

# **Budget Address**

## **2014 - 2015**

### ***NORTHWEST TERRITORIES***

**The Honourable J. Michael Miltenberger**  
Minister of Finance

**Fifth Session of the  
Seventeenth Legislative Assembly**

**February 6, 2014**



## Introduction

Mr. Speaker, in 54 days we will be taking responsibility for the management of our lands, waters and resources. With only 605 days left in the life of the 17<sup>th</sup> Legislative Assembly, when most governments are taking stock, we are taking on new challenges and embracing new opportunities.

Two years ago, this Assembly set out to restore fiscal balance, protect programs and services, and responsibly fund infrastructure investment. We achieved this in the last two budgets by reducing spending growth to half of what it was five years ago. Entering year three of our fiscal plan, we have shown that by working together to manage the spending pressures on programs and services we can attain our fiscal goals in the face of slow revenue growth.

Thanks to that discipline we are in a strong fiscal situation to embrace new program responsibilities for lands, waters and resource management being transferred from Canada, invest in the priorities we set two years ago to address housing needs, poverty, addictions and early childhood development, and we have achieved our goal to increase our capital plan by \$100 million over two years to invest in strategic infrastructure to grow our economy.

The 2014-15 Budget represents that continued cooperative approach in balancing fiscal discipline with the urgent priorities of this Assembly. I would like to thank the Members of the Legislative Assembly for their help in putting this Budget together.

These investments represent difficult choices between funding program priorities and funding for infrastructure. Going forward we will continue to make the disciplined choices to maintain fiscal sustainability while still providing the quality programs our residents expect and making infrastructure investments to encourage economic growth.

## Economic Outlook

Making disciplined choices about priorities is even more critical as we plan to invest in the infrastructure needed to turn around our fiscal reality through economic growth.

Last decade's dramatic economic growth has been replaced with below average growth since the recession. The Northwest Territories economy has grown in only two of the past five years and we are projecting modest growth in 2013. However, our growth prospects for 2014 are more positive as increased resource exploration activity, the pre-construction work for a new diamond mine, and construction of the Inuvik to Tuktoyaktuk highway and the Mackenzie Valley Fibre Link, point to a strengthening in the economic base.

While resident employment and income have remained healthy, the impacts of reduced economic growth are most readily observed in our declining population. In 2013, the natural increase in our population did not keep pace with the number of people leaving for opportunities elsewhere. A stagnant or declining population over the medium-term reduces economic growth and our ability to fund programs and services critical to Northerners.

If we are to stem this trend, we must do things differently.

Devolution is a very important step in the right direction. We are entering a new type of relationship with resource companies where decisions formerly made in Ottawa will now be made by the territorial government that is accountable to NWT residents. We are looking forward to the responsibility for the management of NWT lands, waters and resources and we take that responsibility very seriously. We, along with our Aboriginal partners, are creating an Intergovernmental Council to continue to move forward in our management of land and resources. We, as a government, are also committed to creating a strong cooperative partnership with the private sector built on mutual respect and trust to create an environment where the full potential of the NWT's many resources are used sustainably to ensure lasting prosperity for NWT residents and communities.

Our economic future rests equally on our ability to develop the infrastructure necessary to support today's and tomorrow's industries and protect our environment. Energy infrastructure that lowers costs, improves system reliability, and reduces environmental impacts, will serve as the backbone of an economic transformation. Communications infrastructure that changes the way we transmit and use information will allow diversification into knowledge-based industries. All-weather roads make it easier for people and goods to travel between communities and reduce costs of doing business. Quality community infrastructure, including housing, is critical to attract the skilled workers we need to strengthen and diversify our economy. Infrastructure that opens new markets, turns previously unprofitable ventures into growth opportunities, and helps our communities prosper, is key to a sustainable economy that balances economic development with respect for our environment.

Our fiscal future is closely linked to our economic prospects and healthy population growth. Our ability to seize economic opportunities as they present themselves means having our fiscal house in order.

## Fiscal Strategy

Our fiscal strategy is built on our commitment to adhering to our *Fiscal Responsibility Policy* and achieving the operating surpluses necessary to fund at least half of our planned capital investment, and ensuring debt service payments do not exceed five per cent of total revenues. Within that commitment, we continue to concentrate on our objective of ensuring that the available borrowing authority at the end of the 17<sup>th</sup> Legislative Assembly is at least \$100 million. This is more important than ever as we have been reminded this year of the downside risks in tax revenues.

Both personal and corporate income tax revenue estimates for 2013-14 are lower than what was forecast in the 2013-14 Budget, and beyond 2014-15 both personal and corporate income tax revenue forecasts have been reduced by a combined \$30 million.

We are also aware of the risks slow economic growth and a declining population pose for the Territorial Formula Financing Grant, which accounts for an overwhelming majority of our revenues. Over the next five years, our projections for slow NWT population growth and restraint in provincial government spending show that the Grant will grow on average 2.3 per cent per year, less than half of what we've enjoyed over the past five years and less than one per cent above projected inflation.

The most effective way we can grow our revenues is to grow our economy and our population, put more money into NWT residents' pockets, and slow the outflow of residents to other jurisdictions. Therefore, this government is embarking on an initiative to increase the NWT's population by 2,000 people over the next 5 years. Some of the areas of concern are the hundreds of vacant jobs in the NWT, the continued high rate of fly-in fly-out workers, the need to improve the results of the immigrant nominee program and the need to get more of our post-secondary students to return home after graduation to live and work. We are already discussing this initiative with other governments and the private sector and look forward to working with all northerners to make this initiative a success.

At the same time we continue to deliver training programs for the people who are already here, and we will also be undertaking a review of our adult education and post-secondary programs to ensure that NWT residents have the skills to successfully compete for the jobs that exist now and into the future.

Discipline in managing our operating budget is key to generating the surpluses necessary to fund infrastructure to stimulate economic growth. We have little direct control over our revenues, but through control over expenditure growth we can ensure fiscal sustainability into the future. This strategy has given us the fiscal room to invest with the federal government to build the Inuvik to Tuktoyaktuk highway, for the GNWT to fund the Mackenzie Valley Fibre Link, and the major Stanton Territorial Hospital renovation, expected to cost \$350 million, in addition to the approved capital plan.

Looking forward, however, our ability to take further advantage of cost-shared projects under the new forthcoming *Building Canada Plan*, including for the benefit of community governments, or private partnership opportunities to advance the Mackenzie Valley highway, is being challenged by competing pressures. Our fiscal attention is split between addressing our \$3 billion infrastructure deficit, and the continuous pressure to expand programs, services, and introduce new initiatives. Reduced revenue means that

disciplined choices to continue on the fiscally sustainable path we've set for ourselves will not be enough, and we are prepared to borrow responsibly to make strategic infrastructure investments.

We have a record of sound fiscal management as shown by our Aa1 credit rating from Moody's Investors Service and debt servicing costs below one per cent of revenues. Our fiscal discipline demonstrates that we're capable of managing our own financial affairs, and supports our argument that we have the ability to manage debt should the borrowing limit be increased. We are not looking for handouts, but the financial leeway and tools needed to build our territory. We are in discussions with the federal government to increase the borrowing limit by an additional \$1 billion, so we can seize opportunities to transform the economic potential of this territory by making critical infrastructure investments such as the proposed transmission grid expansion and the Wrigley-Norman Wells portion of the Mackenzie Valley highway for the benefit of our residents and industry.

Mr. Speaker, resource revenues have not changed our fiscal strategy because we are starting from the principle that resource revenues from devolution will not be spent on programs and services. We heard overwhelming support for this principle during the budget consultations we held last fall.

Our current fiscal plan is based on five per cent of resource revenues flowing to the Heritage Fund, so that there will be enough remaining resource revenues to make a meaningful investment to address the infrastructure deficit in the immediate term. Current and future generations can equally enjoy the use of roads, hospitals and energy infrastructure as well as the economic benefits that flow from a growing but sustainable NWT economy.

Should this Assembly choose to take a different approach, we will have to change the fiscal strategy, which will mean reducing our capital plan, modifying programs and services, and preventing our full participation in infrastructure programs to grow our economy such as Corridors for Canada III under the forthcoming *Building Canada Plan*. We must also remain nimble in our fiscal planning as resource revenue forecasts are very sensitive to commodity price swings and operational decisions outside our control.

## **Budget Highlights**

Mr. Speaker, the biggest highlight of our \$1.612 billion budget is the \$59 million to administer our new land, water and resource management programs and services. This will be funded through a \$67 million increase in the Gross Expenditure Base in the Territorial Formula Financing Grant, and will grow annually at the same rate. After adjustments, we have about \$9 million in flexibility to address unanticipated expenditures associated with implementing devolution and pressures associated with economic growth.

With our new responsibilities come new revenues. Starting 2014-15, we will collect NWT resource revenues and have included an estimate of \$120 million in gross resource revenues in this Budget. However, half of the 2014-15 gross revenues will be offset against future Territorial Formula Financing Grants and we will share 25 per cent of the resulting net fiscal benefit with Aboriginal governments.

For budgeting purposes we have included the \$15 million Aboriginal government share of the net fiscal benefit in this Budget, but the actual amount will be determined in late 2015 when actual 2014-15 resource revenues are collected and the net fiscal benefit for the year is determined.

Devolution stands out as the largest single reason for the \$146 million, or 10.0 per cent increase in expenditures in this Budget but we have also chosen to make \$27 million in new investments in healthy and educated people and to expand economic opportunities. The remaining 3 per cent of the growth in spending includes \$54 million to address increased salary costs and other forced growth pressures for existing programs and \$24 million in other adjustments and amortization, partially offset by \$34 million in sunsets.

These expenditures will be funded through a total of \$1.846 billion in revenues, leaving an operating surplus of \$200 million after infrastructure contributions and deferred maintenance are considered. Consistent with our *Fiscal Responsibility Policy*, we will use the surplus to fund the \$223 million capital investment approved by this Assembly for 2014-15. The shortfall will increase our short-term borrowing to \$236 million, and bring total borrowing to \$658 million by the end of 2014-15, leaving \$142 million in borrowing room.

## Revenues

We remain committed to keeping a stable tax system. While we continue to index property taxes and fees to inflation where practical, this Budget does not introduce any new taxes.

If we exclude the revenue increases from devolution, other revenues are forecast to increase 2.8 per cent in 2014-15 from the 2013-14 Main Estimates as modest increases in transfers from the federal government are offset almost entirely by a decline in income tax revenues.

Despite declining tax revenue growth, increasing the tax burden on individuals or businesses would not be fiscally prudent. Our tax bases are too small to generate the revenues we need to deliver comparable programs and services to the provinces and we rely on federal transfers for three-quarters of our revenues. These federal transfers are partly determined by our population growth, which means the risk that tax increases may cause a population decline outweigh the potential benefit of more own-source revenues. We are in competition with other jurisdictions for investment and human capital. The most direct path to grow tax revenues is to increase the tax base by fostering sustainable economic growth, growing our population and investing in critical economic infrastructure. This is the path we will continue to follow.

## **Expenditures**

Mr. Speaker, in addition to reflecting the assumption of new responsibilities for lands, waters and resources, this Budget includes investments in strategies to tackle our most intractable issues of poverty, addictions, early childhood development, and slow economic growth. By taking charge of managing our resources and directly addressing issues that have a stranglehold on the potential of this territory, we move closer to achieving this Assembly's vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories.

### **Investments in New Responsibilities**

Gaining control of resource management has been a goal of this territory for decades, and this Budget reflects the financial resources necessary to undertake these new responsibilities and duties.

In total, we have allocated \$59 million to undertake the new responsibilities and duties under the Devolution Agreement on April 1, 2014. We have budgeted prudently, leaving fiscal flexibility to fund any additional, and as yet unanticipated, activities necessary to deliver our new resource management program responsibilities. The new funds include \$27 million for a new Lands Department to support, manage and administer the sustainable use of public land in the NWT and \$32 million to fund expanded mandates and responsibilities of existing departments. The Department of Environment and Natural Resources will have an additional \$14 million to manage water resources, contaminated sites and remediation, conservation planning and cumulative impact monitoring. The budget for the Department of Industry, Tourism and Investment will increase by \$13 million to deliver program responsibilities for petroleum and mineral resource exploration, development and rights, administration of the royalty regime, and related Aboriginal consultation and NWT regulatory system guidance. The remaining funding is allocated to central agencies to support the new responsibilities for handling assets and additional administration.

This program transfer is the last major transfer of responsibility to the GNWT. We have highly skilled and effective teams with experience devolving programs, who have been fully engaged with their federal counterparts to ensure that goal of a successful and seamless transition on April 1 is achieved. There will be no dramatic changes coming in the administration of land, rights in respect of water, and resources, other than the GNWT will be responsible – not Ottawa. We are committed to creating a transparent and stable program for land, water and resource management to enable environmentally sustainable economic development.

### **Investments in our People**

Mr. Speaker, this Budget continues to support our most vulnerable populations: children, those living in poverty, and those suffering from mental health and addictions issues. Investments targeting these vulnerable groups will help us achieve our goal of healthy people free from poverty.

Beginning with the youngest ones, who depend on the right supports in their first years to set them on a path for a healthy future, this government will be implementing junior



kindergarten for four year olds. Research shows that a child's level of development at the age of five can predict the child's academic future. Unfortunately, over one-third of NWT children start school already significantly behind in their overall health and development. Creating a junior kindergarten at no cost to families will put our resources where they will have the greatest impact. Beginning with a reallocation of \$1.8 million in 2014-15, junior kindergarten will be implemented in the smallest NWT communities where the greatest need has been identified. The goal is to have junior kindergarten available in all communities within three years at an ongoing cost of \$7.2 million.

In addition to this transformative step, we are devoting \$2 million in new funding to initiatives to support other aspects of the *Early Childhood Development Framework*. Of that, \$511,000 will increase the number of qualified early education and care professionals in licensed programs through wage and training incentives, and \$1.5 million is provided to improve outreach to expectant mothers, strengthen regional Healthy Family Programs, and raise awareness on the importance of early childhood.

We are also continuing our efforts to expand Midwifery programs, including the hiring of two-full time midwives in Hay River. This year's \$515,000 investment is the second year of a multi-year plan to expand service options to expectant mothers, bringing our total investment to nearly \$1 million.

Taking action to respond to the *Anti-Poverty Strategic Framework* is a priority for this Legislative Assembly and we have added \$2.6 million in new funding for actions to support this *Framework*. This funding includes \$1 million to provide healthy and nutritious food to children and youth through early childhood, school and after-school programs, \$500,000 to fund non-governmental organizations and Aboriginal governments for projects that support the priorities in the *Framework*, and \$680,000 for transitional housing units in four non-market communities to support "hard to house" residents unable to access other housing options.

We are addressing the recommendations of the Minister's Forum on Addictions and Community Wellness with \$2.6 million in new funding above the \$4 million in direct spending already included in this Budget to support mental health and address addictions issues. This includes \$900,000 to establish community based on-the-land healing programs that are rooted in Aboriginal culture and tradition and build on best practices for treating addictions. The mental health funding also includes \$500,000 for a Children and Youth Resiliency Program that supports community programming aimed at mental and physical development for children and youth. Our prevention and early intervention programs are designed to promote wellness and healing, and to reduce the need for treatment programs in the longer run.

Finally, \$305,000 will be invested in developing and implementing a specialized Wellness Court that would benefit clients who come into contact with the justice system and are suffering from issues related to mental health, addictions, and cognitive impairments. Offering an innovative approach to wellness and reducing contact with the justice system supports this Assembly's goal of sustainable, vibrant and safe communities. In order to support the success of such a court, this Budget also invests \$895,000 to establish a collaborative case management pilot program. Breaking down barriers between departments and agencies and integrating case management for common clients with mental health and addictions needs, is essential to improving the

experience of those clients when interacting with various social programs and managing common outcomes.

### **Improving Service Delivery and Efficiency**

Mr. Speaker, in our first Budget Dialogue a year and a half ago, NWT residents made it clear that they wanted us to improve outcomes by doing things better and more efficiently within our normal programming. We were able to fund junior kindergarten through savings in other school programs and we are responding with investments in this Budget to improve program delivery for our residents while, at the same time, making program delivery more efficient and cost effective.

This Budget invests \$790,000 to continue the implementation of the new Med-Response service, which will provide community health care practitioners with remote emergency clinical support, and will triage and coordinate NWT air ambulance services. Another \$1.36 million will allow Health Authorities to tap into shared information systems expertise at the Technology Service Centre, and \$1.15 million will establish an Information Systems Service Centre to consolidate support for enterprise-wide health and social services application systems.

Nearly \$1 million will be used to complete the Financial Shared Services implementation, an initiative aimed at improving the GNWT's service orientation, providing broader career options for regional finance staff and improving organizational efficiency and timeliness. Work also continues on the establishment of a government-wide Procurement Shared Services Centre on April 1, 2014, which will standardize practices and processes and allow departments to focus on program delivery by merging the support functions specializing in the management of procurement. These investments continue the work of the last Assembly to refocus government to improve the effectiveness and efficiency of government operations.

### **Decentralization – Moving Jobs to the Communities**

Mr. Speaker, this government continues to press forward on its goal to increase employment opportunities where they are most needed by decentralizing GNWT positions. We started Phase 1 in 2013-14 when we decentralized 18 positions outside Yellowknife. Phase 2 starts in 2014-15, as we build our decentralization objectives into our post-devolution organization. We are placing 52 new positions created to deliver our new land, water and resource management programs in the regions and an additional 50 positions to administer other programs will be placed outside of Yellowknife. Phase 3 is also starting this year and is to develop a longer term plan that considers existing obligations, regional capacity and vacancies, and the impact of government spending. Bringing government closer to the people it serves not only improves service delivery but also helps build a better understanding of programming needs.

The GNWT is also working to build capacity in the regions to prepare for decentralization. This includes a planning study for office space to address potential office space shortfalls, as well as investments in housing stock. The lack of adequate housing options in non-market communities has long been a concern, and our efforts to move more government positions into these communities are creating an even greater demand for housing. We are spending \$7.5 million in 2014-15 as the first year of a three-year \$22.6 million investment to add 100 units for rent at market rates in smaller NWT communities, and up to 69 additional units through partnerships with communities or

private developers. Service delivery in smaller communities often suffers when we can't recruit or keep the right people because of a lack of housing options, and adding new housing will improve program delivery and may save money in the long run. This investment is above the \$5 million we are already adding to the NWT Housing Corporation's 2014-15 capital budget for housing, which is part of the \$10 million we will invest over the next two years to improve the quality of our public housing stock.

We are using key initiatives like the *GNWT Workforce Planning Strategy* and the Regional Recruitment Program to address barriers to employment in communities and ensure that our decentralization efforts are successful. The Regional Recruitment Program helps departments, boards and agencies recruit NWT residents to fill regional job vacancies, and helps placements be successful through up to one year of on-the-job training.

### **Investments in our Economy**

Mr. Speaker, economic prosperity not only reduces social program pressures by engaging people in productive employment and healthy choices, but determines our ability to fund social programs and services. If we do not attend to our slow economic growth now, we will jeopardize our ability to fund programs and services our residents rely on in the future.

This government is partnering with NWT residents and business to expand private sector economic opportunities. Over the past year we have undertaken several collaborative efforts to understand how we can best support sustainable mineral development, expand economic opportunities in other sectors, and leverage alternative energy to reduce our dependence on fossil fuels and lower the cost of living. This Budget invests in the priorities that emerged from those efforts.

We are devoting \$1.9 million in new funding in this Budget to address the recommended actions in the *Mineral Development Strategy*. This funding includes \$655,000 to provide better and more comprehensive geoscience information and research, \$400,000 for a NWT Mining Incentive Program aimed at attracting mineral exploration, and \$200,000 to market the NWT as an attractive place for mineral exploration and development investment. Work will also be undertaken to investigate ways to improve access to the mineral-rich Slave Geologic Province. Investments will be made in mining workforce development, including the delivery of Geoscience Field Assistant Training, and linking NWT businesses with supply opportunities for the mining industry.

We continue to invest to ensure the Sahtu oil and gas exploration takes place in an environmentally sustainable manner and to the benefit of local residents and businesses. In addition to the \$1.2 million announced in last year's Budget to support NWT residents in capturing benefits and managing impacts, we are adding \$742,000 in 2014-15. Our response includes a new Environmental Health Officer, enhanced assessment, monitoring and mitigation of environmental impacts, and hiring highway maintenance supervisors and transport officers to respond to higher traffic volumes on the Mackenzie Valley Winter Road with additional monitoring and enforcement resources.

Our work continues to diversify our economy away from a dependence on non-renewable resources through \$1.2 million in new funding to initiatives supporting the *Economic Opportunities Strategy*. This work will include the development of an

agriculture strategy and regional economic plans. Direct support will be provided to small businesses outside regional centres to attract critical human resources, through a pilot rebate program for the film industry, and increased support to the tourism industry, including the establishment of a Convention Bureau. 2014-15 will also be the first year of a two-year \$1.7 million investment to support the commercial fishing industry in capitalizing on domestic commercial market demand.

However, the long-term health and growth of local industries and business cannot be achieved through piecemeal approaches, but requires a fundamental change in the economic equation they are facing. In a territory of more than 1 million square kilometres, infrastructure is the best mechanism by which that equation can be changed. Infrastructure opens markets, lowers costs, and improves productivity in all sectors.

This year, this government took the first step in advancing one of the most important infrastructure projects of our time: an all-weather highway down the Mackenzie Valley. The first section, the Inuvik to Tuktoyaktuk highway, will connect Canada from sea to sea. This partnership with the federal government provides a much needed immediate economic stimulus to the region, but also the potential for longer term economic growth.

Our fiscal strategy plans to leverage more federal partnership opportunities in infrastructure investment with the new *Building Canada Plan*.

We also look forward to private partnership opportunities to connect Norman Wells to Wrigley, should the Sahtu oil play prove viable. The vision of a highway that spans the entire Mackenzie Valley will not be accomplished overnight, but we are doing the regulatory legwork now to be ready to take advantage of the opportunity to advance that vision.

The right type of infrastructure investment can also spark diversification into new industries, transforming challenges, such as geography, into economic opportunities. Capitalizing on Inuvik's location by building the Mackenzie Valley Fibre Link will transform the Inuvik Satellite Station Facility into a world-class satellite receiving station. Reliable high speed internet in our communities will transform the way services are delivered and expand the breadth of opportunities available to residents, from training to small business ventures. The Mackenzie Valley Fibre Link is on target to begin construction in the winter of 2015, with completion expected in the summer of 2016.

The NWT Power Corp. is commissioning a new LNG facility in Inuvik, the northernmost LNG installation in North America and the first of its kind in northern Canada, saving money and benefiting the environment. We anticipate further LNG use in all off-grid communities with a permanent road connection and in areas potentially requiring significant new generation capacity like the North Slave.

This year we will also complete the business case for an integrated power transmission grid between the North Slave and South Slave hydro systems and the Canadian grid. An NWT Grid will stabilize costs and services. It will help us maximize the benefits of existing hydroelectric generation assets and reduce our reliance on imported diesel, and its associated greenhouse gas emissions. This is a cornerstone of our 20-year vision for electricity supply, which in combination with the Energy Plan, supports a brighter economic and environmental future for our territory.

## Investments in our Environment

The sustainability of our environment is inseparable from our economic sustainability. The air, land, water, and wildlife are the riches on which our economy is built.

Mr. Speaker, this Budget devotes \$5.4 million to support *Energy Plan* initiatives that will reduce greenhouse gas emissions by lowering our fossil fuel use, including \$1.4 million to finish the business plan and design for the proposed 65 km transmission line connecting Whatì to the Snare hydro system. Funding will be provided for a broad range of alternative energy projects, including \$450,000 for biomass, \$625,000 for solar, \$100,000 for wind, and \$700,000 to continue the NT Energy Corp.'s pursuit of renewable energy options. Support will also be given directly to communities, businesses and residents in support of their efforts to implement energy efficiency measures and alternative energy projects, such as small scale biomass heating.

We continue to invest in lowering utility costs in public assets, including \$700,000 for energy efficiency improvements in public housing units. The GNWT is already reaping the benefits of past energy conservation investments under its Capital Asset Retrofit Fund program and renewable energy projects. In 2014-15, realized savings of \$832,000 in utility costs generated from previously completed energy conservation and renewable energy measures, mainly biomass conversions, will be reinvested in the program to undertake new projects that will help manage our future energy consumption and further reduce our dependence on fossil fuels. As of 2011-12, investments in our building infrastructure has helped us re-profile nearly \$1.5 million in annual operating costs to support future investments through the Capital Asset Retrofit Program.

The NWT continues to lead in the area of biomass development. We initially focused on building a market. Now we are lending support to forest management agreements with Aboriginal governments. With a committed northern business, we will see the building of the biomass industry in the NWT, using northern resources and labour, in partnership with Aboriginal governments. This industry will meet northern demand as well as the growing export market. Construction is expected to start this year.

Work is also continuing to implement the *Water Stewardship Strategy* to protect this fundamental component of our cultural, spiritual, economic and social well-being. The management of waters is a shared responsibility, and transboundary agreements with upstream jurisdictions are critical in helping ensure the waters of the NWT remain clean, abundant and productive. This Budget invests \$655,000 to support transboundary water negotiations in support of the NWT Water Stewardship Strategy Action Plan. Expansion of community-based water monitoring programs and development of a practical community-based cumulative effects monitoring framework will continue.

The GNWT is also enhancing efforts at ensuring the NWT boreal caribou population is self-sustaining and its critical habitat is protected. This Budget includes an additional \$425,000 in ongoing funding for boreal caribou monitoring, and development of range management plans. Implementation of the *NWT Barren-ground Caribou Management Strategy* includes the deployment of satellite collars in preparation for population surveys of all barren-ground caribou herds in 2015, support for a multi-party effort to develop a range plan for the Bathurst herd as well as the development of a long-term mechanism to manage the herd.

## Looking Ahead

In looking ahead, it is useful to imagine the next generation looking back at what we've done today. Will they say that we have provided them with good educations and created the conditions through infrastructure and skills training to support a robust and diversified economy while protecting our environment?

We have protected our core programs and services and at the same time enhanced those that needed more resources, especially those that help improve the lives of NWT residents. At the same time, we met the challenge of managing expenditure growth so that we have the resources to invest in infrastructure and take advantage of federal cost-shared infrastructure programs such as the forthcoming *Building Canada Plan*.

The scale of infrastructure needed to grow the economy cannot be funded through operating surpluses alone and we are prepared to borrow for strategic infrastructure. We are working with the federal government to enable that investment through an increase to the federally-imposed borrowing limit.

This Budget made good on the promise made two years ago that if we made the disciplined choices to manage expenditure pressures, we would be able to increase our infrastructure investments in years three and four of our plan. We succeeded despite a decrease in forecasted revenues. That success gives us renewed strength to stick to our fiscal sustainability plan and continue to meet the challenge of competing spending priorities.

## Conclusion

Our success is only guaranteed by our commitment to our fiscal strategy to generate operating surpluses to fund at least half of our infrastructure, and to our fiscal discipline as we maintain a \$100 million cushion in our borrowing room. By sticking to our fiscal plan we keep borrowing costs down through a well-earned Aa1 credit rating. This Budget demonstrates our continued commitment to fiscal discipline and fiscal sustainability.

Mr. Speaker, this Budget represents the co-operative effort of this Legislative Assembly to make the disciplined choices about what program priorities to fund while still leaving enough operating surpluses to take advantage of federal cost-shared funds to start making a dent in our infrastructure deficit and grow our economy. As we take over responsibility for the management of our lands, waters and resources, we have a renewed sense of what we can achieve together to sustainably grow our economy, to provide good jobs for our residents, and to protect our environment. Through this Budget we are collectively embracing these new challenges and opportunities.

# **Budget Address**

## **2014 - 2015**

***NORTHWEST TERRITORIES***

### **BUDGET PAPERS**

**A ♦ Economic Review**

**B ♦ Fiscal Review**

**February 6, 2014**





## ECONOMIC REVIEW

### Outlook

The Northwest Territories (NWT) economy has moved into a period of consolidation, setting the foundation for future economic growth.

The transfer of responsibility for lands, water and non-renewable resources from Canada to the Government of the Northwest Territories (GNWT) on April 1, 2014 will open a new era in northern development. In addition to the transfer of existing NWT-based jobs from the federal government to the GNWT, new employment opportunities will be created with the transfer of Ottawa-based jobs to the NWT. The GNWT is carefully evaluating these new positions to match employment decentralization objectives, spreading the benefits of devolution over many communities.

The GNWT took advantage of the economic slowdown to accelerate its capital plan and now, having made these investments, the GNWT is looking for partnerships with the federal government and private sector to build and strengthen this strategic infrastructure and open up new economic opportunities. For example, the federal/GNWT partnership to build the Inuvik-Tuktoyaktuk highway will provide employment and business opportunities for the region. As well, private/public partnerships such as the Mackenzie Valley Fibre Link project will provide other economic opportunities.

Mining and oil and gas exploration expenditures have increased 45 per cent from 2012 to 2013, indicating that private sector confidence in the NWT investment environment has improved. Oil and gas exploration in the Sahtu continues at the 2010-11 bid rates and mining exploration expenditures have increased. Exploration expenditures are an investment in the mining sector's future and make identified potential projects more promising. The Gahcho Kué diamond mine has a permit to start pre-construction of the mine site. After the two-year construction period, the mine will employ 400 people over its 11-year life. The Ekati diamond mine is pursuing development of its Jay and Cardinal kimberlites pipes with the expectation that it would extend the project life 10 to 20 years beyond the scheduled closure of the mine in 2019.

Public sector infrastructure investments and strengthened mining activity are expected to spill over to other sectors. The construction and wholesale sectors will be the most immediate beneficiaries of increased investment and economic activity. While employment is not expected to increase substantially in 2014, the renewed economic activity will protect current employment levels and build the base for more employment.

**Economic Outlook**

<b>Indicator</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013e</b>	<b>2014f</b>
Gross Domestic Product, Chained (2007\$) millions	4,195	3,649	3,733	3,462	3,520	3,546	3,657
<i>Per cent change</i>	-9.6	-13.0	2.3	-7.3	1.7	0.7	3.1
Total Investment, Chained (2007\$) millions	1,577	1,084	1,158	993	1,178	1,224	1,497
<i>Per cent change</i>	-20.2	-31.3	6.8	-14.2	18.6	3.9	22.3
Household Expenditure, Chained (2007\$) millions	1,295	1,286	1,305	1,324	1,342	1,352	1,369
<i>Per cent change</i>	2.5	-0.7	1.5	1.5	1.4	0.7	1.3
Government Expenditure, Chained (2007\$) millions	1,535	1,656	1,717	1,737	1,728	1,784	1,835
<i>Per cent change</i>	0.0	7.9	3.7	1.2	-0.5	3.2	2.9
Exports, Chained (2007\$) millions	2,743	2,466	2,608	2,526	2,302	2,312	2,297
<i>Per cent change</i>	-12.4	-10.1	5.8	-3.1	-8.9	0.4	-0.7
Imports, Chained (2007\$) millions	2,949	2,854	3,153	3,251	3,239	3,322	3,537
<i>Per cent change</i>	-8.0	-3.2	10.5	3.1	-0.4	2.6	6.5
Employment (resident), number of persons	22,700	21,300	21,500	22,700	22,700	22,500	22,900
<i>Per cent change</i>	-3.0	-6.2	0.9	5.6	0.0	-0.9	1.8
Average Weekly Earnings, Dollars	1,089	1,145	1,191	1,245	1,290	1,306	1,346
<i>Per cent change</i>	4.0	5.1	4.1	4.5	3.6	1.3	3.0
CPI (All Items), Yellowknife, 2002=100	115.2	115.9	117.9	121.6	124.3	126.2	128.5
<i>Per cent change</i>	4.0	0.6	1.7	3.1	2.2	1.5	1.8

e: estimate

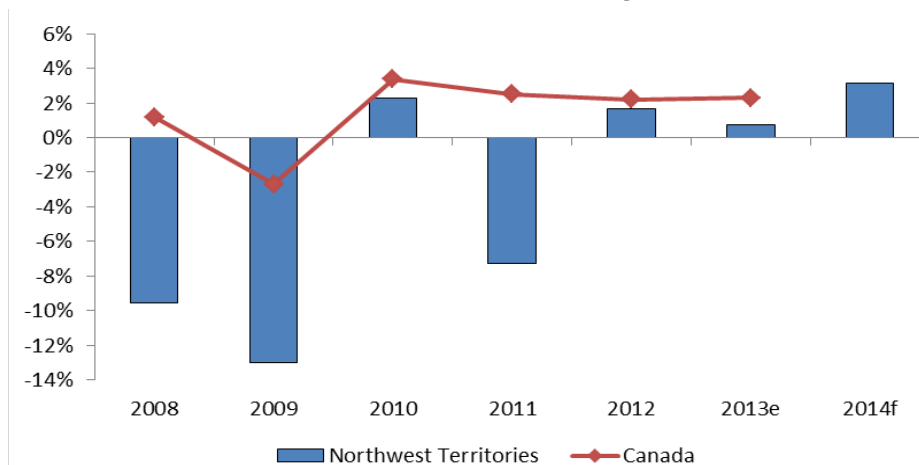
f: forecast

Source: Statistics Canada and the NWT Bureau of Statistics

## 2013 Economic Performance

The NWT economy has shrunk from its 2007 high when diamond mines were producing better quality diamonds and commodity prices were higher. Real GDP (the inflation-adjusted value of all goods and services produced) is estimated to have fallen by 24.1 per cent from its pre-recession level in 2007 to 2012. Real GDP increased by 1.7 per cent in 2012 and recent estimates indicate a modest increase of 0.7 per cent in 2013. Driven by private sector investment, most notably in mine construction, real GDP is forecast to increase 3.1 per cent in 2014.

### Real Gross Domestic Product, Annual Change, NWT and Canada



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

The drop in real GDP from 2007 was caused mainly by a 42.3 per cent decline in diamond carat production from 2007 to 2012, which reflects the move to higher cost underground mine operations and lower grade ore. A new diamond mine, Gahcho Kué, could begin production as early as December 2015. The mine is expected to employ 700 people during its 2-year construction phase. Industries linked to the diamond mines, such as transportation and wholesale industries, had large declines in their growth rates between 2007 and 2009 before stabilizing by 2011. Annual growth rates for service industries went from 4 per cent before 2007 to less than 2 per cent after 2007.

Events in the national and global economies drive the NWT economy because of its dependence on the non-renewable resource sector where prices are established in world markets. The main markets for NWT diamonds are United States, China and India where the economies are growing slightly. European economies continue to struggle with no growth in 2013 and minimal growth expected in 2014.

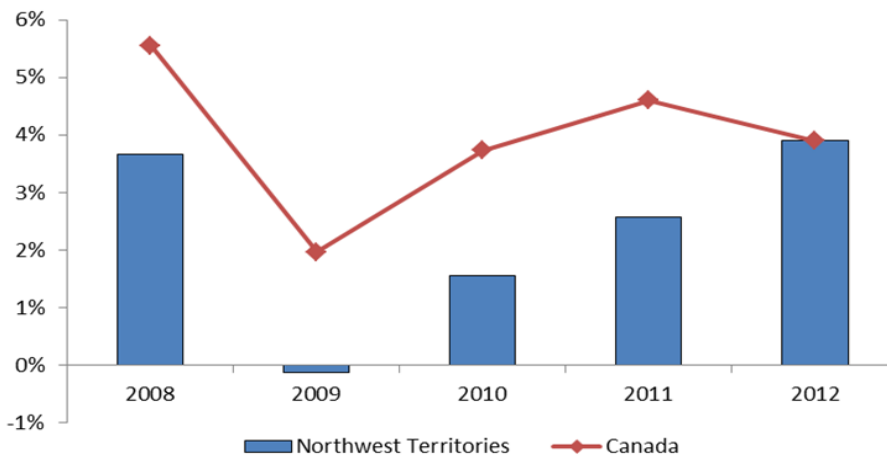
The national economy influences NWT wages and costs for domestically supplied goods and services. The Bank of Canada is projecting Canadian real GDP growth of 1.8 per cent in 2013, followed by growth of 2.5 per cent in 2014 and 2015. Household spending is expected to remain solid and slower growth of household credit and higher mortgage interest rates point to a gradual lowering of household debt. The pickup in the economy is projected to be driven by net exports and business fixed investment.

Residential investment is projected to remain flat and government spending is expected to contribute a very small amount to real GDP growth as all levels of government reduce current spending to pay down deficits.

## NWT Personal Income

Personal disposable income is the after-tax income earned from all sources. It supports consumer expenditures which account for about 30 per cent of the territory's GDP. NWT disposable income increased 3.9 per cent from 2011 to 2012. Labour income, a large component of personal income, increased 2.2 per cent in the first nine months of 2013 over the same period of 2012, indicating that personal income likely also grew modestly in 2013. At the national level, where consumer expenditures account for over 55 per cent of GDP, personal disposable income also increased 3.9 per cent in 2012.

### *Annual Percentage Change in Personal Disposable Income, NWT and Canada*

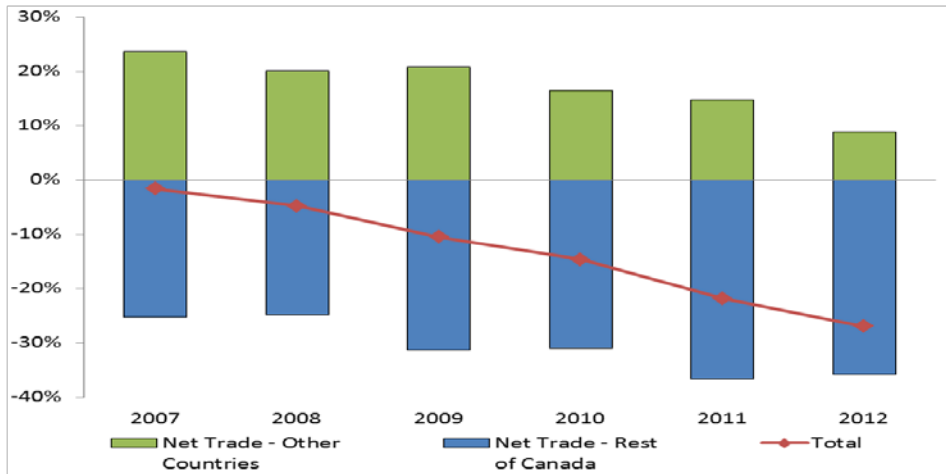


Source: Statistics Canada and NWT Finance

## Trade

The NWT economy depends on trade with other countries and with the rest of Canada. The NWT exports mainly diamonds to international markets and imports goods and services, mainly from southern Canada, to support industry and personal consumption. The NWT trade surplus with other countries, relative to real GDP, has been declining since 2007. Over the same time the NWT's trade deficit with the rest of Canada has been growing, resulting in an increasing trade deficit. In 2007, the NWT's trade deficit was 1.7 per cent of GDP; the trade surplus to other countries was 23.5 per cent of GDP and the trade deficit with the rest of Canada was 25.2 per cent of GDP. By 2012 NWT's trade deficit had grown to 26.5 per cent of GDP; the NWT trade surplus with other countries decreased by 72.2 per cent from 2007 and the NWT trade deficit with the rest of Canada rose 5.9 per cent.

**NWT Trade Balance, per cent of GDP**



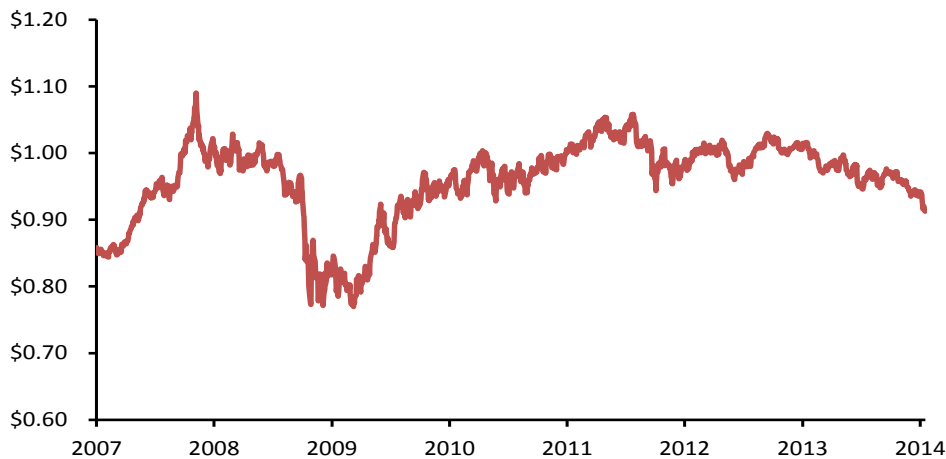
Source: Statistics Canada and NWT Finance

**Exchange Rate**

The value of the Canadian dollar in international exchange markets has a direct effect on the health of the NWT economy. A strengthening Canadian dollar means that territorial businesses that export their production get paid less after currency conversion. This is offset to the extent that equipment and other capital goods are imported from outside Canada. The effects are reversed when the Canadian dollar declines: businesses get paid more for their products after currency conversion while foreign imports cost more.

The Canadian dollar averaged US\$0.97 in 2013, a 2.9 per cent decrease from the 2012 average of US\$1.00.

**US/Canada Exchange Rate**



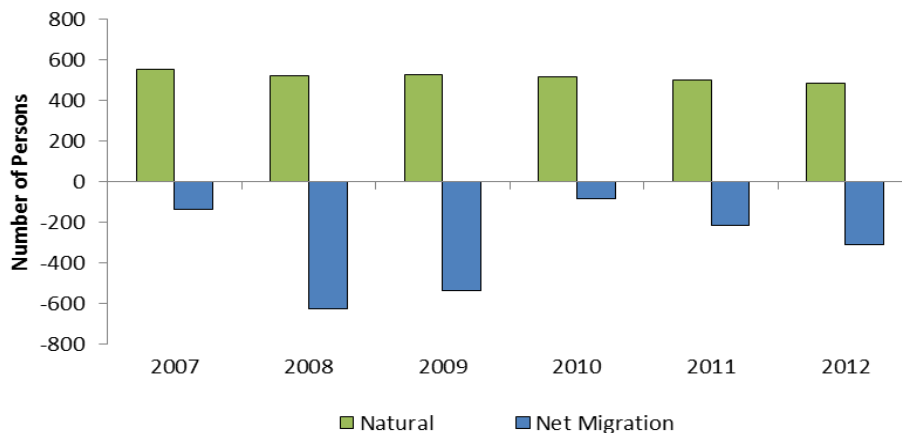
Source: Bank of Canada

## Population

The NWT population was estimated to be 43,537 persons on July 1, 2013, a decrease of 83 persons, or 0.2 per cent, from July 1, 2012. Three factors account for population change: natural change (births minus deaths), interprovincial migration and international migration. Between July 1, 2012 and July 1, 2013 natural population change consisted of 677 births and 195 deaths, resulting in a net increase of 482 persons. Inter-provincial migration accounted for 2,104 persons moving into the NWT from the rest of Canada, while 2,847 persons moved out, leaving a net loss of 743 persons. Internationally, there was a net in-migration of 178 persons.

The devolution of responsibility for land, water and resource management from the federal to territorial government in 2014 is expected to have a positive effect on net inter-provincial migration. Some specialized positions will move to the NWT and NWT residents will have the opportunity to fill other positions and increase the NWT labour retention rate.

### *Change in the NWT Population*



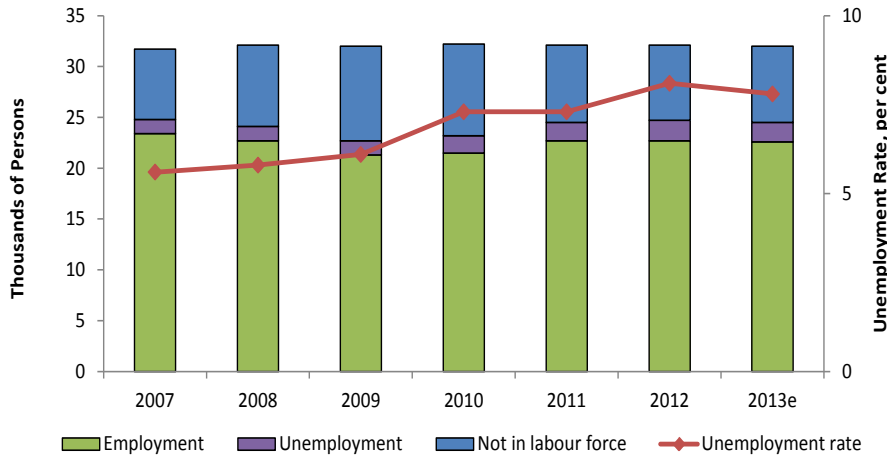
Source: NWT Bureau of Statistics

## Labour

NWT employment in 2013 was estimated at 22,500 persons, a decrease of 200 from 2012, and 900 persons below the 2007 pre-recession high. Employment is projected to increase almost 2 per cent in 2014, mainly because of mine construction activities and the new jobs created by the transfer of program responsibility for lands and resource management to the GNWT. The labour force participation rate (the share of the population 15 years of age and older currently employed or actively seeking employment) was 76.6 per cent in 2013, a slight decrease from 76.9 per cent in 2012 and still below the 2007 participation rate of 78.3 per cent.

The decrease in the participation rate from 2012 to 2013 led to a corresponding increase in the unemployment rate from 8.1 per cent in 2012 to 8.2 per cent in 2013 as more people left the labour market. The average 2007 unemployment rate was 5.6 per cent.

**NWT Labour Force Characteristics**

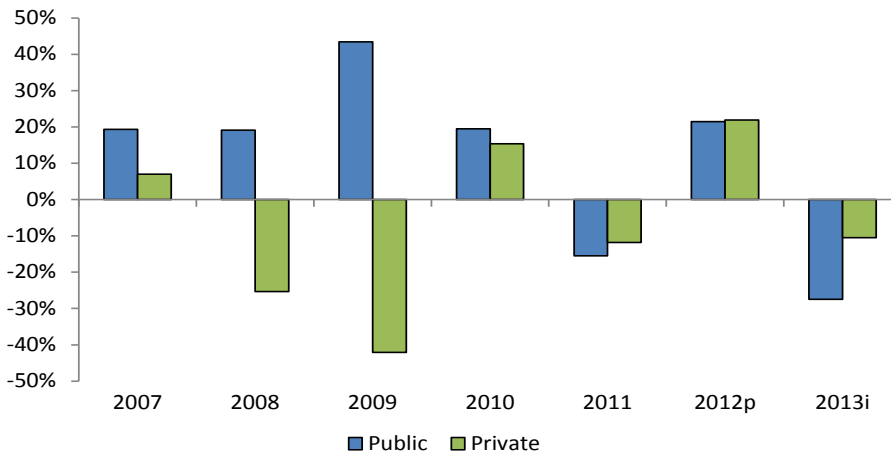


e: estimate  
Source: Statistics Canada

**Investment**

Total capital expenditure intentions for 2013 are 15 per cent below estimated 2012 capital expenditures. Private sector capital expenditures are expected to decrease 10.5 per cent from \$983 million in 2012 to \$880 million in 2013, mainly because of a 14.1 per cent decrease in mining and oil & gas extraction industries expenditures from \$728 million in 2012 to \$625 million in 2013. Capital expenditures by the public sector, after having ramped up during the recession as an element of the GNWT’s economic stimulus program, are estimated to fall 27.5 per cent from \$341 million in 2012 to \$248 million in 2013. However, investments in mines and the Inuvik-Tuktoyaktuk highway are expected to contribute to increased investment in 2014.

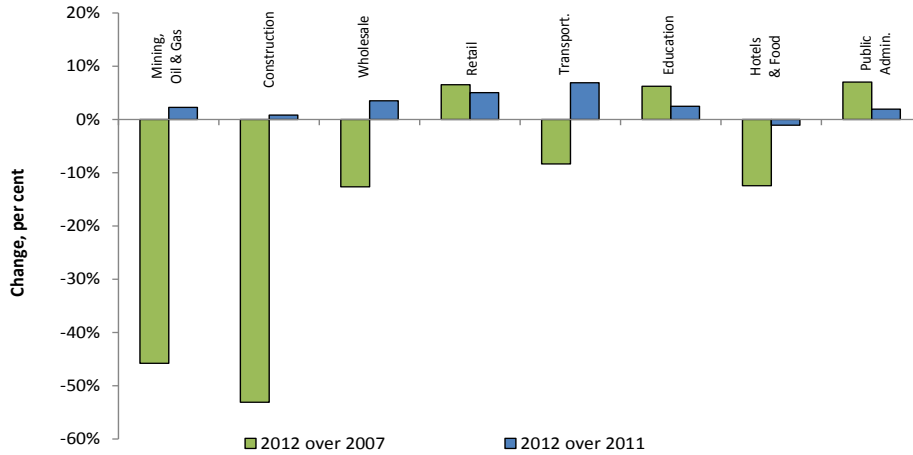
**Annual Percentage Change in NWT Public and Private Capital Expenditures**



i: intentions  
p: preliminary  
Source: NWT Bureau of Statistics and Statistics Canada

## Economic Performance by Sector

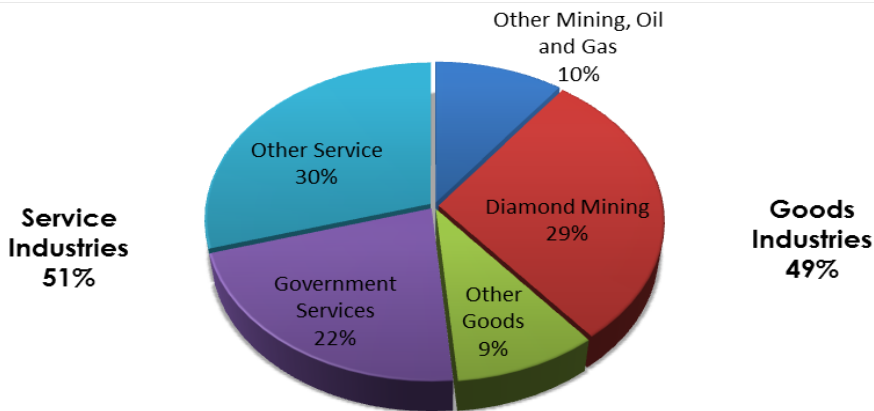
### Real Growth Rates of Selected NWT Industries



Source: Statistics Canada and NWT Finance

From 2007 to 2012 the mining, oil and gas industry sector declined 45 per cent, the construction industry declined 53 per cent and the smaller wholesale trade and accommodation sectors both decreased 12 per cent. As a result, the structure of the NWT economy changed - in 2007, goods-producing industries accounted for 51 per cent of the NWT economy but by 2009 that share had fallen to 41 per cent before recovering to 49 per cent in 2010. This reflects the business cycle in goods-producing industries, as a result of the global economic downturn.

### Structure of the NWT Economy, 2010



Source: Statistics Canada. The latest available data is 2010.



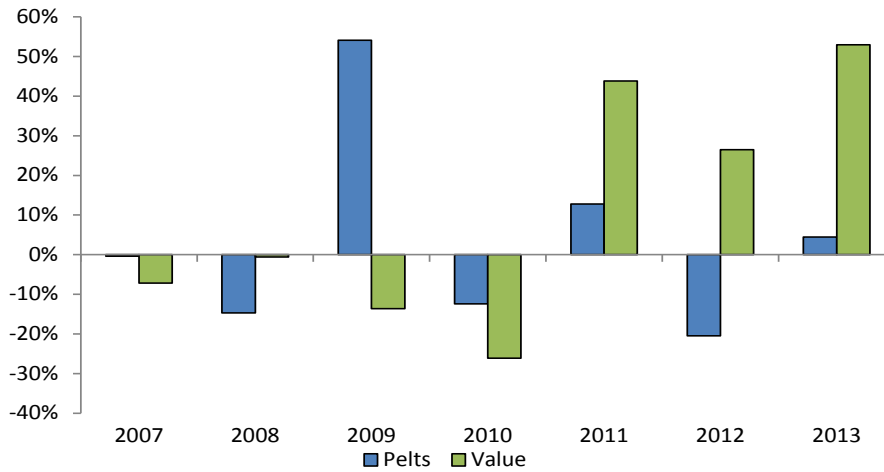
## Goods-Producing Industries

The goods-producing sector accounted for 49 per cent of NWT GDP in 2010, compared to 29 per cent of Canada’s economy. Resource extraction industries dominate the goods-producing sector in the NWT. Diamond mining was responsible for 29 per cent of 2010 GDP, while other mining, oil and gas accounted for 10 per cent. The remainder is comprised of renewable resources, construction, utilities and manufacturing activities.

### *Fur Harvest*

Trapping remains an important source of income for many people in the NWT, especially in smaller communities. For the year ended June 30, 2013, nearly 26,000 NWT pelts were sold, an increase of 4 per cent from the previous year; however, higher fur prices increased the value of fur sales 53 per cent from the previous year to \$2.31 million.

### *Annual Percentage Change in the Number and Value of NWT Pelts*



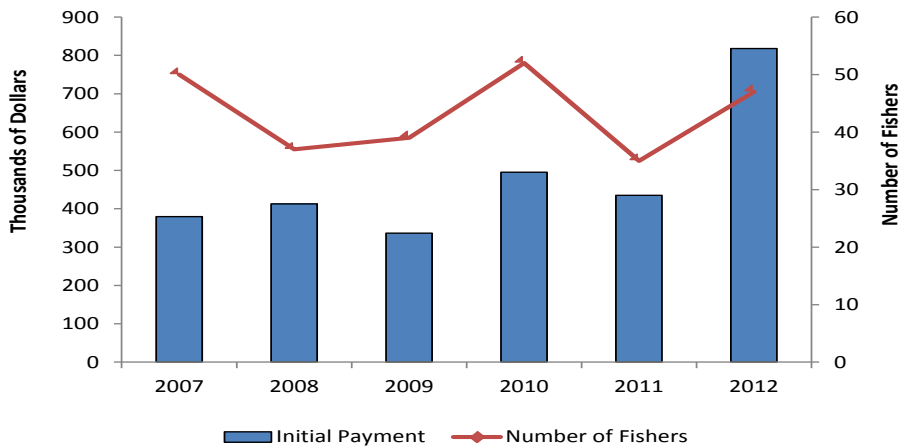
Source: NWT Bureau of Statistics

### *Commercial Fishing*

The commercial fishery in the territory is a small but valued part of the economy. Fish exported from the NWT are marketed through the Freshwater Fish Marketing Corporation, a federal Crown corporation mandated to market fish harvested in Northwestern Ontario, the three Prairie Provinces and the NWT.

Initial payments to NWT fishers – on a delivery-point, net-of-freight basis – increased 88 per cent from \$435,000 in 2011 to \$817,800 in 2012, while the weight delivered increased 17 per cent from 360,000 kilograms in 2011 to 419,700 kilograms in 2012.

**NWT Export Fishery: Sales and Number of Fishers**



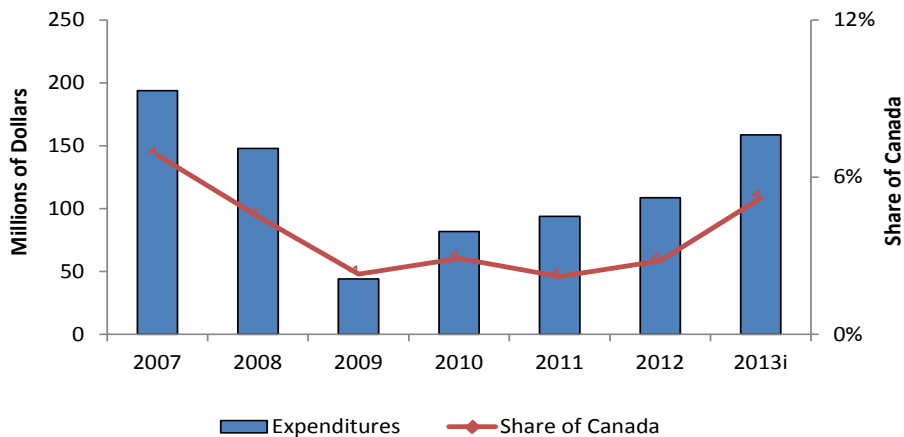
Source: Freshwater Fish Marketing Corporation

**Exploration and Deposit Appraisal**

Exploration expenditures include a range of mineral exploration activities, including field work, overhead costs, engineering, economic and pre-construction feasibility studies, and environmental and land access costs. Revised spending intentions for 2013 indicate that exploration and deposit appraisal expenditures increased to an estimated \$158.6 million, up 45.9 per cent from 2012. NWT exploration and deposit appraisal expenditures shares of the Canadian total are estimated to have increased from 2.8 per cent in 2012 to 5.2 per cent in 2013.

Based on revised 2013 intentions, NWT mineral exploration and deposit appraisal expenditures have exceeded 2008 levels.

**NWT Mineral Exploration Expenditures**



i: revised intentions  
Source: Natural Resources Canada

## ***Precious Metals and Rare Earths***

Precious metals include gold and silver. Rare earths are a group of 17 elements used in the high-tech sector for computer hardware. There have been no operating gold mines in the NWT since 2004. However, increasing prices have led to new exploration activity. The global demand for rare earths has resulted in new exploration activity in the NWT, including Avalon Rare Metals Inc.'s Nechalacho rare earths deposit at Thor Lake.

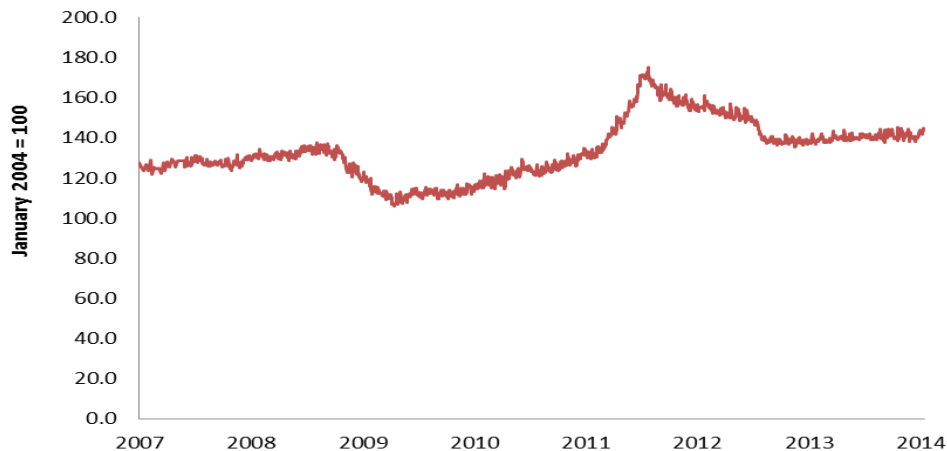
## ***Diamond Mining***

The main driver of the NWT economy is the diamond mining industry, with three producing diamond mines: Ekati opened in 1998; Diavik opened in 2003; and Snap Lake opened in 2008.

In November 2013 Dominion Diamond Corporation filed an application with the Wek'ezhii Land and Water Board requesting a new land use permit and a Class A Water Licence for extension of the Ekati Diamond Mine to include the Jay and Cardinal kimberlite pipes. The Jay-Cardinal Project has the potential to extend the operating life of the mine between 10 to 20 years beyond the currently scheduled closure in 2019.

In December 2013, de Beers and Mountain Province Diamonds received approval from the Mackenzie Valley Land and Water Board for a pioneer Land Use Permit for their joint Gahcho Kué diamond mine. The permit allows land-based site work to begin in preparation for the 2014 winter road season. The mine will employ 700 people during the 2-year construction phase and 400 people in its operation phase.

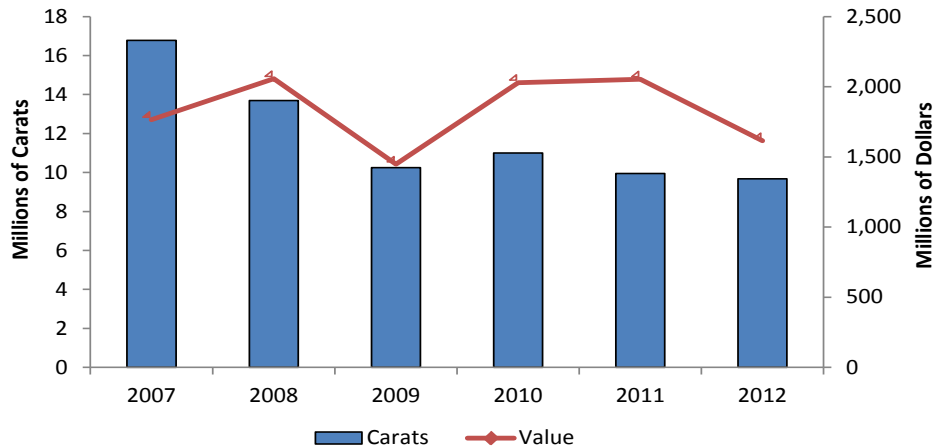
## ***Polished Diamond Price Index***



Source: PolishedPrices.com

Carat production at NWT diamond mines declined by 2.8 per cent from 2011 to 2012 and the value of diamond production decreased 23.8 per cent from \$2.1 billion in 2011 to \$1.6 billion in 2012.

### ***NWT Diamond Shipments: Weight and Value***



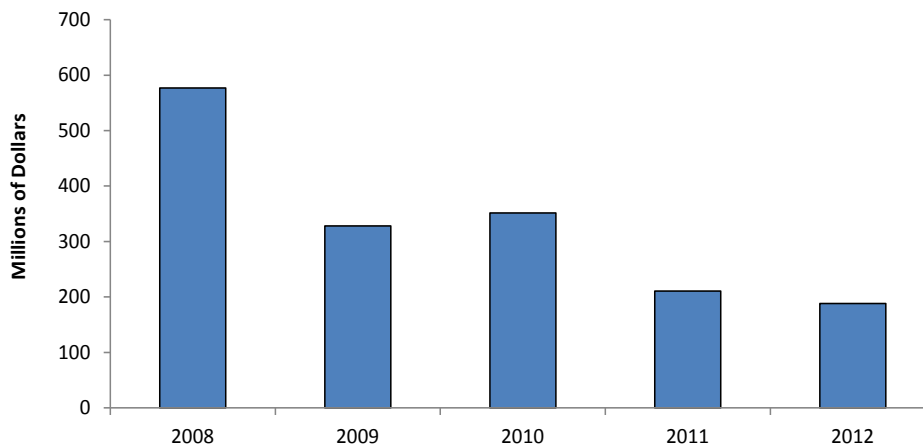
Source: NWT Bureau of Statistics and NWT Finance

### ***Oil and Gas***

Oil and gas production in the NWT is in decline due to the depletion of active reserves. Growth in production requires new discoveries and new field development. Expenditures on oil and gas activities in the NWT decreased from \$210 million in 2011 to \$188 million in 2012, a decline of 11 per cent.

Despite the recent declines in expenditures on oil and gas production, exploration activity in the NWT is expected to increase in the near-term. The Canol shale formation, in the Sahtu region, is currently under exploration by multiple energy companies and is estimated to hold more than two billion barrels of oil.

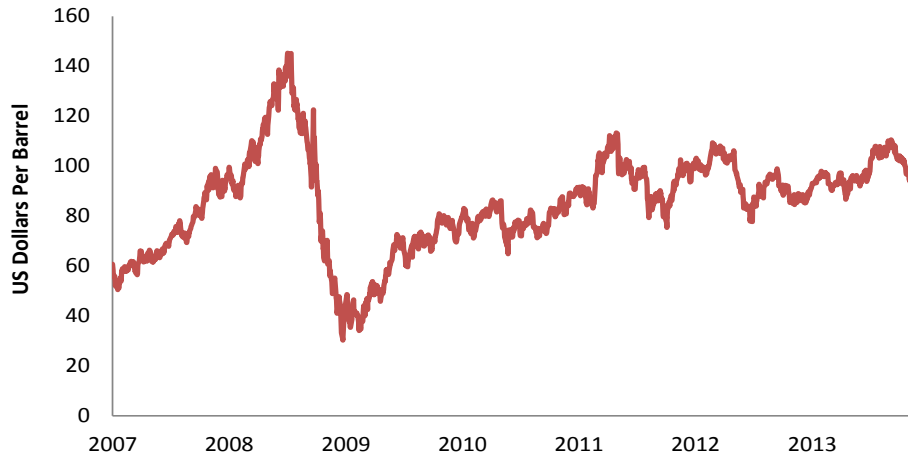
### ***Net Cash Expenditures by the Petroleum Industry: NWT and the Arctic Islands***



Source: Canadian Association of Petroleum Producers

Oil prices were relatively stable in 2013, with the average price rising only 5 per cent from 2012 to 2013.

**Price of Oil: US Dollars per Barrel**



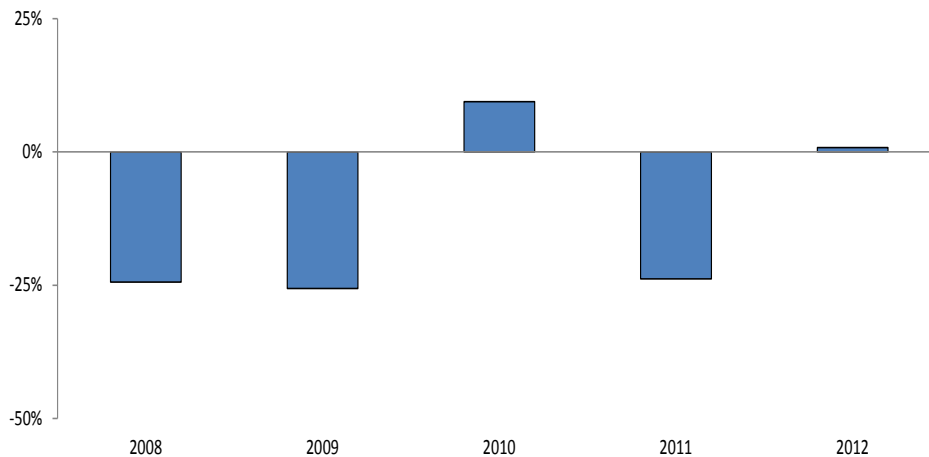
Cushing West Texas Intermediate Spot Price  
Source: U.S. Energy Information Administration

**Construction**

The construction industry includes residential construction, non-residential construction, and engineering services. The construction sector accounted for about 7 per cent of the territory’s GDP.

Construction activity increased 0.8 per cent from 2011 to 2012 but remains 52.8 per cent below 2007 levels, mainly because of the decrease in mine construction. From 2011 to 2012 residential construction stabilized with modest growth of 1.4 per cent, non-residential building construction (includes mine construction) decreased 74.6 per cent and oil and gas engineering construction increased by 22.3 per cent. Construction activity is expected to have grown slightly in 2013 and is expected to increase in 2014 with a new mine and the Inuvik-Tuktoyaktuk Highway construction.

**Annual Percentage Change in the Value of Construction Activity, chained (2007) dollars**

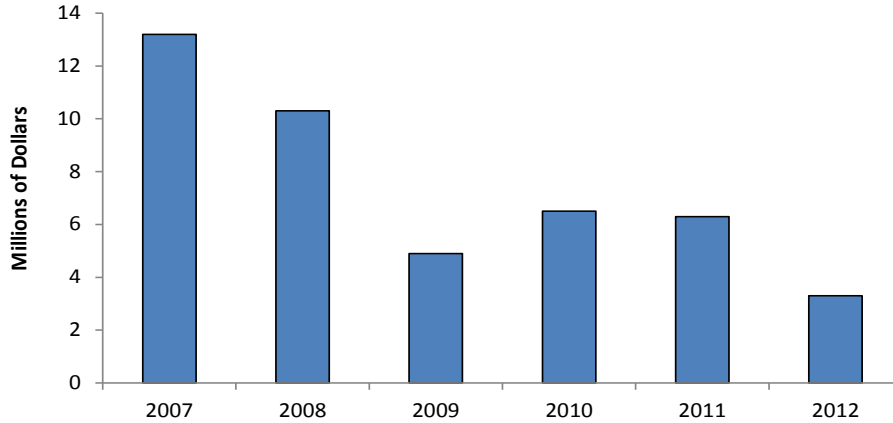


Source: NWT Bureau of Statistics and Statistics Canada

## Manufacturing

The NWT manufacturing sector value of sales, in chained (2007) dollars, decreased 47.6 per cent from 2011 to 2012.

### Value of NWT Shipments by Manufacturers, chained (2007) dollars



Source: NWT Bureau of Statistics

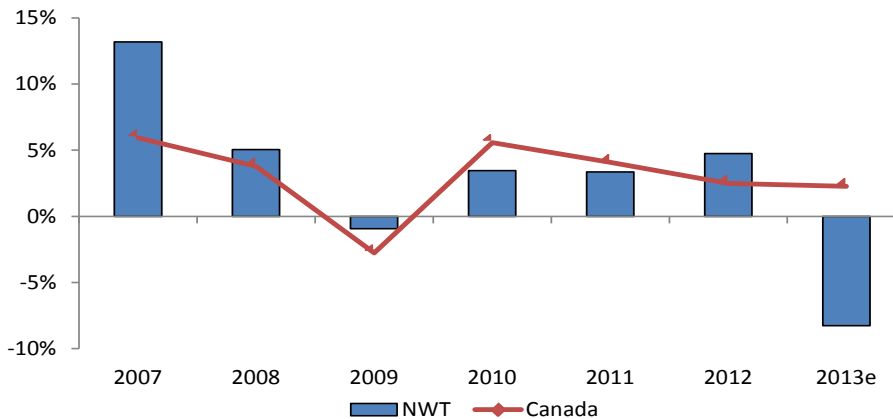
## Service Industries

Service industries accounted for 51.4 per cent of NWT GDP in 2010, compared to 70.8 per cent nationally. The service sector includes industries such as wholesalers, banks, retailers, hotels and the public sector (schools, hospitals, police and fire services, federal and territorial governments, and local and Aboriginal governments).

## Retail Trade

NWT retail trade sales increased 4.7 per cent from 2011 to 2012 but are expected to decrease 8.3 per cent from 2012 to 2013, compared to a 2.3 per cent increase in national retail sales. Competition from online retailers may be a contributing factor to the decline in NWT retail sales and work is underway to better understand the reason for the decrease.

### Annual Percentage Change in the Nominal Value of Retail Trade, NWT and Canada



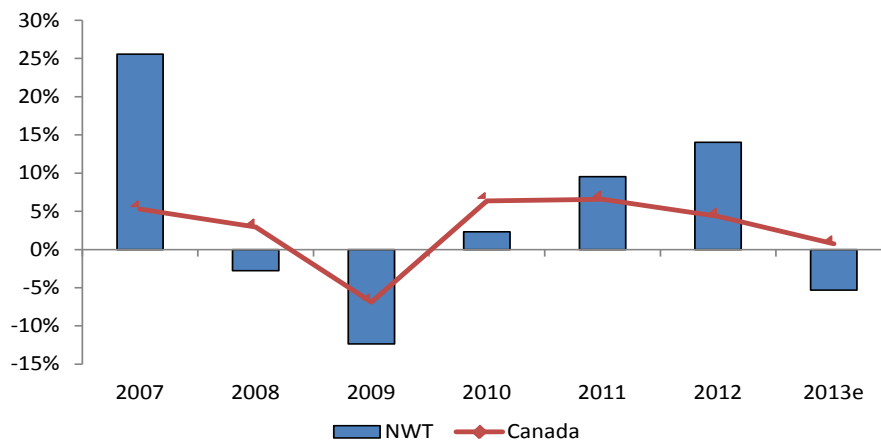
e: 2013 estimate based on January - September 2013  
Source: NWT Bureau of Statistics and Statistics Canada

## Wholesale Trade

Wholesalers distribute merchandise to retailers, businesses, and institutional customers, including the supply of equipment and capital goods. The sector is strongly influenced by capital investment and business activity.

Wholesale trade in the NWT decreased 5.3 per cent from 2012 to 2013, reflecting the drop in non-residential construction. By comparison, wholesale trade in Canada increased by 0.7 per cent.

### **Annual Percentage Change in the Nominal Value of Wholesale Trade, NWT and Canada**



e: 2013 estimate based on January - September 2013  
 Source: NWT Bureau of Statistics and Statistics Canada

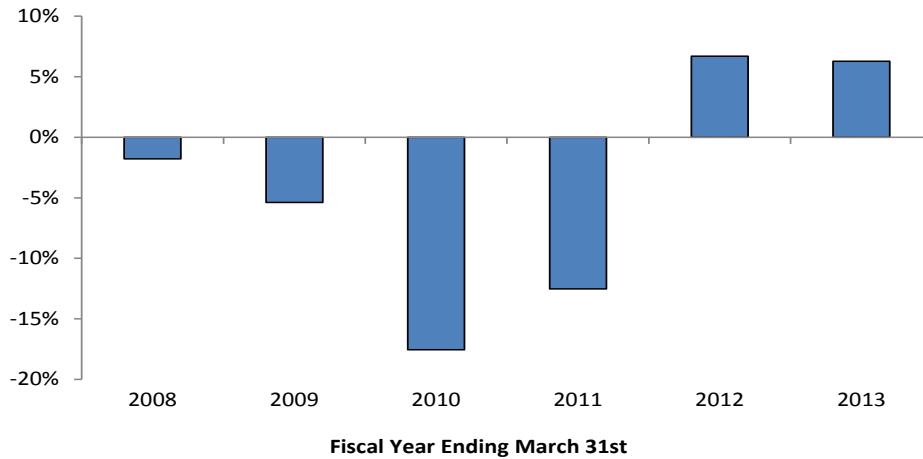
## Tourism

Tourism is an important part of the territory's economy with large untapped potential. Total spending by visitors reached \$106.7 million during the fiscal year ended March 31, 2013, an increase of 6.3 per cent from the previous year.

Total spending by leisure visitors increased 13 per cent from \$51.9 million in the year ending March 31, 2012 to \$58.6 million in the year ending March 31, 2013. The increase of expenditures by leisure visitors was led by aurora viewing which attracted more than double the number of visitors over the previous year, increasing from 7,000 for the year ending March 31, 2012 to 16,000 in the year ending March 31, 2013. The aurora viewing increase is partly attributed to solar storms causing better aurora displays. Outdoor adventure and hunting visitors also contributed to increased tourist expenditures.

Total spending by business travellers declined less than one per cent in the year ending March 31, 2013 and was attributed to a small decline in the number of business travellers, from 24,300 in 2012 to 24,100 in 2013.

### ***Annual Percentage Change in Total Expenditures by All Travellers to the NWT***



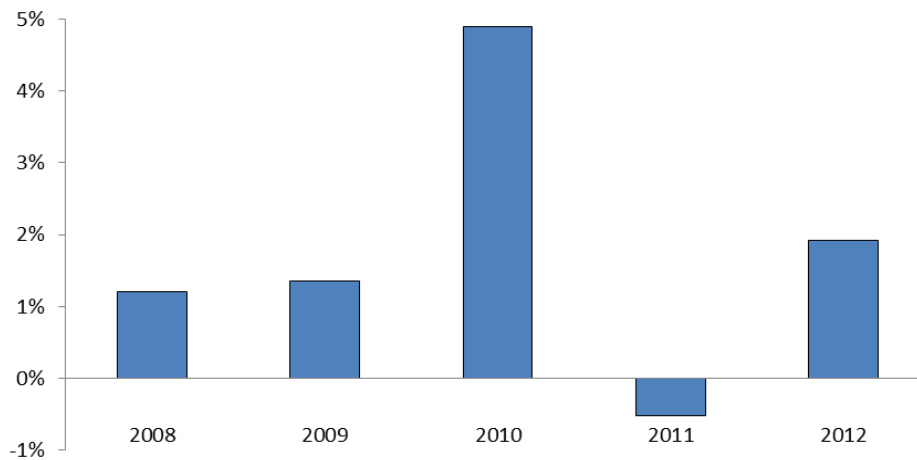
Source: NWT Industry, Tourism and Investment

### **Public Administration**

Public administration includes all levels of government in the NWT: federal, territorial, local, and Aboriginal. This includes the courts, policing and correction services, fire protection, defence and public administration but excludes the health, social services and education sectors.

Public administration expenditures increased 1.9 per cent from 2011 to 2012 and 9.1 per cent between 2007 and 2012.

### ***Annual Percentage Change in Public Sector Expenditures, chained (2007) dollars***



Source: Statistics Canada



## Macroeconomic Performance Indicators

The GNWT's *Macroeconomic Policy Framework*, designed to guide its investment and policy decisions, includes performance indicators that monitor the health of the economy over time. These indicators were designed to go beyond typical measurements of economic performance or growth by capturing broader measures of economic well-being such as improvements in the quality of life, the capacity of communities, and the protection of the environment.

The performance indicators are intended to be measured against a baseline value, which is the average value of the indicator from 2005 to 2007. However, due to revisions made to Statistics Canada data, some pre-2007 data is not currently available; therefore, the majority of performance indicators are being measured against 2007 rather than the baseline average for the years 2005 to 2007. These differences are noted.

After the development of the framework, the global economy underwent an intense financial and economic shock. The NWT economy, with its critical linkages to the world trade system, was particularly vulnerable to the global economic downturn. The NWT economic recovery has been unbalanced and sluggish, as measured by the performance indicators.

### ***Indicator 1 – The size and growth of the total economy***

Real GDP is the most comprehensive measure of the economy. However, it does not measure the non-money economy and cannot measure social well-being.

In 2012 NWT real GDP was 24.1 per cent below the 2007 level.

### ***Indicator 2 – Productivity***

Productivity is a key performance measure. It is related to increased profitability, lower costs and sustained competitiveness. Increasing productivity can promote economic growth. Productivity can be increased through labour force training, technological change and changing the labour/capital mix. Higher levels of productivity can provide higher wages and salaries and higher profits.

In 2012 productivity was 19.7 per cent below the 2007 value.

### ***Indicator 3 – New investment***

New investment is a leading indicator of economic growth that measures how well the economy can be expected to do in the future. New investment undertaken by the private sector focuses on direct spending on buildings, equipment and machinery with the expectation of a positive return on the investment. Public sector investment largely focuses on health, education and infrastructure; these investments seek to achieve beneficial social and economic outcomes.

In 2012 new investment was 33.6 per cent below the 2007 value.

### ***Indicator 4 – Income***

Income growth provides evidence that people are benefitting from economic growth and is an important element in realizing the vision of self-reliant people in the NWT. Two similar, but distinct measures of income are identified for measurement:

#### ***Indicator 4a – Employment income***

Employment income measures the sum of all income earned through employment by NWT residents and is directly tied to jobs.

In 2012 employment income was 11.0 per cent above the 2007 value.

#### ***Indicator 4b – Average household income***

Average household income provides information about the quality and distribution of jobs among NWT residents. In 2009, average household income was 5.5 per cent above its 2005 to 2007 average value.

### ***Indicator 5 – Employment rate***

The employment rate measures the extent to which NWT residents are directly participating and benefiting from economic growth. It measures the share of people 15 years of age and older who are employed.

In 2012 the employment rate, at 70.7 per cent, was 2.7 percentage points below the 2005 to 2007 average value of 73.5 per cent.

### ***Indicator 6 – Population growth***

Population growth measures a response to economic growth and provides a base for further growth through diversification. Population changes reflect the health of the population, the robustness of the medical support system, and the economic or lifestyle incentives for people to immigrate to the NWT or to emigrate from the NWT. A growing population serves as a growing consumer market for local businesses.

The NWT's 2012 population was 0.7 per cent below the 2007 value.

### ***Indicator 7 – Economic Linkages***

Developing linkages between different industries contributes to economic growth and diversification. Four measures of strength of economic linkages are considered.

#### ***Indicator 7a – Level of imports***

Imports of goods and services reflect the size of existing NWT markets for consumer goods and for business equipment and services.

In 2012 the inflation-adjusted value of imports was 6.7 per cent above the 2007 value.

**Indicator 7b – Wholesale and retail sales**

Wholesale sales are an indicator of linkages at the production level, where producers purchase inputs from NWT suppliers or where they purchase post-production services such as transportation and communication services from NWT companies. Higher retail sales can support linkages to higher construction and transportation activity and create opportunities for more retail businesses.

The estimated value of 2012 wholesale sales, in nominal dollars, was 25.2 per cent above the 2005 to 2007 average value.

The estimated value of 2012 retail sales, in nominal dollars, was 29.5 per cent above the 2005 to 2007 average value.

**Indicator 7c – Fly-in/Fly-out labour**

Measuring the dependence on fly-in labour highlights the capacity of the NWT resident labour force to meet the demand for workers. The amount of fly-in labour depends on the number of resident workers with the required skills available at the employment location. It also represents a leakage of potential consumer expenditures from the NWT economy.

In 2010 non-resident NWT labour earnings rose from the 2005 to 2007 average of \$319 million to \$362 million, which represents an increased loss to the NWT economy of \$43 million, less the \$860,000 retained in payroll tax.

**Indicator 7d – Growth of resource sector service industries**

Specialized service sectors providing support to NWT resource industries are a principal engine of growth and diversification for the economy. Two service industries are measured.

1. Support activities for agriculture and forestry: in 2012 the value of support activities for agriculture and forestry was 76.6 per cent above the 2007 value.
2. Oil & gas engineering construction: in 2012 the value of oil & gas engineering construction was 52.5 per cent below the 2008 value (2007 data are suppressed by Statistics Canada to meet the confidentiality requirements of the *Statistics Act*).

**Indicator 8 – Diversification**

Economic diversification is measured by industry GDP, growth by sector and employment by industry. Previously, data available to measure NWT economic diversification was through Census employment data, but this has been discontinued. Work is on-going to find new data sources.

**Indicator 9 – Environmental status and trends**

See the *NWT State of the Environment Report*.

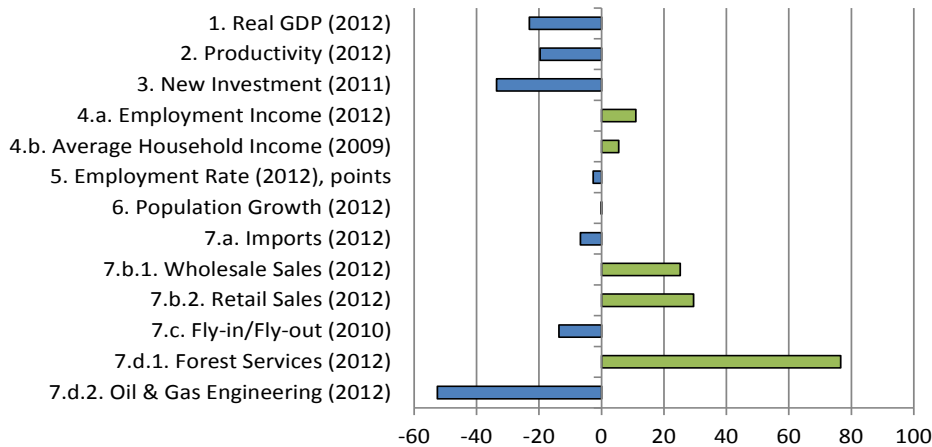
## Summary of Findings

Of the thirteen primary and sub-indicators measured currently, five indicators increased in value, while the remaining indicators have decreased. While the declines in indicators can be attributed mainly to the financial crisis and economic downturn in 2008 and 2009, separating the effects of the 2008 global recession from general trends in the overall NWT economy requires a separate comprehensive analysis. However, the NWT economy has demonstrated a low level of resiliency in responding to the recession given that many indicators have not yet returned to their pre-recession levels and the pace of recovery has been slower than in other provinces and territories.

One contributing factor to the low level of resiliency is the composition and openness of the NWT economy, with people and capital free to move to more favourable provinces when faced with economic challenges at home.

The challenge for the GNWT is to identify and advance investment opportunities that will generate sustainable benefits in the context of the global economic environment in which NWT businesses compete.

### ***Macroeconomic Indicators of Progress, per cent change from the base year to the most recent year***



Source: Statistics Canada, NWT Bureau of Statistics and NWT Finance

## FISCAL REVIEW

The GNWT has achieved its plan of restoring fiscal balance and responsibly funding infrastructure investment. Budget 2014-15 continues on the path set by the first two budgets of the 17<sup>th</sup> Assembly to sustainably fund the Assembly's vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories.

The 2014-15 Budget invests in actions coming out of several collaborative efforts to tackle poverty, mental health and addictions, early childhood development, as well as opportunities to grow the economy. This budget is also the beginning of the GNWT's assumption of new responsibilities for managing public lands, waters and resources from Canada.

Going forward, the GNWT continues to closely watch operating expenditures to ensure they are adequately financed by revenues, and ensure flexibility remains to manage revenue uncertainty. In the absence of a change in the direction of own-source revenue growth, the GNWT is poised to take actions on spending to ensure fiscal sustainability.

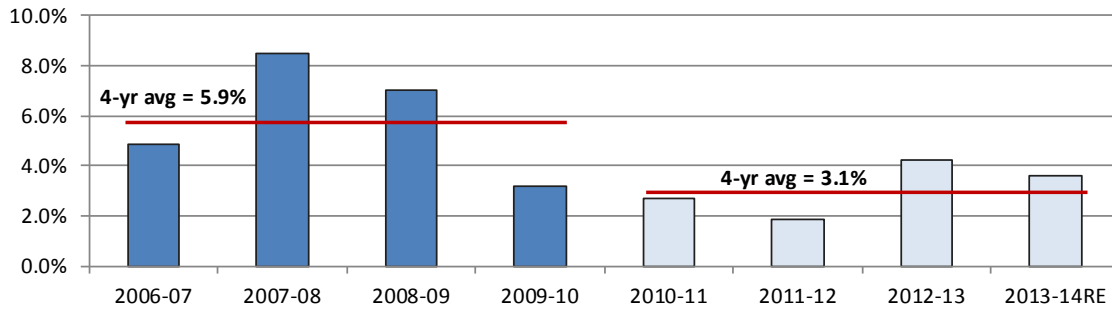
### Fiscal Situation

In 2011-12 the GNWT adjusted its fiscal plan to restore fiscal balance after years of stimulus spending and deficits in order to generate more funds to address the NWT's \$3 billion infrastructure deficit. The plan consisted of three main actions:

- Maintaining expenditure growth below revenue growth while protecting programs and services;
- Using operating surpluses to pay down short-term borrowing; and,
- Lowering capital investment in the first two years to increase investment in future years.

The GNWT has limited revenue-raising capacity because of its small tax base while facing high expenditure needs due to small dispersed communities, harsh climate and limited infrastructure. The GNWT has focussed on ensuring expenditure growth is affordable, so that resources are available for capital investment within the parameters of the GNWT's *Fiscal Responsibility Policy*.

### Historical GNWT Operating Expenditure Growth (%)



Note: For comparison purposes, tax credit expenditures are not included as expenses (before 2012-13, tax credits were accounted for by reducing tax revenues and were not included in expenditures). 2014-15 Budget is excluded as it includes new program responsibilities associated with devolution.

Efforts to reduce the growth in spending below revenue growth have been successful, contributing to the first surplus in four years in 2011-12 of \$1.3 million and a \$163 million surplus in 2012-13. The GNWT has maintained fiscal prudence in its operating budget with growth in program spending averaging nearly half of what it was four years ago, and generating the surpluses that are a cornerstone of the 17<sup>th</sup> Assembly's fiscal plan to invest more in infrastructure.

Following two years of reduced capital investment, capital investment will increase by \$50 million in each of 2014-15 and 2015-16, as provided for by the fiscal plan. At the end of March 2014, GNWT borrowing is expected to be \$176 million below the federally-imposed borrowing limit of \$800 million.

Going forward, the GNWT is expecting continued slow revenue growth as the absence of population growth impacts both transfers from Canada as well as tax revenues. Growth in the Territorial Formula Financing Grant is expected to average 2.3 per cent over the next half-decade, in comparison with 5.7 per cent growth in the preceding five years. As well, personal income tax revenues appear to be declining because of a decrease in tax filers.

## Fiscal Strategy

The GNWT remains committed to its *Fiscal Responsibility Policy*, including generating operating surpluses that fund at least half of planned capital investment and maintaining debt service payments below five per cent of total revenues.

To meet this commitment, the fiscal strategy focuses on constraining expenditure growth below revenue growth to generate the operating surpluses needed to fund capital investment. The fiscal strategy going forward consists of capping forced growth in existing programs and services, funding priority initiatives from a combination of savings and new funds, and limiting growth in the public service. By focusing on growth in expenditures, the fiscal strategy will provide a stable tax system and continued investment in infrastructure to grow the economy and population.

The fiscal strategy also ensures at least \$100 million in available borrowing authority at the end of the 17<sup>th</sup> Legislative Assembly.

### ***New in this Budget – Devolution of Lands, Waters and Resource Management***

Beginning April 1, 2014, the GNWT is taking on responsibilities for the management of lands, waters, and resources in the NWT. The 2014-15 Budget includes a \$67 million adjustment to the Gross Expenditure Base in the Territorial Formula Financing Grant to administer the programs and services transferred from the federal government, and the amount will grow annually at the same rate as the Grant. In total, the 2014-15 Budget estimates \$59 million in spending to assume the responsibilities and duties under the Devolution Agreement on April 1, 2014. Fiscal flexibility remains to fund any additional, as yet unanticipated, activities necessary to deliver new resource management program responsibilities.

Nearly half of the \$59 million for the new program responsibilities is for the creation of a new Lands Department. The Department will support, manage and administer the sustainable use of public land in the NWT, with a budget of \$27 million. An additional \$14 million is allocated to the Department of Environment and Natural Resources to manage new responsibilities associated with water resources, contaminated sites and remediation, conservation planning and cumulative impact monitoring. Responsibilities associated with petroleum and mineral resource exploration, development and rights, administration of the royalty regime, related Aboriginal consultation, and NWT regulatory system guidance will rest with the Department of Industry, Tourism and Investment, with an associated \$13 million in additional funding. The remaining \$5 million is allocated to central agencies. Devolution will increase the GNWT workforce by 242 positions, nearly one-fifth of which will be situated in communities outside Yellowknife in response to the GNWT's continued effort to bring economic opportunities to the regions.

The 2014-15 Budget includes a \$120 million estimate of gross resource revenues associated with devolution. Following offsets to the Territorial Formula Financing Grant, the GNWT will retain a net fiscal benefit of 50 per cent of resource revenues, subject to a cap equivalent to 5 per cent of the Territorial Formula Financing Gross Expenditure Base. The GNWT has committed to sharing up to 25 per cent of the net fiscal benefit with Aboriginal governments. Based on the \$120 million resource revenue estimate for 2014-15, the Budget includes a \$15 million expenditure estimate of the Aboriginal government share of the net fiscal benefit. However, this share will not be distributed until royalties for the 2014 calendar year are actually received in late 2015.

The implementation of devolution does not change the GNWT's fiscal strategy of generating surpluses to ensure that infrastructure is financed responsibly and sustainably. The GNWT's proposed approach to resource revenue management is grounded on the principle of intergenerational equity for non-renewable resources, ensuring they are not used to fund operating expenditures. Revenues from non-renewable resources will be invested in infrastructure, used for debt repayment and saved in the NWT Heritage Fund. Moody's Investors Service described this approach as demonstrating long-term planning and fiscal discipline, and considered it to be credit positive in its 2013 credit opinion.

The GNWT undertook a public dialogue process on the management of resource revenue in the fall of 2013. Results indicate general agreement from participants that resource revenues should be kept out of the operating budget and invested in projects and savings that build a future legacy. Opinions were split on how much resource

revenue should be devoted to infrastructure investment and how much should be saved in the Heritage Fund. The results report was released in January 2014 and will be used to inform discussion in the Legislative Assembly on resource revenue management.

## 2012-13 Final Results

The operating surplus rose from \$1.3 million in 2011-12 to \$163 million in 2012-13. Year-over-year growth of 6.2 per cent in operating expenditures to \$1.450 billion was more than offset by 17.4 per cent growth in revenues to \$1.645 billion. Revenues were \$121 million higher than 2012-13 Main Estimates largely due to new accounting treatment of capital transfers, higher than forecast corporate income tax, personal income tax, and recoveries of prior years' expenses.

## 2013-14 Revised Estimates

The operating surplus for 2013-14 is projected to be \$130 million after adjustments, \$17 million higher than projected in the 2013-14 Main Estimates as higher than forecast expenditures were offset by higher revenues.

The revised 2013-14 revenue forecast is \$56 million higher than the 2013-14 Main Estimates, having increased from \$1.609 billion to \$1.665 billion. The increase is mostly due to additional federal transfers, primarily for the Inuvik to Tuktoyaktuk highway and devolution implementation, offset by decreases in personal and corporate income tax revenue.

Operating expenditures are \$39 million higher than budgeted in the 2013-14 Main Estimates, having increased to \$1.536 billion. Increased expenditures resulted mainly from devolution implementation and a severe fire suppression season in 2013.

Capital investment expenditures in 2013-14 are expected to be \$283 million, more than double what was projected in the 2013-14 Main Estimates. Most of the increase was due to the start of construction of the Inuvik to Tuktoyaktuk highway, as well as capital carry-overs from 2012-13. Total debt at March 31, 2014 is forecast to be \$582 million. Taking into account other borrowing instruments for purposes of the federally-imposed borrowing limit, total GNWT borrowing at March 31, 2014 is projected to be \$624 million, leaving \$176 million in borrowing room.

## 2014-15 Budget

The 2014-15 Budget proposes operating expenditures of \$1.613 billion and forecasts revenues of \$1.846 billion. After taking into account infrastructure contributions and supplementary reserve requirements, an operating surplus of \$200 million is projected.

Infrastructure investments for 2014-15, approved in November 2013, are budgeted to be \$223 million. The cash generated from operations will not cover the capital investments planned for 2014-15, resulting in an increase in GNWT short-term debt to \$236 million at March 31, 2015.



Direct long-term debt is forecast to be \$180 million, while debt of public agencies such as the NWT Power Corporation, the NWT Housing Corporation, and the Yellowknife Catholic Schools will total \$204 million. After adding the projected \$38 million in other instruments included under the definition of borrowing for the purposes of the borrowing limit, borrowing is expected to be \$658 million at March 31, 2015.

### **Fiscal Summary**

(\$ thousands)

	2011-12	2012-13	2013-14	2013-14	2014-15
	<i>Actual</i>	<i>Actual</i>	<i>Main Estimates</i>	<i>Revised Estimates</i>	<i>Main Estimates</i>
Revenues	1,401,411	1,645,349	1,609,354	1,665,312	1,845,501
O&M Expenditures	1,365,586	1,450,199	1,466,824	1,499,274	1,612,922
Infrastructure Contributions & Other Adj.	34,507	32,179	29,931	36,234	32,485
<b>Surplus (+)/Deficit (-)</b>	1,318	162,971	112,599	129,804	200,094
GNWT Debt	344,878	300,411	325,193	369,401	415,487
Public Agency Debt	222,761	213,015	211,325	212,361	204,481
<b>Total Debt</b>	567,639	513,426	536,518	581,762	619,969
Borrowing per Borrowing Regulations	33,538	47,260	44,247	42,725	38,375
<b>Total Territorial Borrowing</b>	601,177	560,686	580,765	624,487	658,344
Territorial Borrowing Limit	800,000	800,000	800,000	800,000	800,000
<b>Borrowing Authority for Fiscal Planning</b>	198,823	239,314	219,235	175,513	141,656

### **Revenues**

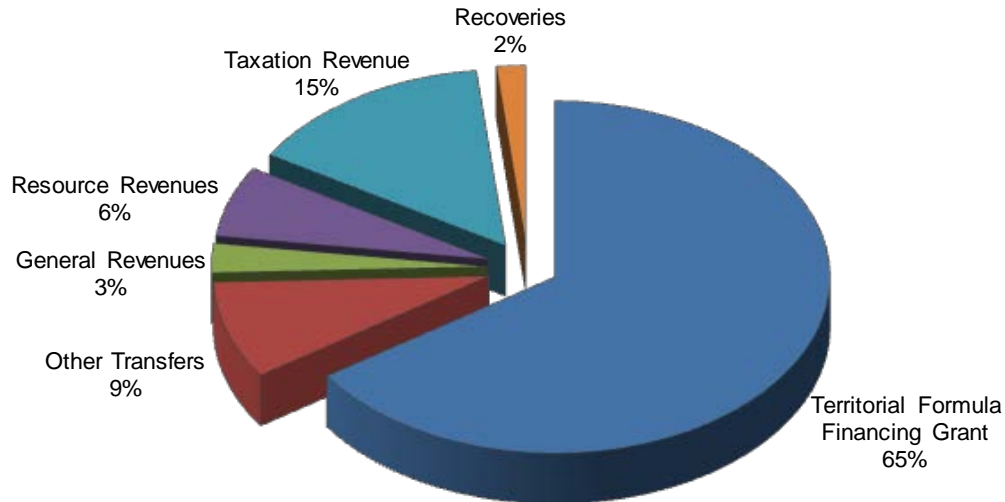
Total revenues are forecast to increase by \$180 million to \$1.846 billion in 2014-15. This represents growth of 10.8 per cent over 2013-14 estimated revenues of \$1.665 billion. The majority of the growth is attributable to an estimated \$120 million in gross resource revenues, as well as a \$67 million adjustment to the Territorial Formula Financing Grant to take over responsibilities associated with lands, water and resource management from Canada. The Territorial Formula Financing Grant continues to make up the majority of GNWT revenues, forecasted to be 65 per cent in 2014-15. Other transfers are forecast to fall by \$20 million primarily because of the completion of federal funding of devolution implementation.

GNWT own-source revenues are expected to account for 26 per cent of total revenues in 2014-15. Tax revenues are expected to decline slightly as a result of the forecasted fall in corporate income tax. The remainder of own-source revenues are expected to remain stable, except for regulatory revenues which reflect the \$120 million resource revenue forecast and other new minor revenues associated with the administration of public lands, waters and resources.

The 2014-15 Budget does not include any new taxes. Effective April 1, 2014, property tax mill rates and a number of fees will be adjusted for inflation. The tax rate on loose tobacco increased from 20.0 cents per gram to 26.6 cents per gram effective February 1,

2014. This is in line with the GNWT's policy of indexing tobacco and property tax rates, liquor mark-ups, and fees, where practicable.

### **2014-15 GNWT Revenues by Source**

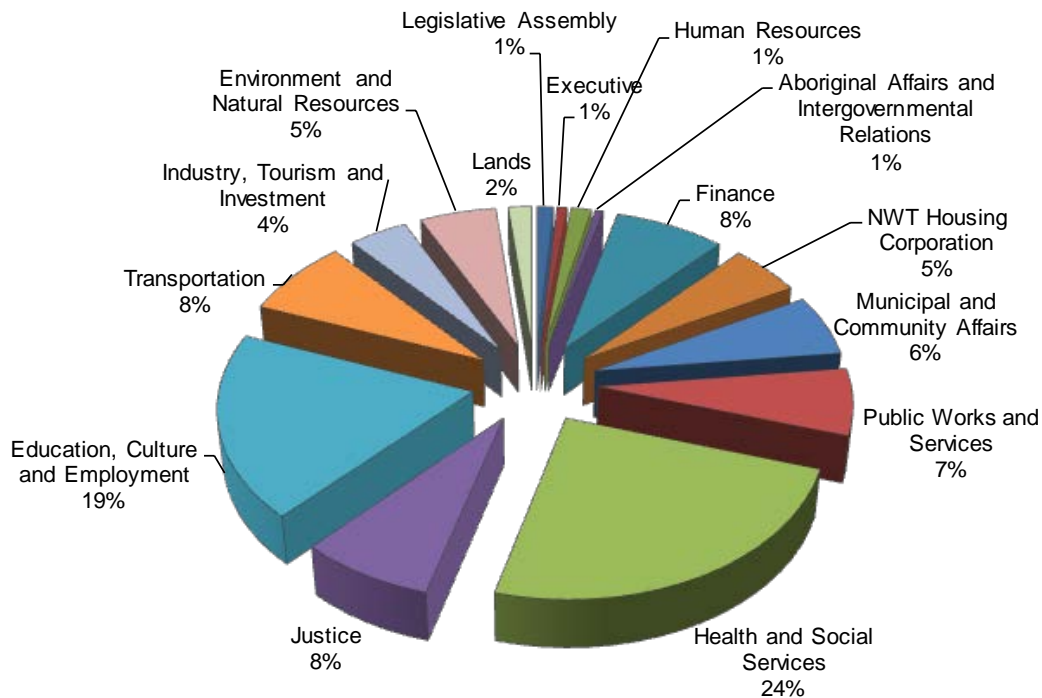


### **Operating Expenditures**

The 2014-15 Budget proposes \$1.613 billion in operating expenditures, of which \$906 million is budgeted for social programs such as education, health care, social services, housing, policing and corrections.

Operating expenditures are forecast to increase \$146 million from 2013-14 Main Estimates. This primarily consists of increasing costs of existing programs and services, amounting to \$54 million, \$27 million in strategic and corporate initiatives, \$59 million associated with new responsibilities under devolution, and \$15 million for the Aboriginal government share of the net fiscal benefit. Amortization and other adjustments contribute another \$24 million. These increases are partly offset by \$34 million in sunsetted programs.

### 2014-15 Operations Expenditures by Department



### Initiatives

During the first two years of the 17<sup>th</sup> Assembly, the GNWT engaged in a collaborative effort with stakeholders to develop strategies aimed at improving the well-being of, and opportunities for, Northerners. The 2014-15 Budget invests in actions coming out of the completion of those strategies, including efforts to address poverty, early childhood development, mental health and addictions, mineral development, and economic and energy diversification.

### Investments in Prevention and Wellness

One of the 17<sup>th</sup> Assembly's strategic goals is healthy, educated people free from poverty. In support of this goal, several frameworks have been developed in collaboration with stakeholders, including the *NWT Anti-Poverty Strategic Framework*, the *Mental Health and Addictions Action Plan*, and the *Early Childhood Development Framework*. The 2014-15 Budget provides \$7.8 million in funding for actions in support of improving the health, well-being and development of Northerners.

- \$1 million to provide healthy and nutritious food to children and youth through early childhood programs, schools and after-school programs.
- \$500,000 to establish a funding program for non-governmental organizations and Aboriginal governments to advance initiatives in support of the *Anti-Poverty Strategic Framework*.

- \$223,000 for coordination of territorial action plans under the *Anti-Poverty Strategic Framework* and stakeholder meetings to leverage partnerships.
- \$680,000 to create transitional housing units in four non-market communities that will support "hard to house" residents unable to access other housing programs and options.
- \$150,000 for day shelter funding in support of the *Anti-Poverty Strategic Framework*.
- \$1.52 million for initiatives under the Early Childhood Development Action Plan, including providing outreach to expectant mothers, strengthening regional Healthy Family Programs, and raising awareness on the importance of early childhood development.
- \$511,000 to increase the number of qualified early education and care professionals in licensed programs through wage and training incentives.
- \$900,000 to establish on-the-land healing programs that are community-based and rooted in Aboriginal culture and tradition, and to build on best practices for treating addictions.

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#### 2014-15 Investments in Prevention and Wellness (thousands of dollars)

##### *Anti-Poverty Strategic Framework*

Healthy food for children and youth	\$ 1,000
NGO and Aboriginal government initiatives	500
Coordination and stakeholder engagement	223
Implement "Hard to House" units in non-market communities	680
Day shelter funding	150
	\$ 2,553

##### *Early Childhood Development Action Plan*

Outreach and Healthy Family Programs	\$ 1,520
Wage and training incentives for early childhood education and care	511
	\$ 2,031

##### *Mental Health and Addictions*

Territorial On-The-Land Treatment Program	\$ 900
Children and Youth Resiliency Program	500
	\$ 1,400

##### *Investing in Well-Being*

Expansion of the Midwifery program	\$ 515
Integrated Case Management pilot program	895
Specialized Wellness Court	305
Youth Officer- Behchoḱò	129
	\$ 1,844
	\$ 7,828

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- \$500,000 to establish a Children and Youth Resiliency Program supporting communities in establishing or expanding programming aimed at mental and physical development through contributions to youth centres, community governments and day cares.
- \$515,000 to continue expansion of midwifery programs, with expansion of services to Hay River including two full-time midwives.
- \$895,000 to establish a collaborative case management pilot program focusing on wellness and breaking down barriers between departments and agencies by integrating case management for common clients with mental health and addictions needs.
- \$305,000 to develop and implement a specialized Wellness Court that would have a broader focus on mental health, offering an innovative approach to wellness and reducing contact with the justice system.
- \$129,000 for a youth officer in Behchokò.

### ***Investments in Economic Growth***

Budget 2014-15 continues investments in key priorities that support the building of a diversified economy that provides all communities and regions with opportunities and choices. In total, \$1.2 million will be spent to advance actions that embrace opportunities for diversification and strengthen regional economies. Another \$1.9 million is targeted for initiatives recommended by the *Mineral Development Strategy* to sustainably unlock the mineral potential of the territory and maximize associated resident employment and business opportunities.

- \$461,000 to support the tourism industry through diversification of tourism products, community tourism infrastructure, tourism training, and the establishment of a Convention Bureau.
- \$150,000 to develop regional economic plans that engage residents in charting the course of community and regional development.
- \$150,000 to develop an agriculture strategy to guide strategic growth, investment, capacity building in agriculture, and to leverage other sources of funding.
- \$200,000 to support the commercial fishing industry in capitalizing on domestic commercial market demand.
- \$100,000 for a pilot rebate program to support the NWT film industry.
- \$100,000 to support small businesses outside regional centres to attract qualified business managers, accountants, and bookkeepers or professional service providers.
- \$400,000 for a new NWT Mining Incentive Program to attract more mineral exploration.
- \$200,000 to market the NWT as an attractive place for mineral exploration and development investment.
- \$655,000 to provide better and more comprehensive geoscience information and research in support of economic development.

- \$200,000 to evaluate options to improve access to the Slave Geologic Province, the area with the greatest mineral potential in the NWT.
- \$162,000 to support mining workforce development through promotion and education and delivery of Geoscience Field Assistant Training.
- \$100,000 to support Aboriginal organizations and communities in their efforts to maximize their engagement and participation in the decision-making processes surrounding mineral development.
- \$152,000 to facilitate and enhance NWT business support in relation to mining by linking NWT businesses with supply opportunities for the mining industry.

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### 2014-15 Investments in Economic Growth (thousands of dollars)

#### *Economic Opportunities Strategy*

Tourism promotion initiatives	\$	461
Development of Regional Economic Plans		150
Development of an agriculture strategy		150
NWT commercial fishing industry support		200
Film Industry Pilot Rebate Program		100
Business Internship Program		100
		<hr/>
	\$	1,161

#### *Mineral Development Strategy*

Creation of NWT Mining Incentive Program	\$	400
Promotion of NWT mineral exploration and development		200
Improved geoscience information and research		655
Slave Geologic Province Corridor Access Study		200
Mining workforce development and training		162
Support for Aboriginal engagement and participation		100
NWT business supply opportunities		152
		<hr/>
	\$	1,869

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### *Investments in Energy*

Budget 2014-15 continues investments in reducing our reliance on non-renewable energy sources. Nearly \$5.4 million will be devoted to reducing the high cost of energy and the impact of fossil fuel consumption on the environment.

- \$1.4 million to finalize the costing and design of the proposed 65 km transmission line which would connect Whati to the Snare hydro system.
- \$700,000 for energy efficiency improvements in public housing units.
- \$700,000 to fund NT Energy Corp.'s development of NWT hydroelectric resources and analysis of alternative energy opportunities such as biomass, geothermal and solar.

- \$400,000 to provide Arctic Energy Alliance energy advisors in all regions of the NWT to support energy efficiency and conservation.
- \$100,000 to enhance the Energy Efficiency Incentive Program, which encourages the purchase of energy efficient models of home appliances and other equipment.
- \$200,000 to support small businesses in implementing energy efficiency measures, and address the high cost of energy through the Commercial Energy Conservation and Efficiency Program.
- \$200,000 to fund pre-feasibility work for the Great Bear River Mini-Hydro project.
- \$50,000 for water monitoring on the Kakisa River to increase understanding of the NWT's hydro potential, in support of the *NWT Hydro Strategy*.
- \$150,000 to study the feasibility of a bio-fuel conversion for diesel generators to burn liquid natural gas.
- \$450,000 to support communities, businesses, and residents with the costs of small-scale biomass heating projects, and promotion and outreach in support of the *Biomass Energy Strategy*.
- \$500,000 to install up to 40 kilowatts of photovoltaic solar electricity generation capacity in two diesel communities.
- \$125,000 to establish a remote smart grid pilot project to reduce diesel consumption, in collaboration with Natural Resources Canada.
- \$100,000 to support the development of wind energy projects.

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### 2014-15 Investments in Energy (thousands of dollars)

Whatl connection to hydro: final costing and design	\$ 1,400
Energy efficiency upgrades for public housing	700
NT Energy Corp. core funding	700
Arctic Energy Alliance: core funding for regional advisors	400
Energy Efficiency Incentive Program enhancement	100
Commercial Energy Conservation and Efficiency Program	200
Great Bear River Mini-Hydro project pre-feasibility	200
Water monitoring for hydro potential	50
Liquid natural gas conversion feasibility study	150
Biomass project funding, promotion and evaluation	450
Solar PV electricity generation installation	500
Smart grid pilot project	125
Wind energy project development	100
Alternative Energy Technology Program enhancement	100
Electric vehicle demonstration project	15
<i>Greenhouse Gas Strategy</i>	200
	\$ 5,390

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- \$100,000 to increase funding for the Alternative Energy Technologies Program, which supports communities, businesses and residents to install small-scale solar and wind energy projects.
- \$15,000 to evaluate electric vehicle potential for NWT communities.
- \$200,000 to support the delivery of the *Greenhouse Gas Strategy*, including maintaining and reporting emission inventories to the Climate Registry.

### ***Investments in Service Delivery***

The GNWT continues to make improvements to existing programs and services to improve efficiency and effectiveness. A total of \$11.5 million will be invested in the 17<sup>th</sup> Assembly's priorities of ensuring a sustainable health care system and to address housing needs.

- \$7.2 million to fund health service shortfalls which would otherwise result from the completion of federal financial support through the Territorial Health System Sustainability Initiative (THSSI).
- \$790,000 to continue the implementation of the new Med-Response service, which will provide community health care practitioners with remote emergency clinical support, and will triage and coordinate NWT air ambulance services.
- \$391,000 to allow Health Authorities to tap into shared information systems expertise at the Technology Service Centre.
- \$1.4 million to staff and operate the Jimmy Erasmus Seniors' Home, which opened in January 2014.
- \$604,000 for personal support worker training for the new long-term care facility in Norman Wells.
- \$350,000 to support community-based ground ambulance and highway rescue services in the Northwest Territories.
- \$783,000 to support private developers or community corporations in the development of market rentals under the Housing for Staff Program.

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### **2014-15 Investments in Service Delivery (thousands of dollars)**

Service shortfall funding resulting from termination of THSSI	\$ 7,204
Med-Response service for medical evacuations and travel	790
HSS Authorities' TSC chargeback costs	391
Jimmy Erasmus Seniors' Home	1,400
Personal support worker training for long-term care facility	604
Ground ambulance and highway rescue services support	350
Increase funding under the existing Housing for Staff program	783
	\$ 11,522

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## **Infrastructure**

The 2014-15 capital budget, approved November 7, 2013, provides for investments of \$193 million in infrastructure and \$29 million in infrastructure contributions, including:

- \$86 million for highways and winter roads across the NWT, of which \$70 million is for the Inuvik to Tuktoyaktuk highway, which will be two-thirds funded by the federal government;
- \$59 million for health facility replacements and renovations, including \$19 million for the H.H. Williams Memorial Hospital in Hay River, \$21 million to replace the Norman Wells Health Centre and build a new long-term care centre, and the initial funding required for the planning of the Stanton Territorial Hospital project;
- \$28 million in Formula Funding for community infrastructure;
- \$18 million for small capital projects across all departments;
- \$16 million to complete construction of a new Yellowknife office building;
- \$8 million for information technology projects;
- \$4 million to continue the Capital Asset Retrofit Fund Program for energy efficiency upgrades to existing GNWT buildings; and
- \$3 million for capital improvements to NWT parks.

Additionally, assets to be transferred under devolution total \$7.3 million, bringing the new total to \$230 million. Included in the 2014-15 Main Estimates is \$31 million in housing investments to be delivered through the 2014-15 Capital Plan of the NWT Housing Corporation. Including the proposed NWT Housing Corporation investment, total planned infrastructure investment in 2014-15 is \$261 million.

## **Medium-Term Outlook**

Through its fiscal plan, the GNWT has protected its core programs and services while making strategic infrastructure investments. The GNWT remains committed to a fiscal strategy of managing expenditure growth in line with revenue growth and adhering to the *Fiscal Responsibility Policy*. This prudent fiscal planning takes into account slowing revenue growth due in part to stagnant population growth.

To address the need for economic growth, the GNWT will continue to make strategic infrastructure investments. As part of that plan, the GNWT will work collaboratively with the federal government to raise the federally-imposed borrowing limit taking into account the self-financing nature of most of the GNWT's current borrowing as well as the critical role infrastructure will play in growing the NWT economy.

The following strategic infrastructure priorities have been identified to expand economic opportunities and address the health facilities deficit:

- A 1,100 km Mackenzie Valley Fibre Link that will bring high speed internet to communities from Fort Simpson to Inuvik. High speed connectivity has the potential to revolutionize service delivery, from the speed with which medical records can get

into the hands of professionals to the delivery of educational programming. The Fibre Link will also position Inuvik to become the premier remote sensing site in the world.

- The creation of a single NWT Grid to stabilize the cost of energy for communities and customers who choose to tie in, and spread costs across all of the potential customers in the NWT, building economies of scale. An NWT Grid will be created by interconnecting the existing Snare Grid and the Taltson Grid and extending the line northeast of Yellowknife to allow new customers to connect.
- An all-weather road from Wrigley to Norman Wells, to strengthen connections among communities and reduce living costs for NWT residents, while making businesses and oil and gas projects more competitive. Following the start of construction of the Inuvik to Tuktoyaktuk highway in 2013, this is the next step in achieving the national vision of an all-weather highway through the Mackenzie Valley to the Arctic Coast.
- The Stanton Territorial Hospital mid-life retrofit will ensure the current and future health care needs of all NWT residents are met. Beginning investment in this critical project now, will allow construction to occur in phases with minimal disruption to the quality care provided by this flagship health care infrastructure.

The GNWT will closely monitor operating expenditures to ensure they are adequately financed by revenues, allowing the financial flexibility to reduce the infrastructure deficit in a fiscally sustainable way.

The following table shows the GNWT's medium-term outlook. At March 31, 2015 the GNWT is forecast to have \$142 million in borrowing room under the borrowing limit.

### **Medium-Term Outlook**

(\$ millions)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	Actual	Revised Estimates	Main Estimates	Forecast	Forecast	Forecast
Revenues	1,645	1,665	1,845	1,870	1,844	1,862
Expenditures	(1,482)	(1,536)	(1,645)	(1,695)	(1,732)	(1,769)
<b>Surplus (+)/Deficit (-)</b>	163	129	200	175	112	93
<b>Capital Investment Requirements</b>	147	169	194	227	190	161
Accumulated Cash Surplus (Deficit) as of March 31 <sup>st</sup>	(122)	(191)	(235)	(193)	(187)	(156)
Total Guaranteed Debt <sup>1</sup>	(254)	(250)	(239)	(243)	(251)	(240)
Other Debt <sup>2</sup>	(185)	(183)	(184)	(184)	(263)	(260)
<b>Total Debt</b>	(561)	(624)	(658)	(620)	(701)	(656)
Territorial Borrowing Limit	800	800	800	800	800	800
<b>Available Borrowing Authority</b>	239	176	142	180	99	144

<sup>1</sup> Includes debt of the NWT Power Corp., NWT Energy Corp. and NWT Housing Corp.

<sup>2</sup> Includes debt to finance the construction of the Deh Cho Bridge, and debt of the Yellowknife Public Denominational District Educational Authority.

Total may not equal sum of individual figures due to rounding.

## ***Risks to Outlook***

The primary fiscal risks going forward are slowing revenue growth, revenue volatility and unexpected expenditures. Little debt risk exists as debt levels remain very manageable, with debt servicing costs below 1 per cent of revenues.

Transfers continue to make up the majority of revenues, accounting for 74 per cent of all revenues. The overwhelming majority of the transfers the GNWT receives are formula-based, relying heavily on population growth relative to Canada as a whole to determine growth. Despite the year-to-year stability offered by transfers, considerable downside risk exists over the medium term if population continues to be unchanged, or decline, as was the case in 2013. The Territorial Formula Financing Grant also depends upon growth in provincial and local government spending, and recent fiscal austerity measures taken by both levels of government is also slowing growth in the Grant.

Own-source revenues have always been subject to risk, particularly volatile corporate income tax; however, the Territorial Formula Financing Grant is responsive to offsetting some of the impact of those risks. Although the Grant formula does not respond immediately due to a two-year lag in the Grant's calculation, changes in own-source revenues are eventually offset to a large degree.

Changes in resource revenues, on the other hand, will not be offset through the Grant. Resource revenues are outside the Grant calculations, and any sudden increases or falls in resource revenues will be borne directly in the budget. Resource revenues are very sensitive to commodity price swings, exchange rate fluctuations, and operational decisions made by the owners of the resource. As such, their forecasting is challenging, and fiscal nimbleness needs to be maintained to allow for absorbing any large unexpected changes. The GNWT is mitigating part of the associated volatility risk by committing to not spend resource revenues on the operating budget.

Operating expenditure risks continue to be associated with unexpected events such as extraordinary fire suppression needs or natural disasters. With the undertaking of large capital projects such as the Inuvik to Tuktoyaktuk highway, capital cost over-runs may have an impact on the fiscal framework.

### Summary of Operations

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012/2013 Actuals
<b>REVENUES</b>	<b>1,845,501</b>	<b>1,665,312</b>	<b>1,609,354</b>	<b>1,645,349</b>
<b>OPERATIONS EXPENSE</b>				
Compensation and Benefits	351,554	314,428	306,573	301,880
Grants and Contributions	751,199	696,813	696,810	682,068
Other Expenses	424,936	408,709	381,916	393,112
Amortization	85,233	79,324	81,525	73,139
<b>TOTAL OPERATIONS EXPENSE TO BE VOTED</b>	<b>1,612,922</b>	<b>1,499,274</b>	<b>1,466,824</b>	<b>1,450,199</b>
<b>OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS</b>	<b>232,579</b>	<b>166,038</b>	<b>142,530</b>	<b>195,150</b>
INFRASTRUCTURE CONTRIBUTIONS	(29,263)	(36,541)	(29,931)	(31,993)
DEFERRED MAINTENANCE	(3,400)	-	-	-
Petroleum Products Stabilization Fund net profit	178	307	-	(186)
SUPPLEMENTARY RESERVE	(30,000)	-	(20,000)	-
ESTIMATED APPROPRIATION LAPSES	30,000	-	20,000	-
<b>WORK PERFORMED ON BEHALF OF OTHERS</b>				
Recoveries	50,654	65,536	60,025	62,892
Expenditures	(50,654)	(65,536)	(60,025)	(62,892)
<b>OPERATING SURPLUS FOR THE YEAR</b>	<b>200,094</b>	<b>129,804</b>	<b>112,599</b>	<b>162,971</b>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<b>1,362,231</b>	<b>1,232,427</b>	<b>877,342</b>	<b>1,069,456</b>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<b>1,562,324</b>	<b>1,362,231</b>	<b>989,941</b>	<b>1,232,427</b>

### Summary of Revenues

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012/2013 Actuals
<b>GRANT FROM CANADA</b>	1,208,840	1,121,244	1,121,244	1,070,023
<b>TRANSFER PAYMENTS</b>	164,902	184,455	116,659	145,723
<b>TAXATION REVENUE</b>				
Personal Income Tax	104,862	87,152	98,107	105,360
Corporate Income Tax	53,119	78,995	88,034	108,422
Tobacco Tax	15,826	15,437	16,591	15,587
Fuel Tax	18,890	18,651	18,456	18,608
Payroll Tax	45,206	43,283	43,180	41,619
Property Tax and School Levies	27,885	27,572	25,953	27,058
Insurance Taxes	4,960	4,850	4,445	4,763
	<b>270,748</b>	<b>275,940</b>	<b>294,766</b>	<b>321,417</b>
<b>GENERAL REVENUES</b>				
Revolving Funds Net Revenue	25,372	24,980	24,980	25,136
Regulatory Revenues	143,046	20,539	20,786	19,407
Investment Income	1,130	8,363	1,123	3,951
Lease	5,368	3,749	3,754	4,197
Program	21,790	21,686	21,686	25,652
Grants in kind	593	593	593	635
Service and miscellaneous	712	763	763	1,520
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	27,688
	<b>201,011</b>	<b>83,673</b>	<b>76,685</b>	<b>108,186</b>
<b>TOTAL REVENUES</b>	<b>1,845,501</b>	<b>1,665,312</b>	<b>1,609,354</b>	<b>1,645,349</b>

### Summary of Operations Expenditures by Department

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012/2013 Actuals
Legislative Assembly	18,989	18,241	18,239	18,096
Executive	11,563	27,002	17,243	14,079
Human Resources	23,636	22,465	23,391	21,295
Aboriginal Affairs and Intergovernmental Relations	9,195	8,755	8,755	7,622
Finance	210,630	177,784	177,186	161,764
Municipal and Community Affairs	99,451	98,729	98,786	94,342
Public Works and Services	108,915	106,983	104,505	98,165
Health and Social Services	391,929	365,479	363,856	373,956
Justice	124,955	116,383	116,441	114,671
Education, Culture and Employment	305,599	300,195	299,611	292,096
Transportation	126,161	120,199	117,011	123,029
Industry, Tourism and Investment	67,541	51,000	50,235	49,051
Environment and Natural Resources	87,528	86,059	71,565	82,033
Lands	26,830	-	-	-
<b>TOTAL OPERATIONS EXPENDITURES</b>	<b>1,612,922</b>	<b>1,499,274</b>	<b>1,466,824</b>	<b>1,450,199</b>

### Summary of Infrastructure Investment by Department

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012/2013 Actuals
<b>Tangible Capital Assets</b>				
Legislative Assembly	329	-	-	725
Human Resources	441	417	300	183
Finance	450	600	-	1,073
Municipal and Community Affairs	-	-	-	-
Public Works and Services	27,900	29,248	24,536	9,878
Health and Social Services	60,488	66,731	36,381	30,000
Justice	4,088	1,646	799	880
Education, Culture and Employment	2,479	7,456	1,276	18,388
Transportation	90,400	134,433	26,250	83,654
Industry, Tourism and Investment	5,313	2,929	2,060	610
Environment and Natural Resources	5,091	3,008	1,861	2,140
Lands	461	-	-	-
<b>Total Tangible Capital Assets<sup>1</sup></b>	<b>197,440</b>	<b>246,468</b>	<b>93,463</b>	<b>147,531</b>
<b>Infrastructure Contributions</b>				
Municipal and Community Affairs	28,002	34,454	28,002	31,415
Education, Culture and Employment	1,261	2,087	1,929	578
<b>Infrastructure Contributions</b>	<b>29,263</b>	<b>36,541</b>	<b>29,931</b>	<b>31,993</b>
<b>Deferred Maintenance</b>				
Public Works and Services	2,000	-	-	-
Health and Social Services	1,400	-	-	-
<b>Deferred Maintenance</b>	<b>3,400</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL INFRASTRUCTURE INVESTMENT</b>	<b>230,103</b>	<b>283,009</b>	<b>123,394</b>	<b>179,524</b>

1. Includes \$7.3 million of assets gifted under devolution which were not included in the 2014-15 Capital Estimates.

### Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012-2013 Actuals
<b>SHORT TERM DEBT</b>				
GNWT short-term loans	235,509	191,169	142,791	121,617
Other public agencies	-	-	-	-
NWT Hydro Corporation	5,000	9,000	8,000	5,979
	<b>240,509</b>	<b>200,169</b>	<b>150,791</b>	<b>127,596</b>
<b>GNWT LONG TERM DEBT</b>				
Deh Cho Bridge - Real Return Bonds	179,241	177,428	181,600	177,927
Canada Mortgage and Housing Corporation	737	804	802	867
<b>PUBLIC AGENCY DEBT</b>				
NWT Hydro Corporation	186,306	188,749	188,821	191,068
NWT Housing Corporation	10,862	11,633	11,525	12,359
Yellowknife Catholic Schools	2,313	2,979	2,979	3,609
<b>TOTAL DEBT</b>	<b>619,968</b>	<b>581,762</b>	<b>536,518</b>	<b>513,426</b>
<b>OBLIGATIONS UNDER CAPITAL LEASES</b>				
GNWT	1,637	1,971	1,915	2,268
NWT Housing Corporation	602	1,216	2,755	2,063
NWT Hydro Corporation	18,821	19,226	19,226	19,631
<b>LOAN GUARANTEES</b>				
NWT Housing Corporation	24,734	26,858	27,550	28,974
<b>TOTAL GROSS BORROWING PER BORROWING REGULATIONS</b>	<b>665,762</b>	<b>631,033</b>	<b>587,964</b>	<b>566,362</b>
<b>LESS:</b>				
<b>EXTERNALLY RESTRICTED SINKING FUNDS</b>				
NWT Power Corporation	<b>(7,419)</b>	<b>(6,546)</b>	<b>(7,199)</b>	<b>(5,676)</b>
<b>TERRITORIAL BORROWING</b>	<b>658,343</b>	<b>624,487</b>	<b>580,765</b>	<b>560,686</b>
<b>TERRITORIAL BORROWING LIMIT</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>
<b>AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES</b>	<b>141,657</b>	<b>175,513</b>	<b>219,235</b>	<b>239,314</b>

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**PROVINCIAL/TERRITORIAL TAX RATES AS AT JANUARY 31, 2014**


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	Combined	Retail Sales Tax (%)	Fuel tax <sup>(b)</sup>		Tobacco Tax <sup>(c)</sup> (\$/carton)	Payroll Tax <sup>(d)</sup> (%)	Corporate Income Tax		Capital Tax on Financial Institutions (%)
	Top Marginal Personal Income Tax Rate <sup>(a)</sup>		Gasoline	Diesel			Small	Large	
	(%)		(¢/litre)	(¢/litre)			(%)	(%)	
Northwest Territories	43.05	-	10.70	9.10	57.20	2.00	4.0	11.5	-
Nunavut	40.50	-	6.40	9.10	50.00	2.00	4.0	12.0	-
Yukon	42.40	-	6.20	7.20	42.00	-	4.0	15.0	-
British Columbia	45.80	7.0	21.17	22.67	44.60	-	2.5	11.0	-
Alberta	39.00	-	9.00	9.00	40.00	-	3.0	10.0	-
Saskatchewan	44.00	5.0	15.00	15.00	50.00	-	2.0	12.0	3.25
Manitoba	46.40	8.0	14.00	14.00	58.00	2.15	0.0	12.0	3.0
Ontario	49.53	8.0	14.70	14.30	24.70	1.95	4.5	11.5	-
Quebec	49.97	9.975	19.20	20.20	25.80	4.26	8.0	11.9	-
New Brunswick	46.84	8.0	13.60	19.20	38.00	-	4.5	12.0	4.0
Nova Scotia	50.00	10.0	15.50	15.40	47.04	-	3.0	16.0	4.0
Prince Edward Island	47.37	9.0	13.10	20.20	45.00	-	4.5	16.0	5.0
Newfoundland & Labrador	42.30	8.0	16.50	16.50	41.00	2.00	4.0	14.0	4.0
Weighted average <sup>(e)</sup>	47.47	7.3	15.91	16.34	32.59	1.85	4.6	11.6	0.5

## Notes:

(a) Combined federal-provincial/ territorial highest 2014 personal income tax rates and surtax.

(b) The NWT's off-highway gasoline tax rate is 6.4 cents/litre. British Columbia fuel tax rates include carbon tax, and are applicable in regions outside Victoria and the Lower Mainland. In British Columbia, carbon tax rates are uniform across the province; however, there are different fuel tax rates for different regions. Quebec fuel tax rates also vary regionally.

(c) British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Saskatchewan apply sales tax to sales of tobacco.

(d) NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or rates vary depending on payroll size.

(e) Average weighted by provincial/territorial populations at July 1, 2013.

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