94,774,526	4,651,242
Note: NWT annual population growth				1.50%											

SCHEDULE 2.1.7 LOW CASE - WITH DEVOLUTION, with Modified Net Fiscal Benefit & 2007 AIP Resource Revenue Sharing

					WITH DEVOLUTION IN YEAR	2015					
	Forecast of NWT Resource Revenues - Low Case without MGP					Net Fiscal Benefit & sharing by GNWT			Sharing by GTC		
	Diamond & Mining Royalties post 2020 decl rate 5.00%	Other Oil & Gas Royalties and rents	Other Resource Revenues (incl renewables)	MGP Royalties No MGP	TOTAL Resource Revenues in NWT	Initial Calculation of GNWT Share 100.00%	Clawed Back by Canada	Net Fiscal Benefit Max limited to 15% of GEB	Potential for Gwich'in 25% of NFB X 14.30% of Ab. Share	Canada's Share of NWT Resource Revenues	Recent Estimate of Norman Wells 1/3 Federal "Crown Interest" yes
	$000	$000	$000	$000	$000	$000	$000	$000	$000	%	$000
				Inflation of	2.00%						
				Nominal Cdn dollars							included
2011	76,000	20,000	4,000	0	210,591	0	0	0	0	100.0%	110,591
2012	77,520	20,400	4,080	0	205,650	0	0	0	0	100.0%	103,650
2013	79,070	20,808	4,162	0	201,170	0	0	0	0	100.0%	97,130
2014	80,652	21,224	4,245	0	195,998	0	0	0	0	100.0%	89,877
2015	82,265	21,649	4,330	0	196,624	196,624	0	196,624	7,029	0.0%	88,381
2016	83,910	22,082	4,416	0	193,212	193,212	0	193,212	6,907	0.0%	82,804
2017	85,588	22,523	4,505	0	189,545	189,545	0	189,545	6,776	0.0%	76,929
2018	87,300	22,974	4,595	0	186,611	186,611	0	186,611	6,671	0.0%	71,743
2019	89,046	23,433	4,687	0	183,846	183,846	0	183,846	6,572	0.0%	66,680
2020	90,827	23,902	4,780	0	181,490	181,490	0	181,490	6,488	0.0%	61,981
2021	88,102	24,380	4,876	0	176,615	176,615	0	176,615	6,314	0.0%	59,257
2022	85,459	24,867	4,973	0	170,782	170,782	0	170,782	6,105	0.0%	55,482
2023	82,895	25,365	5,073	0	164,731	164,731	0	164,731	5,889	0.0%	51,398
2024	80,409	25,872	5,174	0	159,153	159,153	0	159,153	5,690	0.0%	47,698
2025	77,996	26,390	5,278	0	153,684	153,684	0	153,684	5,494	0.0%	44,021
2026	75,656	26,917	5,383	0	148,466	148,466	0	148,466	5,308	0.0%	40,509
2027	73,387	27,456	5,491	0	143,478	143,478	0	143,478	5,129	0.0%	37,144
2028	71,185	28,005	5,601	0	138,859	138,859	0	138,859	4,964	0.0%	34,068
2029	69,050	28,565	5,713	0	103,327	103,327	0	103,327	3,694	0.0%	
2030	66,978	29,136	5,827	0	101,942	101,942	0	101,942	3,644	0.0%	
2031	64,969	29,719	5,944	0	100,631	100,631	0	100,631	3,598	0.0%	
2039	50,919	34,820	6,964	0	92,703	92,703	0	92,703	3,314	0.0%	
2040	49,391	35,517	7,103	0	92,012	92,012	0	92,012	3,289	0.0%	
Sums	2,171,937	811,362	162,272	0	4,364,912	3,551,503	0	3,551,503	126,966		1,219,342
					100.0%	**81.4%**	**0.0%**	**81.4%**	**2.9%**	**18.6%**	
NPV in 2010 at	**5%**			0	2,499,204	1,777,084	0	1,777,084	63,531		
Note: NWT annual population growth equal to		0.50%			**100.0%**	**71.1%**	**0.0%**	**71.1%**	**2.5%**	**28.9%**	
Sums 2015 to 2040					3,551,503	3,551,503		3,551,503	126,966	**0.0%**	

SCHEDULE 2.1.8 MIDDLE CASE - WITH DEVOLUTION, with Modified Net Fiscal Benefit & 2007 AIP Resource Revenue Sharing

					WITH DEVOLUTION IN YEAR		2015				
	Forecast of NWT Resource Revenues - Middle Case					**Net Fiscal Benefit & sharing by GNWT**			**Sharing by GTC**		
	Diamond & Mining Royalties post 2020 decl rate 5.00%	**Other Oil & Gas** Royalties and rents	**Other** Resource Revenues (incl renewables)	**MGP** Royalties Wright Mansell Case A2-7 delayed	**TOTAL Resource Revenues in NWT**	**Initial Calculation of GNWT Share** 100.00%	**Clawed Back by Canada**	**Net Fiscal Benefit** Max limited to 15% of GEB	**Potential for Gwich'in** 25% of NFB X 14.30% of Ab. Share	**Canada's Share of NWT Resource Revenues**	Recent Estimate of Norman Wells 1/3 Federal "Crown Interest"
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**%**	**$000**
				Inflation of	2.00%						
				Nominal Cdn dollars							**included**
2011	76,000	20,000	4,000	0	210,591	0	0	0	0	100.0%	110,591
2012	77,520	20,400	4,080	0	205,650	0	0	0	0	100.0%	103,650
2013	79,070	20,808	4,162	0	201,170	0	0	0	0	100.0%	97,130
2014	80,652	21,224	4,245	0	195,998	0	0	0	0	100.0%	89,877
2015	82,265	21,649	4,330	0	196,624	196,624	0	196,624	7,029	0.0%	88,381
2016	83,910	22,082	4,416	0	193,212	193,212	0	193,212	6,907	0.0%	82,804
2017	85,588	22,523	4,505	0	189,545	189,545	0	189,545	6,776	0.0%	76,929
2018	87,300	22,974	4,595	14,899	201,510	201,510	0	201,510	7,204	0.0%	71,743
2019	89,046	23,433	4,687	30,460	214,306	214,306	0	214,306	7,661	0.0%	66,680
2020	90,827	23,902	4,780	42,045	223,535	223,535	0	223,535	7,991	0.0%	61,981
2021	88,102	24,380	4,876	67,017	243,633	243,633	0	243,633	8,710	0.0%	59,257
2022	85,459	24,867	4,973	82,250	253,032	253,032	0	253,032	9,046	0.0%	55,482
2023	82,895	25,365	5,073	98,929	263,661	263,661	0	263,661	9,426	0.0%	51,398
2024	80,409	25,872	5,174	115,835	274,988	274,988	0	274,988	9,831	0.0%	47,698
2025	77,996	26,390	5,278	116,779	270,463	270,463	0	270,463	9,669	0.0%	44,021
2026	75,656	26,917	5,383	110,669	259,135	259,135	0	259,135	9,264	0.0%	40,509
2027	73,387	27,456	5,491	366,225	509,703	509,703	140,548	369,155	13,197	27.6%	37,144
2028	71,185	28,005	5,601	242,798	381,657	381,657	0	381,657	13,644	0.0%	34,068
2029	69,050	28,565	5,713	383,646	486,974	486,974	83,848	403,126	14,412	17.2%	
2030	66,978	29,136	5,827	397,396	499,338	499,338	78,071	421,267	15,060	15.6%	
2031	64,969	29,719	5,944	376,869	477,500	477,500	37,276	440,224	15,738	7.8%	
2039	50,919	34,820	6,964	234,413	327,117	327,117	0	327,117	11,694	0.0%	
2040	49,391	35,517	7,103	196,076	288,088	288,088	0	288,088	10,299	0.0%	
Sums	2,171,937	811,362	162,272	4,671,763	9,036,675	8,223,266	339,743	7,883,523	281,836		1,219,342
					100.0%	**91.0%**	**3.8%**	**87.2%**	**3.1%**	**12.8%**	
NPV in 2010 at	**5%**			1,697,453	4,196,657	3,474,537	137,306	3,337,231	119,306		
Note: NWT annual population growth equal to		1.00%			**100.0%**	**82.8%**	**3.3%**	**79.5%**	**2.8%**	**20.5%**	
Sums 2015 to 2040					8,223,266	8,223,266		7,883,523	281,836	**4.1%**	

SCHEDULE 2.1.9 HIGH CASE - WITH DEVOLUTION, with Modified Net Fiscal Benefit & 2007 AIP Resource Revenue Sharing

	Forecast of NWT Resource Revenues - High Case					Net Fiscal Benefit & sharing by GNWT			Sharing by GTC		
				WITH DEVOLUTION IN YEAR	2015						
	Diamond & Mining Royalties post 2020 decl rate 5.00%	Other Oil & Gas Royalties and rents	Other Resource Revenues (incl renewables)	MGP Royalties Wright Mansell Case 2-8 delayed	TOTAL Resource Revenues in NWT	Initial Calculation of GNWT Share 100.00%	Clawed Back by Canada	Net Fiscal Benefit Max limited to 15% of GEB	Potential for Gwich'in 25% of NFB X 14.30% of Ab. Share	Canada's Share of NWT Resource Revenues	Recent Estimate of Norman Wells 1/3 Federal "Crown Interest"
	$000	$000	$000	$000	$000	$000	$000	$000	$000	%	$000
				Inflation of	2.00%						
				Nominal Cdn dollars							included
2011	76,000	20,000	4,000	0	210,591	0	0	0	0	100.0%	110,591
2012	77,520	20,400	4,080	0	205,650	0	0	0	0	100.0%	103,650
2013	79,070	20,808	4,162	0	201,170	0	0	0	0	100.0%	97,130
2014	80,652	21,224	4,245	0	195,998	0	0	0	0	100.0%	89,877
2015	82,265	21,649	4,330	0	196,624	196,624	0	196,624	7,029	0.0%	88,381
2016	83,910	22,082	4,416	0	193,212	193,212	0	193,212	6,907	0.0%	82,804
2017	85,588	22,523	4,505	0	189,545	189,545	0	189,545	6,776	0.0%	76,929
2018	87,300	22,974	4,595	20,764	207,375	207,375	0	207,375	7,414	0.0%	71,743
2019	89,046	23,433	4,687	40,628	224,474	224,474	0	224,474	8,025	0.0%	66,680
2020	90,827	23,902	4,780	55,846	237,336	237,336	0	237,336	8,485	0.0%	61,981
2021	88,102	24,380	4,876	88,081	264,696	264,696	0	264,696	9,463	0.0%	59,257
2022	85,459	24,867	4,973	107,249	278,031	278,031	0	278,031	9,940	0.0%	55,482
2023	82,895	25,365	5,073	128,125	292,856	292,856	0	292,856	10,470	0.0%	51,398
2024	80,409	25,872	5,174	432,207	591,360	591,360	245,283	346,076	12,372	41.5%	47,698
2025	77,996	26,390	5,278	602,912	756,597	756,597	393,157	363,440	12,993	52.0%	44,021
2026	75,656	26,917	5,383	440,401	588,867	588,867	207,192	381,675	13,645	35.2%	40,509
2027	73,387	27,456	5,491	566,180	709,658	709,658	308,833	400,825	14,329	43.5%	37,144
2028	71,185	28,005	5,601	603,037	741,896	741,896	320,960	420,936	15,048	43.3%	34,068
2029	69,050	28,565	5,713	732,227	835,554	835,554	393,498	442,056	15,803	47.1%	
2030	66,978	29,136	5,827	736,963	838,904	838,904	374,669	464,235	16,596	44.7%	
2031	64,969	29,719	5,944	723,550	824,182	824,182	336,655	487,527	17,429	40.8%	
2039	50,919	34,820	6,964	550,413	643,116	643,116	0	643,116	22,991	0.0%	
2040	49,391	35,517	7,103	486,802	578,813	578,813	0	578,813	20,693	0.0%	
Sums	2,171,937	811,362	162,272	10,805,290	15,170,202	14,356,793	3,739,233	10,617,560	379,578		1,219,342
					100.0%	**94.6%**	**24.6%**	**70.0%**	**2.5%**	**30.0%**	
NPV in 2010 at		**5%**		3,883,110	6,382,314	5,660,194	1,459,578	4,200,616	150,172		
Note: NWT annual population growth equal to			1.50%		**100.0%**	**88.7%**	**22.9%**	**65.8%**	**2.4%**	**34.2%**	
Sums 2015 to 2040					14,356,793	14,356,793		10,617,560	379,578	**26.0%**	

SCHEDULE 2.1.10 GNWT BUDGET – LOW CASE - WITH DEVOLUTION in 2015, with Modified Net Fiscal Benefit

NOTE: WITH DEVOLUTION

GNWT BUDGET FORECAST - 2010 to 2040 - LOW CASE (assumes 2% inflation)

	REVENUES									**EXPENDITURES**					
	GEB		**GNWT Own Revenues**			Fraction of OSR for TFF		GNWT	**GNWT**					**GNWT**	**GNWT**
Calendar Year		New Rev from Dev A base Tr	Basic	New from MGP (taxes etc)	New from Dev Res Rev NFB	Calculation 70.00%	**TFF**	Other Transfers	**Total Budget Revenues**	Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other	**Total Expenditures**	**Surplus/ Deficit**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	347,000	0	0	242,900	920,505	90,000	1,357,505	1,293,000	44,000	0	0	1,337,000	20,505
2011	1,212,886	0	355,675	0	0	248,973	963,913	90,450	1,410,038	1,342,279	45,676	0	0	1,387,955	22,083
2012	1,261,191	0	364,567	0	0	255,197	1,005,994	90,902	1,461,463	1,393,436	47,416	0	0	1,440,851	20,612
2013	1,311,420	0	373,681	0	0	261,577	1,049,843	91,357	1,514,881	1,446,542	49,222	0	0	1,495,764	19,117
2014	1,363,649	0	383,023	0	0	268,116	1,095,533	91,814	1,570,370	1,501,673	51,097	0	0	1,552,770	17,600
2015	1,417,959	79,588	392,599	0	196,624	274,819	1,222,728	92,273	1,904,223	1,558,905	53,043	0	79,588	1,691,535	212,688
2016	1,474,432	82,757	402,414	0	193,212	281,690	1,275,500	92,734	1,963,859	1,618,318	55,063	0	82,757	1,756,138	207,720
2017	1,533,154	86,053	412,474	0	189,545	288,732	1,330,475	93,198	2,025,692	1,679,995	57,160	0	86,053	1,823,209	202,483
2018	1,594,214	89,481	422,786	0	186,611	295,950	1,387,745	93,664	2,090,805	1,744,023	59,338	0	89,481	1,892,842	197,964
2019	1,657,706	93,044	433,355	0	183,846	303,349	1,447,402	94,132	2,158,735	1,810,492	61,598	0	93,044	1,965,134	193,602
2020	1,723,728	96,750	444,189	0	181,490	310,933	1,509,545	94,603	2,229,827	1,879,493	63,944	0	96,750	2,040,187	189,640
2021	1,792,378	100,603	455,294	0	176,615	318,706	1,574,275	95,076	2,301,260	1,951,124	66,380	0	100,603	2,118,107	183,153
2022	1,863,763	104,610	466,676	0	170,782	326,673	1,641,699	95,551	2,374,708	2,025,486	68,908	0	104,610	2,199,004	175,705
2023	1,937,990	108,776	478,343	0	164,731	334,840	1,711,926	96,029	2,451,029	2,102,681	71,533	0	108,776	2,282,990	168,039
2024	2,015,174	113,108	490,302	0	159,153	343,211	1,785,071	96,509	2,531,034	2,182,818	74,257	0	113,108	2,370,184	160,850
2025	2,095,432	117,613	502,559	0	153,684	351,792	1,861,253	96,991	2,614,488	2,266,010	77,086	0	117,613	2,460,709	153,780
2026	2,178,886	122,297	515,123	0	148,466	360,586	1,940,597	97,476	2,701,662	2,352,372	80,022	0	122,297	2,554,691	146,971
2027	2,265,664	127,168	528,002	0	143,478	369,601	2,023,231	97,964	2,792,674	2,442,026	83,070	0	127,168	2,652,264	140,410
2028	2,355,898	132,233	541,202	0	138,859	378,841	2,109,289	98,454	2,887,803	2,535,096	86,234	0	132,233	2,753,563	134,240
2029	2,449,725	137,499	554,732	0	103,327	388,312	2,198,912	98,946	2,955,917	2,631,714	89,518	0	137,499	2,858,732	97,186
2030	2,547,290	142,975	568,600	0	101,942	398,020	2,292,245	99,441	3,062,227	2,732,014	92,928	0	142,975	2,967,917	94,310
2031	2,648,740	148,669	582,815	0	100,631	407,970	2,389,439	99,938	3,172,823	2,836,137	96,468	0	148,669	3,081,274	91,550
2039	3,620,155	203,193	710,103	0	92,703	497,072	3,326,276	104,006	4,233,089	3,825,436	130,095	0	203,193	4,158,724	74,365
2040	3,764,334	211,286	727,856	0	92,012	509,499	3,466,121	104,526	4,390,514	3,971,231	135,050	0	211,286	4,317,567	72,948
Sums to 2011 to 2040		3,518,064	15,615,094	0	3,551,503	10,930,566	60,415,555	2,919,727	82,501,880	72,950,832	2,481,481	0	3,518,064	78,950,377	3,551,503
Note: NWT annual population growth				0.50%											

SCHEDULE 2.1.11 GNWT BUDGET – MIDDLE CASE - WITH DEVOLUTION in 2015, with Modified Net Fiscal Benefit

NOTE: WITH DEVOLUTION

GNWT BUDGET FORECAST - 2010 TO 2040 - MIDDLE CASE (assumes 2% inflation)

	REVENUES									EXPENDITURES					
	GEB		**GNWT Own Revenues**			Fraction of OSR for TFF		GNWT	**GNWT**					**GNWT**	**GNWT**
Calendar Year		New Rev from Dev A base Tr	Basic	New from MGP (taxes etc)	New from Dev Res Rev NFB	Calculation 70.00%	**TFF**	Other Transfers	**Total Budget Revenues**	Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other	**Total Expenditures**	**Surplus/ Deficit**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	347,000	0	0	242,900	920,505	90,000	1,357,505	1,293,000	44,000	0	0	1,337,000	20,505
2011	1,216,904	0	357,410	0	0	250,187	966,717	90,900	1,415,027	1,348,744	45,896	0	0	1,394,640	20,388
2012	1,271,665	0	368,132	0	0	257,693	1,013,972	91,809	1,473,914	1,406,891	47,874	0	0	1,454,764	19,149
2013	1,328,890	0	379,176	40,000	0	293,423	1,035,467	92,727	1,547,370	1,467,545	49,936	36,500	0	1,553,981	-6,611
2014	1,388,690	0	390,552	80,000	0	329,386	1,059,304	93,654	1,623,510	1,530,814	52,088	36,500	0	1,619,402	4,108
2015	1,451,181	81,452	402,268	100,000	196,624	351,588	1,181,046	94,591	1,974,529	1,596,810	54,333	36,500	81,452	1,769,095	205,434
2016	1,516,484	85,118	414,336	150,000	193,212	395,035	1,206,567	95,537	2,059,651	1,665,652	56,674	36,500	85,118	1,843,943	215,708
2017	1,584,726	88,948	426,766	200,000	189,545	438,736	1,234,938	96,492	2,147,742	1,737,461	59,116	36,500	88,948	1,922,025	225,716
2018	1,656,039	92,951	439,569	200,000	201,510	447,698	1,301,291	97,457	2,239,827	1,812,367	61,663	36,500	92,951	2,003,481	236,346
2019	1,730,560	97,133	452,756	200,000	214,306	456,929	1,370,764	98,432	2,336,259	1,890,502	64,320	36,500	97,133	2,088,455	247,804
2020	1,808,436	101,505	466,339	150,000	223,535	431,437	1,478,503	99,416	2,417,793	1,972,005	67,092	36,500	101,505	2,177,101	240,692
2021	1,889,815	106,072	480,329	100,000	243,633	406,230	1,589,657	100,410	2,514,029	2,057,022	69,982	36,500	106,072	2,269,577	244,452
2022	1,974,857	110,845	494,739	100,000	253,032	416,317	1,669,385	101,414	2,618,570	2,145,705	72,998	36,500	110,845	2,366,048	252,522
2023	2,063,725	115,833	509,581	100,000	263,661	426,707	1,752,852	102,428	2,728,522	2,238,210	76,143	0	115,833	2,430,187	298,335
2024	2,156,593	121,046	524,869	100,000	274,988	437,408	1,840,231	103,453	2,843,540	2,334,704	79,424	0	121,046	2,535,174	308,366
2025	2,253,640	126,493	540,615	100,000	270,463	448,430	1,931,703	104,487	2,947,267	2,435,358	82,847	0	126,493	2,644,698	302,570
2026	2,355,054	132,185	556,833	100,000	259,135	459,783	2,027,456	105,532	3,048,956	2,540,351	86,416	0	132,185	2,758,953	290,003
2027	2,461,031	138,134	573,538	100,000	369,155	471,477	2,127,688	106,587	3,276,968	2,649,871	90,140	0	138,134	2,878,144	398,824
2028	2,571,777	144,350	590,744	100,000	381,657	483,521	2,232,606	107,653	3,412,661	2,764,112	94,024	0	144,350	3,002,486	410,175
2029	2,687,507	150,845	608,467	100,000	403,126	495,927	2,342,426	108,730	3,562,749	2,883,278	98,076	0	150,845	3,132,199	430,549
2030	2,808,445	157,633	626,721	90,000	421,267	501,704	2,464,374	109,817	3,712,179	3,007,582	102,302	0	157,633	3,267,517	444,661
2031	2,934,825	164,727	645,522	80,000	440,224	507,866	2,591,687	110,915	3,868,348	3,137,245	106,710	0	164,727	3,408,682	459,666
2039	4,173,617	234,258	817,728	60,000	327,117	614,410	3,793,465	120,105	5,118,415	4,397,401	149,546	0	234,258	4,781,206	337,210
2040	4,361,429	244,800	842,260	60,000	288,088	631,582	3,974,647	121,306	5,286,302	4,586,982	155,990	0	244,800	4,987,772	298,529
Sums to 2011 to 2040		3,874,743	17,003,929	2,796,000	7,883,523	13,859,951	64,254,558	3,161,947	95,099,957	79,699,170	2,711,017	365,000	3,874,743	86,649,929	8,450,028
Note: NWT annual population growth				1.00%											

SCHEDULE 2.1.12 GNWT BUDGET – HIGH CASE - WITH DEVOLUTION in 2015, with Modified Net Fiscal Benefit

NOTE: WITH DEVOLUTION															
GNWT BUDGET FORECAST - 2010 TO 2040 - HIGH CASE (assumes 2% inflation)															
	REVENUES									**EXPENDITURES**					
	GEB		**GNWT Own Revenues**			Fraction of OSR for TFF Calculation 70.00%	**TFF**	GNWT Other Transfers	**GNWT Total Budget Revenues**					**GNWT Total Expenditures**	**GNWT Surplus/ Deficit**
Calendar Year		New Rev from Dev A base Tr	Basic	New from MGP (taxes etc)	New from Dev Res Rev NFB					Operations Expenditures	Other	New Costs re MGP	New Costs from Dev Other		
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
2010	1,163,405	0	347,000	0	0	242,900	920,505	90,000	1,357,505	1,293,000	44,000	0	0	1,337,000	20,505
2011	1,220,923	0	359,145	0	0	251,402	969,522	91,350	1,420,017	1,355,209	46,116	0	0	1,401,325	18,692
2012	1,282,181	0	371,715	0	0	260,201	1,021,980	92,720	1,486,416	1,420,411	48,334	0	0	1,468,744	17,671
2013	1,346,512	0	384,725	52,720	0	306,212	1,040,300	94,111	1,571,857	1,488,750	50,658	36,500	0	1,575,907	-4,051
2014	1,414,071	0	398,190	105,440	0	352,541	1,061,530	95,523	1,660,683	1,560,376	53,094	36,500	0	1,649,970	10,712
2015	1,485,019	83,352	412,127	131,800	196,624	380,749	1,187,622	96,956	2,025,129	1,635,449	55,647	36,500	83,352	1,810,948	214,181
2016	1,559,528	87,534	426,552	197,700	193,212	436,976	1,210,085	98,410	2,125,958	1,714,134	58,323	36,500	87,534	1,896,491	229,468
2017	1,637,774	91,926	441,481	263,600	189,545	493,557	1,236,143	99,886	2,230,656	1,796,604	61,128	36,500	91,926	1,986,158	244,498
2018	1,719,947	96,538	456,933	263,600	207,375	504,373	1,312,112	101,384	2,341,404	1,883,043	64,068	36,500	96,538	2,080,148	261,256
2019	1,806,242	101,381	472,925	263,600	224,474	515,568	1,392,056	102,905	2,455,960	1,973,640	67,149	36,500	101,381	2,178,670	277,291
2020	1,896,867	106,468	489,478	197,700	237,336	481,024	1,522,311	104,449	2,551,273	2,068,595	70,378	36,500	106,468	2,281,941	269,332
2021	1,992,039	111,810	506,609	131,800	264,696	446,887	1,656,963	106,015	2,666,083	2,168,120	73,762	36,500	111,810	2,390,192	275,891
2022	2,091,986	117,420	524,341	131,800	278,031	459,299	1,750,108	107,606	2,791,885	2,272,432	77,309	36,500	117,420	2,503,661	288,223
2023	2,196,948	123,311	542,693	131,800	292,856	472,145	1,848,114	109,220	2,924,683	2,381,764	81,027	0	123,311	2,586,102	338,581
2024	2,307,176	129,498	561,687	131,800	346,076	485,441	1,951,233	110,858	3,101,655	2,496,355	84,924	0	129,498	2,710,777	390,878
2025	2,422,935	135,995	581,346	131,800	363,440	499,202	2,059,728	112,521	3,248,835	2,616,460	89,008	0	135,995	2,841,463	407,372
2026	2,544,501	142,819	601,693	131,800	381,675	513,445	2,173,875	114,209	3,403,252	2,742,343	93,288	0	142,819	2,978,449	424,802
2027	2,672,167	149,984	622,752	131,800	400,825	528,187	2,293,965	115,922	3,565,264	2,874,283	97,774	0	149,984	3,122,041	443,223
2028	2,806,239	157,510	644,549	131,800	420,936	543,444	2,420,304	117,661	3,735,249	3,012,570	102,476	0	157,510	3,272,556	462,694
2029	2,947,037	165,412	667,108	131,800	442,056	559,236	2,553,214	119,426	3,913,603	3,157,511	107,404	0	165,412	3,430,327	483,275
2030	3,094,899	173,712	690,457	118,620	464,235	566,354	2,702,257	121,217	4,096,786	3,309,425	112,569	0	173,712	3,595,706	501,080
2031	3,250,181	182,427	714,623	105,440	487,527	574,044	2,858,564	123,035	4,289,189	3,468,648	117,982	0	182,427	3,769,058	520,131
2039	4,808,340	269,884	941,022	79,080	643,116	714,071	4,364,153	138,598	6,165,969	5,051,518	171,792	0	269,884	5,493,194	672,775
2040	5,049,590	283,425	973,957	79,080	578,813	737,126	4,595,889	140,677	6,368,417	5,294,557	180,053	0	283,425	5,758,035	610,381
Sums to 2011 to 2040		4,271,076	18,540,026	3,685,128	10,617,560	15,557,608	70,071,959	3,429,159	106,343,832	87,173,215	2,965,235	365,000	4,271,076	94,774,526	11,569,307
Note: NWT annual population growth				1.50%											

2.2 SHARING OF NET FISCAL BENEFIT

INTRODUCTION

The objective of this Section is as follows:

- Identify and discuss some of the more practical bases upon which the Net Fiscal Benefit from devolution could be shared among NWT public and Aboriginal governments and provide an analysis and recommendations as to which may be best defended and aligned with GTC interests.[71]

SHARING OF NFB AMONGST ABORIGINAL GROUPS

First we consider the possible sharing of the NFB amongst 7 main Aboriginal Parties, or groupings. There are three rather obvious ways to share: 1) by beneficiary population in NWT weighted for the cost of living in the relevant communities, 2) an equal share to each main group, and 3) simply according to the population of beneficiaries. The estimated results are shown in Table 2.2.1. However, it must be underlined that these estimates are **illustrative only** because key issues would have to be negotiated in determining a sharing formula. A primary issue is the population count. Should it include all persons registered with a participating Party? Should it include only those persons resident in NWT? How should any cost of living index be determined, and so forth?

Table 2.2.1

ILLUSTRATIVE SHARING OF NET FISCAL BENEFIT AMONGST ABORIGINAL PARTIES						
				Percent Share by Alternative Calculations		
Seven Main Groupings	2010 Price Index	Approximate Population in NWT	Population X Price Index	Population Weighted by Price Index	1/7 Equal Share	Population Share
	#	#	#	%	%	%
Inuvialuit	173	3,710	642,312	20.2%	14.3%	17.2%
Gwich'in	160	2,200	352,000	11.1%	14.3%	10.2%
Sahtu	183	2,100	383,460	12.1%	14.3%	9.7%
Metis	126	3,800	478,800	15.1%	14.3%	17.6%
Tlicho	139	4,100	568,875	17.9%	14.3%	19.0%
NWT Treaty 8	129	2,800	359,800	11.3%	14.3%	13.0%
Dehcho	135	2,900	390,659	12.3%	14.3%	13.4%
Yellowknife	100					
Totals		21,610	3,175,906	100.0%	100.0%	100.0%
Notes:						
Average Community Price Index and populations, estimated from GNWT Statistics Bureau data.						
Deline is incl with Sahtu.						
Salt River FN is incl with NWT Treaty 8.						
Estimates as of Jan 15 2011.						

[71] Sharing arrangements, for example, could be based on population weighted by a cost of living index, income per capita, or simply population, or possibly the extent of settlement areas, geography, local geology, etc. Each of these alternatives involves various measurement difficulties, and fairness issues.

Again, while emphasizing that these estimates are illustrative, the Gwich'in share is estimated to be higher on the basis of an equal share for each party, followed by population weighted by the Price Index. This ordering of the alternatives will probably hold even after further refinement of the statistics. However, the formula for sharing will have to be negotiated and more accurate statistics should be used. Both the exact parameters and the agreed formula could change the outcomes, as could the number of parties included in any agreement.

OBJECTIVE OF NET FISCAL BENEFIT

In the 2007 AIP, the objective of the Net Fiscal Benefit was described as "to provide the NWT with a positive financial benefit from resource development."[72] And under the General Principles of the AIP it was stated that "NWT residents should be the primary beneficiaries of resource development in the NWT…" and that resource revenues from public lands are public resources and should be used to promote political development and the delivery of government programs and services in the NWT." [73]

While GTC has indicated its serious reservations concerning the 2007 AIP, it has not been rejected by the various Aboriginal Parties to the present discussions. Thus, the proposed sharing of 25% of the Net Fiscal Benefit between GNWT and the Aboriginal groups is still "on the table." This AIP is also instructive as to the stated objectives of the proposed process. It clearly contemplates Aboriginal governments in the NWT as well as GNWT.

SHARING OF NFB BETWEEN GNWT AND ABORIGINAL GROUPS

The 2007 AIP describes the proportion of the NFB to be shared with Aboriginal groups as being "up to 25% of the Net Fiscal Benefit, to be used to promote political development and for the delivery of government programs and services in the NWT." [74] The AIP contemplated that up to seven Aboriginal groups might share in the devolved NFB. The basis for 25% sharing was not stated, and we have to conclude that it is unclear what if any strings were intended to be attached to such initial sharing between GNWT and the Aboriginal groups.

The objective of GNWT sharing the NFB with Aboriginal groups was described as "addressing the relationship between the sharing of the Net Fiscal Benefit and core-capacity, capacity building and funding of self government, recognizing that the sharing of the Net Fiscal Benefit represents an investment from the GNWT in capacity building and Aboriginal self-government." However, the AIP continues; "Canada's responsibilities related to the funding of Aboriginal self-government should not be diminished, replaced or duplicated by the sharing of the Net Fiscal Benefit…" [75]

The most meaningful assessment we can make is that the sharing of the NFB was intended for "capacity building" within the Aboriginal groups, without any specific strings attached. This should be confirmed by GTC (and the other Parties) as the devolution process proceeds.

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[72] See definition of Net Fiscal Benefit in the 2007 AIP.
[73] See sub clauses A and B on the General Principles of the 2007 AIP.
[74] See sub clause G (i) of the 2007 AIP.
[75] See sub clauses E and F of the 2007 AIP.

GTC INTERESTS - CLAIMANT VERSUS SELF-GOVERNMENT [76]

Another way of assessing this issue is to distinguish between GTC as a comprehensive claim organization and GTC as an aspiring self-government organization in the context of the Canadian constitution and both the authorities of the federal government and GNWT. [77]

We may argue that the proposed unrestricted payments in respect to the NFB are payments to GTC as a claim organization, generally relating to the GCLCA including its Section 5. They are not payments attached to devolution of any particular government programs or services, which later may be done under a self-government agreement. This clarification is important as it segregates any existing or future resource revenue sharing that is pursuant to the GCLCA, from whatever resource revenue sharing (or funds transfers) may be appropriate following any future self-government Agreement.

For clarity, we must stress that our understanding is that the proposed 25% share of the NFB, to be paid by GNWT to Aboriginal groups, **would not** constitute a provision for financing the cost of specific government programs or services. However, we recognize that Aboriginal sharing of the NFB would be to assist in capacity building within Aboriginal organizations, and in particular in relation to the development of capabilities related to potential self-government. [78]

ASSESSMENT OF THE 25% SHARING PARAMETER

As discussed above, the 25% sharing of the NFB is not intended to be related to the devolution of any specific government programs or services. Therefore, the resulting dollar amounts cannot be related directly to an expenditure need. We can only speculate that the 25% relates in some way to the fact that the almost exactly 50% of the population of NWT is Aboriginal.

- We can consider a number of possible rationales, based on population, for the sharing parameter. Suppose sharing was 50% to Aboriginal groups and 50% retained by GNWT. Then it could be argued that Aboriginal groups would benefit twice. They would receive their 50% and would also receive the benefits of half of the other 50% since GNWT revenues are for the benefit of all citizens of NWT. Aboriginal groups would in effect receive the benefits of 75% of the NFB.

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[76] These issues are examined further in Section 2.3 of the report.

[77] The Gwich'in have been a self-governing nation from time immemorial, as evidenced by the Government of Canada's willingness to enter into a treaty with the Gwich'in in 1921 (Treaty 11). However, for the analytical purposes of this report it is important to separate GTC interests respecting self-government as contemplated in current self-government negotiations, and other GTC interests.

[78] Looking to future financial arrangements, revenue flows to a self-government will be factored into the determination of the Own Source Revenue (OSR) capacity of the self-government for purposes of determining the level of ongoing financial support from the federal and/or territorial government. On the other hand, revenue flows to a comprehensive claim organization should not be factored into the OSR, as they would be payments in the context of the terms of the GCLCA.

- A second possibility is the one proposed in the AIP: the Aboriginal groups receive 25% of the NFB and GNWT retains 75%. In this case the Aboriginal groups in effect receive the benefit of 62.5% of the NFB (25% plus 50% X 75%).

- Other reasonable possibilities are for Aboriginal groups to receive 30% or 40% of the NFB. Then the benefit to them would be 65% or 70% respectively.

Since we understand that the initial share of the NFB will be provided to Aboriginal groups without any strings attached, we believe that the 25% share is probably a reasonable share. But, as we have discussed previously, our concern is that the NFB itself is too small.

SUMMARY OF POTENTIAL SHARING OF NWT RESOURCE REVENUES BY GTC

Bringing together the various estimates of NWT resource revenues and potential sharing that we have discussed in this section and previous sections of the report, Table 2.2.2 summarizes the revenue benefits that may be expected for GTC and other Aboriginal groups, under the conditions of our 3 forecasts.

Table 2.2.2 [79]

Value of Aboriginal Shares of NWT Resource Revenues, with Devolution					
	All Aboriginal Groups in NWT			**Gwich'in**	
Forecast Cases	**per AIP**	**per Modified AIP including Norman Wells**		**per AIP**	**per Modified AIP including Norman Wells**
	(Present value in 2010, $millions)				
Low	159.6	444.5		22.8	63.5
Midde	315.0	835.1		45.0	119.3
High	360.5	1,051.4		51.5	150.2
Notes:					
Present Values assuming a 5% interest rate.					
These amounts do NOT include the shares of Mackenzie Valley					
royalties, through settled Land Claims.					

As a guide to potential benefits, the present value of resource revenues that would go to GTC range from a low of $22.8 million to a high of $150.2 million in the Cases we have considered. A reasonable guide to the expected value is the result for the Middle Case forecast. In the Middle Case, given the proposed AIP and devolution in 2015, the additional revenues going to GTC have a present value of $45 million, but they could be as high as $119.3 million if the recommended Modified AIP were realized. All benefits, of course, could be higher (or lower) if higher (or lower) oil and gas prices than we have

[79] See Schedules 2.1.1, 2.1.2, 2.1.3 for results given the AIP, and Schedules 2.1.7, 2.1.8, 2.1.9 for the Modified AIP.

forecast were realized. Again, using the Middle Case as a guide, It may also be seen that all NWT Aboriginal groups would receive a total present value of about $315 million under the proposed devolution AIP, and as high as $1,051 million assuming our Modified AIP calculation.

CONCLUSIONS

We conclude that the best way for GTC to share the NFB amongst the Aboriginal groups is to share equally with each regional Aboriginal group (including the Northwest Territory Metis Nation) and let each group determine internally how best to share the regional allocation amongst their membership. However, it is recognized that this may not be acceptable to the groups with larger population bases or internal tensions and may leave the North Slave Metis out completely. As a secondary position we would suggest that NWT population weighted by a cost of living index would be best for GTC. And thirdly, if simplicity is paramount as it may be, the straight per capita allocation would be the next best outcome for its simplicity and equity for all groups. The more complex the sharing formula, the more controversy will arise.

And, provided that there are no specific program strings attached to the initial 25% sharing of the NFB going to Aboriginal groups, we conclude that the proposed 25% share is reasonable.

2.3 RESOURCE REVENUE SHARING AND SELF-GOVERNMENT FINANCING

INTRODUCTION

The objective of this section is to identify and discuss the relationship between Resource Revenue Sharing/Net Fiscal Benefit and GTC interests respecting self-government financing.

As we briefly discussed in Section 2.2 it is important to distinguish between revenue flows to GTC as a comprehensive claim organization and GTC as a future self-government. Through the GCLCA (Chapter 18) the Gwich'in secured ownership rights in Settlements Lands from which revenues may be derived. In addition, the GCLCA (Chapter 9) provides for a share of federal resource royalties from developments in the Mackenzie Valley. These revenues flow from the terms of the comprehensive claim and are separate and distinct from revenue flows to the GTC that may be associated with a future self-government agreement. We would also argue that this distinction would apply to earnings and income the GTC receives through its investment of any funds received pursuant to the GCLCA (Chapter 8), including any income or gains from GTC business ventures which were enabled by funds received under the terms of the GCLCA.

Comprehensive claims revenue is received in response to the stated objectives of the GCLCA which include:

> *1.1.1 To provide for certainty and clarity of rights to ownership and use of lands and resources;*
>
> *1.1.2 To provide the specific rights and benefits in this agreement in exchange for relinquishment by the Gwich'in of certain rights claimed in any part of Canada by treaty or otherwise;*
>
> *1.1.9 To ensure the Gwich'in the opportunity to negotiate self-government agreements.*

Self-government is a recognized inherent right within the meaning of *Section 35 of the Constitution Act, 1982.* Through a self-government agreement or agreements, the GTC will affirm its jurisdiction over governance of Gwich'in territories and citizens. The GTC is not yet a recognized self-governing institution as it has not concluded the necessary self-government agreement with Canada. Once it does, it will receive new revenues required to operate its self-government institutions and deliver territorial-type programs and services to Gwich'in citizens.

These new revenues will be subject to transfer funding agreements, probably similar to the TFF, and it will be important to distinguish self-government funding from funds derived through the terms of the GCLCA.

GTC SHARE OF GNWT NET FISCAL BENEFIT

In Section 2.2 we have already discussed why the proposed initial 25% Aboriginal share of the GNWT Net Fiscal Benefit (NFB) will be a source of revenue for Aboriginal governments, separate and distinct from subsequent revenue transfers for specific government programs and services, pursuant to a self-government agreement. It will be important for GTC to clarify that the initial 25% share has no strings

attached to it. The 2007 resource revenue sharing AIP was clear that additional shares of the NFB would be made available to Aboriginal governments if and when they assumed responsibility to deliver territorial-like programs and services.

We now consider issues pertaining to this subsequent sharing of the NFB, or other means of funding specific self-government programs and services.

THE NFB IN HANDS OF GNWT

The manner in which resource revenues are received by GNWT is a concern for GTC because it could set a precedent for how the share of these revenues is received by the GTC itself, as self-government.

Resource revenues are usually collected by governments, as owners of the resource, and placed into general purpose accounts, to be used for a range of programs and services. It is rare for governments to "earmark" any particular revenue source for financing of specific expenditures. The more prevalent practice is for all revenues from all sources to be placed in a general pool (a consolidated revenue fund) from which all expenditures are funded. [80]

However, the accounting treatment of funds for the purposes of Territorial Formula Financing (TFF) is rather special and can have real consequences. Should NWT resource revenues in the hands of GNWT be considered own-source general government revenues (OSR) for purposes of TFF, then the risk exists that the quantity of resource revenues the GNWT receives would result in an equivalent reduction in the TFF Grant. The GNWT would be no better off financially (e.g. there would be no NFB). Of course we know that the draft Devolution AIP proposes that only 50% of resource revenues received by the GNWT will be included in TFF Grant calculations so the NFB to the GNWT would be 50% of the resource revenues collected. It is also proposed in the draft Devolution AIP to further limit this NFB by imposing a cap on its dollar value of 5% of the Gross Expenditure Base. This was all discussed in earlier sections of this report and arguments advanced as to why 100% of resource revenues should be excluded from TFF Grant calculations and/or why the cap should be 15% instead of 5% (see Section 2.1). It is reviewed here as most likely it will in turn determine the treatment of transfers from GNWT to GTC, in the role of Aboriginal self-government.

There is little doubt that the federal government, and potentially the GNWT, will argue that resource revenues received by GTC, as a self-government, should receive the same treatment as resource revenues received by GNWT. The treatment of resource revenues between Canada and GNWT will set the pattern for treatment between GNWT and Aboriginal self-governments. It is for this reason that the GTC should, as a first line of defense, support the best possible financial outcome for the GNWT in the present devolution negotiations. It seems unlikely that the federal or territorial governments could defend treatment of the GTC in a manner less favourable than GNWT is treated. [81]

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[80] There have been exceptions to this such as the Alberta Heritage Fund and its successors, but for the most part revenues are not "earmarked".

[81] It is at this point important to once again clarify that we are only talking about the share of resource revenues/NFB that accrues to the GTC self-government entity to finance self-government operations and the

A share of resource revenues will not accrue to GTC, as a self-government, until a final self-government agreement is negotiated and has become effective. It may also take time for any prescribed share of resource revenues to cumulate because it may be partially dependent on the pace at which the GTC assumes self-government responsibilities, through program transfer agreements. This was anticipated and addressed in the financial chapter wording the GTC tabled at self-government negotiations in December 2008.

We have argued that it is unlikely that GTC, as a self-government, would be treated any worse than GNWT is treated. Is there a case for GTC to be treated better? There are a couple of arguments which suggest some improvement might be possible.

- By GTC assuming responsibility for territorial programs and services, the GNWT will be relieved of responsibility for a segment of the NWT population that may be disproportionally disturbed by the negative aspects of resource development. Traditional use of the land in the GSA will likely be affected more than elsewhere, given the proposed Inuvik Gas Plant and related other facilities. It is Gwich'in language and culture that will be under stress as a result of development activities. And it may be argued that it is the Gwich'in who will bear the brunt of the negative socio-economic impacts associated with resource development. All of these impacts will tend to increase the need for GTC self-government remedial expenditures.

- In addition to possible suffering from the negative features of active resource development, the socio-economic effects of resource slumps during the "bust" cycle of resource development is likely more onerous in the GSA than elsewhere. When the NWT economy slumps many of the expenditure impacts faced by the GNWT are mitigated through out-migration of the mobile NWT labour force. But Gwich'in citizens and the Gwich'in labour force are less mobile than the general labour force and will require proportionately more government support during economic downturns.

These are two areas in which we would expect the relative need for government expenditures to be disproportionately acute in the GSA, versus those in the NWT as a whole. There are other less obvious differences such as the relative size of the GTC expenditure budget versus that of GNWT. The larger GNWT will have a much greater capacity to absorb unforeseen expenditures. As a result, the GTC would have to cumulate relatively more financial reserves, to address unexpected, uncertain and perhaps rapid expenditure swings.

The foregoing grounds for preferred treatment are rather modest but nevertheless they are real. They should support an argument for a somewhat better fiscal arrangement respecting resource revenues than that accorded to GNWT. We would suggest that if the GNWT does not achieve an exclusion of 100% of resource revenues from the TFF Grant calculation, as recommended in Section 2.1, then the GTC self-government entity should seek such a 100% exemption in its own financing arrangements.

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delivery of provincial/territorial type programs and services to Gwich'in citizens. We are not referring to those resource revenues that accrue to the GTC comprehensive claims organization to use at its discretion.

And, should the GNWT not negotiate a 15% Cap rather than a 5% Cap, then the GTC self-government should seek the higher Cap. [82]

CONCLUSION AND RECOMMENDATIONS

The GTC should:

- Support the best fiscal deal possible for the GNWT through the Devolution process as it will be relevant and possibly critical to GTC self-government financing negotiations

- In its negotiations concerning self-government financing, argue for a better financial arrangement respecting resource revenues than any achieved by the GNWT on the basis that the impacts of resource development on Gwich'in citizens and the GTC self-government will be greater than the proportional impact on the general public and GNWT.

[82] A Cap of more than 15% might be necessary for survival, given the small size of the GTC budget. This can only be determined at the time of a self-government agreement, by examining the components of the GTC budget.

2.4 DEVOLUTION PROGRAM FUNDING

INTRODUCTION

The objective of this section is to assess the adequacy of the proposed funding pursuant to the draft Devolution AIP for the one-time, transitional and ongoing costs associated with the transfer of resource management responsibilities and programs to NWT governments.

The principal one-time and ongoing funding proposals are contained in the Financial Matters Chapter (Chapter 11) of the draft Devolution AIP. However, there are also significant financial implications associated with Waste Sites (Chapter 8), Human Resources (Chapter 9) and Properties, Assets, Contracts and Records (Chapter 10).

Chapter 11 makes provision for one-time funding for both the GNWT and Aboriginal Parties for activities required between the time of the signing of the Devolution AIP and completion of the Devolution Final Agreement. [83] Chapter 11 also contains the ongoing base transfer amount that will be added to the GNWT GEB for the costs associated with the assumption of NWT resource management responsibilities. That amount, of $65.3 million annually is understood to be based on the 2005 cost of the existing federal management organization. In addition, there is a smaller amount, of $3 million annually, for ongoing funding for Aboriginal Parties to the AIP. [84]

To be eligible for either one-time or ongoing funding an Aboriginal group must become a Party to the Devolution AIP, and likely the Devolution Final Agreement.

In this section we will examine each area of cost, both pre and post devolution, from both the perspective of the GNWT and the Aboriginal Parties to the AIP. Our examination will include:

(a) the reasonableness of the stated or implied assumptions in each cost area;
(b) the costing methodology utilized;
(c) the risks associated with each cost area; and
(d) the reasonableness of the Devolution AIP provisions regarding those cost areas.

In many cases we may not have access to the detail underlying the cost estimates (this has been requested from GNWT). If we do not have access to the detailed assumptions and calculations we will provide comments and identify risks associated with each cost area.

PROGRAM TRANSFER CONSIDERATIONS

Devolution of Land and Water Management in the NWT is essentially a program transfer from the federal government to the GNWT. The transfer will be made effective by a withdrawal from the legislative field by the federal parliament and an acceptance of it by the NWT Legislature. However, our understanding is that the ownership of lands and resources remains unchanged, in the hands of the

[83] Devolution AIP, 11.1 &11.2, and 11.8 & 11.9. Canada will provide one-time funding of $26.5 million for GNWT and $3.9 million for Aboriginal Parties.
[84] Devolution AIP, 11.10 & 11.11

federal parliament. [85] The federal government now has the administrative and management capacity to implement and apply its legislation (the Territorial Lands Act, the CPRA, COGLA, and other Acts, as they refer to onshore NWT) and through Devolution will transfer the bulk of that administrative and management capacity to the GNWT.

Devolution of land and water management is not the first program transfer between Canada and the GNWT. For example, in the 1970s Education was transferred. In 1986 Forestry and Highways were transferred. In 1988 Health was transferred. Although not a transfer between the federal and territorial government the creation of Nunavut in 1999 had many similar components. Lessons have been learned from the experience of these program transfers, and they suggest that the primary questions that have to be answered are:

1. Are GNWT and Aboriginal groups receiving all of the resources the federal government utilized in managing, administering and delivering the program (e.g. people, facilities, equipment, inventories, records and systems, overhead, money)?
2. Even if GNWT and Aboriginal groups were to mirror the federal organization and delivery system, will it cost more to deliver the program than it cost the federal government (e.g. economies of scale, available support services, compensation packages, different legislative and regulatory requirements, higher regional costs, recruitment and retention challenges, etc.)?
3. What changes do GNWT or Aboriginal groups want to make to the program and is there flexibility within the program funding to implement these changes (e.g. decentralization)?
4. What third party interests exist respecting this transfer and how can those interests be identified, quantified, and addressed?
5. What are the risks associated with unforeseen and future costs and how are these addressed (e.g. contingent liabilities, future base funding escalation, program demand changes, etc.)?
6. What liabilities (current and future) are associated with the program and what are the financial provisions to address these (e.g. environmental liabilities, regulatory liabilities, legal liabilities such as contract disputes, contractual commitments such as leases, etc.)?
7. How will transition occur and the transfer be implemented (e.g. consultation and communications, capacity building, human resource transfers and successor rights, systems replacement, title transferences and contractual assignments, etc.)?

The above questions are illustrative of the complexities involved in a large program transfer between two governments.

Although we would not expect every aspect of the transfer of land and water management to be worked out at the AIP stage, we would expect to see AIP provisions and processes that will ensure all of these questions are thoroughly addressed leading up to the Final Devolution Agreement.

The draft Devolution AIP does address some aspects of the above questions. However, it is impossible to determine from the level of detail in the AIP, or from additional information that has been provided to

[85] In this respect the GNWT contrasts with the Provincial governments who own their lands and resources.

date, whether the funding amounts included in the AIP provisions fully address the costs associated with the issues raised by these questions.

ONGOING FUNDING - GENERAL

Clause 11.10 states that the ongoing annual increase to the GNWT's Territorial Formula Financing (TFF) GEB will be $65.3 million. The first issue we would raise is that it is premature to have finalized this base transfer amount. The AIP assumes that GNWT legislation will "substantially mirror the legislation repealed" but for various reasons that may not transpire.[86] The GNWT may accept this restriction in the AIP and put in place territorial legislation essentially the same as the existing federal legislation, but it may not be good for the longer term aspirations of GNWT or the Aboriginal Parties.

We have requested the detail underlying the proposed base funding amount of $65.3 million but have not received it as of the date of this writing. As a result, we cannot comment on the assumptions and methodologies employed in coming up with this amount. However, the drafter's note at the end of Chapter 11 identifies that all calculations were as of the year 2005, and that the amounts included throughout Chapter 11 should be indexed to the date they become effective. The drafter's note also flags that the federal government does not agree with this indexing.

All other matters aside, this indexing issue is huge. The base transfer amount of $65.3 million in 2005 dollars covering the federal program as it was at that time, could now be much higher and furthermore inflation would have escalated the costs. Since 2005, costs would have increased for salary and wage increases, general inflation, new requirements and changing activity levels. Unless the NWT management regime was substantively simplified since 2005, or activity levels have dramatically decreased, it can be expected that to operate the same resource management system today will cost a lot more than $65.3 million, and even more in the future as a result of inflation.

In section 2.1 of this report we have used the reasonable assumption that the program costs would escalate at the same rate as the PAGE index, but based on $65.3 million in 2010 dollars.[87] By the time that devolution is assumed to be accomplished in 2015, in our Middle Case forecast, the annual program costs are escalated to be $83.4 million. By the year 2020, program costs are forecast to be $106.5 million.

Without the base transfer amount being appropriately escalated, the GNWT would start off in 2015 with an immediate base funding deficiency of close to $20 million, and probably even more depending on the correct base for the dollar estimates. This is so fundamental a problem with the draft Devolution AIP that without changing this aspect, the deal should be unacceptable to GNWT and the Aboriginal Parties.

ONGOING FUNDING - ASSESSMENT OF ISSUES

Even though we do not have the assumptions, methodologies and calculations underlying the $65.3 million base transfer amount, we can make a few comments of our own regarding the risks that may be

[86] AIP, Chapter 5

[87] See Schedules 2.1.4, 2.1.5 and 2.1.6. The Middle Case is in Schedule 2.1.5

attached to this amount (in addition to the escalation issue discussed above) based on the seven program questions listed above.

First Question: Is the GNWT receiving all the financial resources used by the federal government?

The answer to the first question is “maybe”. However, without access to the detailed calculations and without auditing these amounts, we could not say definitively yes or no to this question. It certainly appears that the $65.3 million is short to the tune of $20 plus million as explained above. However, the federal government may have reduced funding and stripped the program bare over the last few years in expectation of devolution, especially as recently activity in exploration and development has been so reduced. Or it may have reduced program funding due to federal budgetary restraint. The fact of the matter is, whether the federal government is holding back a large portion of the funding it spends in this program area, or it has dramatically cut the program in the last few years, the result for the GNWT is the same. The GNWT would be taking over a program that is significantly underfunded. They would be accepting federal offloading.

Another area of potential shortfall for the GNWT is common services or overhead costs. In the past, it has been extremely difficult to secure funding in federal program transfers for the indirect costs of supporting a program. These indirect costs are for such things as centralized human resource management and financial services, policy development, legal and legislation drafting services, purchasing and property management. It would not be uncommon for these indirect costs to range from 10% to as high as 30% of direct program costs depending on the level of internal chargeback for these services. This implies a potential short fall of something between $6 million to $20 million unless there is an adequate allowance for these costs in the base transfer amount. The $65.3 million may include some allowance for these costs but without access to detailed calculations it is not possible to confirm this.

Second Question: Will it Cost GNWT more to deliver the program than federal government?

The answer to the second question is “probably”. One area of likely cost increase for the GNWT is in the area of employee compensation. Although the federal government pays lip service to “equal pay for work of equal value (EPWEV)” it does not apply it rigorously, and even if it did, its salary comparators would be different than those of the GNWT. Without getting into a discussion of the philosophy and mechanics of EPWEV, suffice it to say the GNWT has to pay the same salary (within a range) for positions that hold the same job evaluation points. When federal employees are transferred to the GNWT they must be placed in “equivalent” positions which will be evaluated under the GNWT’s Job Evaluation System. Once evaluated, they must be paid within the salary range commensurate with that position. To the extent that this salary is higher than what they earned as a federal employee, the GNWT will incur higher salary costs. There is no offset from positions that would be paid lower as one of the requirements of the transfer is that no employee will receive less compensation on transfer, they can only go up. There is potential that federal northern living allowances which are higher than GNWT living allowances may provide a pool of funds to help offset higher base salary costs, but it is impossible to conclude this until the actual transfer details are worked out.

As noted in the initial framing of this question there could be higher costs for the GNWT in other areas such as recruitment and retention. We do not know how many of the positions to be transferred to the GNWT are Ottawa based versus NWT based. Many Ottawa employees may not choose to transfer to the GNWT. This will mean an intensive initial recruitment drive will become necessary. It is also a fact that GNWT turnover rates are high and likely higher than those of the federal government. This means sustained higher recruitment costs and the need for ongoing investments in amounts designed to retain employees.

Third Question: Is there flexibility in the funding to make changes to the way the program is managed and delivered?

The answer to this question is "no", anyway if the changes would generate significant increased costs. The program base transfer has been calculated from the cost of operating the existing management and delivery arrangements. The existing arrangements are fairly centralized, and employees live in major communities such as Ottawa and Yellowknife where things such as private housing exist. The Aboriginal groups have expressed their desire to see the management regime restructured to reflect a more decentralized approach. This would have cost implications. Decentralization generally requires a greater level of duplication than a centralized model, as skill sets and other capacities must be replicated in multiple locations, new supervisory levels created, new facilities and equipment acquired in each region, housing for staff addressed, and travel and communications costs increased to achieve adequate coordination. The benefits which may offset such extra costs are greater management and regulatory responsiveness and effectiveness, but positive benefits are not cost savings.

To the extent that a decentralized approach would duplicate regulatory structures (Boards) there would also be cost increases. Increases would result from the operation of more complex regulatory structures (e.g. multi-boards, multiple review processes and hearings, multiple groups of regulatory support staff, increased coordination effort, etc.). Our expectation is that none of these costs are anticipated at this time and are not reflected in the proposed base transfer amount.

Fourth Question: What third party interests exist and could those give rise to increased costs?

The answer to this question is: "yes." Third party rights exist and they can give rise to additional costs. The way that devolution is proposed in the draft Devolution AIP is as a transfer of jurisdiction over land and water management from the federal government to the GNWT. The draft Devolution AIP recognizes the legitimate interests of the NWT Aboriginal governments in this transfer, but this agreement does not make the Aboriginal groups the recipients of the legislative authority over land and waters. This legislative authority is being sought by most Aboriginal governments through self-government negotiations. The Aboriginal governments have clear third party interests that may lead to significant costs being imposed on GNWT.

There may also be Aboriginal governments outside the NWT who have interests in devolution. We have already recognized such an interest held by the Fort Fitzgerald band (Smith's Landing First Nation). In addition, the Gwich'in in the Yukon have already raised trans-boundary issues as have the Alberta, Saskatchewan and Manitoba Denesoline. How these interests will be addressed in the context of

devolution is unclear at this time but we can expect some accommodations will be made that will likely have cost implications.

In addition to Aboriginal government interests, are the interests of existing and new Rights holders (e.g. exploration, mining, oil and gas companies, electrical generation and transmission companies, etc.). Clauses 5.19 to 5.23 of the draft Devolution AIP address existing interests. Although it is not practical at this time to review each of these existing interests and assess their implications, these existing interests will have to be administered and managed post devolution by the GNWT and/or Aboriginal Parties if jurisdiction is transferred to them. Monitoring and enforcing terms of existing licenses and permits will take resources and it will be important to ensure the base transfer amount provides adequate resources to do this.

In addition to existing interests, there will be applications for new interests, post-devolution. Assuming that the MGP goes ahead, as we have in our Middle and High Case forecasts beginning in 2018, it must be expected that there would be a dramatic increase in the level of effort required to review applications, set terms and conditions, issue licenses and permits and monitor and enforce the terms of those licenses and permits. The base transfer amount and the proposed annual escalation of that amount make no provision for addressing the costs of significantly increased demands in this area. In the long term, there could be increased royalties and other revenues to offset some of these front end costs, assuming that reasonable NFB arrangements can be agreed.

Fifth Question: Are there Risks associated with unforeseen events which will result in extra costs?

The answer to this question is: “yes”, without a doubt.

The transfer of authority and responsibility for NWT resource management carries with it substantive risk for the receiving Party. These risks take many forms. There is the risk of:

- (i) increasing activity levels (volume, complexity);
- (ii) increased cost of doing business (inflation, imposed regulatory standard changes);
- (iii) environmental liability;
- (iv) lawsuits and court challenges;
- (v) obligations imposed by national or international agreements; and
- (vi) many others.

The draft Devolution AIP makes no mention of any provisions for relief from the responsibility to address these types of risks. Once the transfer of land and water management responsibility occurs, the receiving party/parties are on their own.

Many of these risks are manageable. The GNWT or an Aboriginal government could take measures to mitigate the cost impact of the risk. However, some may be outside the control of the government. A good example is the risk associated with high levels of activity (e.g. the number and/or complexity of development applications). Such an increase could be foreseen if the MGP proceeds. Exploration could accelerate, and new mega-projects could arise. If the base transfer amount was established at a time

when the regulatory workload was low, the base funding may be insufficient to cope with this increased regulatory activity.

Inflation is an obvious risk. If the cost of doing business (wages, travel, consulting fees etc.) rises faster than the TFF PAGE, then the escalated base program transfer (the $65.3 million) could quickly become insufficient to finance operational costs. The level of responsibility on the regulatory system to protect the public interest could also change over time, resulting in more onerous assessment and scrutiny of development applications. Such increased responsibility could flow from an event such as the Gulf of Mexico oil blowout last year.

And speaking of the Gulf of Mexico disaster, what if such a calamity occurred post-devolution? We know the GNWT and/or Aboriginal governments may increase regulatory scrutiny and development conditions, but no system is foolproof. Another Giant Mine scenario may not be allowed to arise and developers may be required to fund reserves for environmental remediation in the event of environmental damage but what if this is insufficient? The United States was fortunate that British Petroleum could be held responsible and had the resources to fund the clean-up but what if a junior company caused the environmental damage and went bankrupt before the damage was fixed? The liability and cost of clean-up then becomes the responsibility of the Party who approved the activity on their land, the GNWT and/or the authorizing Aboriginal government. How this type of risk gets mitigated needs careful consideration as it could bankrupt a small government.

Land and water management and associated resource development are activities that can and do attract lawsuits and court challenges. Developers, impacted parties, and even other governments are potential claimants with respect to decisions and actions taken by a land or water management agency. There can be suits based on jurisdictional disputes, process flaws, unintended consequences and a host of other challenges. Potential findings of damages aside, simply the cost to litigate these disputes can be very high. As can be the cost of compliance and regime changes required by national and international agreements. Regulatory oversight and regulatory liability are not areas where pressures are relaxing and these new demands and standards can have significant cost implications.

Sixth Question: What existing liabilities are associated with the program and what provisions exist to address them?

The answer to this question is that there are many existing liabilities and that the draft Devolution AIP, for the most part, makes reasonable provisions for these, but additional provisions are likely required.

As well as the risk of unforeseen future liabilities, there is the reality of existing liabilities. These can take many forms. Chapter 8 of the draft Devolution AIP addresses existing and future Waste Sites; Chapter 9 speaks to existing employee compensation liabilities, and Chapter 10 covers lease and contract assignments, physical asset transfers and similar matters.

Our review of Chapter 8 Waste Sites has not raised any red flags or cautions with the exception that we must emphasize the importance of establishing (preferably by field audit) the extent of any existing environmental damage on NWT lands and in NWT waters prior to the transfer of responsibility. This

baseline will be essential to apportion remediation responsibility and costs among governments in the future. Special care should be given to the indemnification provisions in this area in the Final Agreement.

We will make one additional observation here. The Government of Canada has financial resources which are thousands of times greater than those available to the GNWT and/or Aboriginal governments in the NWT. The $200 to $300 million liability the federal government assumed for the Giant Mine remediation could be absorbed easily by the federal government. If this had been a GNWT responsibility it could have bankrupted the GNWT. There is no provision to address this reality in the draft Devolution AIP, and we think that such a provision should be included in the Final Agreement.

Chapter 9 addresses Human Resources. It provides that:

> *9.1 Every full-time Affected Federal Employee shall receive an offer of full-time indeterminate employment from the GNWT and every part-time Affected Federal Employee shall receive an offer of not less than equivalent indeterminate employment from the GNWT, no later than 6 months prior to the Effective Date.*
>
> *9.9 GNWT offers of employment to each Affected Federal Employee shall:*
>
> *(a) Match as closely as possible the functions, authorities and location of the substantive position held by that Affected Federal Employee immediately prior to the offer of employment;*
> *(b) Meet or exceed the requirements of a Type 2 alternate delivery initiative pursuant to Part VII of the Federal Workforce Adjustment Directive or equivalent provisions of any collective agreement applicable to such employee; and*
> *(c) Provide salary and benefits to each Affected Federal Employee that are reasonably comparable to the salary and benefits of that Affected Federal Employee immediately prior to the Effective Date.*

These are standard provisions governing the transfer of federal employees pursuant to a program transfer agreement and are not really negotiable due to federal policy and the requirements of legal successor rights (successor rights essentially provide that existing terms and conditions of employment follow the transferred employee).

We have made specific reference to these provisions for three reasons. The first is to illustrate that the GNWT or any other successor employer will have an obligation to existing federal staff the details of which will be spelled out with clarity in the Final Agreement. Freedom to act unilaterally is very limited. The second reason is to reinforce the earlier discussion presented regarding the GNWT incurring higher delivery costs than the federal government due to differences in compensation schemes. The transfer provisions and the provisions of the *NWT Public Service Act* respecting equal pay for equal value will have cost implications. The third reason is to highlight the GNWT's or any successor employer's obligation to match the current employees' duties, compensation, and location as closely as possible.

The location issue could affect the ability to decentralize the management regime immediately upon Effective Date.

Chapter 10 makes provisions for the transfer or assignment to GNWT of the properties, assets, contracts and records of the Northern Affairs Organization of DIAND associated with the management of NWT lands and waters. Our review of this Chapter has not raised any significant concerns although some concern exists regarding:

(a) Clause 10.13 which states that the transfer of funding for payment-in-lieu of taxes and building operations and maintenance shall be based on how much Public Works Canada has been funded for these costs, not necessarily what the actual costs are;
(b) Clause 10.15 and 10.19 should be clarified to indicate an ongoing GEB adjustment will be made for this funding; and
(c) Clause 10.27 should be expanded to address the costs of moving IT systems from the federal government to the GNWT.

Seventh Question: How will transition occur and how will the transfer be implemented?

The answer to this question is that Appendix 3 to Chapter 11 and Chapter 13 lay out the approach to implementation planning. However, there are issues.

Several fundamental issues arise with the provisions of Chapter 13. The first is that the Aboriginal Parties may only appoint two officials to the Implementation Planning Committee (Clause 13.2(b)) and that the costs to participate on the Implementation Planning Committee (IPC) and on the Implementation Working Groups (IWG) must be borne by the Parties (Clause 13.3).

Although it may be reasonable to limit the size of the IPC for practical purposes (this will be a technical committee, meeting frequently) it may be difficult for the Aboriginal Parties to have confidence that the two individuals chosen will be able to represent the interests of such a diverse group. However, the primary issue is the lack of funding to participate. By denying funding for Aboriginal representation on the IPC and the various IWGs, effective Aboriginal participation in blocked. No Aboriginal government has the financial resources required to fully participate in this important and intensive process. By precluding Aboriginal involvement, Aboriginal interests will not be protected, distrust will flourish and the entire transfer process could be put in jeopardy.

So far we have considered the draft Devolution AIP provisions respecting ongoing funding to the GNWT. Clause 11.11 provides for $3.0 million annually in ongoing funding to the Aboriginal Parties. There is no explanation of the purpose of this funding, nor is there any rationale or calculations that explain why $3.0 million is an appropriate amount. The provision is silent on sharing among Aboriginal Parties of this amount. The provision raises more questions and issues than it resolves. Due to the lack of information, we can only comment that the provision calls for a full explanation before a Devolution AIP is signed.

ONGOING FUNDING - CONCLUSIONS

The provisions for ongoing funding in the draft Devolution AIP should not be accepted until the following:

1. The assumptions and calculations are provided upon which the base transfer amount of $65.3 million was made, and the Aboriginal Parties have had adequate time to review and question these;
2. The federal government agrees that the base transfer funding will be escalated by the TFF PAGE between 2005 and the Devolution Agreement Effective Date;
3. That the Aboriginal Parties have opportunity to confirm that adequate provision is made within the base funding amount for all federal overhead costs associated with the transferring program;
4. That the Aboriginal Parties have opportunity to assess the incremental cost the GNWT (or others) may face to operate the transferred program;
5. That the work in Chapter 6 – Post Devolution Resource Management is completed and any resulting changes to the land and water management regime are determined and any associated cost increase is calculated and included in the base transfer amount;
6. That the Net Fiscal Benefit be increased to mitigate the risks being assumed by the GNWT and/or Aboriginal Parties with respect to program cost escalation that may be associated with resolving third party interests and addressing unforeseen and future risks;
7. That provision be made for funding the costs of participation by Aboriginal Parties in the IPC and IWGs; and
8. That clarity be provided concerning the basis for the $3 million offer of ongoing funding for Aboriginal Parties.

ONE-TIME FUNDING

The draft Devolution AIP makes provision in Chapter 11 for one-time funding to the GNWT of $26.5 million for transitional activities generally (Clause 11.1) and $4 million for specific activities required between the signing of the Devolution AIP and the signing of the Devolution Agreement (Clause 11.5). The general GNWT transitional activities are listed in Appendix 1 to Chapter 11. The activities between the signing of the AIP and the Final Agreement are listed in Appendix 3 to Chapter 11.

The draft Devolution AIP also makes provision for one-time funding of $3.9 million for transitional activities for Aboriginal Parties (Clause 11.2). This funding is for specific tasks that are listed in Appendix 2 to Chapter 11.

There are two basic issues with these provisions.

The first issue is the amount of funding. No clear assumptions or detailed calculations have been provided to explain or substantiate the funding levels (these have been requested from GNWT). For the Aboriginal Parties, $3.9 million has to be split in some fashion among the parties, and once split may or may not be adequate. There is a related question concerning escalation of these amounts, as they may

be based on amounts in 2005 dollars. To our knowledge there was little or no consultation with Aboriginal Parties in arriving at this funding level.

The second issue is the apparent assumption made about the role that Aboriginal Parties might want to play in regard to transitional activities. The way the provisions read, the Aboriginal Parties are only being funded to participate in the activities listed in Appendix 2, which include:

- review of the GNWT's organizational design for service delivery and participation on transition teams;
- review of territorial mirror legislation;
- participation in the development/refinement/review of waste sites inventory, planning, site visits, due diligence and environmental audits and working with Aboriginal land owners (settled land claims organizations); and
- negotiating the bilateral agreement or agreements referred to in Chapter 6 (Post-Devolution Resource Management).

The reality is the Aboriginal Parties may want to participate in a broader range of transitional activities including those listed as tasks for GNWT in Appendix 1. The approach outlined in the draft Devolution AIP assumes that the Aboriginal Parties will react to GNWT plans as opposed to being a full partner in developing those plans. This further suggests the funding will need to be increased. We would also note a possible contradiction between Clause 13.3 and Appendix 2 respecting the funding of Aboriginal participation in transitional activities.

ONE-TIME FUNDING - CONCLUSIONS

The draft provisions for one-time funding of the Devolution AIP should not be accepted until the following:

1. The assumptions and calculations are provided upon which the one-time funding of $3.9 million for Aboriginal Parties was made, and the Aboriginal Parties have had adequate time to review and question same;
2. The federal government agrees that whatever one-time funding is provided it will be escalated to current year dollar values; and
3. That the Aboriginal parties have the opportunity to review and assess in which transitional activities and tasks they wish to directly participate, and funding to allow such participation is determined and agreed.

ANNEX A - NORMAN WELLS OIL FIELD AND RESOURCE REVENUES

SUMMARY

The Past and Present

The Norman Wells crown interest came out of an agreement between the federal government and Imperial Oil Limited, made on July 21 1944, which established the unitized production of the Norman Wells field, and the management and royalty conditions for its development. The crown interest was *in lieu* of other royalty arrangements or similar resource revenue arrangements such as bonus bids, which the government did consider at the time and could have used for receiving payment for its crown reserves.

At the time of the Agreement, Imperial already had production leases for approximately 1/3 of the field on the north side of the river, but it was discovered that about 2/3 of the field was under the river or on the south side of the river. This 2/3 area of the field was covered by Imperial's exploration permits, which required however that 50% of the land must revert to the crown upon conversion to a production lease. The government therefore obtained rights to 1/3 of the field (1/2 X 2/3).

In the circumstances of northern development at the time, an agreement was negotiated to unitize the government's and Imperial Oil Limited's interests in the field. It was agreed that Imperial Oil Limited would operate the field for a management fee of 10%. Imperial would own 2/3 of production, and the government would own 1/3 of production, but Imperial would pay all costs including all investments, and would annually pay the government a gross royalty of 5% on Imperial's 2/3 of production, plus the crown's 1/3 net profit interest after payback of Investments. The government obtained this interest in lieu of taking back its 50% of land rights in the southerly portion of the field and putting them up for Imperial Oil Limited, or other companies, to bid for them, or assessing other forms of royalties etc on these crown reserves.

It is indisputable that the crown interest was in lieu of government assessing other royalties or bonus arrangements and so forth on the field. The revenues from the crown interest are therefore resource revenues, as normally defined, stemming from government ownership and management of the crown oil and gas rights.[88]

To pursue the issue slightly further, it may be noted that the Agreement could have determined a higher gross royalty or another resource revenue arrangement. The Federal Cabinet, at the time, did consider a number of alternatives and the Cabinet minutes recommended a higher gross royalty with a small

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[88] All the years up until the characterization of the Crown Interest became contentious because of the increased profitability of the field and the payout of Imperial's investment in 1991, the revenues from the Crown Interest were recorded in federal accounts and INAC annual reports as royalties. After 1991 the revenues began to be called "return on investment" but the government had never made any investment. Imperial Oil annual reports also used to show the Crown Interest payments as royalty payments. In the period 1948 to 1979, Imperial paid one annual cheque to government consisting of the amount for the 5% gross royalty plus the revenue from the Crown Interest. This only changed when the government insisted that the gross royalty should be paid quarterly.

profit interest.[89] But the arrangement as outlined above was negotiated; a low gross royalty on production deemed to be owned by Imperial Oil Limited plus (in effect) a government 1/3 net profit interest after payout of Imperial's investments. The outcome of the Norman Wells Proven Area Agreement is similar in its effect to the existing frontier royalty regulations. The agreement is simply an arrangement for government to receive its due resource revenues, and it is our view that the revenues from the crown interest are resource revenues just as are the 5% gross royalties.

HISTORY OF THE NORMAN WELLS AGREEMENT

Background

The existence of oil in the neighbourhood of Norman Wells had been noticed many years ago, but it was in the late 1910’s that the Mackenzie Valley saw its first oil boom. The "stakings" in the Norman Wells area were the basis for the Northwest Oil Company's exploration effort. Drilling equipment was installed and an initial well was drilled in 1919-20. There was also a Hay River play which died without success.

From 1914 until 1921, oil and gas activities were governed by regulation made under the Territorial Act (PC 154; 19 January 1914), which provided for the staking of oil and gas leases. Royalties on produced oil and gas were 5%.

The federal petroleum rights management of the time was based on rough and ready adaptations of federal mining legislation. The system was based on the concept that an explorer could claim rights to an area through "staking it" on a first-come; first-served basis. After 1921, individual claims were staked and the claimant was required 1) to prove the claim within "its primary term", usually 3 years, by installing drilling works, and 2) if the claim was productive to return a portion of the lands to the crown. Staking continued until 1953 when the Grid System replaced it under the Territorial Oil and Gas Regulations of that year.

From 1921 until 1942, the regulations under the Territorial Act (PC 331; 11 January 1921) provided for the staking of oil and gas permits for a maximum primary term of 4 years and could be converted to a 21 year lease upon evidence of production. But generally not more than 1/4 of the permit area could be included in the lease area.

The Norman Wells discovery well was completed in 1921. However, because of its remoteness from markets, by the end of 1921 the development of Norman Wells was put on hold. This first Mackenzie Valley oil boom died away. In 1930 Norman Wells was briefly active again, supplying petroleum products to the Echo Bay pitchblende mines, but there was no further exploration and development.

Up until 1930 the federal government was responsible for ownership and management of all western petroleum resources, and the early rather chaotic exploitation of Turner Valley (1914 and thereafter) under inadequate legislation and conservation control, was an embarrassment. The concepts of oil field unitization and resource conservation came to the forefront during the mid-1930s. At the same time, in 1930 the ownership and management of petroleum resources was handed over to the western provinces.

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[89] This is shown in Hansard of the time, researched at the Ottawa Public Archives

By the time of the war effort, beginning in 1939, the concepts of unitization, petroleum resource conservation, and operating agreements were widely known by government and accepted by industry. The previous experience with Turner Valley set the stage for the second Mackenzie Valley "oil boom" and the Norman Wells Proven Area Agreement.

ESSO's Interest in Norman Wells

The present Norman Wells title held by Esso Resources Northwest Territories (subsidiary of Imperial oil Limited) derives from the original claims (21 year lease) staked by Northwest Oil Company under the regulations of 1914 -1921. Imperial Oil's main holdings until 1943 consisted of a block of six production leases located along the north shore of the Mackenzie River containing all of the producing wells, the present refinery and town site at Norman Wells. These leases which cover the northerly part of the Norman Wells oil field were surrounded by unencumbered crown mineral rights (crown reserves). No other permits or leases were existing in the region, and in 1942 the federal government had ceased issuing any new permits within a 50 mile radius of the Northwest Oil Company's discovery well (PC 4140; 18 May 1942).

The additional permits required to fully develop the Norman Wells field were acquired in January of 1943 by Imperial Oil Limited under Orders-in-Council, in support of the Canol Project (Order in Council P.C. 742, January 28, 1943). These permits covered lands adjacent to the southern boundaries of the most southerly of the existing leases.

In early 1943 the southern limits of the productive area of the field had not been defined. The Mackenzie River imposed a formidable barrier to step-out drilling. On the basis of its new permits, Imperial Oil drilled a number of tests, delimiting the southern limits of the field and establishing production on Goose Island in the Mackenzie River itself. Under the terms of the permits Imperial could claim up to one-half of the newly defined area for itself; converting the reduced permit area to a 21 year production lease, renewable for 2 additional 21 year terms. The balance of the permit area was to be surrendered back to the Crown unencumbered and available for disposition.

It was discovered that the majority (about 2/3) of the newly defined reservoir was located under the permits, but the terms of the permits only gave Imperial the right to obtain production leases for one-half of the permit area. The six leases on the northern bank of the Mackenzie River overlay one third of the reservoir. Thus Imperial had the rights to some 2/3 of the total field (1/3 under its leases and 1/2 X 2/3 under its permits). The remaining 1/3 interest reverted to the crown and could be disposed by government as it deemed appropriate, for example through a rights sale, or as actually happened through an agreement with Imperial whereby the field would be produced as a unit but the crown would retain its 1/3 interest.

The Norman Wells Proven Area Agreement

The possible size of the field, which later was proven up as about 600 million barrels of oil in place, the wartime circumstances including the Canol project and the spectre of chaotic non-unitized development in the extremely difficult terrain of the Mackenzie River must all have been factors in leading the government of the day to undertake the unitization and crown working interest agreement with Imperial, rather than offering its crown reserves to bids. Essentially, the decision of government was to forego signature bonuses that would be available under a competitive public offering and simply to

unitize its crown reserves with the interests held by Imperial, through the provisions of the Norman Wells Proven Area Agreement.

The actual agreement doesn't distinguish between one area of the field or another. The agreement calls for the crown to own 1/3 of total production (clause 7); Imperial has the right to sell all the production and earn a management fee of 10% (clause 14); but Imperial must pay all costs (investment and operating costs) and must pay annually to the crown its 1/3 net profit interest (clause 18) and the crown is not liable for any deficits. The effect of these clauses, taken together, is that the crown receives a 1/3 interest after Imperial's investments are repaid. In non-technical terms, this means that the crown receives 1/3 of annual net profits after the payback of Imperial's investments. No funds were to be invested by the crown, and none have been.

In accordance with the Agreement, since 1944 Imperial has financed, developed, produced and marketed the entire unitized production, although Imperial actual owns only 2/3 of production. The Crown has received a gross royalty of 5% on Imperial's two-thirds of the production and has received net royalties from its 1/3 interest. It can be estimated that the crown interest first received revenues as early as 1948 and this was the case for most years up till 1979. The crown interest revenues were included as part of the single annual royalty cheque which was paid by Imperial to the government. In 1980 the accounting for royalties and crown interest became monthly. A total of about $7 million of crown interest and some $30 million of gross royalties had been paid by Imperial up until 1989. After the expansion of the field in the period 1980 to 1985, the field was expected to yield crown interest revenues once again beginning in 1990.

The crown interest was designed to capture the net revenues attributable to the crown reserve. It is not the equivalent of an industry investment. The crown interest bears no investment risks, and in addition, the crown, as interest holder, has no say in the management of the field. All of the business decisions are in the hands of the operator. A time consuming and perhaps complicated public disposition of the oil and gas rights was avoided. Hopefully, through unitization the resource was conserved, and although it might be criticized that the Agreement entailed a private contract without a competitive tendering process, the public interest was protected by the crown's interest, and the operating agreement.

Government Perspective

From the government's perspective, "resource revenues" are revenues collected by the state in return for its ownership of the resource. The revenues may be collected in various ways but often through royalties on production (gross royalties), by bonus payments for crown reserves or exploration rights, or crown interests in profits from production (net royalties).[90] In the earliest days of the oil industry in Canada the government gained crown reserves by taking back 50% of lands under exploration rights, upon evidence of production. For example, under the 1921 staking provisions, upon discovery of oil or gas reserves the permit holder was required to relinquish to the crown between 1/2 and 3/4 of the land areas staked. Those lands could then be offered for bonuses. This was the situation up until the early 1950's.

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[90] In many countries, resource revenues are collected by government through Production Sharing contracts. That is, part of production is assigned to the ownership of the government. In some respects the Proven Area Agreement could be characterized as a Production Sharing Agreement.

The 1943 exploration permits issued to Imperial were very similar to the Alberta rights management regime of the time. Alberta required that 50% of the lands under exploration permit to be relinquished, in a chequer-board fashion, thus assuring the Alberta government that valuable "crown reserves" were returned to it, which could then be auctioned for bonus payments. The Norman Wells permits provided that 1/2 of the lands under permit could be selected for 21 year leases on the evidence of production, but the other 1/2 would revert to the crown (clause 7 of the permit and clause 17 of the regulations adjoining the permit). Interestingly, the permits stipulated that the crown will reacquire oil and gas rights of equal value to those converted to lease, and that the crown could dispose of its rights by public tender; however, Imperial retained the right of first refusal at 95% of any successful bid value (clause 17 of the permits' regulations).

It should also be mentioned that at the same time as approving the Norman Wells agreement (PC 5594: 21 July 1944), the government gave Imperial additional permits for exploration in the neighbourhood of the Norman Wells field. These permits also provided for 50% of permit areas to revert to the crown upon discovery of further oil or gas. No additional oil fields were discovered.

From 1944 until 1953, oil and gas activities in the Territories were governed by regulations made under the Dominion Lands Act and War Measures Act (PC 5059; 30 June 1944). The Order-in-Council (PC 5594; 21 July 1944) approving the Norman Wells Agreement made it subject to these regulations, which however did not alter the Agreement. The new regulations provided for the reversion of 50% of exploration lands to the crown but did not provide for a permit holder's right of first refusal on the disposition of crown reserves. Although the Norman Wells Agreement has come under scrutiny on a number of occasions, for example when the field was finally fully developed in the period 1980 to 1985 in relation to construction of the Norman Wells pipeline, the only changes that have been made are a small change in the term of the lease (in 1967 to 23 years rather than 21) and the successive extensions of the lease. No other changes have been made to the original Norman Wells Agreement.

However, in 1983 at the time of the Norman Wells expansion and with the federal government concern that oil prices might increase to extraordinary levels in future years, an overriding conditional royalty agreement was made with Imperial Oil Limited. This agreement was pursuant to the original Norman Wells Agreement (1983 Agreement page 2) and allowed Norman Wells oil to be classified as "New Oil" under the pricing regulations of the day provided that Imperial agreed to pay an additional royalty (a "Norman Wells Progressive Incremental Royalty"), "so long as...the fiscal and pricing regime" of the time was in force (1983 Agreement page 3). The 1983 agreement called for Imperial to pay the higher of the 5% gross royalty or the 40% Progressive Incremental Royalty on Imperial's 2/3 share of production. Prices were never high enough for this agreement to be operative and with the end of the National Energy Program in 1985 (effective 1 June 1985 through signing of the Western Accord in March 1985) the agreement became void. In any event, the Norman Wells Pipeline did not commence operation until April 1985. The original 1944 Norman Wells Agreement applies today as it did in 1944, and it may be noted that it was specifically exempted from later Acts such as the 1985 Canada Petroleum Resources Act.

To summarize the main regulations governing oil and gas activity in Canada after 1953; from 1953 to 1960 petroleum activities were under the Territorial Oil and Gas Regulations, which allowed for production leases covering 50% of exploration lands in a chequer-board fashion. Then, from 1961, the Canada Oil and Gas Lands Regulations applied, with a similar provision for production leases and crown reserves, although some flexibility was introduced so that under certain conditions the interest owners could get back crown reserves in exchange for paying higher royalties. This was done for unitized

development of the gas fields in the Territories; Pointed Mountain, Beaver River and Kotaneelee. In 1981 the Canada oil and Gas Act and regulations was introduced, which allowed exploration permit holders the right to a production lease covering the whole of a discovery, but at the same time the Progressive Incremental Royalty (PIR) was introduced. The royalty regulations included a 10% gross royalty and a sliding scale net royalty rising to 40% after payout of investment and other allowances. There was also a provision allowing Petro-Canada to pay for a back-in up to a 25% working interest, which has now been dropped. The present Canada Petroleum Resources Act (1985) and regulations provide for explorers to retain the whole of a discovery, but production is subject to the Frontier Royalty Regulations which have a gross royalty rising to 5% and a net royalty of 30% after payout of investment and allowances. The similarity between the present CPRA royalties and the Proven Area agreement is striking – again suggesting that the revenues from the Crown Interest are resource revenues.