

Budget Address

2009 - 2010

NORTHWEST TERRITORIES

The Honourable J. Michael Miltenberger
Minister of Finance

**Third Session of the
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INTRODUCTION

Mr. Speaker, I stand today to present the 2009-10 Budget to this House and the people of the NWT. I would like to thank my Cabinet colleagues, the Standing Committees, and all the other groups and individuals, for the input and advice they have provided.

We are gathered here in a time of unprecedented global economic turmoil that continues to worsen daily. Our collective task in the NWT is to work together during these difficult times, to meet the many challenges and seize the opportunities as they present themselves.

Last year's budget noted the storm warnings on the economic horizon and cautioned that we needed to put the GNWT on a sound fiscal footing. That storm has struck, and the NWT economy has not escaped its effects. The global economic crisis has caused everyone to review their fiscal and economic assumptions and to re-evaluate their plans. The GNWT is no different.

The economic downturn is likely to last at least into 2010, and possibly longer. No one can predict exactly what will happen next. In such circumstances, we must still move forward, but we must proceed carefully and prepare to be flexible.

The NWT economy has almost doubled in size over the past nine years, its growth fuelled by strong commodity prices. Demand for our resources spurred mining and oil and gas activity and encouraged interest in multi-billion dollar projects like the Mackenzie Gas Pipeline. The resource sector now directly or indirectly represents almost half of our economy. More than 20 per cent of NWT residents work in this sector or for businesses that depend on it.

However, the demand for our resources and the prices they command on world markets has fallen. Compared to their highs of last year, the price of oil is down by more than two thirds, natural gas prices are down by more than half and polished diamond prices have declined 15 per cent.

Two critical elements of the current economic and financial situation present risks for our economic outlook. Tight credit conditions and falling stock prices are making it difficult for resource companies to raise capital to operate or expand. Falling commodity prices have made investment in the resource sector less attractive. We do not see anything right now that would cause us to expect the closure of existing mines, but we can expect to see less activity in the NWT over the next few years. Temporary shutdowns and layoffs have been announced at some of the existing mines and the environmental assessment process for the Gahcho Kué diamond mine has been suspended.

We have seen signs of significantly reduced exploration activity in the territory. This will mean fewer jobs and business opportunities for NWT residents and less income. There have already been layoffs in northern businesses that provide services for exploration companies. In January, we saw the closure of a diamond cutting and polishing plant, with the loss of 40 jobs in Yellowknife. Although the overall NWT unemployment rate in December was still below the national average, the number of people employed in the territory decreased by almost 600 from 2007 to 2008.

This Budget tackles these economic challenges without compromising our ability to invest for the long-term. Even during these challenging economic times, we must not lose sight of the other challenges and opportunities that we face in the NWT. Our residents are concerned about the quality of life in our communities. They are concerned about the education their children and grandchildren receive and the job opportunities those children will have in the years to come. They are concerned about access to appropriate health care when it's needed. They are concerned about the cost of living. And they are concerned about climate change and the need to protect our environment and our land.

This Budget makes investments that will benefit the NWT for the long-term – investments in our economy, in our environment, and in our people.

FISCAL STRATEGY

Mr. Speaker, our goal of long-term fiscal sustainability remains unchanged, but our fiscal plan must support our economy and our residents in this time of economic uncertainty. A serious economic downturn is not the time for governments to reduce overall spending, even though tax revenues may be decreasing. Government spending can provide the economic stimulus needed to maintain employment and sustain economic activity until the private sector can recover.

In fact, in an economic slowdown, good economic policy dictates holding overall spending steady even if that means incurring deficits in the short-term. We want to avoid long-term deficits, however, and this means focussing on providing short-term economic stimulus, limiting the growth of on-going operating costs and reducing spending once the recovery begins.

A year ago, despite the strong NWT economy, our operating spending was growing faster than our revenues. We needed to correct this, to avoid threatening our ability to invest in critically needed infrastructure.

We began to implement the right decisions with the Budget we passed last June. We began to align our spending with our vision and put our government on a more solid fiscal foundation. We made the difficult decisions to restore fiscal sustainability by reducing expenditures in some areas and limiting overall growth. This allowed us to invest in key priorities, including making substantial commitments to new and renewed infrastructure across the NWT.

Our overall goals have not changed, but we have reviewed our fiscal plans and adjusted them to reflect both the concerns we have heard from NWT residents, as well as rapidly

changing economic conditions. As I announced in September, the GNWT has chosen not to pursue our original objective of eliminating \$135 million in spending over two years. We have revised this target to \$78 million over four years. We also believe it is prudent to wait, given how fast economic circumstances are changing, before making any decisions about introducing tax measures to raise an additional \$30 million in 2010-11. We anticipate that this will result in the GNWT incurring some debt to finance a portion of our infrastructure investments by the end of 2011-12. However, we remain committed to the GNWT's Fiscal Responsibility Policy – we will not borrow to finance operating deficits and we will limit the amount we borrow to finance our investments in infrastructure.

From a fiscal perspective, the GNWT is fairly well positioned to face the coming economic uncertainty. First, the GNWT currently has no direct debt and no immediate need to borrow, and so the current tightening in credit markets has not directly affected us. Second, if and when we do need to borrow, we can look to a sound Aa1 credit rating, reconfirmed by Moody's Investors Service last month. Third, we have been assured by the federal government that no changes are planned for our Territorial Formula Financing arrangements and Health and Social Transfers. Since these and other federal transfers form almost 75 per cent of our total revenues, this stability is important.

This Budget outlines our plans for the 2009-10 fiscal year. Given the uncertain outlook for the medium-term, we will be reviewing our plans for 2010-11 and beyond and adjusting them accordingly as new information emerges in the coming year. We must also be prepared to adjust our plans for 2009-10 if circumstances change dramatically.

BUDGET HIGHLIGHTS

This Budget proposes operating expenditures of just over \$1.2 billion in 2009-10, an increase of two per cent from last year's budget. This growth rate is significantly less than the annual average of over six per cent from 1999-00 to 2007-08. We have achieved this modest rate of growth through a combination of expenditure reductions and new investments.

Last October, this Legislature approved the Government's 2009-10 infrastructure budget. This investment plan will inject over \$700 million into the NWT economy over the next five years. It will play a key role in stabilizing economic activity in our territory in the coming fiscal year by providing business opportunities and employment for Northerners. After funding contributions from Canada are factored in, we will be investing \$246 million in 2009-10 alone. The plan includes \$58 million for highway and other road projects, \$74 million in school replacements and renovations, \$17 million for airport and runway improvements, \$19 million for hospital and clinic renovations and \$4 million for improvements to park infrastructure.

Mr. Speaker, the NWT is faced with many challenges in how we develop, generate and use energy. We have a tremendous supply of energy resources, yet energy in our communities is very expensive, contributing significantly to our high cost of living and the high costs of operating businesses. We are also witnessing the serious impact of global energy use on our environment.

Members of the Legislative Assembly, other Northern leaders and NWT residents have expressed frustration with the high cost of energy, our reliance on imported fossil fuels, and our exposure to fluctuating world oil prices. Many have stated that we need to change our fundamental approach to energy use and supply in the Northwest Territories. We agree and have embarked on a process to review how we generate and distribute electricity. We are also looking at the role, structure and cost of operations of the NWT Power Corporation.

Energy conservation and improved efficiencies are required to respond to the challenges we face. We are committed to providing NWT communities and residents with the tools they need to more effectively manage their energy use. In the long-term, our focus is on reducing our dependence on imported diesel. There are alternative solutions to imported diesel for every community in the NWT, including wind, hydro, geothermal and biomass generation.

This Budget takes an important step toward achieving our energy goals. We are proposing an investment of \$60 million over the next four years to make a real difference in the way we produce and consume energy in the Northwest Territories.

The 2009-10 Budget includes \$15 million in energy investments. We also propose to fund \$2.5 million in capital retrofits to install wood pellet boilers in government buildings and will be including this in a supplementary appropriation during this Session. These investments will demonstrate the fact that our government is serious about reducing the NWT's reliance on diesel fuel. In the long-term, these investments will make a critical difference in the cost of living and sustainability of our smaller communities and form a lasting legacy of the work of the 16th Legislative Assembly. I will have more to say about these important investments later.

On the revenue side of our Budget, we are forecasting 2009-10 revenues of \$1.3 billion, a 3.4 per cent increase over the current year.

Our Territorial Formula Financing arrangements will provide a stable and predictable revenue base. However, we do face risks on the revenue side. Corporate income tax revenues in particular are especially volatile and difficult to forecast. A slowing economy will likely mean several years of declining corporate and personal income tax, payroll tax and fuel tax revenues. Further, we face significant risks to our revenue base if our population continues to decline. This means we must continue to be vigilant with our expenditures.

We project that we will need to borrow an estimated \$81 million by the close of the fiscal year. This short-term debt will be repaid early in the following fiscal year as new revenues are received. We need to do this because our forecast operating surplus of \$58 million will not be sufficient to finance the planned investment in infrastructure in 2009-10. This level of debt is more than we had expected last year. However, we need to be responsive to changing economic circumstances and have chosen to act prudently in face of the current situation. Including the debt issued by the NWT Power Corporation and the NWT Housing Corporation, we will be within our \$500 million borrowing limit, with over \$260 million in remaining borrowing room.

Mr. Speaker, the GNWT employs over 5,000 people. As some areas of our spending grow and others are reduced, our complement of staff will change accordingly. We

estimate that only 14 employees will be affected by these measures. These employees have been advised of their status. Every effort will be made to retain these employees. Of the 140 positions eliminated as a result of last year's budget, fewer than 14 employees were actually laid off.

EXPENDITURES

Mr. Speaker, this Budget continues to make strategic investments in the priorities of the 16th Legislative Assembly. The 2009-10 Budget proposes to invest \$44 million in new initiatives to advance our vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories.

Investments in our Economy

The Northwest Territories is not alone in facing the current global economic slowdown and turmoil in the financial markets. It is particularly important that we work with the federal, provincial and other territorial governments to ensure that appropriate and consistent fiscal and financial policies are put in place.

A clear area of agreement has been the need to invest in infrastructure projects that will provide quick and direct stimulus to the economy. The GNWT is doing its part. Our \$246 million capital budget for 2009-10 will employ Northerners and support NWT business as private sector investment slows. Canada has committed to invest a further \$50 million in the construction of new social housing over the next two years. While not new money, the acceleration of federal Building Canada funding could see \$75 million invested in NWT transportation and community infrastructure up to four years earlier than planned. We will be reviewing our priorities under this program before deciding how to re-profile this funding. We will also be pursuing opportunities to cost share investments in sustainable energy with Canada through the federal Green Infrastructure Fund.

Mr. Speaker, although we are seeing a slowdown in our economy, the fundamentals of the Canadian and NWT economy are solid over the long-term. That's why we must invest now to support that future economy. We need to promote the NWT as a great place to live and do business, make investments to reduce the cost of living, implement programs that diversify the economy and encourage our residents to enhance their skills. We are proposing \$15.7 million in new investments that will help us maximize future economic opportunities. In the long run, these investments will promote a balanced, diversified and sustainable economy in the Northwest Territories.

Let me provide some examples.

This budget allocates \$400,000 to design and implement a national marketing campaign to promote our territory to other Canadians. This campaign will complement an investment of \$2.4 million to promote and celebrate the NWT at the 2010 Olympic Games in Vancouver. In partnership with Yukon and Nunavut, we will be using these

funds to showcase the NWT's culture, heritage, and identity and to provide opportunities for our youth ambassadors. This investment will raise the profile of the NWT in an international forum, supporting both our tourism sector and our artists and providing a unique and valuable experience for our youth.

Growing the NWT economy will require a concerted effort to lower the cost of living, both to improve the well-being of existing NWT residents and to make it easier to attract newcomers to our territory. This Budget includes over \$3 million in funding initiatives aimed directly at this goal. The NWT Housing Corporation will receive an additional \$2 million to increase the number of homes that can be repaired under its *Contributing Assistance for Repairs and Enhancements* program. The Budget also includes \$1 million for the Arctic Energy Alliance to undertake energy conservation programs.

The Budget also proposes to invest \$3 million per year for the next three years to enhance our Territorial Power Subsidy Program. A key objective is to lower commercial power costs in order to increase the prospects for economic development and contribute to further reductions in the cost of living, including the cost of food. Specific proposals for the use of this funding will follow the completion of the GNWT's consultation on the electricity review. This consultation will seek residents' views on electrical rates, regulation and subsidy programs and will help us ensure that the NWT electricity system reflects the values of NWT residents and provides the most reliable power at the most affordable price.

Another piece of good news for NWT residents is the fact that lower oil prices have generally resulted in lower heating fuel and gasoline prices in most communities. Some communities, however, whose fuel was purchased last summer at record high prices, may not see the benefits of lower prices until they are resupplied this summer. On January 26 we reduced the price of gasoline and heating fuel by 16 cents per litre in all communities served by the Petroleum Products Division, regardless of their location or timing of resupply. We estimate that this measure will cost \$263,000 in 2008-09.

Mr. Speaker, the current volatility in resource prices reinforces a fact that Northerners know all too well – we need to diversify our economy. We need to encourage our arts, tourism and renewable resource sectors. This Budget provides a further \$700,000 in grants and contribution funding to individuals, projects and organizations to further our support for NWT arts and culture. In the last two years we have increased our investment in the arts by \$1.2 million. Our tourism industry will benefit from the exposure resulting from our participation in the Olympics. There will be further benefits from our \$300,000 new investment to promote and market our sport hunting industry, including our barren ground caribou and polar bear outfitters. This new investment will complement the continued investment of almost \$1.6 million to support the on-going Tourism Product Diversification and Marketing Program.

A strong small business sector is fundamental to a sustainable Northern economy. Adding to investments made in last year's budget, we will invest a further \$750,000 in the recently implemented Support to Entrepreneur and Economic Development (SEED) Program, bringing our support for business and community development under this program to \$3.2 million annually. We also intend to help businesses meet their labour demands, as well as further our goal of attracting new people to the territory, by increasing immigration support. This Budget provides \$535,000 for the first year of a three-year territorial nominee pilot project. This program, which may bring 50 to 100 new

immigrants in the first year, will help businesses looking to fill jobs that cannot be filled by residents or bring in individuals with special skills that will make a significant economic contribution to our territory. We will do this while continuing to provide education and training supports to Northerners to enter and remain in the workforce.

Country-wide, one of the most pressing issues for business and industry is access to credit. Governments across Canada are being asked to step forward. In these times of extraordinary economic upheaval, the Business Development and Investment Corporation loan program and the NWT Opportunities Fund provide tools to work with business and industry to make investments that will stimulate the economy, generate income, and create further value added benefits for the Northwest Territories.

Although our economy may be slowing, we should take advantage of this period to encourage our residents to prepare for the opportunities that will come with the eventual recovery. This Budget invests \$1.6 million in 2009-10 to improve NWT residents' skills for both living and working, including \$750,000 to help working age youths and adults develop the basic literacy skills they need to take advantage of education and employment opportunities. It includes an additional \$495,000 to assist Northerners to prepare for and complete apprenticeship training, and another \$100,000 increase to support women and Aboriginal people to pursue training in the trades. This Budget also provides the Aurora College with additional resources to support the Trades and Technology and Heavy Equipment Operator training programs.

We haven't lost sight of the large resource projects that will provide lasting benefits to our economy. This Budget allocates over \$2.1 million to continue the work needed to ensure that we are ready for the proposed Mackenzie Gas Project (MGP). If approved and constructed, the MGP will be the single most significant project the Northwest Territories has experienced, and we want to be sure both that the benefits to NWT residents will be maximized and any negative impacts minimized. Our investment will continue support both for training and development of NWT residents and for businesses to ensure that all are prepared for the opportunities that the pipeline project will present.

Investments in our Environment

Using NWT land and water resources in a sustainable way and protecting these resources for future generations is a key priority of this government. The GNWT spends over \$60 million, or five per cent of its annual budget, to protect NWT land and water resources. Counting investments in energy development and supply, a total of \$14.9 million in new initiatives will be provided in 2009-10 to advance work already underway. Almost \$2 million will be spent to further the work on land, resource and self-government negotiations. These funds continue the work to ensure that once devolution of resource management is achieved, we will be ready to manage our resources in a sustainable and responsible manner. Almost \$2 million will be spent on environmental stewardship including developing a new *Wildlife Act*, implementing the proposed new *Species at Risk Act* and completing and implementing the proposed *NWT Water Strategy* and the *Land Use Framework*.

Mr. Speaker, I have already mentioned investments in energy conservation in the context of reducing fuel costs and therefore the cost of living. But any initiative that

reduces our fossil fuel consumption supports our efforts to reduce greenhouse gases. In addition to these energy conservation measures, this Budget proposes to invest \$9.8 million to develop alternative energy supplies to reduce our dependence on diesel fuel. We propose spending an additional \$1.5 million in this coming fiscal year to implement our hydro strategy and continue the funding for the environmental, engineering and economic work currently underway. A further \$3.6 million will be spent on specific hydro projects, including \$800,000 for planning hydro projects in Lutselk'e and Whati and a transmission line from Hay River to Kakisa and Fort Providence as well as \$2.5 million to bring the proposed Taltson Hydro Expansion Project to the point where a decision can be made regarding the project's economic feasibility.

This Budget proposes increasing funding for energy conservation and efficiency in government buildings and public housing by \$2.5 million. Included in this funding is \$1.5 million to develop or expand residual heat systems in Ulukhaktok, Fort Liard, Fort McPherson, Fort Simpson and Inuvik. By capturing waste heat through heat exchangers and other proven technologies, these communities will reduce heating fuel consumption and greenhouse gas emissions.

A further \$3.3 million will be provided to develop alternative energy supplies and investigate the potential of emerging technologies such as biomass and geothermal heating. We expect the \$1 million we have budgeted to install wood pellet boilers in some government buildings to be repaid in about four years through reduced fuel costs, which will in turn help fund other retrofits. These projects will also serve as a showcase to promote wood pellets as an economical alternative to diesel. A further \$1.8 million will be used to install wind turbines in Tuktoyaktuk. And finally, additional funding will be provided to fund technical studies and business planning to determine the economic viability of developing deep geothermal resources.

We will continue our efforts to prepare for the regulatory management of the proposed MGP as well as prepare NWT residents to take advantage of employment opportunities associated with the Project. This Budget provides \$250,000 to deliver Environmental Monitor Training Programs for NWT residents in the four regions that will be affected by the proposed pipeline.

As part of the GNWT's program to continually improve and expand our waste reduction and recovery program, we will be instituting a 25 cent levy on single use retail bags to promote use of reusable bags by the fall of 2009. We will also add milk containers to the Beverage Container Program this year and advance development of commercial uses for waste paper and cardboard products in the NWT. This will reduce the amount of waste entering the environment and landfills and provide the funding necessary to expand the waste reduction and recovery program to include electronic waste, lead acid batteries, fuel drums, and tires in future years.

Investments in our People

We are spending now to develop the skills, talents and abilities of our residents so that our future will include healthier, more self-reliant individuals. In 2009-10 alone, we will spend almost \$740 million, or over 60 per cent of our operating budget, on programs such as education, health care, housing, and policing services that directly serve our

residents. The programs we provide for NWT residents, whether for health care, for seniors, for students, or for those in need of income assistance, compare favourably with those in the provinces.

This Budget includes almost \$6 million in new initiatives to fund actions that focus on children and youth, promote healthy choices, address addictions, support families and seniors, and increase the safety and security of individuals and communities. This includes \$1.2 million in expanded programs for youth and children; programs that will enhance the early childhood education opportunities in communities, give students in small schools access to a wider range of courses and continue the pilot projects for activities delivered through the NWT Youth Corps.

Mr. Speaker, the 2009-10 Budget allocates \$313 million to the Department of Health and Social Services. A significant portion of this budget funds services for preventable conditions. We know that investment in prevention will reduce our costs in the future. This Budget provides a further \$1.5 million investment in health promotion and disease prevention programs that encourage healthy life choices, help prevent addictions and support after treatment programs.

The Budget provides additional funding of \$2 million to improve care for seniors, including \$1.5 million for on-going operational costs associated with the Territorial Dementia Facility in Yellowknife and additional funding for the operation of the Territorial Supported Living campus in Hay River. These are specific examples where the government is practicing what it believes; that funding should be directed where it serves the most vulnerable, the most in need, or where people are less able to help themselves.

Last year, the federal government introduced Registered Disability Savings Plans (RDSP) to help disabled persons and their families to save to financially support themselves. We have reviewed these plans and will be taking steps to fully exempt both the RDSP account and RDSP withdrawals in determining eligibility for income security programs administered by the Department of Education, Culture and Employment.

Mr. Speaker, we are committed to providing stable funding to community governments to ensure these governments have the resources they need to deliver essential municipal services to our residents. This Budget includes over \$61 million for NWT community governments, an increase of nine per cent over 2008-09 levels.

Creating an effective, sustainable public service is an important part of providing education, health care and community and other services. We are committed to developing a sustainable public service. This means offering competitive compensation, within our fiscal means, to attract employees and to ensure they want to stay. To this end, we successfully concluded settlements over the past year with the NWT Teachers' Association and with the NWT Medical Association. We also propose to provide \$2.3 million in 2009-10 to develop and implement programs that will help us attract and keep people in the GNWT and community government public service. We also intend to provide \$1.5 million to develop programs to increase the supply of available housing for staff in those NWT communities where supply poses a barrier to recruitment. This in turn will improve our ability to deliver programs in these communities.

This Budget also proposes \$390,000 to increase support for non-government organizations delivering services to NWT residents on behalf of the GNWT. Details of

how this funding will be allocated will be provided by the fall of 2009 following a review and revision of our funding policy.

REVENUES

Let me turn now to the revenue side of the budget. The GNWT has limited flexibility on the revenue side as we only control about 25 per cent of the \$1.3 billion we receive in revenues.

Last year's budget announced that, after public consultation, the GNWT would be implementing \$10 million in revenue increases, starting in 2009-10. In September, we indicated that we would be looking for ways to increase our revenues by a further \$30 million starting in 2010-11. We asked NWT residents how best to achieve these targets.

Although there was some support for increasing taxes, or introducing new taxes, the overwhelming response from the public was that before government increases taxes that raise the cost of living or doing business, we should first be sure that we are getting the best value for the dollars we are already spending. There was support for the idea of generating new revenues through economic and population growth and for making the investments needed to encourage this growth.

In December, I announced that we would be deferring our decision to raise \$30 million in 2010-11. Given the current economic climate, we have also reviewed our revenue target for 2009-10. Although we do not feel it is appropriate to raise the full amount at this time, we are prepared to implement measures that will raise \$7.3 million in new revenues.

During the revenue consultation, there was considerable support expressed for increasing taxes that would encourage NWT residents to pursue healthier lifestyles. In addition, where our tax rates have not been adjusted in recent years to keep up with inflation, we believe that there is room for some increase.

Therefore, I am announcing that:

Effective April 1, the NWT tobacco tax will increase by an estimated \$11.20 a carton, to reflect current prices. Our tobacco taxes were last changed in 2003.

Also effective April 1, our mark-ups on liquor, beer and wine will be increased an average of 10 per cent. Our liquor mark-ups were last changed in 2003.

The 2009 property tax rates on mining, oil and gas, and pipeline properties will be adjusted to increase revenues from these sources by 15 per cent. As well, the education mill rate for all properties in the General Taxation Area will be set to increase revenues by 15 per cent. These rates have not changed since 2003 and 2000 respectively.

Finally, many of the fees the government charges have not changed for many years. Some have not been adjusted since the 1990s. We have initiated a review of all our fees, and will be making changes to our financial policies to ensure these fees keep pace with inflation. As a first step, the Department of Transportation will be increasing

several fees effective April 1 to raise an additional \$300,000 in areas such as vehicle licensing.

Now, more than ever, we must look for other ways to raise the revenues we need to deliver programs and services to NWT residents. This Budget includes a number of initiatives designed to grow our economy and increase our population, and therefore increase our revenue base. We are pursuing these initiatives through support for the immigrant nominee program, through investments in a national marketing campaign to promote the NWT as a great place to live, and through agreements with the NWT's diamond mines to bring more of their non-resident workers to the territory. These initiatives are important first steps but we need to find other ways to do more to attract people to the NWT and encourage those who are already here to stay. Last year we were the only jurisdiction in Canada to lose population. We need to make investments that will reduce the high cost of living in the NWT by lowering fuel, electricity, transportation and housing costs. And we need to make investments that will grow our economy.

The work done on revenues over the last few months shows that we need to take a closer look at how we raise revenues in the NWT, to see if there are changes to our tax system that might further our economic, social and environmental objectives, without increasing the total amount of taxes we collect. We intend to continue this work in 2009. In addition, I have committed to reconvene another forum similar to that used in our revenue consultation to seek advice and input into this and other budget issues.

LOOKING FORWARD

Mr. Speaker, this Budget builds on the foundation we laid in last year's budget and is very much part of the work in progress to achieve the goals and priorities of the 16th Legislative Assembly. Our long-term fiscal plan is sound. It will give us the flexibility to make the investments today that will produce, in the longer term, the benefits of a protected environment, a stronger, more diversified economy, and healthy, self-reliant people.

We have injected more dollars in the economy this year, particularly in infrastructure spending, in order to create jobs and stimulate the economy. However, we are also taking a longer term perspective and investing in programs such as health promotion and prevention.

We know that, overall, people in the NWT are happy with the health and social services that are available to them. But we also know that demand for these services is growing and service delivery costs are increasing – by seven per cent per year over the last nine years. This is not sustainable. We want an affordable health and social service system, but we also want to ensure we are providing the right services in the right way. To this end, the Department of Health and Social Services will be coming forward in the coming months with a plan for reforming the way we deliver health and social services in the Northwest Territories. I want to stress that this will not be a plan to cut total spending on these programs. We will be looking for ways to reduce or eliminate inefficiencies, but we will also be flagging those areas where investments will yield positive returns.

Strengthening prevention programs will be a major focus of this work. Putting more dollars into our health care system is only part of the answer. We can all help reduce health care costs by taking more responsibility for our own health. We need to encourage Northerners to stop smoking, drink less, eat a proper diet and exercise more. The government has a role to play, but so do individual Northerners.

Last December, I outlined the next steps in board reform. We have proposed the creation of regional services boards that will manage service delivery of health, social services, education, and housing programs with continued input, direction and participation from NWT residents on the delivery of programs and services in their regions. We are now proceeding with consultations on the general approach and will examine a variety of issues like board composition, authority and organization. This board reform will be a major change to the way we deliver services and we look forward to public consultations to obtain feedback on the approach. We want to ensure that the changes improve service delivery through increased coordination and improved case management. We expect the changes to simplify governance, allow us to focus resources on programs and services and maintain a strong role for regions and communities in setting priorities. By April of this year, we expect to be in a position to decide whether to proceed with detailed implementation planning.

Although our fiscal plan remains flexible to allow us to adjust to changing economic circumstances, we will maintain our fiscal goal of aligning overall expenditures with revenue growth. This will be critical if we are to avoid incurring long-term deficits. The Program Review Office was established last year. Several projects are currently underway, and are scheduled to be completed in the first half of 2009. They focus on such areas as schools funding, adult training and health services cost drivers.

We have made substantive changes to the GNWT's approach to planning for, acquiring and delivering the infrastructure required to deliver GNWT programs and services. For example, we have begun to address the need for maintenance to improve the useful life of our existing government buildings, and have changed the timing of the capital budget - the 2009-10 Infrastructure Acquisition Plan was approved last fall. As a result, work is now underway to implement projects that were approved last fall, and many contracts are in place to address critical deferred maintenance issues. Implementation of other changes to improve how we plan to deliver infrastructure is continuing.

Effective April 1, we are consolidating the current Department of Finance and the Finance Management Board Secretariat into a new Department of Finance to better manage our fiscal planning. By combining resources, the new department will be better able to provide fiscal leadership to the GNWT and promote the principles of sound financial management.

Mr. Speaker, Devolution remains a priority of this government. It is unacceptable that the NWT's lands, waters and resources continue to be managed by Ottawa. We will continue to work with the federal and participating Aboriginal governments to achieve devolution for the management of our resources to the NWT.

The GNWT has made a proposal to Canada that provides for the transfer of legislative authority over lands and resources to the GNWT. It would also establish an on-going partnership with Canada on strategic infrastructure and major development in the NWT.

Resource revenues associated with Devolution will help build our capacity to invest in the NWT's resource development sector and related infrastructure.

The Prime Minister has indicated a willingness to explore new options that would advance the Devolution file. Discussions on the GNWT proposal are expected to resume now that the federal economic stimulus package has been announced.

We are also exploring the concept of a Heritage Fund to save income from our non-renewable resources. A Heritage Fund could play an important role in preserving the benefits of resource development in NWT so that these proceeds can be reinvested to achieve sustainable economic development in NWT. We need to be concerned that the revenues earned from developing our resources benefit this and future generations. We will work with Members to advance this issue in 2009.

CONCLUSION

Mr. Speaker, I have spoken today about the challenges we face as a territory. But I have also spoken of the opportunities ahead – the ways we can work to grow our economy, increase our population, lower our cost of living and reduce our reliance on fossil fuels.

We are facing difficult economic times, and there may be more bad news to come. We need to be monitoring events and our planning assumptions vigilantly, and we must be prepared to adjust our fiscal plans accordingly.

Although this Budget contains some expenditure reduction measures, overall operating expenditures will grow, albeit at a slower rate than we have seen in the past. While we will be implementing some modest revenue measures, we will also look within to ensure we are getting the best value for the dollars we are already spending and the tax dollars we currently raise. We need to focus on the core services government provides and be prepared to live with fewer extras. The expenditure reductions made in last year's budget have given us some fiscal flexibility to act to address current economic circumstances, but our relatively small tax base and borrowing capacity mean that the room we have is limited compared with other jurisdictions. We must all be prepared to make sacrifices. We will ensure that both the benefits of the dollars we spend and the contributions toward maintaining a sound fiscal position are allocated fairly. We will share the burden, but we will not leave anyone behind.

Mr. Speaker, this Budget keeps us on the path of fiscal sustainability we began at the onset of this 16th Legislative Assembly. It allows us to continue to invest in the NWT economy, people and environment for the benefit of NWT residents. Our collective task in the NWT is to work together during these difficult times, to meet the many challenges and seize the opportunities as they present themselves. I am confident that this Budget gives us the flexibility to adjust to short-term challenges while continuing on our longer term path.

Thank you, Mr. Speaker.

Budget Address

2009 - 2010

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦ Economic Review

B ♦ Fiscal Review

February 5, 2009

ECONOMIC REVIEW 2009 – 2010

Outlook

In 2009 the size of the Northwest Territories (NWT) economy, as measured by its real¹ gross domestic product (GDP), is forecast to decline by 1.3 per cent from 2008. The decline reflects the global economic slowdown that began to develop in the United States towards the end of 2007 and then spread throughout the international economy during 2008. Diamond mining, the NWT's largest business sector, has been affected by a number of factors. Costs have increased as production has shifted towards the more expensive underground extraction process and diamond prices have weakened.

The NWT economic outlook over the medium-term is uncertain. Without approval of new projects, and based on the known status of existing projects, the NWT's GDP is expected to decline annually until 2012.

The United States entered its recession near the end of 2007. The U.S. currently accounts for almost one-half of the world market for polished diamonds so weakening American demand places downward pressure on diamond prices. Emerging economies including Russia, India and China, important growth markets for diamonds, were unable to compensate as they also began to weaken in 2008.

All major Canadian banks and other major private sector forecasters predict that the Canadian economy will weaken during 2009.

Construction of the Snap Lake diamond mine was completed in 2007 and no new capital investments of similar size are being undertaken in 2009. The credit squeeze of 2008 is expected to continue into 2009. The resulting scarcity of available capital and the high cost when it is available, may impact the timing of construction projects currently in the planning stage.

Employment of NWT residents is expected to increase modestly from 22,000 in 2008 to 22,100 in 2009. Average weekly earnings are forecast to increase by 1.1 per cent in 2009.

Consumer price inflation in Yellowknife (NWT-wide figures are not available) is expected to moderate. Consumer prices increased by 4.0 per cent in 2008 over 2007; in 2009 they are expected to rise by 2.4 per cent.

¹ Measured in chained 2002 dollars

Northwest Territories Economic Outlook

Indicator	2006	2007	2008e	2009f
Gross Domestic Product, chained 2002 \$ millions	3,711	4,138	3,601	3,554
% change	5.1	11.5	(13.0)	(1.3)
Total Investments, chained 2002 \$ millions	1,690	1,827	1,520	1,424
% change	18.0	8.1	(16.8)	(6.3)
Consumer Expenditures, chained 2002 \$ millions	1,157	1,202	1,228	1,245
% change	2.8	3.9	2.2	1.4
Government Expenditures, chained 2002 \$ millions	1,120	1,154	1,147	1,127
% change	(1.8)	3.0	(0.6)	(1.8)
Exports, chained 2002 \$ millions	2,571	2,974	2,611	2,589
% change	2.2	15.7	(12.2)	(0.5)
Imports, chained 2002 \$ millions	2,859	3,015	2,907	2,843
% change	5.6	5.5	(3.8)	(2.2)
Employment, number of persons	22,800	22,600	22,000	22,100
% change	0.4	(0.9)	(2.7)	0.5
Average Weekly Earnings, dollars	973	1,005	1,046	1,058
% change	1.3	3.2	4.1	1.1
CPI All-Items (Yellowknife, 2001 = 100)	107.7	110.8	115.3	118.1
% change	1.4	2.9	4.0	2.4

Source: Statistics Canada and the NWT Bureau of Statistics

(e) estimate

(f) forecast

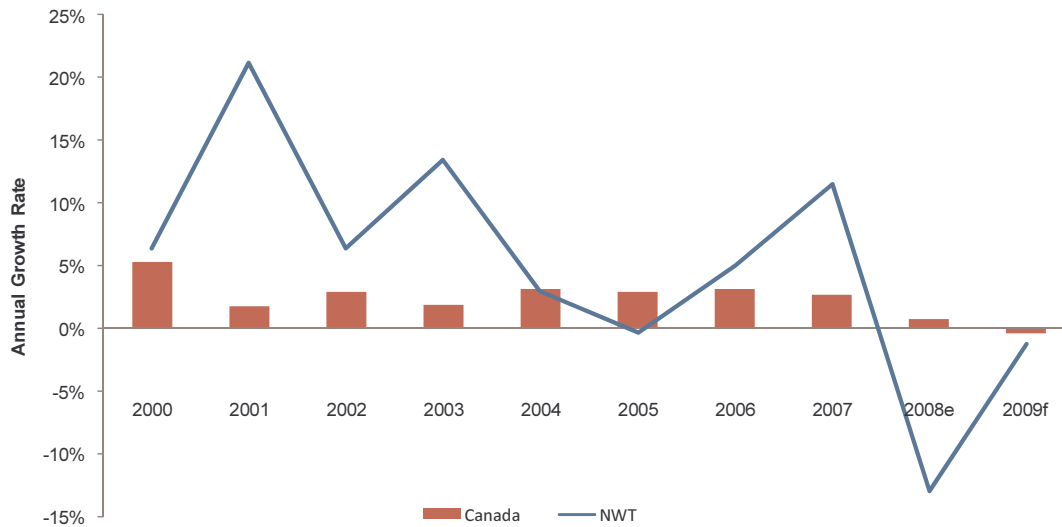
2008 Economic Performance

The NWT economy is estimated to have shrunk 13.0 per cent in 2008 compared to 0.7 per cent for Canada. Reduced economic activity in 2008 was directly related to the completion of the Snap Lake diamond mine. This project raised construction activity to historically high levels in 2007. Completion of the mine in 2007, without new investment of a comparable size, led directly to the reduced level of GDP in 2008.

In 2007 the NWT's GDP per capita was almost \$110,000, the highest in Canada and more than double the Canadian average of \$46,500. GDP, however, includes incomes paid to all factors involved in the production process, which are labour and capital. Because the NWT has a capital-intensive resource-exporting economy, a smaller portion of the NWT GDP is earned as wages, salaries and supplementary income than the Canadian average: 36.2 per cent in 2007 compared to 52.0 per cent nationally.

Mining, principally diamond production, has been the main economic driver of the territorial economy since 1999. In 2007 the mining industry grew by 31.6 per cent, well above the industry's average annual rate of growth between 1999 and 2006 of 23.2 per cent. During 2008, the NWT's third diamond mine at Snap Lake was officially opened.

Annual Growth Rate in Real GDP, chained (2002) dollars

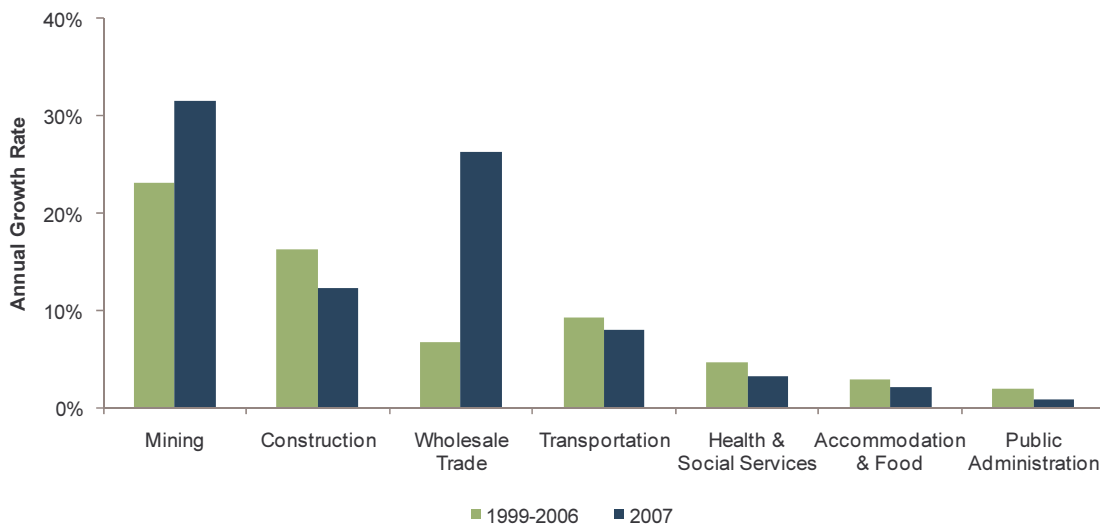


Source: Statistics Canada, NWT Bureau of Statistics and NWT Finance
 e = estimate
 f = forecast

Other important growth sectors include wholesale trade and construction. Wholesale trade had a very strong performance during 2007, increasing 26.3 per cent over 2006 and significantly bettering the 1999 to 2006 average annual growth rate of 6.7 per cent. Construction also recorded strong growth of 12.3 per cent during 2007, although this was slightly down from the average annual pace of 16.2 per cent during the previous seven-year period. Completion of the Snap Lake mine during this period contributed to the slower rate of growth.

The health and social services sector grew 3.1 per cent in 2007, slowing from an average annual growth rate of 4.6 per cent over the previous seven years since Division. Public administration (federal, territorial and local governments) increased by 0.8 per cent in 2007 over 2006.

Annual Growth Rates of Selected NWT Industries, chained (2002) dollars



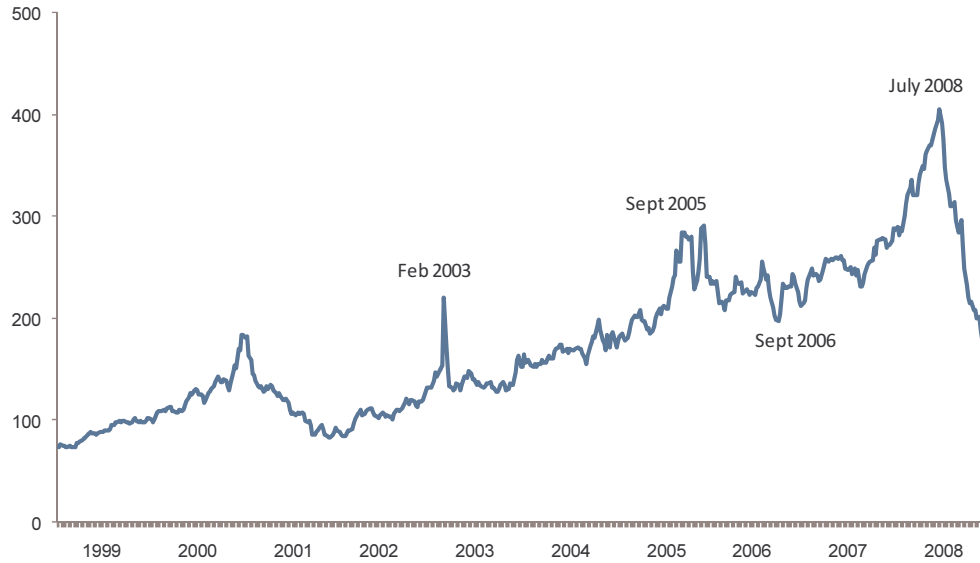
Source: Statistics Canada

The NWT's economy is integrated with the global and national economies. 2008 was a tumultuous year for many economies. The American sub-prime mortgage crisis revealed weaknesses in the global financial system. The resulting financial crisis and ensuing global credit freeze contributed to the consumer-led economic recession in the United States and other major economies. The International Monetary Fund forecasts that developed countries will experience a recession during 2009 while emerging economies are forecast to grow, but at much reduced rates.

As a consequence of the developing global slowdown, commodity prices peaked in mid-2008 then dropped precipitously. The Toronto Dominion Commodity Price Index (TDCI) shows how commodity prices rose until July 2008 then dropped dramatically. By November the index had lost half of its value, reflecting the lower global economic outlook as well as tighter credit conditions and efforts to reduce debt-to-equity ratios. Price volatility raised levels of risk and uncertainty for investors, contributing to the economic slowdown.

By the first week of 2009, the price of oil had fallen 70 per cent from its July 2008 high. Similarly, the price of natural gas had fallen by 57 per cent. Gold was trading 11 per cent below its March 2008 high, but still slightly above its average weekly price for the year.

TD Commodity Price Index, 1997=100

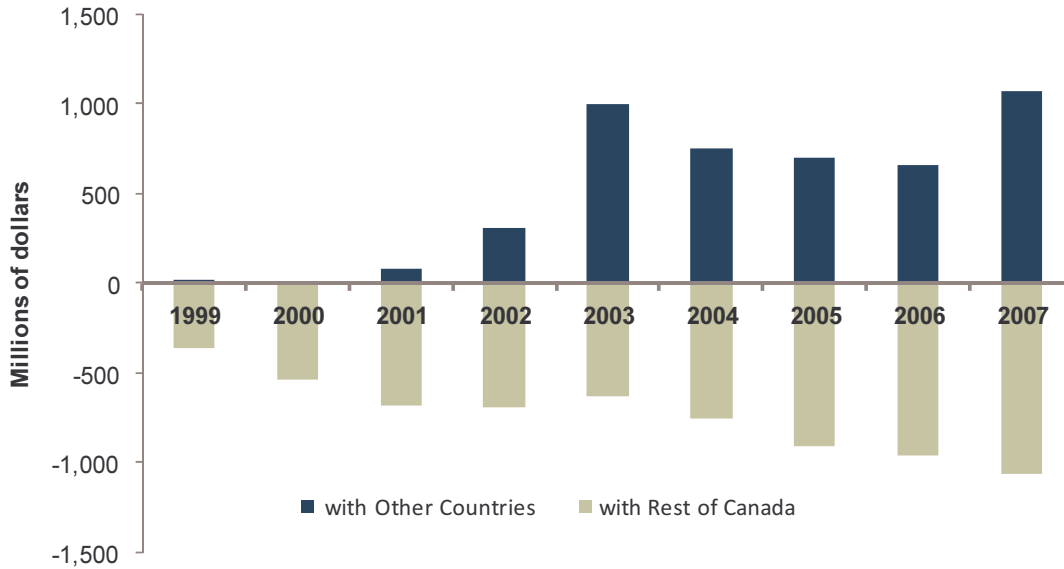


Source: TD Bank Financial Group

Trade

The NWT economy depends on trade with other countries and the rest of Canada. The NWT’s trade surplus with other countries grew markedly during the first part of the decade, primarily driven by diamond exports. In 2007 the NWT trade surplus with other countries grew by 62.2 per cent over the 2006 level. The NWT has a trade deficit with the rest of Canada since most goods, including machinery and construction materials, are imported from southern Canada. Since Division, the trade deficit with the rest of Canada has grown, but at a slower rate than the trade surplus with other countries has increased. In 2007 the trade deficit with the rest of Canada increased by 10.3 per cent over 2006.

NWT Balance of Trade, chained (2002) dollars



Source: Statistics Canada

Exchange Rate

The NWT's international trade surplus is important to the health of the economy. A strengthening Canadian dollar means that NWT businesses get paid less in Canadian dollars after the currency conversion although it does mean that capital equipment imported to Canada will be less expensive. When the Canadian dollar declines, the effects are the reverse: NWT businesses will get paid more for their products after the currency conversion while imports will cost more.

The Canadian dollar spent the first half of 2008 roughly at par with the American dollar. In July the Canadian dollar began to fall against the American dollar, settling into the low 80 cent US range by the end of the year.

US-Canada Exchange Rate (US\$/C\$)

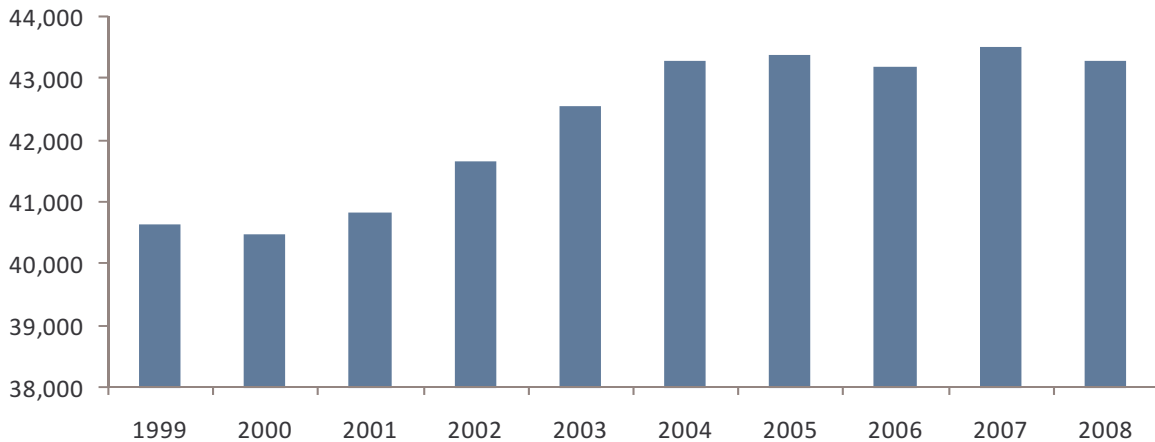


Source: Bank of Canada

Population

The NWT population was estimated to be 43,151 on October 1, 2008, an increase of 6.5 per cent since 1999 but a decrease of 152 persons from the beginning of 2008. The decrease in 2008 was largely due to net out-migration to the rest of Canada. During the first nine months of 2008, 1,954 people moved to the NWT from elsewhere in Canada, while 2,744 left the NWT, a net loss of 790 residents. Net migration into the NWT from outside Canada was positive, resulting in an additional 109 people.

NWT Population, as of July 1



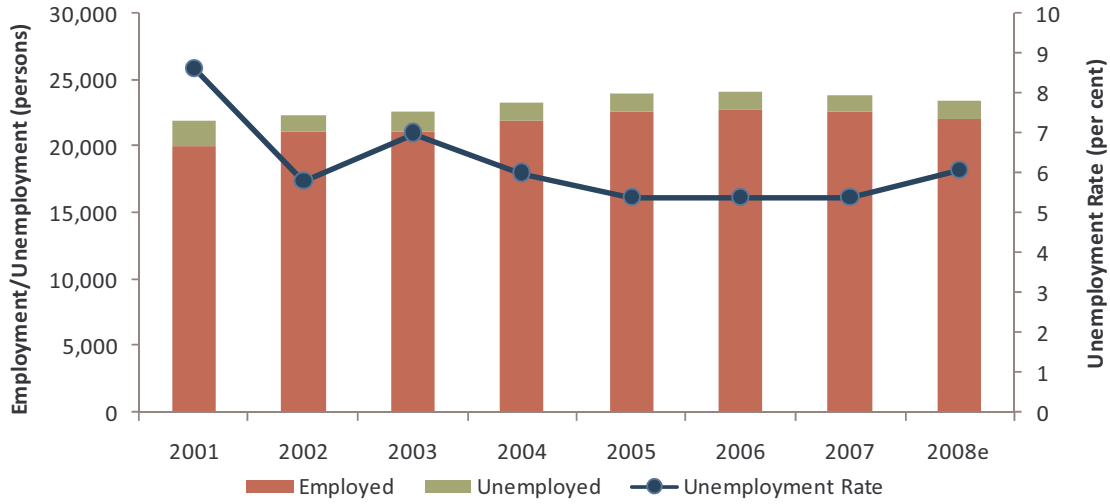
Source: Statistics Canada

Labour

During 2008, NWT employment declined by 2.4 per cent compared to 2007. Employment averaged 22,100 persons. This represents a labour force (population 15 years of age or older) participation rate of 75.1 per cent, down from 77.9 per cent in 2007.

The NWT's unemployment rate rose to 6.1 per cent in 2008, an increase from 5.7 per cent in 2007, but slightly below the seven-year average of 6.4 per cent.

Labour Force, Employment and Unemployment



Source: Statistics Canada and NWT Bureau of Statistics
e= estimate

Investment

Total investment, measured in 2002 dollars, reached \$1.8 billion in 2007, the highest level since Division. This was an increase of \$111 million over 2006, and 50.6 per cent above the 1999 to 2006 average. Business and non-residential investment of \$1.6 billion accounted for almost 90 per cent of total investment in 2007. Investment by governments of \$159 million in 2007, up from \$124 million the previous year, accounted for 8.8 per cent of investment, and residential investment for the remainder. Given completion of the Snap Lake diamond mine during 2007, and the absence of major new investment announcements by the private sector, private sector investment is estimated to decline significantly in 2008 and is forecast to decline in 2009.

Investment by Source, Annual Growth Rate



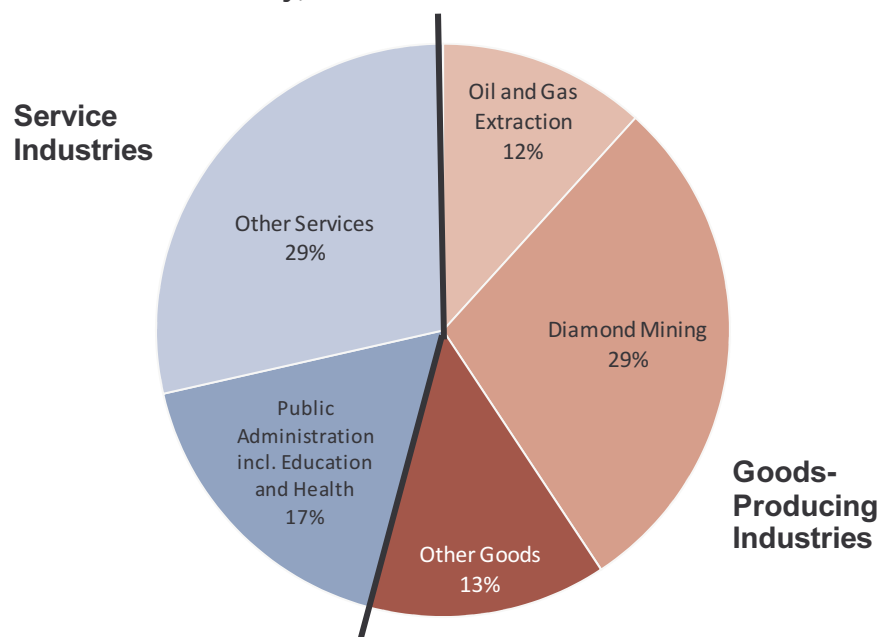
Source: Statistics Canada

Economic Structure

Goods-producing industries accounted for 54.2 per cent of the NWT economy in 2005 compared to 33.4 per cent nationally. Within the goods-producing sector, the diamond mining industry was responsible for 53.5 per cent of the total value of the sector output. The oil and natural gas extraction industry accounted for 21.6 per cent of the value and the construction industry accounted for most of the balance.

Service industries accounted for 45.8 per cent of the NWT economy compared to 66.6 per cent nationally. The service sector includes a wide range of industries such as wholesalers, banks, real estate, and hotels. The broad public sector is also included in the service sector: schools, hospitals, police and fire services as well as government departments.

Structure of the NWT Economy, 2005



Source: Statistics Canada

Goods-Producing Industries

Goods-producing industries include diamond mining, oil and gas extraction, fisheries, fur, utilities, construction and manufacturing.

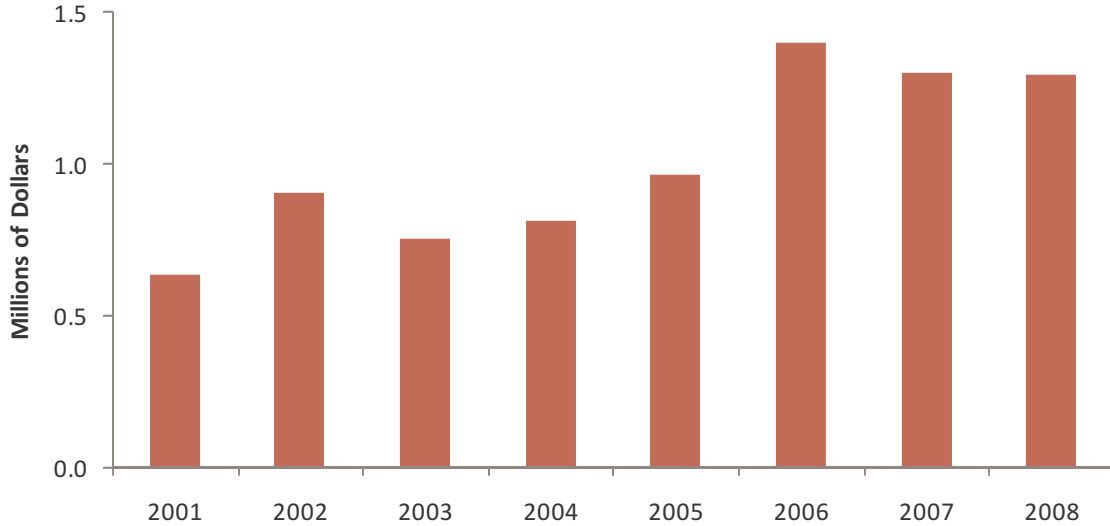
Renewable Resources

Agriculture, forestry, fishing and hunting accounted for less than one half of one per cent of the NWT's 2005 GDP. However, the fur harvest and the fisheries have an important presence in the history of Northerners and a continuing role in their present lives.

Fur Harvest

Trapping remains an important source of cash for many people in the NWT, especially in the smaller communities, and allows for a connection with the land that is not possible with most other occupations. In the fiscal year ending June 30, 2008, the value of fur sales was \$1.3 million, down marginally from 2007.

Value of Fur Sales, Fiscal Year Ending June 30



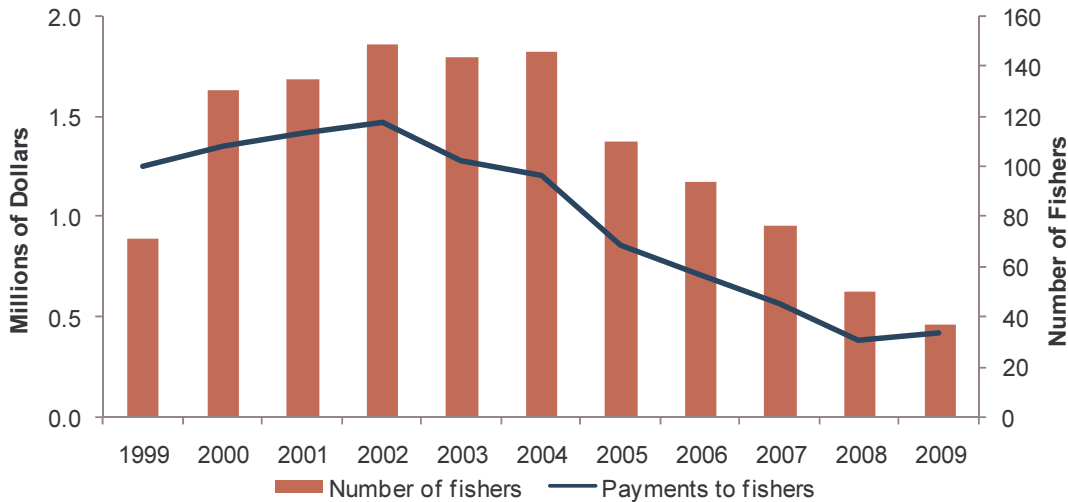
Source: NWT Industry, Tourism and Investment

Commercial Fishery

The NWT’s commercial fishery is a small but valued part of the territory’s economy. Data are provided for fish marketed through the Freshwater Fish Marketing Corporation (FFMC) – a self-sustaining federal Crown corporation which functions as the buyer, processor and marketer of freshwater fish that is sold interprovincially and internationally from Alberta, Saskatchewan, Manitoba, the NWT and part of north-western Ontario. The data illustrate that the NWT’s commercial fishery marketed through the FFMC has declined since the early part of the decade.

The FFMC reports that initial payments to NWT fishers – on a delivery-point, net-of-freight basis – increased modestly during the fiscal year ending April 30, 2009, reversing the steady decline since 2002. (Note: the export fishery is only active during the summer months; therefore reported NWT results for the fiscal year ending in 2009 are complete because all deliveries and reporting is finalized in the summer months of calendar 2008.)

NWT Export Fishery: Sales and Number of Fishers, Fiscal Year Ending April 30



Source: Freshwater Fish Marketing Corporation

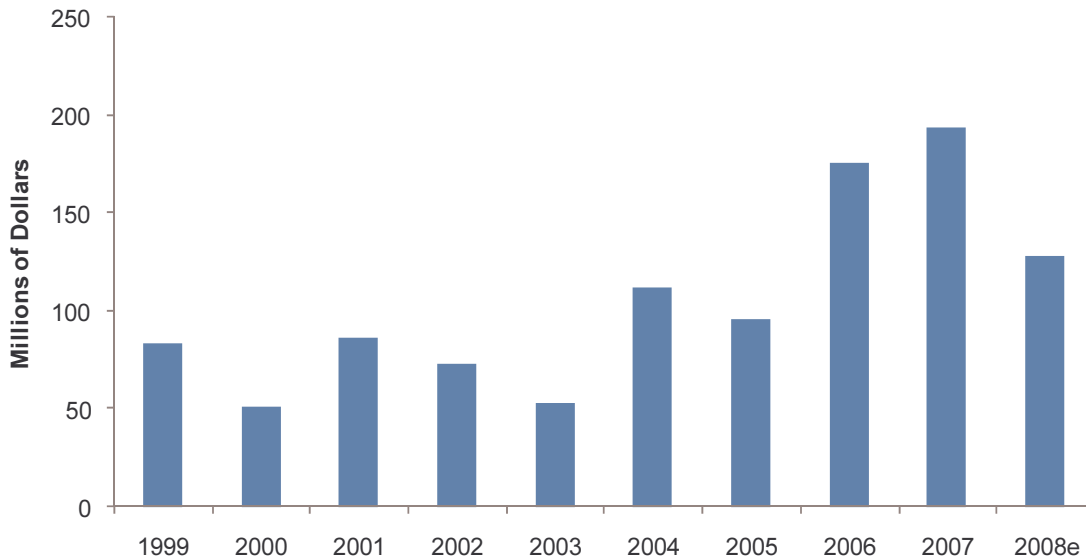
Exploration

Exploration expenditures include field work, overhead costs, engineering, economic and pre-production feasibility studies, and environment and land access costs. Exploration expenses in 2008 are estimated to be \$128.7 million, down about 34 per cent from 2007, but above the post-Division average of \$108.0 million per year.

During 2008, exploration activity in the NWT focused on diamonds, which accounted for 67.4 per cent of total expenditures. Precious metals were responsible for 14.4 per cent of exploration expenditures, with base metals accounting for 8.2 per cent. Uranium and other metals accounted for most of the balance.

Two proposed mines are currently undergoing environmental assessment, the Tyhee Development Corporation Yellowknife Gold Project and the Canadian Zinc Prairie Creek Mine. The De Beers Canada – Mountain Province joint venture Gahcho Kué diamond mine has completed bulk drilling and is now focused on completion of updated geology and resource models. It is also undertaking a feasibility study that is expected to impact the final design of the project. De Beers has deferred its environmental impact statement pending the results of the feasibility study. There is one additional mineral exploration project undergoing environmental assessment and six exploration projects are waiting for federal Ministerial decision. One oil and gas project is beginning environmental assessment and two projects are waiting for federal Ministerial decision.

NWT Exploration Expenditures

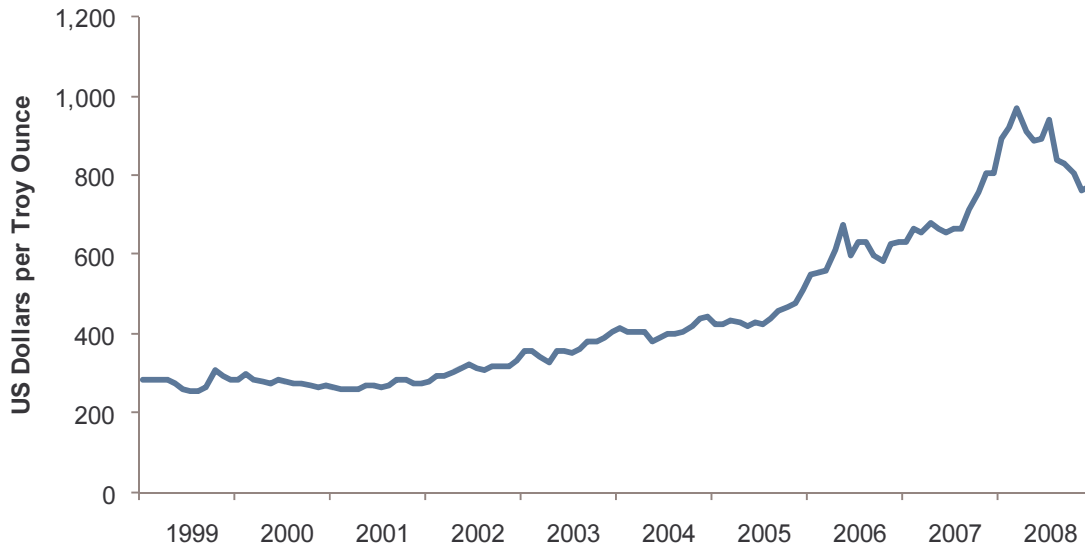


Source: Natural Resources Canada
e = estimate

Precious Metals

Precious metals include gold and silver. After many decades of gold mining in the NWT, the territory’s two remaining gold mines shut down and there has been no gold production since 2004. However, increases in the price of gold and other precious metals have increased exploration activity.

Price of Gold



Source: kitco.com

Diamond Mining

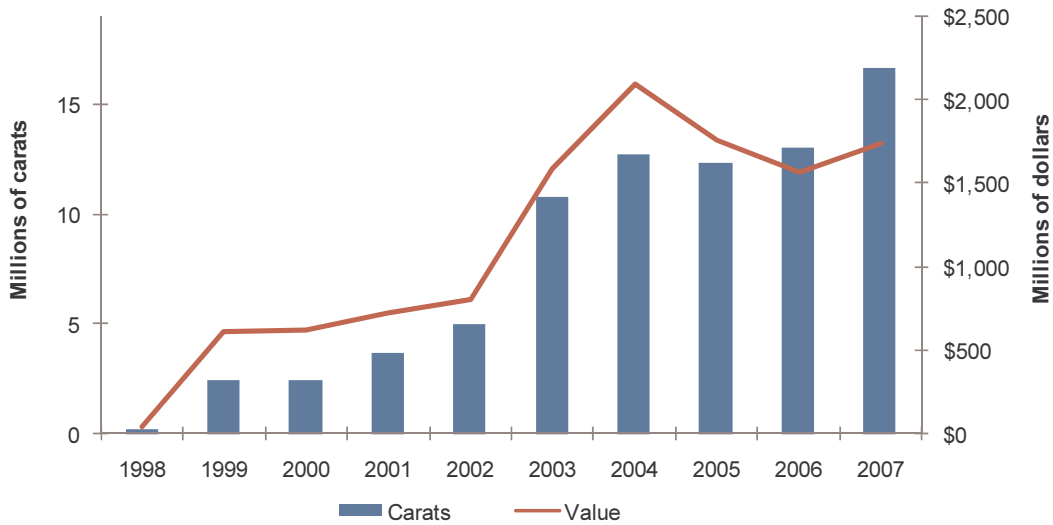
The main economic driver of the NWT economy has been the diamond industry. The Ekati Mine was Canada's first diamond mine when it opened in 1998. Two additional mines have since opened: Diavik in 2003 and Snap Lake in 2008. The environmental assessment process for a potential fourth mine, Gahcho Kué, has been postponed.

Diamond shipments increased during 2007, measured in both volumes and value. The volume of shipments increased 28 per cent to 16.6 million carats. Shipment value increased 11.4 per cent, from \$1.57 billion in 2006 to \$1.75 billion in 2007.

In 2007 Canada remained the third-largest diamond producer by value, behind Botswana and Russia. However, the NWT is no longer the only Canadian jurisdiction with producing diamond mines. During 2008 the Victor Mine began production in Ontario.

Diamond prices are set in the international market, reflecting structured bidding activity and the specific quality attributes of a given diamond – its colour, clarity, cut and carat (weight). At the beginning of 2008, diamond prices were expected to increase modestly over the year. By the end of 2008, the global recession was beginning to have an impact on the world's diamond industry and diamond prices are expected to weaken. In response, Canadian diamond production is expected to decline.

NWT Diamond Shipments: Weight and Value



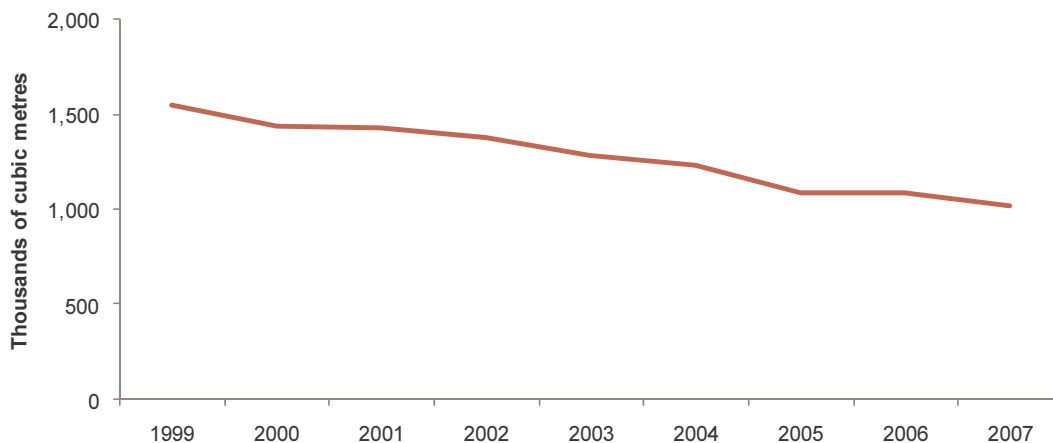
Source: Natural Resources Canada

The Oil and Gas Sector

Expenditures on oil and gas activities in the NWT in recent years have been sustained at high levels. Expenditures include costs of exploration and development drilling, well completion and abandonment, and geophysical and geological programs. Exploratory drilling levels were sustained in the Mackenzie Delta and in the central Mackenzie Valley.

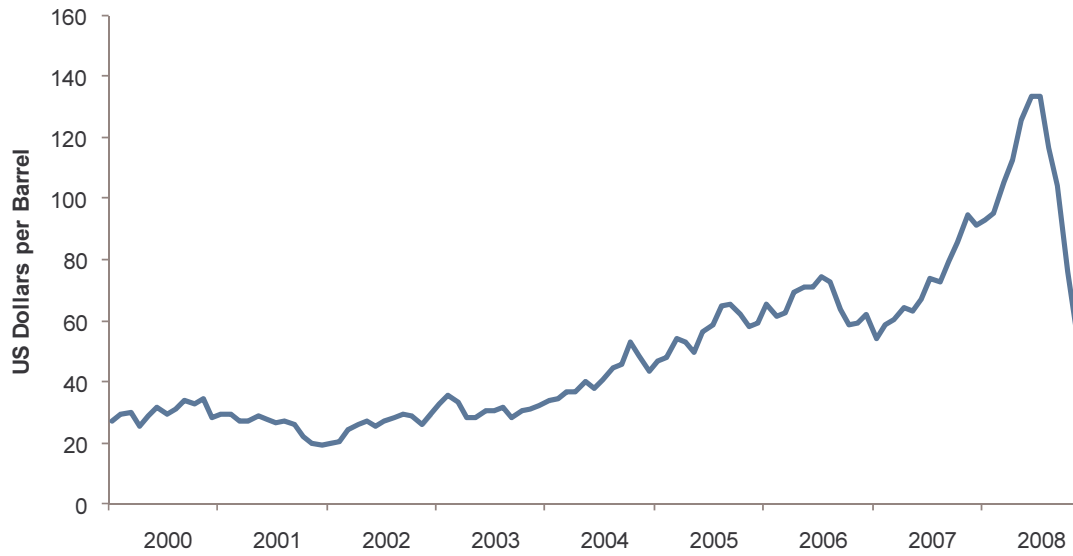
Oil and natural gas production in the NWT has been gradually decreasing due to the depletion of reserves. Growth in production requires new discoveries and new field developments to replace depleted wells. If the Mackenzie Gas Project goes ahead, substantial oil and gas exploration and production is likely to take place in the Mackenzie Delta and Beaufort Sea areas, and could make the NWT a major exporter of energy.

NWT Crude Oil Production



Source: NWT Bureau of Statistics

Price of Oil: West Texas Intermediate

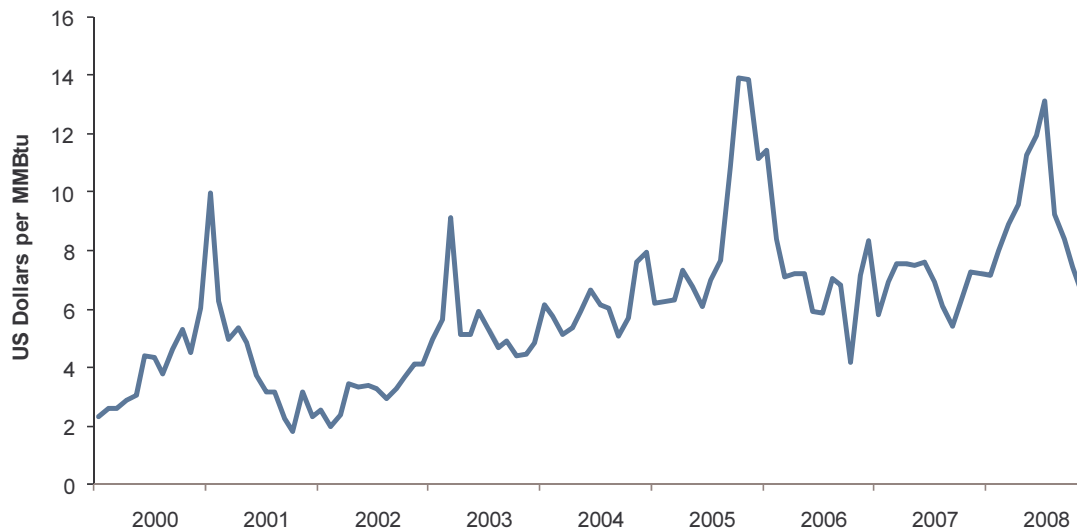


Source: Sproule Associates Limited

Crude oil prices were volatile during 2008. Oil prices peaked at US\$146 per barrel on July 14 before dropping to less than US\$40 per barrel by the beginning of 2009.

Natural gas prices have also exhibited volatility.

Price of Natural Gas: Henry Hub NYMEX



Source: Sproule Associates Limited

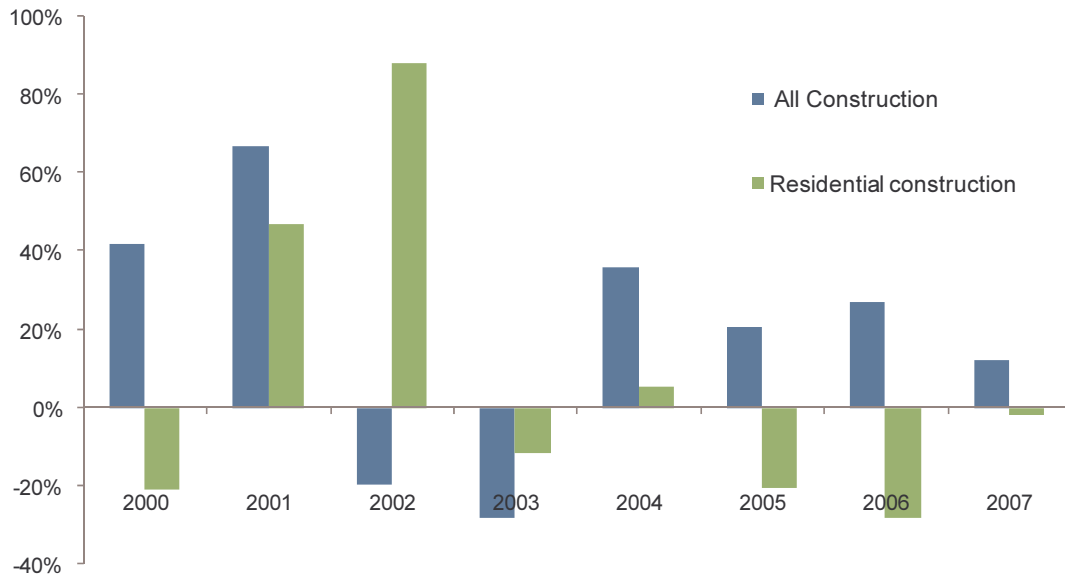
Construction

The construction industry includes residential construction, non-residential construction, and engineering services. In 2005 construction accounted for 18.5 per cent of NWT GDP. Engineering services include those construction expenditures associated with the development of the diamond mines and investments in the oil and gas industry. Engineering services accounted for an average 87 per cent of the value of construction between 1999 and 2005. Residential and non-residential construction accounted for the remainder.

In 2007, the contribution of all construction activities to the NWT's GDP increased 12.3 per cent over 2006. This was below the average annual growth rate of 19.7 per cent over the eight year period from 1999 to 2007.

The value of residential construction declined slightly for the third year in a row.

Annual Change in the Contribution of NWT Construction Activity to GDP



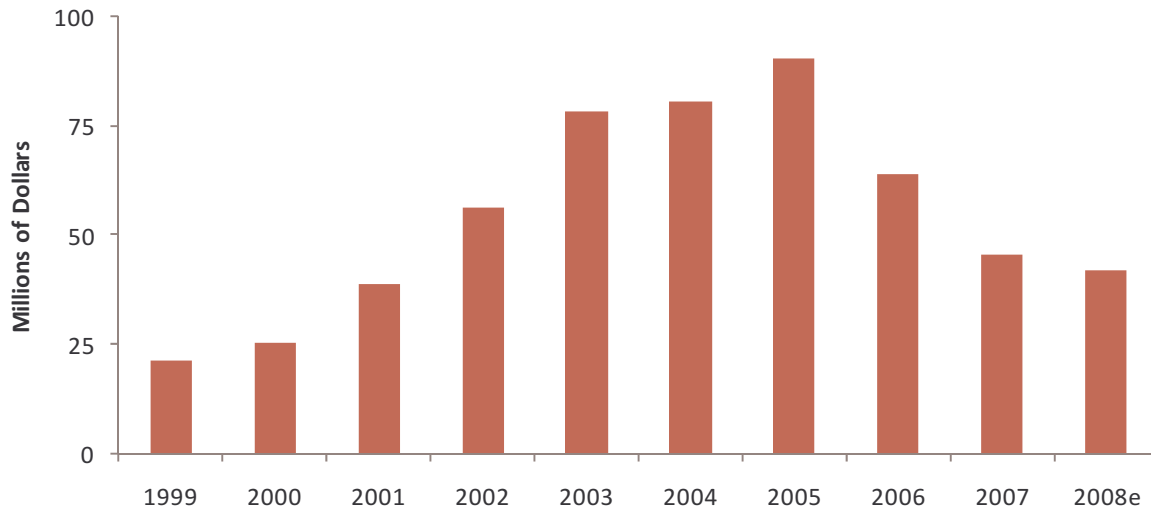
Source: Statistics Canada

Manufacturing

The NWT's manufacturing sector includes a variety of businesses such as food processors, cement and concrete producers, wood products processors and diamond processors. The NWT manufacturing and trade benefited from strong economic growth prior to 2005 primarily because of the growth in the diamond industry. Much of the NWT's manufacturing shipments consist of cut and polished diamonds. As the number of rough diamonds available for processing in the NWT increased between 1999 and 2005, the NWT's manufacturing shipments also increased.

Since peaking in 2005, manufacturing shipments declined 18.4 per cent in 2006 and 37.7 per cent in 2007. During the first nine months of 2008, manufacturing shipments fell 7.9 per cent below the same period in 2007.

NWT Manufacturing Shipments, All Industries



Source: Statistics Canada
e = estimate

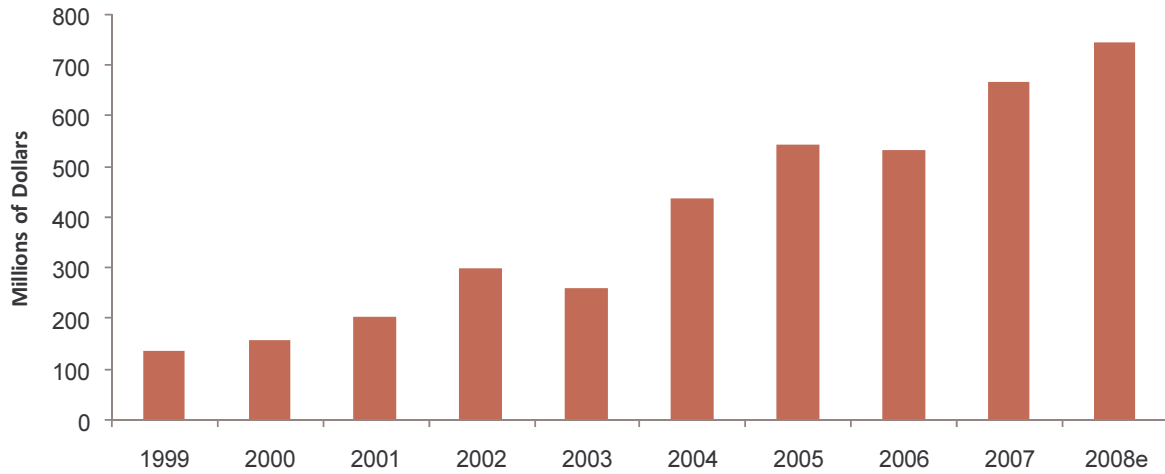
Services

Some service industries are directly related to goods-producing industries, for example transportation and wholesale trade. Other service industries, such as education and health services, support the resident population. Some services attract non-residents to the NWT, earning outside income for territorial residents. The most obvious example is tourism. Only selected service industries are included in the following discussion.

Wholesale trade

Wholesalers handle the distribution of large quantities of merchandise to retailers, businesses and institutional customers, including the supply of equipment and capital goods. Therefore, the sector is strongly influenced by capital investment and business activity. During the first eight months of 2008, wholesale trade increased by 11.6 per cent over the same period in 2007. If this trend continues for the rest of 2008, wholesale trade will reach \$745 million; more than double the average annual level since Division.

NWT Wholesale Trade

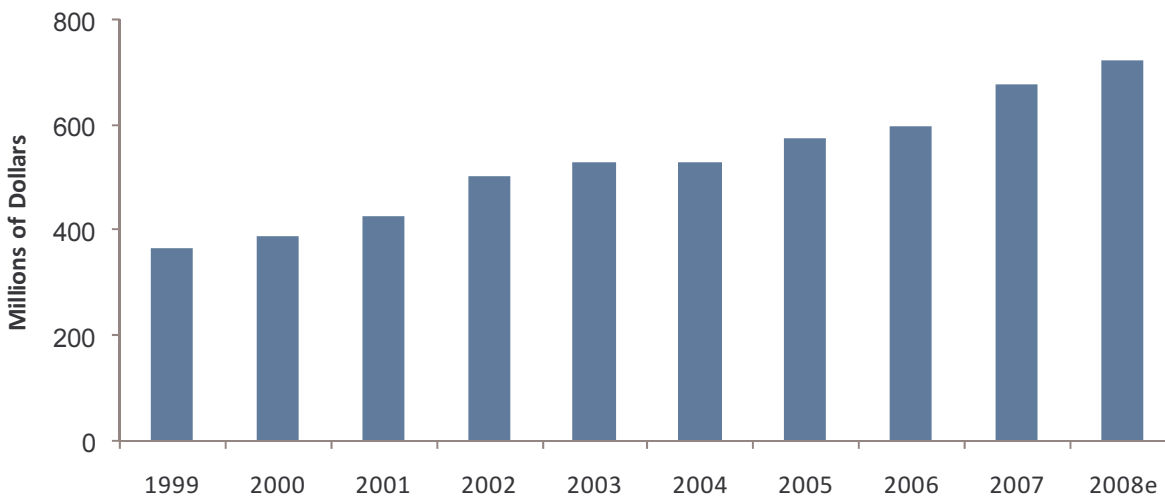


Source: Statistics Canada
e = estimate

Retail trade

Retail trade focuses on the final consumer and includes gasoline stations, grocery stores and sporting goods stores as well as the full range of consumer services. Retail trade in the NWT has grown every year since 1999. During the first nine months of 2008, retail sales in the NWT increased by 7.2 per cent over the same period in 2007. This is slightly below the average annual rate of growth since 1999 of 8.0 per cent.

NWT Value of Retail Trade



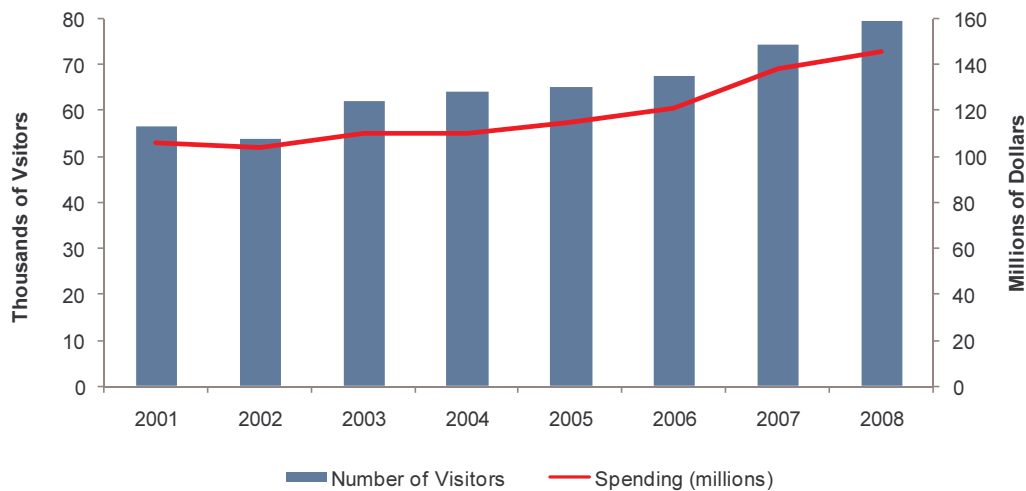
Source: Statistics Canada
e = estimate

Tourism

Tourism is an important part of the NWT's economy, with large untapped potential, including niche categories such as cultural tourism, diamond-based tourism and the international tourist market. There are four components to the NWT's tourist trade: eco-tourism, hunting and fishing lodges, leisure travel and business travel.

The number of total visitors increased 2.2 per cent from 74,400 in 2007 to 76,000 in 2008. From 2001 to 2007 the annual rate of growth averaged 4.7 per cent. Total spending by visitors increased 5.3 per cent from 2007 to 2008, reaching almost \$146 million in 2008.

Visits and Expenditures, Fiscal Year Ending March 31



Source: NWT Industry, Trade and Investment

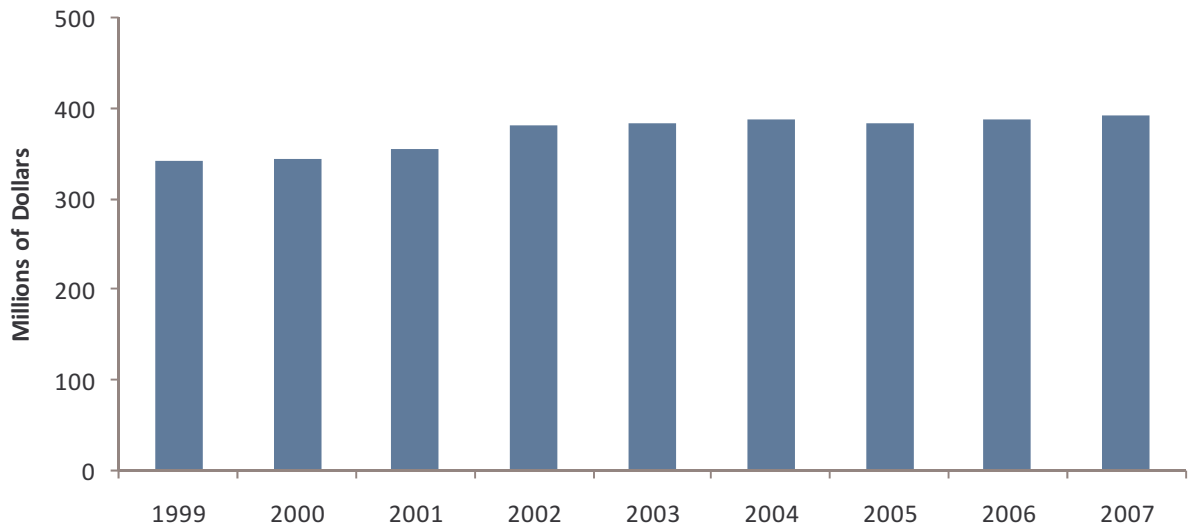
Public Administration

Public administrative services focus on the NWT resident population. Services include: the courts, policing and correction services, fire protection, defence and public program administration. It includes all levels of government in the NWT: federal, territorial, local, and Aboriginal.

Public administration is measured in terms of its contribution to NWT GDP. This avoids double-counting government expenditures, a particular problem when money is paid from one level of government and spent by another level of government.

Public sector expenditure was stable between 1999 and 2006, growing at an average rate of 1.8 per cent. In 2007, growth slowed to 0.8 per cent relative to 2006.

Public Sector Expenditures, chained (2002) dollars



Source: Statistics Canada

FISCAL REVIEW

The 2009-10 Budget maintains the fiscal and investment goals established by the Government of the Northwest Territories (GNWT) in 2008 - to restore fiscal sustainability to the GNWT and to free funds for strategic investments that will produce long-term benefits. Ultimately the purpose is to create an environment where strong individuals, families and communities share the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories (NWT).

Although the fiscal goals remain unchanged, recent events and uncertainty in the economy have required revisions to the fiscal strategy to ensure that the GNWT's fiscal plans support the NWT economy.

Fiscal Situation

From a fiscal perspective, the GNWT is fairly well positioned to face the current economic uncertainty. The GNWT has no direct debt and no immediate need to borrow, and is therefore not directly affected by the current tightening in credit markets. Further, Territorial Formula Financing (TFF) arrangements are not expected to change over the medium-term.

The key elements of the GNWT fiscal situation are that:

- ◆ TFF arrangements are enacted in federal legislation, with regulations for calculating TFF Grants effective until March 31, 2014. It is not expected that there will be significant changes or enhancements to TFF over the forecast period.
- ◆ Revenue-raising initiatives are limited by the NWT's small tax base and the need to be competitive with other jurisdictions.
- ◆ The pressure on expenditures from on-going demands for government programs and services presents challenges for keeping expenditure growth at moderate levels. While program reviews will identify some cost savings, choices will be required to control the growth in operating expenditures.
- ◆ Operating surpluses are required to fund the GNWT's infrastructure investments.

The measures begun in the 2008-09 Budget to reduce spending in some areas, to cap the growth of expenditures on existing programs and services, and to invest in key economic, social and environmental initiatives provide the GNWT with the flexibility needed to address the current economic uncertainty.

Fiscal Strategy

The GNWT remains committed to keeping its expenditure growth in line with revenue growth and adhering to the *Fiscal Responsibility Policy*, which requires operating surpluses to be generated to finance at least half of the government's infrastructure investments.

However, recent economic events and the current economic uncertainty have required adjustments to the government's overall fiscal strategy. The 2008-09 Budget called for \$135 million in spending cuts over two years and \$10 million in additional revenues in 2009-10 to allow for needed investments and to set the GNWT on a fiscally sustainable course. Under the 2008-09 fiscal plan, the GNWT would have been able to secure funds for needed infrastructure investments without incurring significant amounts of debt. In September 2008, the expenditure reduction targets were revised to \$78 million over four years and an additional \$30 million in new revenues starting in 2010-11 was added to the fiscal targets.

Given recent economic events, the GNWT is prepared to limit tax rate increases and maintain social program spending. Only \$7.3 million of the proposed \$10 million in new revenues will be raised in 2009-10 and decisions to increase own-source revenues by another \$30 million have been deferred.

The GNWT continues to make needed infrastructure investments. These investments will provide important stimulus for the NWT economy. However, while these investments will require the GNWT to incur some debt, the GNWT is committed to remaining within the current *Fiscal Responsibility Policy* guidelines.

Over the medium-term, as events unfold and new information emerges, plans for 2010-11 and beyond will be reviewed and adjusted if necessary.

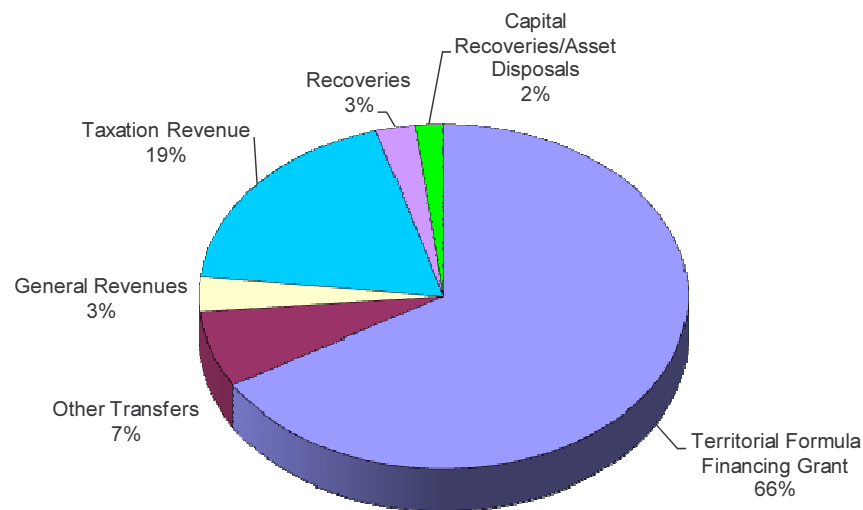
2009-10 Budget

The 2009-10 Budget proposes expenditures of \$1.2 billion and forecasts revenues of \$1.3 billion. After taking into account infrastructure contributions and supplementary reserve requirements, the 2009-10 operating surplus is projected to be \$57.6 million. This surplus is not sufficient to fund all the infrastructure investments approved for the 2009-10 fiscal year. Infrastructure investments are forecast to create short-term direct GNWT debt of \$81 million at the end of 2009-10, although this will be eliminated early in 2010-11 when new revenues are received. Other GNWT debt consists of \$156 million in guaranteed debt of the NWT Power Corporation, the NWT Energy Corporation, the NWT Housing Corporation and the Yellowknife Public Denominational District Education Authority. The federal government limits total debt of the GNWT and its corporations and agencies to \$500 million. The available borrowing authority at the end of 2009-10 will be \$263 million.

Revenues

Total 2009-10 revenues, including \$7.3 million in new revenue not presented in the 2009-10 Main Estimates, are forecast to increase 3.9 per cent, from a projected \$1.26 billion in 2008-09 to \$1.3 billion in 2009-10. The Territorial Formula Financing Grant will increase by \$59 million.

2009-10 Total GNWT Revenues by Source



Other transfers from Canada are forecast to be \$92 million, a decrease of almost 11 per cent from the 2008-09 Revised Estimates, due to the one-time Community Development Trust and prior year adjustments to the Canada Health Transfer recorded in 2008-09.

Taxation revenues, including new revenue not presented in the 2009-10 Main Estimates, are forecast to grow by 4.5 per cent, or \$11.7 million, from the 2008-09 Revised Estimates. The main reasons for the expected increase are:

- ◆ \$7.3 million in new revenue from property tax, tobacco tax, liquor revenues, and some fee increases;
- ◆ \$13.4 million increase in forecast Corporate Income Tax revenue; and
- ◆ \$0.5 million increase in other taxation revenues (fuel, payroll, and insurance taxes).

Personal Income Tax revenue is forecast to decrease \$8.9 million from the 2008-09 Revised Estimates due to a large adjustment received in 2008-09 for the 2007 tax year.

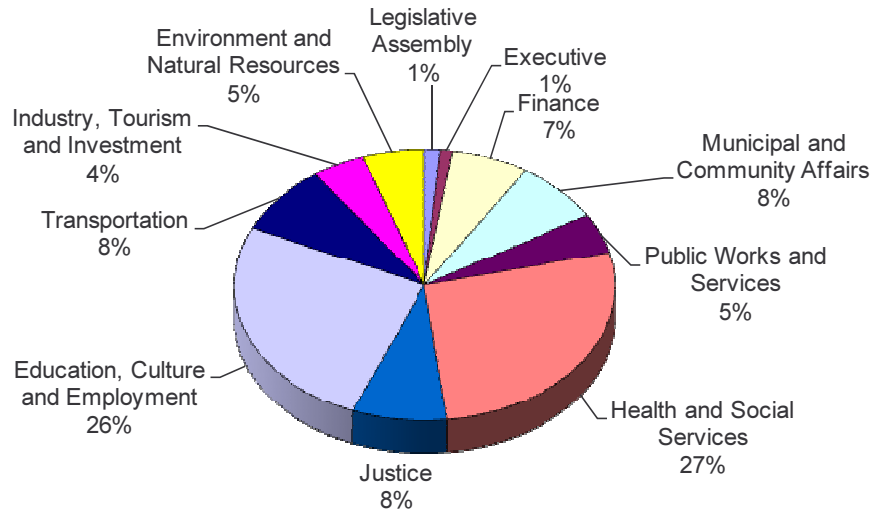
Other own-source revenues are projected to decrease by 12 per cent, to \$78.6 million, largely due to a decrease of \$6.8 million in Building Canada funds and a decrease of \$2.6 million in investment income.

Expenditures

The 2009-10 Budget includes \$1.2 billion in operating expenditures. The 2009-10 infrastructure budget, approved in October 2008, includes \$200 million in capital expenditures and \$46.7 million in infrastructure contributions to community governments, and for school and community library renovations.

The 2009-10 Budget includes \$43.9 million in funding for new initiatives and \$36.5 million to address the increased costs of existing programs and services. These increases are partly offset by \$22 million in cost savings and program reductions and \$51 million in program sunsets. Budgeted operating expenditures are forecast to increase \$23.2 million from the 2008-09 Main Estimates, or almost 2 per cent.

2009-10 Operations Expenditures by Department



Initiatives

The 2009-10 Budget continues the investments set out in the 2008-09 NWT Budget. Over the long-term, expenditures under these initiatives will improve the lives of NWT residents, lower the cost of living, encourage economic development, better prepare the GNWT to protect NWT lands and waters and improve the efficiency of the GNWT in delivering programs and services.

Investments in Our Economy

The 2009-10 Budget proposes investments in key priorities that maximize the opportunities from economic development. These investments will be made with the expectation that support for trades and apprentices and economic diversification will produce, in the long run, a balanced, diversified and sustainable NWT economy. The 2009-10 Budget includes \$15.7 million for the following investments:

- ◆ \$750,000 to enhance literacy programs to help working-age youths and adults needing basic literacy skills access education and employment opportunities.
- ◆ \$495,000 in additional support for the Aurora College Trades and Technology Program to help apprentices complete their programs in a timely manner.
- ◆ \$120,000 for equipment maintenance to support Aurora College's Trades and Technology Program.
- ◆ \$120,000 to help Aurora College deliver heavy equipment operator training in the Deh Cho and South Slave communities.
- ◆ \$100,000 to increase support for women and Aboriginal people to assess their interest and skills in trades, prepare for trades entrance exams, and effectively complete apprenticeship or occupational certification.
- ◆ \$750,000 for the *Support to Entrepreneur and Economic Development (SEED) Policy*, bringing the support for business and community development under this program to \$3.2 million annually.

2009-10 INVESTMENTS IN OUR ECONOMY (thousands of dollars)

Improve Skills for Living and Working	
Labour Market Literacy	750
Apprentice Training	495
Equipment Maintenance	120
Heavy Equipment Operator Training	120
Additional Support for Apprentices	100
	1,585
Support Diversification	
New Support to Entrepreneur and Economic Development (SEED) Policy	750
Sports Hunt Outfitter Marketing Support	300
Broadband Infrastructure Support - Falcon Communications	100
	1,150
Promote NWT as a Place to Work and Visit	
Promote the NWT at the 2010 Olympics	2,440
Increased Support for the Arts	700
Support Immigration	535
National Marketing Campaign	400
Collection and Exhibit Renewal in Museum	300
	4,375
Maximize Benefits from Resource Development	
MGP Investment - NEB, SEA Board, Coordination and APG	1,614
MGP Investment - Permits, Coordination and Regional Support	408
MGP Strategic Investment - Coordination and Policing	108
	2,130
Improve Quality and Cost of Shelter	
Housing Strategies Aimed at Quality	2,000
	2,000
Improve Transportation Access to Communities	
Wekweëti Winter Road Construction	250
Operations Related to Runway Extensions in Fort Good Hope and Tulita	85
	335
Reduce the Cost of Living	
Energy Efficiency Incentive Program Enhancement	350
Completion of Energy Plans for each NWT Community	300
Funding for Arctic Energy Alliance Regional and Community Support	230
Support to Arctic Energy Alliance to provide Additional Home Energy Evaluations	135
Territorial Power Subsidy Program Enhancement	3,000
Electricity Review	150
	4,165
	15,740

- ◆ \$300,000 to provide marketing assistance to sports hunter outfitters dealing mainly with barren ground caribou and polar bear hunts.
- ◆ \$100,000 to meet administrative costs for the capital expansion of the NWT broadband network.
- ◆ \$2.4 million in one-time funding to promote and celebrate the NWT at the 2010 Olympic Games in Vancouver.
- ◆ \$700,000 to increase support for NWT arts and culture with increased grants to individuals and organizations to promote the NWT and create employment in the arts and culture industries.
- ◆ \$535,000 for the first year of a three-year territorial nominee pilot project to increase immigration support for NWT businesses wanting better access to foreign labour to meet their labour needs.

- ◆ \$400,000 in new funding to develop and implement a multi-year national marketing campaign to promote the NWT as a great place to visit, live and invest.
- ◆ \$300,000 to acquire museum and archival materials and develop museum and on-line exhibits that represent the culture and heritage of the NWT.
- ◆ \$2.1 million to maximize benefits from the proposed Mackenzie Gas Project and other related initiatives.
- ◆ \$3 million increase in the *Territorial Power Subsidy Program* to provide assistance in addressing the high cost of electricity.
- ◆ \$150,000 for a review of the NWT electricity rates, regulation and subsidy programs.
- ◆ \$3.4 million in funding energy conservation initiatives aimed directly at reducing the cost of living, including:
 - \$2 million in additional funding to increase the number of homes that can be repaired under the NWT Housing Corporation's *Contributing Assistance for Repairs and Enhancements* program.
 - \$250,000 to add Wekweèti to the public highway system and construct an annual winter road from the Whatì junction to Wekweèti.
 - \$85,000 to fund additional operating maintenance costs relating to the extension of the airport runways at Fort Good Hope and Tulita.
 - \$350,000 for the *Energy Efficiency Incentive Program* to continue rebates, to develop and deliver weatherization workshops in communities and to educate NWT homeowners on ways to prepare for the winter heating season.
 - \$300,000 to help communities finalize Community Energy Plans required under the *Canada-NWT Gas Tax Agreement*.
 - \$365,000 to help the Arctic Energy Alliance provide further regional and community support for energy conservation and to provide additional home energy evaluations.

Investments in Our Environment

A total of \$14.9 million in new initiatives will be provided in 2009-10 to ensure that NWT land and water resources are used in ways that protect these resources for future generations. Funding includes:

- ◆ \$8.3 million in energy investments to reduce the consumption of diesel fuel including:
 - \$2.5 million for work on the 56 megawatt Taltson Hydro Expansion Project to bring the Project to a point where a decision can be made whether it is feasible for construction to proceed.
 - \$1.5 million to implement the *Hydro Strategy Policy Framework* and fund baseline environmental, engineering and economic work related to hydro electric development.
 - \$250,000 for the construction of a mini-hydro facility and transmission line at Lutselk'e.

2009-10 INVESTMENTS IN OUR ENVIRONMENT (thousands of dollars)***Governance Development***

Continue Work to Finalize and Implement Land, Resources and Self-Government	1,361
Land Administration Program Delivery	462
Implement Consultation Framework	64
Environmental Management Opportunities	250
	2,137

Environmental Stewardship

Development of the <i>NWT Water Strategy</i>	336
Public Education Related to Drinking Water	95
Delivery of <i>Greenhouse Gas Strategy</i>	200
Climate Change Adaptation Plan	150
Environmental Stewardship	210
Community Fire Protection Plans and Risk Management Strategies	210
Waste Recovery Program	200
<i>Wildlife Act</i>	200
<i>Species at Risk Act</i>	189
Traditional Knowledge Implementation Framework	180
	1,970

Energy Development and Supply

Taltson Hydro Expansion Project	2,500
Beaufort Wind Energy Supply	1,800
Biomass Strategy Development and Implementation	1,000
NWT Hydro Strategy	1,500
Expansion of Residual Heat	1,500
Lutsel'Ke Mini-Hydro Facility	250
Whati Mini Hydro / Transmission Line	250
Fort Providence Transmission Line	200
Bear River Feasibility	100
Natural Gas Conversion Feasibility	200
In-stream Hydro Project	250
Support for Geothermal Technology	150
Support to Arctic Energy Alliance to develop the Alternative Energy Mapping Project	135
	9,835

Initiatives to Reduce GNWT Energy Costs

Energy Retrofits of NWT Housing Corporation Assets	1,000
	1,000
	14,942

- \$250,000 for studies in a mini-hydro and/or a transmission line from the Snare hydro facility to Whatì.
- \$200,000 for transmission lines from the Hay River hydro plant to Fort Providence, Dory Point and Kakisa.
- \$100,000 for a feasibility study for a run-of-the-river project on the Great Bear River.
- \$250,000 to test an in-stream hydrokinetic power generator in Fort Simpson.
- \$1.8 million to install four wind turbines in Tuktoyaktuk.
- \$1.5 million as a capital contribution for the development or expansion of waste heat and distribution systems on fossil fuel generators in Holman, Fort Liard, Fort Simpson and Inuvik.
- \$150,000 to investigate the geothermal potential in the Deh Cho region.
- \$1 million to expand use of NWT biomass.

- \$200,000 for studies to determine the feasibility of converting Tulita, Fort Good Hope and Fort Simpson to natural gas in connection with the Mackenzie Gas Project.
- ◆ \$1.4 million to further negotiations and provide legal support for land, resources and self-government agreements.
- ◆ \$462,000 to continue the work of four regional lands officers who are addressing the policy and administrative gaps, breaches and inadequate service levels in managing former Commissioner's Lands.
- ◆ \$64,000 to implement the GNWT's framework for consultation with Aboriginal governments and organizations.
- ◆ \$250,000 to deliver Environmental Monitor Training Programs that will support the certified training NWT residents to become Environmental Monitors in the four regions that will be affected by the proposed Mackenzie Gas Project.
- ◆ \$336,000 to complete, and begin implementation of, the *NWT Water Strategy*.
- ◆ \$95,000 to increase public education and engagement on managing drinking water, by continuing the annual water quality report, developing information for the GNWT website, and developing other public materials to help educate the public on water issues.
- ◆ \$200,000 to establish a climate change specialist position to provide support for meeting the requirements of the *NWT Greenhouse Gas Strategy*.
- ◆ \$150,000 to establish a climate change specialist position to provide support to both GNWT departments and outside agencies for the coordination and incorporation of climate adaptation actions.
- ◆ \$210,000 to develop community wild land fire protection plans to help communities better protect themselves from wildfires.
- ◆ \$210,000 to fund programs to help barren ground caribou herds recover, to manage species at risk and the effects of habitat change.
- ◆ \$189,000 to implement the new *Species at Risk Act*.
- ◆ \$180,000 to help departments develop plans to implement the GNWT's *Traditional Knowledge Policy*.
- ◆ \$200,000 to add electronics and single-use retail bags to the waste recovery program.
- ◆ \$1 million to install wood pellet boilers in government buildings.
- ◆ \$200,000 to develop, draft and implement a new *Wildlife Act*; the current *Act* has not been revised significantly since its implementation in 1979 and is limited in its scope.

Investments in Our People

The 2009-10 Budget provides \$740 million in spending for social programs and housing. A total of \$9.7 million in new funds will be provided in the 2009-10 Budget for actions that focus on children and youth, promote healthy choices, address addictions, support families and seniors, and increase the safety and security of individuals and communities including:

- ◆ \$640,000 to continue funding pilot programs for youth, including Take a Kid Trapping, Youth Ambassadors Program, Northern Youth Abroad, Youth forums, wilderness education programs and National Aboriginal Achievement Awards.
- ◆ \$250,000 increase in the base funding for community youth centres to expand the program choices for NWT youth.
- ◆ \$225,000 to provide funding for 15 students from small communities to access specialized high school courses.
- ◆ \$64,000 to expand in-house respite services for families of special-needs children to areas outside of Yellowknife.
- ◆ \$450,000 to the Gwich'in Tribal Council and the Inuvialuit Regional Corporation to develop, in cooperation with the GNWT mental health and addiction team community, treatment programs for youth, such as on-the-land treatment, healing camps and mobile treatment.
- ◆ \$550,000 to fund activities that encourage healthy lifestyle choices, which over the long-term reduce social costs.
- ◆ \$125,000 in 2009-10 and \$192,000 in each of 2010-11 and 2011-12 to develop a three-year pilot program to provide both voluntary and mandatory opportunities for violent men to take responsibility for their behaviour.
- ◆ \$318,000 to add regional managers to oversee income security programs in the Deh Cho and Sahtu regions.
- ◆ \$475,000 to add police officers to detachments in Fort MacPherson, Fort Good Hope and Fort Liard as a way to increase patrols and stays in smaller communities without resident RCMP members.
- ◆ \$100,000 to establish a role model program that will bring role models with life experience with drug and alcohol abuse or criminal behaviour to speak with youth in NWT communities.
- ◆ \$200,000 for the GNWT's share of costs for an additional police dog and handler in Hay River to better deal with illegal drug trafficking, especially illegal drugs coming into the NWT on the highway system from southern jurisdictions.
- ◆ \$1.46 million for ongoing operational costs associated with the Territorial Dementia Facility currently under construction with a completion date of November 2009.
- ◆ \$538,000 in additional funding for the operation of the Territorial Supported Living Campus in Hay River, which is designed to improve the quality of life for adults with moderate to severe cognitive and behavioural challenges.
- ◆ \$150,000 to support development and implementation of the volunteer development strategy.

2009-10 INVESTMENTS IN OUR PEOPLE (thousands of dollars)**Expand Programming for Children and Youth**

Youth Programs	640
Youth Centres	250
Small Community School Initiative	225
In-House Respite Services for Families of Special Needs	64
	1,179

Encourage Healthy Choices and Address Addictions

Addictions Treatment Aftercare	450
Human Papilloma Virus Vaccination Program	388
Encourage Healthy Choices and Address Addictions	550
Program for Abusers	125
	1,513

Support Individuals and Families

Next Steps in Income Security Reform	318
	318

Increase Safety and Security

Policing in Smaller Communities - 3 Regular Members	475
Reduce Alcohol and Drug-Related Crime - Role Model Program	100
South Slave Drug Interception Team - Dog Handler Unit	200
	775

Strengthen Continuum of Care for Seniors

Dementia Centre Operational Costs	1,462
Supported and Assisted Living in Smaller Communities	538
	2,000

Support Volunteerism

Supporting Volunteerism	150
	150

Improve Human Resource Management

Recruitment and Retention Strategies	2,300
GNWT Services in Small and Remote Communities - Staff Housing Program	1,500
	3,800

9,735

- ◆ \$2.3 million to develop and implement a series of programs designed to improve recruitment and retention in the GNWT and community government public service.
- ◆ \$1.5 million to provide incentives to the private sector to supply GNWT staff housing in rural and remote NWT communities, which in turn will improve the ability of the GNWT to deliver programs in these communities.

Refocusing Government

The GNWT is committed to the delivery of programs and services in the most efficient way. Current actions and investments are focused on undertaking a review of government programs to: ensure the effective use of resources, change the way the GNWT plans and delivers infrastructure, improve human resource management, implement changes to GNWT boards and agencies, ensure effective service delivery in smaller NWT communities, and stabilize the GNWT's relationship with non-government organizations.

A total of \$3.7 million in new initiatives will be provided in 2009-10 including:

- ◆ \$817,000 for staff resources to support electronic health, medical records and imaging capital projects.
- ◆ \$594,000 to retain five positions in the NWT Housing Corporation’s regional offices and one manager at headquarters to address ongoing land and technical capacity shortfalls.
- ◆ \$390,000 to increase support for non-government organizations delivering services to NWT residents on behalf of the GNWT based on the revised funding policy currently being developed.
- ◆ \$300,000 to develop and implement a government-wide strategic plan for information management, information systems and information technology.
- ◆ \$250,000 to consult with departments and health and social services boards to define service levels in rural and remote communities.
- ◆ \$150,000 to develop and implement a government-wide communications framework.
- ◆ \$100,000 for the second year of the single window service desk for the Aboriginal languages pilot project.
- ◆ \$100,000 for one year to provide implementation support to the Yellowknife Health and Social Services Authority to prepare for the implementation of consolidated clinics in Yellowknife.
- ◆ \$550,000 to extend the wood pile repair program by one year for the inspection and remediation of wood pile foundations.
- ◆ \$350,000 to increase maintenance to maximize the useful life of government buildings, bringing the total annual investment to \$3 million.

2009-10 REFOCUSING GOVERNMENT (thousands of dollars)

Conduct Program Review	
Program Review	77 _____
	77
Manage the Cost of Government	
Water Supply System Upgrades, Training and Support	35 _____
	35
Strengthen Service Delivery	
Electronic Health, Medical Records and Imaging	817
Retaining Land and Technical Capacity in the NWT Housing Corp.	594
Support for Non-Government Organizations	390
Knowledge Management Strategy Renewal	300
GNWT Services in Small and Remote Communities	250
Enhanced Communication Capacity	150
Support Official Languages	100
Consolidated Clinic - Human Resources Impact Support	100 _____
	2,701
Change the GNWT's Approach to Infrastructure	
Wood Pile Repair Program	550
Focus on Deferred Maintenance	350 _____
	900

	<u>3,713</u>

Infrastructure

The 2009-10 capital budget was approved in October 2008. In total, \$247 million will be invested in infrastructure and infrastructure contributions in 2009-10 including:

- ◆ \$74 million for school replacements, renovations and additions;
- ◆ \$58 million for highways and roads across the NWT;
- ◆ \$28 million in Formula Funding for community infrastructure;
- ◆ \$19.2 million in health infrastructure investments;
- ◆ \$11.8 million for information system technology upgrades and replacements including a further \$4.6 million as part of the four-year project to replace the GNWT's 30 year old Financial Information System;
- ◆ \$18.3 million for upgrades and renovations to GNWT buildings;
- ◆ \$16.7 million for airport infrastructure improvements;
- ◆ \$4 million for parks infrastructure – this investment represents the second year of a four-year plan to replace the 60th Parallel Visitor Centre, to address the increasing demand for RV sites in NWT campgrounds, to address the deterioration of heritage buildings, and to establish a new territorial park under the *NWT Protected Areas Strategy*; and
- ◆ \$10.3 million for tank farm upgrades and capacity increases.

Revenue Measures

In the 2008-09 Budget, the government committed to raising an additional \$10 million in revenues for 2009-10. This target was reduced in light of the current economic climate, and \$7.3 million in tax increases are included in the 2009-10 Budget. These increases will bring the following taxes in line with inflation:

- ◆ 2009 property tax rates on mining, oil and gas, and pipeline properties and the education mill rate for all properties in the General Taxation Area will be adjusted to increase revenues from these sources by 15 per cent. These rates have not changed since 2003 and 2000, respectively.
- ◆ Effective April 1, the NWT tobacco tax will increase by an estimated \$11.20 a carton, to reflect current prices. NWT tobacco taxes were last changed in 2003.
- ◆ Effective April 1, the NWT mark-ups on liquor, beer and wine will be increased by 10 per cent. NWT liquor mark-ups were last changed in 2003.
- ◆ Effective April 1, the Department of Transportation will be increasing a number of fees to raise an additional \$300,000 annually in areas such as vehicle licensing.

Many of the fees the government charges have not changed for a long time. There will be a review of all GNWT fees and charges in 2009-10 to ensure that fees keep pace with inflation and better reflect the cost of providing the associated services.

Looking Ahead

The GNWT will monitor its fiscal position closely over the medium-term. The fiscal strategy will continue to focus on managing the growth in operating expenditures to ensure that it does not exceed the growth in revenues, and erode the ability of the GNWT to invest in infrastructure. This will also provide the GNWT with the flexibility to invest strategically in support of the GNWT's priorities. Limiting overall expenditure growth is supported through the on-going work of the Program Review Office established in 2008.

The GNWT will continue to pursue devolution and resource revenue-sharing with the Government of Canada and NWT Aboriginal governments. However, a resource devolution agreement will likely not produce additional revenues for a number of years. The GNWT is exploring the concept of a Heritage Fund to save income from NWT non-renewable resources as a way of preserving the benefits of resource development in reinvestments to achieve sustainable economic development in NWT.

The GNWT's fiscal strategy includes tax options, but the NWT's tax bases are inadequate to maintain the balance between revenue and expenditure growth without action on the expenditure side. Further, sound tax policy must consider the effect of higher taxes on NWT residents and businesses, particularly given the high cost of living in the NWT.

The GNWT intends to continue the revenue consultation process started in September 2008. This consultation asked NWT residents and businesses to consider ways to increase revenue-raising capacity, whether through tax increases or economic and population growth. The consultation process showed that the GNWT revenue structure needs to be reviewed to determine if there are changes that can be made to the tax system that might further economic, social and environmental objectives, without increasing the overall tax burden. A revenue forum of NWT stakeholders will be convened in 2009 to provide advice on restructuring the revenue structure and other budget issues.

Medium-Term Outlook

The following table shows the GNWT medium-term outlook given current fiscal projections. The outlook includes the GNWT's expenditure reduction target of \$78 million over four years, investment in strategic initiatives of \$22 million in 2009-10 and each of the following two years and a total of \$60 million in energy investments over the period 2009-10 to 2012-13. Revenues are forecast to increase 3.4 per cent in 2010-11 and increase 4.4 per cent in 2011-12. Expenditure growth will be held to 3.8 per cent in 2010-11 and 4.9 per cent in 2011-12. Operating surpluses are expected in both years. Despite these forecast surpluses, the GNWT will need to borrow to finance a portion of its infrastructure investments. The GNWT will monitor events and will adjust its plans and projections accordingly.

Medium-Term Outlook (\$ millions)

	2007-08 Actuals	2008-09 Revised Estimates	2009-10 Main Estimates	2010-11 Forecast	2011-12 Forecast
Revenues	1,306	1,258	1,301	1,345	1,404
Expenditures	(1,212)	(1,243)	(1,243)	(1,290)	(1,353)
Operating Surplus (Deficit)	94	15	58	55	51
Capital Investment Requirements	109	140	200	130	99
Accumulated Cash Surplus (Deficit) as of March 31	83	2	(81)	(109)	(170)
Total Debt ¹	(167)	(164)	(237)	(258)	(319)
Total Borrowing Authority	500	500	500	500	500
Available Borrowing Authority	333	336	263	242	181

¹ Includes NWT Power Corp., NWT Energy Corp., NWT Housing Corp., and Yellowknife Public Denominational District Education Authority.

Risks to the Medium-Term Outlook

The Territorial Formula Financing (TFF) Grant forms about 70 per cent of GNWT revenues and consideration of revenue risks to the GNWT medium-term revenue forecast focuses on changes to the TFF Grant. The amount of the 2009-10 TFF Grant will not change over the course of the fiscal year. Because the data used to calculate a fiscal year grant is lagged by two years, changes in own-source revenues, particularly Corporate Income Tax revenues, can pose significant short-term risks to total revenues. The lack of responsiveness in TFF over the short-term to changes in own-source revenues makes the volatility in these revenues an important consideration in projecting revenues and cash for planning purposes. Over time, however, Grant entitlements do respond to changes in the GNWT's own-source revenues.

In the longer term, declines in the NWT population or provincial government spending are risks as growth in these variables are used to calculate the growth in TFF. Further, a decline in the NWT population may erode the NWT own-source revenue base.

Own-source revenues comprise over 25 per cent of GNWT revenues and taxation revenues are over 70 per cent of own-source revenues. Changes to taxation revenue carry a significant risk to the medium-term forecast as declines in own-source revenues are only partially offset by increases in TFF.

Revenues from Personal Income Tax, payroll tax, and fuel taxes may decline in the event of an economic slowdown; however declines in these taxes can usually be reliably forecast and fiscal plans adjusted accordingly. Corporate Income Tax, however, is the GNWT's most volatile revenue source and large swings in Corporate Income Tax will cause a number of complications to the medium-term outlook's revenue and cash forecasts. This is because actual Corporate Income Tax revenues affect future Corporate Income Tax estimates on which the GNWT receives payment. This is further complicated by the effect of Corporate Income Tax revenues on TFF.

Summary of Operations

	(thousands of dollars)			2007/2008 Actuals
	2009/2010 Main Estimates	2008/2009 Revised Estimates	2008/2009 Main Estimates	
REVENUES	1,300,803	1,258,575	1,230,396	1,305,712
OPERATIONS EXPENSE				
Compensation and Benefits	239,712	243,170	240,398	239,784
Grants and Contributions	572,125	566,728	561,199	583,090
Other Expenses	328,151	323,528	319,980	304,703
Amortization	61,604	56,107	56,770	52,229
TOTAL OPERATIONS EXPENSE TO BE VOTED	1,201,592	1,189,533	1,178,347	1,179,806
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	99,211	69,042	52,049	125,906
INFRASTRUCTURE CONTRIBUTIONS	(46,585)	(87,610)	(37,525)	(31,081)
PETROLEUM PRODUCTS REVOLVING FUND - NET REVENUE	-	-	-	(312)
ESTIMATED SUPPLEMENTARY REQUIREMENTS				
Operations Expenditures - Regular	(20,000)	(3,000)	(10,000)	-
ESTIMATED APPROPRIATION LAPSES				
Infrastructure Contributions	10,000	22,000	5,000	-
Regular Operating Activities	15,000	15,000	5,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	56,754	58,358	46,892	52,904
Expenditures	(56,754)	(58,624)	(46,892)	(52,904)
OPERATING SURPLUS (DEFICIT) FOR THE YEAR	57,626	15,166	14,524	94,513
ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR	901,356	886,190	860,712	791,677
ACCUMULATED SURPLUS AT THE END OF THE YEAR	958,982	901,356	875,236	886,190

Summary of Revenues

	(thousands of dollars)			
	2009/2010 Main Estimates	2008/2009 Revised Estimates	2008/2009 Main Estimates	2007/2008 Actuals
GRANT FROM CANADA	864,161	804,858	804,858	842,750
TRANSFER PAYMENTS	92,281	103,135	93,534	102,392
TAXATION REVENUE				
Personal Income Tax	65,910	74,803	65,154	50,018
Corporate Income Tax	82,235	68,802	64,287	104,890
Tobacco Tax	14,651	14,672	14,090	14,624
Fuel Tax	17,487	17,224	18,799	20,307
Payroll Tax	38,976	38,687	37,694	36,740
Property Tax and School Levies	20,143	20,924	19,734	19,489
Insurance Taxes	3,500	3,500	3,500	3,558
	242,902	238,612	223,258	249,626
GENERAL REVENUES				
Revolving Funds Net Revenue	22,879	22,431	22,431	21,792
Regulatory Revenues	16,045	15,296	15,475	14,328
Investment Income	3,359	5,956	5,956	10,308
Other General Revenues	1,276	1,169	1,204	2,463
	43,559	44,852	45,066	48,891
OTHER RECOVERIES				
Lease and Accommodations	913	914	914	1,307
Service	1,768	1,729	1,733	1,168
Program	26,384	26,891	26,971	25,363
Commodity Sales	80	166	66	157
Insurance Proceeds	60	60	60	33
Other Miscellaneous Recoveries	205	99	195	89
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	18,167
	32,410	32,859	32,939	46,284
GRANTS IN KIND	1,401	762	762	596
CAPITAL				
Other	170	2,461	3,976	101
Building Canada	8,925	15,355	12,587	-
Deferred Capital Contributions	14,994	15,681	13,416	15,072
	24,089	33,497	29,979	15,173
TOTAL REVENUES	1,300,803	1,258,575	1,230,396	1,305,712

Note: The \$7.3 million in new revenues announced in the 2009-10 NWT Budget is not included in the 2009-10 Main Estimates.

Summary of Operations Expenditures by Department

	(thousands of dollars)			2007/2008 Actuals
	2009/2010 Main Estimates	2008/2009 Revised Estimates	2008/2009 Main Estimates	
Legislative Assembly	15,650	15,364	15,364	15,415
Executive	11,891	12,657	12,657	13,693
Human Resources	35,079	32,253	32,253	31,648
Aboriginal Affairs and Intergovernmental Relations	6,807	6,500	6,500	6,743
Finance	74,875	83,485	83,485	83,570
Municipal and Community Affairs	86,229	82,441	81,207	95,484
Public Works and Services	56,136	58,182	57,740	52,651
Health and Social Services	313,027	308,872	309,822	312,892
Justice	93,488	93,047	90,873	90,944
Education, Culture and Employment	299,631	293,878	289,964	282,277
Transportation	97,060	96,465	95,947	91,125
Industry, Tourism and Investment	50,870	46,019	45,593	42,522
Environment and Natural Resources	60,849	60,370	56,942	60,842
TOTAL OPERATIONS EXPENDITURES	1,201,592	1,189,533	1,178,347	1,179,806

Summary of Infrastructure Investment by Department

	(thousands of dollars)			2007/2008 Actuals
	2009/2010 Main Estimates	2008/2009 Revised Estimates	2008/2009 Main Estimates	
Tangible Capital Assets				
Legislative Assembly	130	540	540	475
Human Resources	-	70	7,500	2,884
Finance	5,152	12,270	-	670
Municipal and Community Affairs	16	5,505	1,421	4,293
Public Works and Services	29,525	19,973	12,159	15,755
Health and Social Services	24,474	46,209	32,414	8,365
Justice	921	3,005	1,370	813
Education, Culture and Employment	60,878	46,597	24,508	27,138
Transportation	74,406	63,350	56,437	34,007
Industry, Tourism and Investment	2,961	3,489	2,328	1,148
Environment and Natural Resources	1,168	2,450	1,765	3,921
Total Tangible Capital Assets	199,631	203,458	140,442	99,469
Infrastructure Contributions				
Municipal and Community Affairs	28,074	71,026	33,575	28,920
Education, Culture and Employment	16,011	13,584	3,950	2,161
Transportation	2,500	3,000	-	-
Infrastructure Contributions	46,585	87,610	37,525	31,081
TOTAL INFRASTRUCTURE INVESTMENT	246,216	291,068	177,967	130,550

Summary of Cash Flows

	(thousands of dollars)			
	2009/2010 Main Estimates	2008/2009 Revised Estimates	2008/2009 Main Estimates	2007/2008 Actuals
OPERATING TRANSACTIONS				
Cash Received From:				
Canada	1,066,114	1,024,745	1,008,732	1,172,537
Other Revenues	227,339	266,788	236,206	406,927
	1,293,453	1,291,533	1,244,938	1,579,464
Cash Paid For:				
Operations Expenses	(1,184,802)	(1,186,545)	(1,159,866)	(1,208,305)
Projects Performed for Others	-	-	-	(297,179)
	108,651	104,989	85,072	73,980
CAPITAL TRANSACTIONS				
Capital Investment (current year)	(194,141)	(173,855)	(191,871)	(94,258)
Capital Investment (prior year)	(7,603)	(3,990)	(4,950)	-
Proceeds from Disposal of Capital Assets	-	-	-	-
Capital Contributions Received and Deferred	18,500	54,182	53,100	9,994
	(183,244)	(123,663)	(143,721)	(84,264)
INVESTING TRANSACTIONS				
Designated Cash and Investments Purchased	-	-	-	1,038
Loans (Net of Repayments)	(2,200)	(2,200)	(4,450)	(6,851)
	(2,200)	(2,200)	(4,450)	(5,813)
FINANCING TRANSACTIONS				
Repayment of Capital Lease Obligations	(1,730)	(2,156)	(2,641)	(1,613)
	(1,730)	(2,156)	(2,641)	(1,613)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(78,523)	(23,030)	(65,740)	(17,710)
Repayment of Corporate Income Tax Overpayment	(5,100)	(57,879)	(58,000)	(8,243)
Cash and Cash Equivalents at the Beginning of the Year	2,367	83,276	122,206	109,229
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	(81,256)	2,367	(1,534)	83,276

Summary of Total Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2009/2010 Main Estimates	2008/2009 Revised Estimates	2008/2009 Main Estimates	2007/2008 Actuals
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	(81,256)	2,367	(1,534)	83,276
GUARANTEED DEBT				
NWT Power Corporation	(102,905)	(109,580)	(109,580)	(111,351)
NWT Energy Corporation	(20,758)	(21,297)	(21,297)	(21,775)
NWT Housing Corporation	(25,414)	(26,397)	(26,397)	(27,318)
Yellowknife Public Denominational District Education Authority	(6,651)	(6,651)	(6,651)	(6,651)
TOTAL GUARANTEED DEBT	(155,728)	(163,925)	(163,925)	(167,095)
TOTAL (DEBT) SURPLUS	(236,984)	(163,925)	(165,459)	(167,095)
AUTHORIZED BORROWING LIMIT	500,000	500,000	500,000	500,000
AVAILABLE BORROWING CAPACITY	263,016	336,075	334,541	332,905

Any further guarantees of NWT Power Corporation Debt may require a review of the GNWT's overall borrowing capacity with the Government of Canada.

Provincial and Territorial Tax Rates as of January 15, 2009

	Combined Top Marginal PIT Rate ^(a) (%)	Fuel Tax ^(b)			Tobacco Tax on Cigarettes (\$/ carton) ^(c)	Payroll Tax ^(d) (%)	Corporate Income Tax		Capital Tax ^(e) (%)
		Retail Sales Tax (%)	Gas (¢/ litre)	Diesel (¢/ litre)			Small (%)	Large (%)	
Northwest Territories	43.05	-	10.7	9.1	42.00	2	4	11.5	-
Nunavut	40.50	-	6.4	9.1	42.00	2	4	12	-
Yukon	42.40	-	6.2	7.2	42.00	-	4	15	-
British Columbia	43.70	7	14.5	15	35.80	-	2.5	11	0/ 2.0
Alberta	39.00	-	9	9	37.00	-	3	10	-
Saskatchewan	44.00	5	15	15	36.60	-	4.5	12	0/ 3.25
Manitoba	46.40	7	11.5	11.5	35.00	2.15	1	13	0.3/ 3.0
Ontario	46.41	8	14.7	14.3	24.70	1.95	5.5	14	0.225/ 0.675
Quebec	48.22	7.5	15.2	16.2	20.60	4.26	8	11.9	0.29/ 0.58
New Brunswick	46.95	8	10.7	16.9	23.50	-	5	13	0.10/ 3.0
Nova Scotia	48.25	8	15.5	15.4	33.04	-	5	16	0.2/ 4.0
Prince Edward Island	47.37	10	13.2	19.2	39.90	-	3.2	16	0/ 5.0
Newfoundland	44.50	8	16.5	16.5	36.00	2	5	14	0/ 4.0
Weighted average ^(f)	45.63	6.8	14.1	14.3	27.77	1.86	5.2	12.6	

Notes:

- (a) Combined federal-provincial/ territorial highest personal income tax rates in effect for the 2009 tax year.
- (b) New Brunswick, Newfoundland, Nova Scotia and Quebec apply sales tax to fuel. The NWT's off-highway gasoline tax rate is 6.4 cents/ litre.
- (c) Manitoba, New Brunswick, Newfoundland, Nova Scotia and Saskatchewan apply sales tax to tobacco products.
- (d) The NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/ or the rates vary depending on the payroll size.
- (e) Capital tax rates are for large corporations and for financial institutions in the order shown. The tax bases are different for different types of companies.
- (f) Average weighted by provincial/ territorial populations at July 1, 2008.