Budget Address 2016 - 2017

NORTHWEST TERRITORIES

The Honourable Robert C. McLeod
Minister of Finance

Second Session of the
Eighteenth Legislative Assembly

June 1, 2016

If you would like this information in another official language, call us.
English

Si vous voulez ces informations en français, contactez-nous.
French

Kīspin ki nitawihtīn ē nīhīyawihk ōma ācimōwin, tipwāsinān.
Cree

Tłı̨chǫ yatı k'ę̀ę̀. Dı wegodı newǫ dè, gots'o gonede.
Tłı̨chǫ

Ɂerıhtł'ís Dëne Sųłıné yatı t'a huts'elkër xa beyáyatı theɂą ɂat'e, nuwe ts'ën yółtı.
Chipewyan

Edı gondı dehgáh got'ı̨e zhatıé k'ę́ę́ edatł'éh enahddhę nıde naxets'ę́ edahłí.
South Slavey

K'áhshó got'ı̨ne xədə k'é hederı ɂedı̨htl'é yerınıwę nídé dúle.
North Slavey

Jii gwandak izhii ginjìk vat'atr'ijąhch'uu zhit yinohthan jì', diits'àt ginohkhìi.
Gwich'in

Uvanittuaq ilitchurisukupku Inuvialuktun, ququaqluta.
Inuvialuktun

ᑖᒃᑯᐊ ᑎᑎᕐᒃᑲᐃᑦ ᐱᔪᒪᒍᕕᒋᑦ ᐃᓄᒃᑎᑐᓕᕐᒃᓯᒪᓗᑎᒃ, ᐅᕙᑦᑎᓐᓄᑦ ᐅᖄᓚᔪᓐᓇᖅᑐᑎᑦ.
Inuktitut

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.
Inuinnaqtun

Fiscal Policy: (867) 767-9158
Department of Finance

Introduction

Mr. Speaker, this first budget of the 18th Legislative Assembly is about putting our fiscal house in order so that we can continue to provide quality programs and services and over the life of this Assembly, focus on what matters to the people of the NWT. We have worked with Members of this Assembly through the various Standing Committees to make the choices to guarantee that we can continue to provide the core programs and services that NWT residents need, and start to deliver on priorities identified in this Assembly's mandate.

We intend to ensure fiscal sustainability over the life of this Assembly. The NWT economy is facing considerable challenges that have serious implications for our revenues. We have made this Budget about balancing the needs of our residents for essential programs with strategic investments in infrastructure to help deliver these programs and to support the economy without compromising our financial sustainability.

Our course is clear: we must align our expenditures to revenues and reinforce that commitment through the life of this Assembly. That is what sustainability means. Our revenue outlook is flat while program and service demands continue to put pressure on expenditure growth. Revenue is largely from federal transfers, and our small tax base cannot fund the gap in expenditure needs without significantly raising the cost of living and doing business in the territory. Borrowing is also a limited option and at some point the debt must be repaid. This is why actions to carefully manage our expenditures is the foundation of our strategy to ensure fiscal sustainability.

Despite this, and let me be clear, the 2016-17 Budget is not an austerity budget.

The GNWT will be spending $1.98 billion in 2016-17. Of this amount, $1.66 billion will be for operations, as outlined in the Main Estimates, and $320 million for investments in infrastructure that were approved in last fall's Capital Estimates.

Clearly, $1.98 billion in spending lined up against $1.8 billion in revenue is not sustainable. For all intents and purposes, this short fall will require the GNWT to increase short term borrowing by $54 million to ensure that we meet our day to day needs. This rate of borrowing is like maxing out our credit cards. At some point, the balance has to be paid. That is why the $119 million operating surplus is critical to maintaining a prudent borrowing plan to pay for the infrastructure we need to deliver our programs and support the economy. We have limited revenue options and we can't spend what we don't have. If we don't bring our operating expenditures in line with revenues, our ability to address our $3.4 billion infrastructure deficit will continue to erode. If we can't make the difficult budget choices, if we can't say no to things that are not priorities, if we are unwilling to admit that some things are not the best use of the money available, then we won't be able to fund the priorities in our Mandate like long-term care facilities, seniors' housing, more affordable housing units, alternative energy infrastructure and transportation infrastructure to lower the cost of living. We need to put our financial affairs in order now to protect our fiscal future.

We have accepted the challenge of critically examining how we manage our finances. We intend to make good choices today while the situation can still be managed and the impacts on the NWT economy and GNWT programs can be minimized.

As NWT residents have been telling us through the Budget Dialogue that was started this spring, we need to eliminate unnecessary spending to ensure that we have the resources to fund essential programs and services. Our departments are doing that. For instance, residents have told us to reduce non-essential travel and contracting and across the entire government departments are planning to reduce expenditures in travel, telecommunications, fees, contracts and other purchased services by almost $2.5 million this year. Others asked why we have a separate unit for oil and gas and we have responded by closing the Mackenzie Valley Petroleum Planning Office for a savings of $665,000. We were told it is not enough to keep everything the way it is and that we need to streamline programs to create a results-driven approach. We are doing that by combining Employee Services with Financial Shared Services, saving $1.2 million annually.

Ultimately, this Budget will allocate our limited resources as effectively as possible to pay for government programs and services to realize our vision of a strong economy that allows NWT residents to prosper with the jobs and opportunities in our communities that only a robust economy can provide.

Economic Outlook

Mr. Speaker, our dependence on the resource sector to provide good jobs and local business opportunities means that we have to take a longer term view of our economic outlook and the implications for our fiscal situation.

Our economy in 2016 is the only one in Canada still smaller than its pre-recession 2003 to 2007 average. Despite posting three years of modest growth, we have Canada's most volatile economy. Our small, open, resource-based economy is at the mercy of global events beyond our control and we need to find the fiscal resources to support growing and diversifying our economy, through strategic investments that lower the cost of living and doing business and finding more resources to develop our resident workforce.

Right now the southern part of our territory is doing well as the Gahcho Kué diamond mine finishes construction and begins operations later this year. The construction of the Mackenzie Valley Fibre Optic Link has provided the incentive for more satellite dishes to be installed at the Inuvik Satellite Station Facility thereby enhancing opportunities for economic diversification in the Mackenzie Valley. The completion of the Inuvik-to-Tuktoyaktuk Highway will lower the cost of living in Tuktoyaktuk and provide more opportunities for tourism in the Beaufort Delta. The replacement of the Stanton Territorial Hospital will allow for the provision of better health services in the NWT, making our territory an even better place to live and work.

However, in as little as seven years, one, and possibly two, of our world class diamond mines may close. New resource projects in the planning stage today will not replace the jobs and opportunities for NWT businesses and the government revenues that these mines represent.

New mines and other resource developments come from exploration investment and this investment is mixed at best. Low commodity prices have brought oil and gas exploration to a standstill and projects with promising mineral deposits are having difficulties securing financing.

The survey of capital investment intentions shows that NWT businesses are approaching this year with caution; private capital investment is expected to decrease 35 per cent from 2015.

Meanwhile, we recognize that we need to continue to advance economic diversification. We need to invest to support sectors that will be able to withstand the closure of the mines that have been the mainstay of our economy for many years. We need to manage our fiscal resources so that we are prepared for the change in our economy that will eventually happen. Just like we are meeting the challenge of climate change through the leading edge work we are doing to mitigate and adapt, we must also be ready for a different economy in the near future.

Fiscal Strategy

Mr. Speaker, our fiscal strategy remains grounded in the principle that you shouldn't spend what you can't afford. Flat population growth, low commodity prices and the resulting slowdown in both the Canadian and NWT economies mean that total revenues are projected to be flat over the next five years. Without action on expenditures, we are facing a future that is not fiscally sustainable. No action means that we will be creating a bigger problem to fix in the future. If we refuse to meet the challenge of living within our means we will create a future with no fiscal capacity to make strategic investments to support the economy, or to enhance the programs and services provided to NWT residents, or to withstand revenue and expenditure shocks.

In the spring, the International Monetary Fund stated, and I quote, "Restoring robust growth is essential for addressing the fiscal challenges ahead." We could not agree more.

We want our government to have the fiscal flexibility to provide critical infrastructure to grow the economy and ensure that our residents can fully participate in this economy.

Our fiscal strategy addresses these challenges by matching expenditure growth to revenue growth. Since revenues are not growing, we have taken up the challenge to re-examine our spending in some areas. This has resulted in some reductions but more important, we have managed to re-align spending so we can continue to fund critical and necessary programs and services required by NWT residents and businesses and free up resources for this Assembly's priorities.

These actions are confirmation of our on-going commitment to the *Fiscal Responsibility Policy*. By following the Policy's guidelines for prudent financial management, we will not borrow to fund day-to-day operating spending and will manage our expenditures so that we generate operating cash surpluses to fund at least half of our infrastructure investments. These surpluses make it possible to take advantage of $45 million in federal cost-shared funding for infrastructure this year. These operating surpluses help us to maintain our good Aa1 credit rating so that our borrowing costs do not increase and give us the flexibility to manage unexpected and unplanned spending, such as forest fires. Without these surpluses, we do not have the ability to make required infrastructure investment in such things as health facilities, schools, parks, highways, and runways that deliver essential government programs and keep our economy moving.

The time to build these surpluses starts with actions today.

These actions include linking increases in expenditures to growth in the Territorial Formula Financing Grant, which drives the growth in total revenues. Our target is $150 million in savings, or new revenues, to establish a short term cash surplus position by the end of the 18th Assembly. This Budget does the heavy lifting. We have identified $53 million in expenditure reductions, or 3 per cent of the total operating budget, and are raising $15 million in new revenues over four years. This combination of expenditure management and increased revenue brings us to a total of almost $68 million, 45 per cent of our target.

There is no doubt that government expenditure restraint affects the economy and the type of expenditures that are reduced is an important consideration. We are working hard to limit the number of employees who will be affected and to minimize the negative effects on program delivery while clearly understanding that the cost of doing nothing to put our finances in order will have more serious consequences for government programs and services in the future. Our government is prepared to act now and not punt, what will be a much larger problem, to future Legislative Assemblies to fix.

Budget Highlights

This Budget proposes an operating budget of $1.66 billion, a testament to departments' efforts to find savings and efficiencies where they can, so we can continue to deliver first class programs and services. Total revenue is estimated to decrease almost one per cent from last year to $1.8 billion in 2016-17.

Although these efforts will produce an operating surplus of $119 million, this is still not enough to continue to invest in infrastructure and start relying less on short-term borrowing.

Revenues

Mr. Speaker, we have reviewed our tax regime to ensure that we are raising as much revenue as possible to pay for government programs and services without compromising our support for a strong NWT economy. The high cost of living, working and doing business in the NWT is a key factor influencing our aim for a stable and competitive tax structure based on established tax policy principles that will generate the revenues we need to fund important programs and services, while also encouraging people to live and work in the NWT and for businesses to invest in growing our economy.

We are introducing no new taxes in this Budget. Property taxes and some fees will be adjusted for inflation. We are also proposing to re-structure Yellowknife airport fees to match industry averages.

The Yellowknife Airport is a well-run, vital asset of the NWT economy. Its dedicated workforce serves the entire territory. However, the airport is constrained by being inside a government department while operating in a competitive market. Our landing and terminal fees are low compared to similar and even smaller airports in the south and NWT taxpayers are in effect subsidizing the cost of operations to the tune of $3 million per year.

This Budget proposes to eliminate the taxpayer subsidy by bringing airport fees in line with those charged by comparable airports in the south and by introducing an airport improvement fee of $20 per passenger travelling south and $10 for those flying north. Once fully implemented, these changes will provide an estimated $10 million in new revenue annually. We propose to establish a revolving fund for the Yellowknife Airport so it can use the revenues it generates to improve services, invest in capital, promote business development and to better position the airport to be a key asset in helping grow and diversify our economy.

We must be realistic about what we can and cannot do to increase revenues. The few revenue options that could generate significant revenues would discourage business investment and economic growth, and would leave individuals and families with fewer dollars in their pockets while the cost of living continues to rise. Increasing revenues may be part of the solution, but we cannot solve our fiscal problems solely on the revenue side. Our tax base is simply too small. Our economy has not fully recovered from the last recession. The better option is to support and grow our economy so that our tax base expands and our own-source revenues and the Territorial Formula Financing Grant increase.

Expenditures

Mr. Speaker, our actions to responsibly manage our expenditures includes $35 million in new initiatives to address priorities of the 18th Assembly and $29 million for forced growth of existing program spending. We have accomplished this while controlling total budgeted spending from 2015-16 by removing $27 million for programs that were scheduled to end in 2015-16 and $31 million in on-going program reductions starting in 2016-17.

Mr. Speaker, in the spirit of collaboration and cooperation that defines consensus government, our government has worked with various standing committees to protect $4.3 million in programing in this budget. Highlights include $900,000 for small community employment programming, and $650,000 in funding to support programs for our Youth, communities and volunteer organizations.

We are protecting our core social programs that support our residents with $1 billion of our proposed $1.66 billion budget. We have found the savings to be able to add $7 million to the Health and Social Services' budget to fund health facilities, long-term care beds, and implement the new *Mental Health Act*, bringing total spending in the department to $414 million.

The Department of Education, Culture and Employment budget will increase $6 million to $316 million this year. This increase will contribute to initiatives for enhancing support for post-secondary students, for supporting children from families with low and modest income, and for employment programs for people with disabilities. From within its existing budget, the Department plans to significantly change the way it funds daycare and day home operators to strengthen these programs. These changes, along with other on-going initiatives that are part of the *Right from the Start* early childhood development strategy, demonstrate our continued emphasis on supporting our youngest residents.

We committed to avoid restraining our expenditures to the detriment of NWT communities and instead have increased community government core funding by 2 per cent in the Department of Municipal and Community Affairs' $104 million budget. Together with $127 million budgeted for the Department of Justice, this funding demonstrates the priority we place on helping communities provide essential programs and services to their residents. Including our $82 million contribution to the NWT Housing Corporation, our total contribution for social programs is over $1 billion or 63 per cent of the total operating budget.

We are also spending $423 million to protect our environment and support our economy. This Budget provides $90 million to protect and manage our environment and wildlife through the Department of Environment and Natural Resources and $28 million for the Department of Lands to manage sustainable use of public lands in a fair and transparent way, respecting ecological, social, cultural and economic values.

The Department of Transportation has a budget of $125 million in 2016-17 to ensure safe and reliable movement of people and goods. The Department of Public Works and Services' budget of $120 million will be used to provide appropriate facilities and information systems to deliver government programs and to provide expert support on energy solutions for the entire territory. The Department of Industry, Tourism and Investment is allocated $60 million to manage mineral and petroleum resources responsibly, and partner with others to promote and support economic prosperity, diversification and community self-reliance.

Governance: Improving Accountability, Transparency and Collaboration

Our commitment to modernize our fiscal reporting will greatly enhance accountability and transparency of our government's finances. For the first time, we will be tabling our borrowing plan along with the Main Estimates for both the government and our public agencies. The borrowing plan will detail total estimated borrowing of $783 million for the 2016-17 fiscal period. The Government's $543 million share of this borrowing includes an estimated $312 million in short-term borrowing and $231 million in long-term borrowing. For fiscal flexibility to address any revenue or expenditure shocks, we will be requesting a short-term borrowing limit of $377 million in the *2016-17 Appropriation Act.*

On August 1, 2016, six of the existing health and social services authorities will be combined to form a new Territorial Health and Social Services Authority. This new structure will set the stage for improved care and services for residents, allowing us to set territorial program standards, to ensure equitable access to services, and to use all our system resources more effectively. The new Authority will oversee a budget of approximately $300 million, providing an opportunity to achieve efficiencies in non-clinical areas like procurement, and will bring together Authority financial systems to support improved financial management throughout the system.

We are also proposing $5.4 million in new initiatives in this Budget to address this Assembly's priority to improve accountability, transparency and collaboration in our government's actions.

This includes $1.6 million for continued collaboration with our neighbours to manage our shared water resources and to implement the transboundary water agreements with the governments of Alberta and British Columbia. We will continue managing stewardship of our water resources through the Mackenzie River Basin Transboundary Waters Master Agreement. This proposed funding will continue our work to reach bilateral water agreements with Saskatchewan and Nunavut, and to renew our agreement with the Yukon.

The GNWT supports building strong intergovernmental relationships with provincial-territorial governments and this Budget proposes funding for cost-sharing initiatives to support the collaboration between provincial-territorial governments on the RCMP Contract Management Committee.

Strong intergovernmental partnerships with other governments within the territory are critical to the long-term economic success of the NWT. In addition to our on-going support to help settle land claims and encourage successful self-government agreements, Budget 2016-17 proposes to further strengthen our ties to Aboriginal and community governments through an additional $450,000 to Aboriginal tourism initiatives, tourism and general infrastructure in communities under both the *Tourism 2020* plan and *Economic Opportunities Strategy*, and Aboriginal capacity building under the *Mineral Development Strategy*.

We are also working with communities to strengthen partnerships in preventing and responding to violence with an additional $316,000 from the federal government under the Aboriginal Justice Strategy Fund. This will bring the total funding for community based justice programs and projects to $1.6 million in 2016-17. This funding will flow directly to communities for community-based programs and services for alternative justice and crime prevention.

Cost of living

Reducing the cost of living is a fundamental part of our strategies to strengthen the NWT economy and a significant part of our budget. The NWT Cost of Living Tax Credit alone puts $20 million into NWT residents' pockets each year. On-going investments in energy conservation and alternative energies to reduce our dependence on fossil fuels help lower residents' and businesses' energy costs. Transportation infrastructure investments help reduce the costs of moving goods and people around our territory. Stable funding to community governments, contributions to non-government organizations for their work to enhance community living and the $82 million contribution to the NWT Housing Corporation for affordable housing all contribute to lowering the overall cost of living.

Budget 2016-17 introduces an additional $11 million for cost of living initiatives. This includes an additional $7.5 million for subsidizing power generation while water levels are low in the Snare hydro-electric system. As we deal with the historically low water levels, this subsidy avoids the necessity for the Northwest Territories Power Corporation to apply rate riders that could range from five to seven cents per kilowatt-hour and raise electricity bills between 18 and 25 per cent. The recent changes to the board will save us $1 million annually.

This Budget provides $82 million to the NWT Housing Corporation to help deliver housing programs and services in 2016-17. The Corporation will also be delivering an additional $16.6 million in new federal funding for affordable housing projects through the *Investment in Affordable Housing Agreement*. This funding will enhance the Corporation's efforts to increase the number of NWT households with sound, suitable and affordable housing. In addition, we are proposing to contribute $3.5 million to the Housing Corporation to help with the construction of 6 housing units to lease back to the RCMP in Fort Smith and acquire land in Inuvik, Norman Wells, Hay River, and Fort Simpson to support future years' delivery of 39 units over the next two years. The new houses will replace accommodations that are at the end of their life-cycle with quality energy-efficient units. This partnership with the RCMP will eliminate the need to find alternative housing for officers and support the consistent delivery of policing services in the NWT.

We are taking action in this Budget to increase our support for NWT children from families with low and modest incomes, including changing the Income Assistance Program so that income from the Canada Child Benefit, the NWT Child Benefit, and spousal support is excluded in the calculation of income assistance payments. We will also be coming forward this fall with amendments to the *NWT Income Tax Act* to enhance the NWT Child Benefit, including different benefit amounts for children under and over the age of six. This benefit would be non-taxable and not included in other income assistance benefits. The basic amount would be paid to all families with less than $30,000 in family income and gradually reduced as income increases. Benefits would be paid to families with income up to $80,000. We look forward to engagement with Standing Committee to quickly move with the legislative changes so that the enhanced credit can be implemented in 2017.

Education, Training and Youth Development

The best social program is a good paying job.

We need to ensure that NWT residents can take advantage of good education programs to participate in our economy. Budget 2016-17 provides $4.3 million in new initiatives for education, training and youth development.

We propose to add $2.2 million to our Student Financial Assistance program to make post-secondary education more accessible and affordable for NWT residents and to support recruitment in rural and remote communities. Remission rates are proposed to increase from $4,000 to $6,000 for students who take up residence in Yellowknife and to $8,000 for students residing in Fort Simpson, Fort Smith, Hay River, Inuvik and Norman Wells. The remission rate for students in all other communities will increase from $8,000 to $12,000. As well, the additional funding will be used to increase total grants by 27 per cent by raising the maximum grant for tuition by $475 to $2,400 and for books by $150 to $550 per semester.

We are using the proposed enhancements to the Student Financial Assistance program to attract and retain students to live and work in the NWT by introducing a $2,000 Northern Bonus payable against student loans for both students who were raised in the NWT and students who are from other parts of Canada but reside in the NWT for at least a year after graduation. As well, the Budget proposes to eliminate the interest rate on repayable Student Financial Assistance loans for all students residing in the territory.

To support lifelong learning, the Student Financial Assistance program lifetime limit will be removed and will be replaced with a revolving limit. In addition, the 20 semester limit will be removed completely.

We propose to further help NWT residents with disabilities become suitably employed with additional investments under our labour agreement with the federal government. This new funding will be focussed on enhancing our support for employer needs to improve the participation of persons with disabilities in the NWT workforce.

Community Wellness and Safety

Improving community wellness and safety enhances the lives of NWT residents and improves the government's bottom line over the long-term by reducing residents' reliance on some social programs. We intend to further support improving the health of our communities through an additional $4.3 million in community wellness and safety initiatives in 2016-17.

This new funding includes $2.6 million to the Hay River Health and Social Services Authority to operate the new Hay River Health Centre, which is set to open this year. These funds will also allow patients to remain in long-term care beds at the H.H. Williams Memorial Hospital until the Woodland Manor long term care facility expansion is complete.

This Budget proposes $1.1 million in contributions to the Tłįcho Community Services Agency for the operation of the Jimmy Erasmus Seniors' Home. When the second of two wings is complete this year, 18 beds will be available, an increase from the original eight.

The successful rollout of the new *Mental Health Act* depends on adequate funding to support its implementation. This Budget proposes $501,000 to help implement this important legislation. The funding will help establish a review board to ensure the feedback of families, patients and health care professionals is heard. As well, the funds will help develop Assisted Community Treatment plans for patients so that they can stay in their communities while receiving on-going care, supervision and support. This funding will also help develop a training program for all Health and Social Service staff and other professionals involved in implementing the new provisions.

Economy, Environment and Climate Change

Understanding the connections between our economy, the environment and potential implications of climate change are vital for the future of the NWT. We are actively working with our federal, provincial, and territorial counterparts to develop a pan-Canadian framework for clean growth and climate change. We support the need for Canada to move to a lower carbon economy and want to ensure the development of our natural resources sector continues in an environmentally sustainable and innovative way.

Budget 2016-17 proposes an additional $4.3 million to advance the Assembly's priorities to support the economy, protect the environment and address climate change.

The Western Arctic Centre for Geomatics was established to provide geomatics services and research support for lands, resource and infrastructure management. These services and research will provide the GNWT with better information to improve the stewardship of our lands and resources. This Budget proposes an $181,000 increase in the support for the Western Arctic Centre for Geomatics, bringing its total budget to $875,000.

We need better information to manage our water resources and this Budget plans to expand our Hydrometric Networking Monitoring Program by providing $311,000 for the installation and operation of new water monitoring stations.

Supporting the sectors of the economy that already contribute substantially to our economy and encouraging growth in new sectors will be critical to the long term economic health of our territory. The GNWT has developed action plans to further the work of the *Mineral Development Strategy*, *Tourism 2020*, and the *Economic Opportunities Strategy*. This Budget adds $2.5 million to ensure the success of these actions. This includes $1.2 million for the *Mineral Development Strategy* to further support geoscience research to build the territory's exploration potential, to increase the Mining Incentive Program to help companies find potential ore bodies, and to support local businesses within the territory to enhance the economic benefit of the mining sector.

Tourism 2020 will help diversify the economy with $825,000 for marketing, research, community and industry engagement, and skills development and capacity building.

The *Economic Opportunities Strategy* will receive $486,000 for tourism product diversification, a convention bureau, and the Film Rebate Program.

We continue to make substantial investments in energy conservation and efficiency and the development of renewable and alternative energy sources and support the efforts of communities to transition to sustainable sources of energy.

Supporting the use of energy efficient technologies in residential, commercial and public sectors is one of the most effective and cost efficient ways to reduce energy use, reduce cost-of-living, and address climate change. This Budget proposes to provide the Arctic Energy Alliance with $3.5 million in funding this year, including $760,000 in additional one-time funding to support a number of new initiatives, including a territorial-wide LED lighting program.

We are also investing in alternative energy systems. Wind speed monitoring and project development planning continue towards a wind project in Inuvik and $720,000 is being invested in a solar and high-efficiency generator system in Aklavik. A solar project is also being developed in Inuvik. Over the coming year, we will also be developing a new Energy Plan that will guide our continued investment in energy initiatives in the years to come.

Newcomers to our territory bring experience and skills that enhance our economy. For this reason, this Budget proposes to provide an additional $169,000 to the NWT Nominee Program to encourage immigration into the territory.

Looking Ahead

Part of a responsible government is to look past the four year outlook of this Assembly. With this Budget we have charted a course that will align our expenditure growth with our revenue growth and will stop borrowing money to run the day-to-day operations of the government. The efforts taken to hold the line on operating expenses and the increases in revenues take us almost halfway to our goal of protecting our core services and programs and still having resources to invest in strategic infrastructure, while ensuring there is a reasonable amount of available borrowing room under the federally-imposed borrowing limit at the end of the 18th Legislative Assembly. This plan will generate the operating cash surpluses necessary to protect and extend the life of our existing infrastructure and let us begin to address our $3.4 billion infrastructure deficit, including advancing the Mackenzie Valley Highway, building an all-weather road from Highway 3 to Whatì and improving access into the Slave Geologic Province, which were identified in our Mandate as the top three transportation infrastructure priorities.

As we continue to work to address the priorities of this Assembly, we must be prepared to make other difficult choices to protect the GNWT's long term fiscal sustainability. While we are almost halfway to our $150 million target, we must not lose sight of our goal to find another $82 million in expenditure savings or increased revenues by the end of the 18th Legislative Assembly. This target represents the operating surpluses needed to invest in the health facilities, schools, community infrastructure and transportation critical to delivering government programs and services.

We see the positive results of past infrastructure investments. These investments support government programs and service delivery. We will continue to build infrastructure in a fiscally responsible and sustainable way under the *Fiscal Responsibility Policy*. We are building health facilities and renovating and expanding schools to deliver health and educational services. We are investing in tourism infrastructure to promote economic development and diversification. We are completing the Mackenzie Valley Fibre Optic Link to allow communities to join 21st century communication networks and to better deliver government programs. We are providing subsidized rental and homeownership programs for affordable and public housing.

Building the territory's transportation network helps lower the cost of moving goods and people and lowers the cost of living for everybody. Maintaining and retrofitting our own government buildings and equipment maintains and improves service delivery and affordability. Investing in information technology allows us to do more with fewer resources and increase productivity. This Assembly's infrastructure investments will provide a lasting legacy for the benefit of our current residents and future generations.

Conclusion

Mr. Speaker, this back-to-basics budget gives us the fiscal flexibility to address the 18th Legislative Assembly's priorities with actions today and the assurance that we are on a solid course for fiscal sustainability tomorrow.

We recognize the vulnerability of our economy to events outside our borders and the reality that over the longer term, mining, the driver of our economy, may be less of an influence than it is today. Situations outside of our ability to influence highlight the uncertainty of our economic future and are demonstrated by the flat revenue growth forecast over the next four years.

We also recognize that our fiscal policy, whether on the expenditure or revenue side, needs to ensure we fully understand the impacts that our actions have on our economy and that we do not take any actions that will decrease investment and increase the cost of living for NWT residents or the cost of operating for businesses.

These facts reinforce that we must be responsible stewards of the $1.8 billion in revenue we are estimating the GNWT will receive in 2016-17. Through this Budget we have started the difficult task of aligning our expenditure growth to our revenue growth and have produced a plan that will generate sufficient cash surpluses to fund reasonable capital plans in the future. This not only protects our existing infrastructure, but begins to address our $3.4 billion infrastructure deficit. We are addressing this challenge directly with the clear understanding that the cost of doing nothing to put our finances in order will have more serious consequences for government programs and services in the future.

With the support of this Assembly and NWT residents we are on our way to meeting these challenges.

Budget Address

2016 – 2017

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦ Economic Review

B ♦ Fiscal Review

June 1, 2016

ECONOMIC REVIEW

Outlook

The economic outlook for the NWT is uncertain. Real GDP was flat in 2015, growing just 0.7 per cent over 2014 but is forecast to increase 2.6 per cent in 2016. This forecast growth is driven by improved diamond exports, which will offset declines in private-sector investments and reduced government spending.

Diamond exports are expected to increase in 2016, as the Gahcho Kué diamond mine begins production at the end of this year, and two new diamond pipes at Ekati diamond mine come on stream in 2016. New production at these mines will more than compensate for the placement of Snap Lake diamond mine on care and maintenance in December 2015, and this overall increase in carat production is projected to boost real NWT exports by 7.2 per cent in 2016. Carat production may increase further in the near term, as production at Gahcho Kué ramps up, but over the long term, the outlook for the NWT diamond industry is uncertain. All NWT diamond mines, existing and planned, are set to close by 2031, with the Diavik diamond mine scheduled to operate until 2023 and Ekati could also stop production in 2023 if the proposed Jay Pipe is not developed.

While diamond mine production is increasing, total investment is projected to decline 13.3 per cent in 2016, largely due to the completion of the Gahcho Kué diamond mine construction. Although public sector investments in projects such as Stanton Territorial Hospital and infrastructure linked to the federal Building Canada Funds will increase in 2016, these government investments will be dwarfed by a steep decline in the mining industry investments, which in turn have a negative impact on the construction and wholesale sectors.

Despite the drop in investment spending, the overall economic activity is expected to increase because of the start of operations at the Gahcho Kué mine. The projected increase in economic activity is forecast to increase resident employment by 0.9 per cent in 2016, an improvement after two consecutive declines in 2014 and 2015. However, risks to the forecast do exist.

NWT Economic Outlook

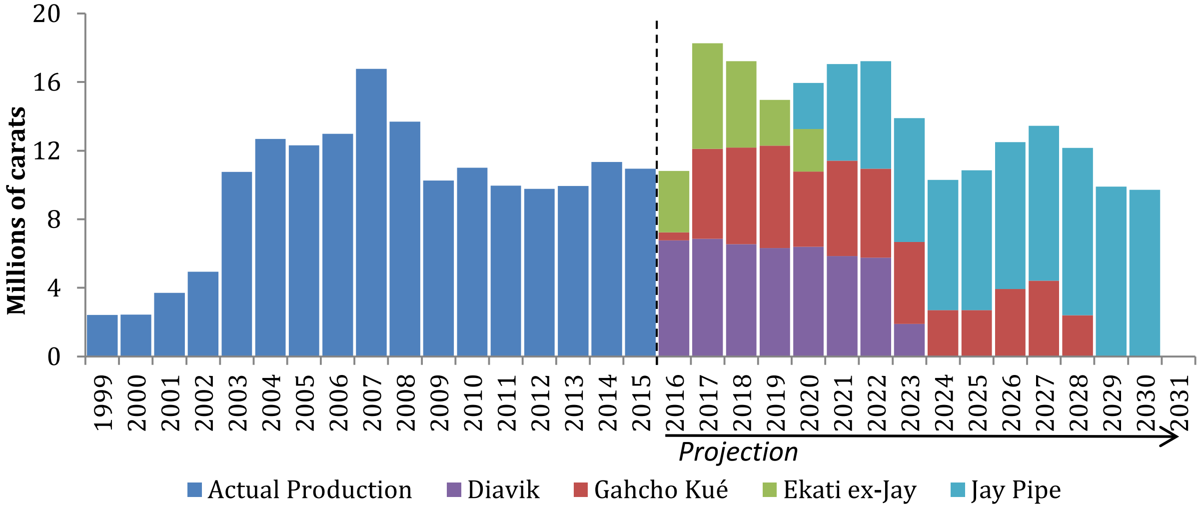
Indicator		2012	2013	2014	2015e	2016f
Gross Domestic Product	chained (2007) millions of dollars	3,511	3,639	3,849	3,877	3,978
	per cent change	*(0.4)*	*3.6*	*5.8*	*0.7*	*2.6*
Total Investment	chained (2007) millions of dollars	1,172	1,244	1,283	1,471	1,276
	per cent change	*17.3*	*6.1*	*3.1*	*14.7*	*(13.3)*
Household Expenditure	chained (2007) millions of dollars	1,349	1,371	1,387	1,405	1,424
	per cent change	*1.1*	*1.6*	*1.2*	*1.3*	*1.3*
Government Expenditure	chained (2007) millions of dollars	1,652	1,693	1,706	1,685	1,624
	per cent change	*(0.9)*	*2.5*	*0.8*	*(1.2)*	*(3.6)*
Exports	chained (2007) millions of dollars	2,450	2,574	2,742	2,694	2,888
	per cent change	*(0.4)*	*5.1*	*6.5*	*(1.8)*	*7.2*
Imports	chained (2007) millions of dollars	3,229	3,348	3,400	3,489	3,356
	per cent change	*3.1*	*3.7*	*1.6*	*2.6*	*(3.8)*
Employment (Resident)	number of persons	23,100	23,200	22,100	21,900	22,100
	per cent change	*0.4*	*0.4*	*(4.7)*	*(0.9)*	*0.9*
Average Weekly Earnings	dollars	1,320	1,340	1,398	1,421	1,450
	per cent change	*3.9*	*1.6*	*4.3*	*1.7*	*2.0*
CPI (All-Items), Yellowknife	2002=100	124.3	126.2	128.4	130.4	132.4
	per cent change	*2.2*	*1.5*	*1.7*	*1.6*	*1.6*

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

OUTLOOK – *Risks to the Forecast: Diamonds*

The NWT economic outlook is based on future mineral development and the opening of new mines. Diamond mining drives the NWT economy, but mine plans for currently producing mines, those under construction, and those expected to be submitted for environmental review and permitting, are all set to end production by 2031. Expansion of the mining industry depends on successful exploration programs to identify potential new mine projects, as well as the deposit appraisal and environmental review process to identify which potential new mine projects can be developed.

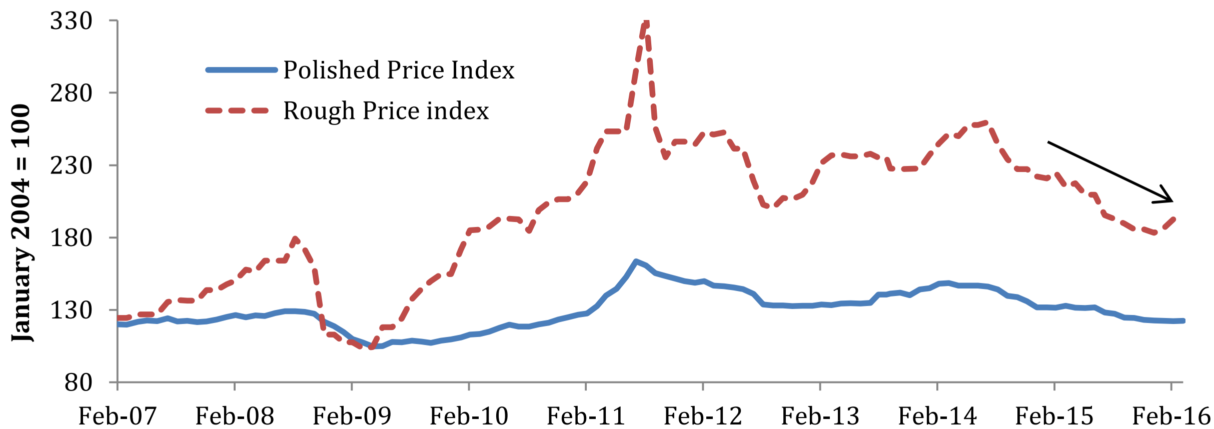
Diamond Production Outlook



Source: Natural Resources Canada, mining plans and technical reports, NWT Finance

The final decision to construct new mines depends on a range of economic and financial factors, including global capital credit conditions, currencies, and prices. Indexed diamond prices for both rough and polished stones declined in 2015, falling approximately 18 per cent and 9 per cent, respectively. These low prices factored into the decision to put the Snap Lake diamond mine on care and maintenance in December 2015, and are likely to affect future construction decisions.

Diamond Prices Slid Last Year



Source: PolishedPrices.com and WWW Overall Rough Diamonds

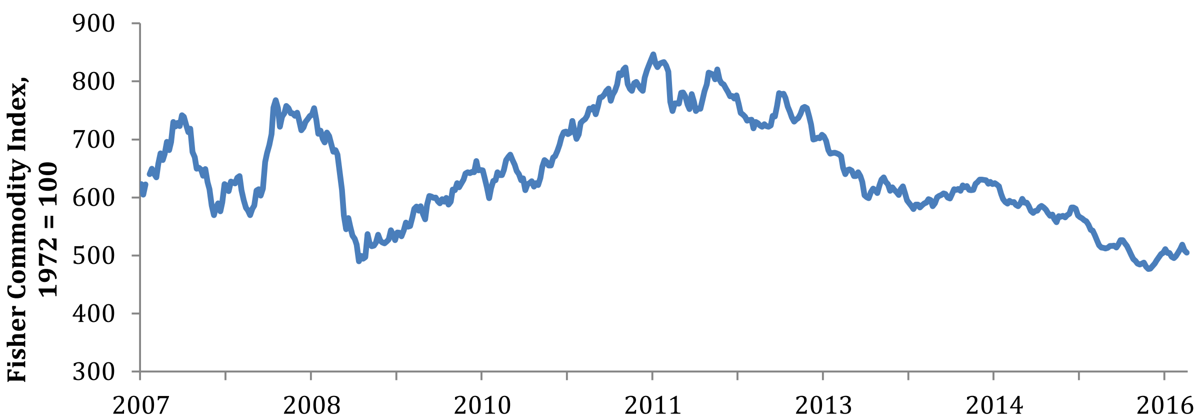
The slump in prices reflects an oversupply of rough diamonds worldwide and declining global demand for luxury goods as China, which is the biggest market for diamond jewelry after the United States, continues to undergo an economic slowdown and restructuring.

Despite the slide in prices last year, rough diamonds remain expensive relative to polished stones. This is because rough diamond prices have increased significantly faster over than past decade than polished diamond prices. The spread between rough and polished stones has squeezed the profit margins of manufacturers, and point to potential future price pressures because many manufacturers have been forced out of business. NWT diamond mines produce rough diamonds, exporting them to manufacturers who cut, polish, and clean the stones, making the price spread a key risk to the NWT economic outlook.

OUTLOOK – *Risks to the Forecast: Mineral and Metal Prices*

Global prices for other resource commodities, including many metals and minerals found in the NWT, have also declined. Indexed metals and minerals prices fell about 10 per cent from 2014 to 2015. In 2016, prices for some commodities are showing a slight rebound; for example, gold prices fell 8.4 per cent in 2015 but in recent months have strengthened. As of April 2016, the price of gold was $1,242 per ounce. Despite this, continued overall flat growth in the global economy, and an economic slowdown in many emerging markets, suggest that metals and minerals prices may remain soft over the near term.

Metals and Mineral Prices Down



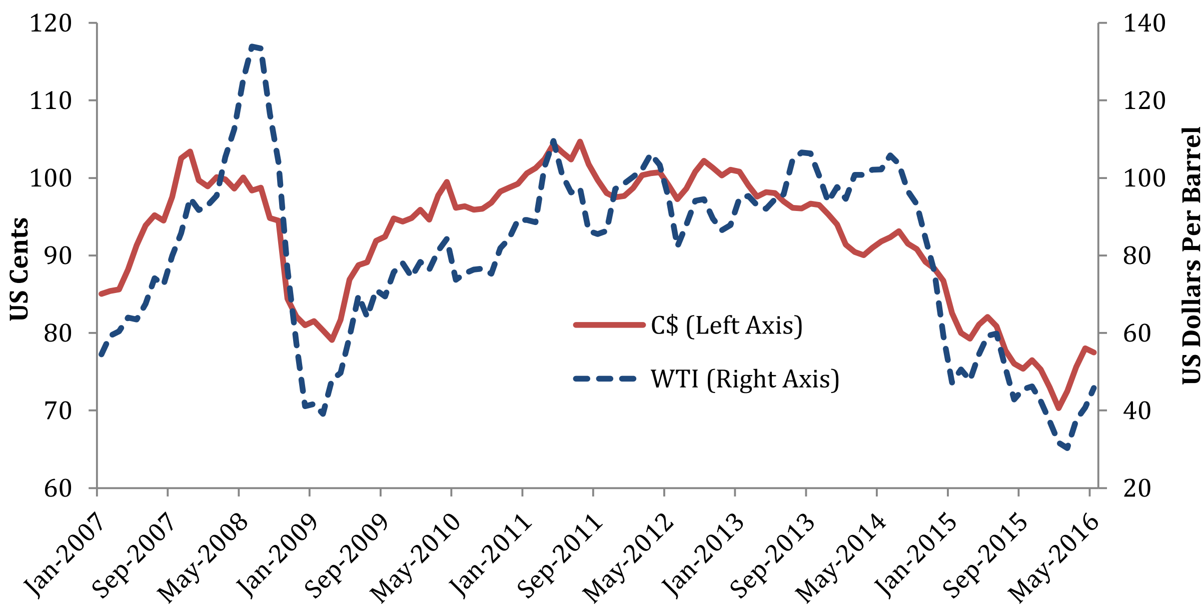
Source: Bank of Canada

Low commodity prices have repercussions for the NWT economy, as exploration and development expenditures by the mining industry are driven by the expected value of future mine developments, which in turn is influenced by the expected price of the mineral or metal to be mined.

OUTLOOK – *Risks to the Forecast: Oil Prices and the Exchange Rate*

Oil prices fell sharply in the second half of 2014, falling over 40 per cent in less than six months. This trend continued throughout the first quarter of 2016, but has since reversed. As of May 2016, benchmark West Texas Intermediate (WTI) crude oil was trading around $46 per barrel. Because the NWT exports a small amount of oil to international markets, the drop in oil prices will have a slight negative impact on NWT trade and economic growth but has a serious negative effect on exploration activity in the Sahtu and Beaufort-Delta regions of the NWT. However, this impact will be offset by lower fuels costs for many businesses and households. A rebound in WTI is not projected as increased global supply and slowing global demand over the near term are expected to continue putting downward pressure on oil prices.

Lower Oil Prices Drag Down the Canadian Dollar (C$)



Source: US Energy Information Administration and Bank of Canada

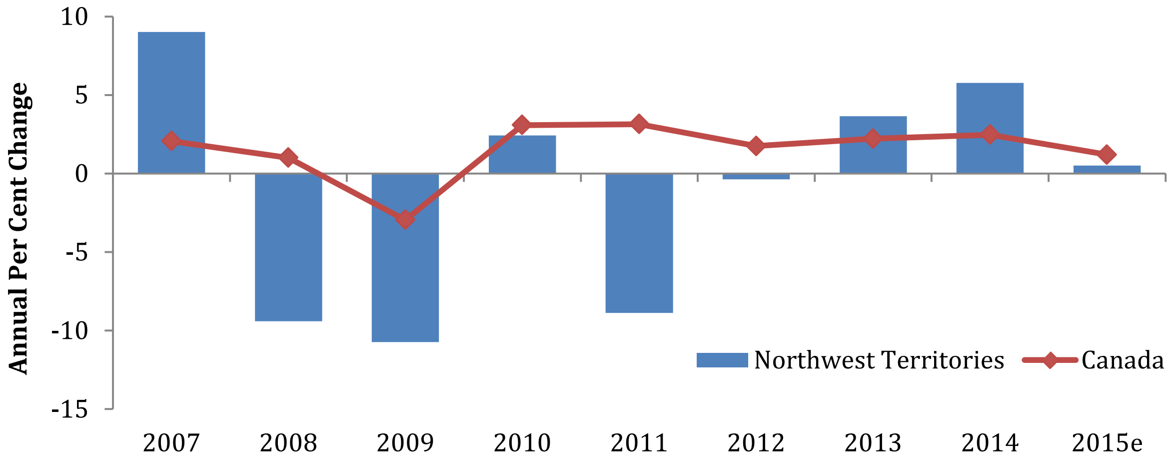
As an oil-exporting country, the drop in global oil prices has lowered the Canadian dollar vis-à-vis the US dollar. The Canadian dollar averaged 78 US cents in 2015, down 13.5 per cent from 91 US cents in 2014. With oil prices expected to remain low, the Canadian dollar is likely to also remain low. As of May 2016, the Canadian currency was trading at 78 US cents.

The value of the Canadian dollar against its US counterpart has a direct effect on the health of the NWT economy. This is because the majority of goods and services bought and sold internationally are paid for in US dollars. The lower Canadian dollar means that NWT businesses that export their production internationally will get paid more for their products after currency conversion, which will help NWT companies compete globally, and boost exports. However, a lower Canadian dollar will also make machinery and equipment imported from outside the territory more expensive, putting a strain on many NWT businesses. In addition, the low Canadian dollar has boosted the cost of imported food and other goods, having a negative impact on many NWT households.

RECENT ECONOMIC PERFORMANCE – *Real GDP*

Following two consecutive years of solid economic growth, the NWT economy stalled in 2015. Real GDP increased just 0.7 per cent last year after rising 3.6 per cent in 2013 and 5.8 per cent in 2014. Flat growth in 2015 reflected declines in trade and government spending which offset strong investment and household expenditures.

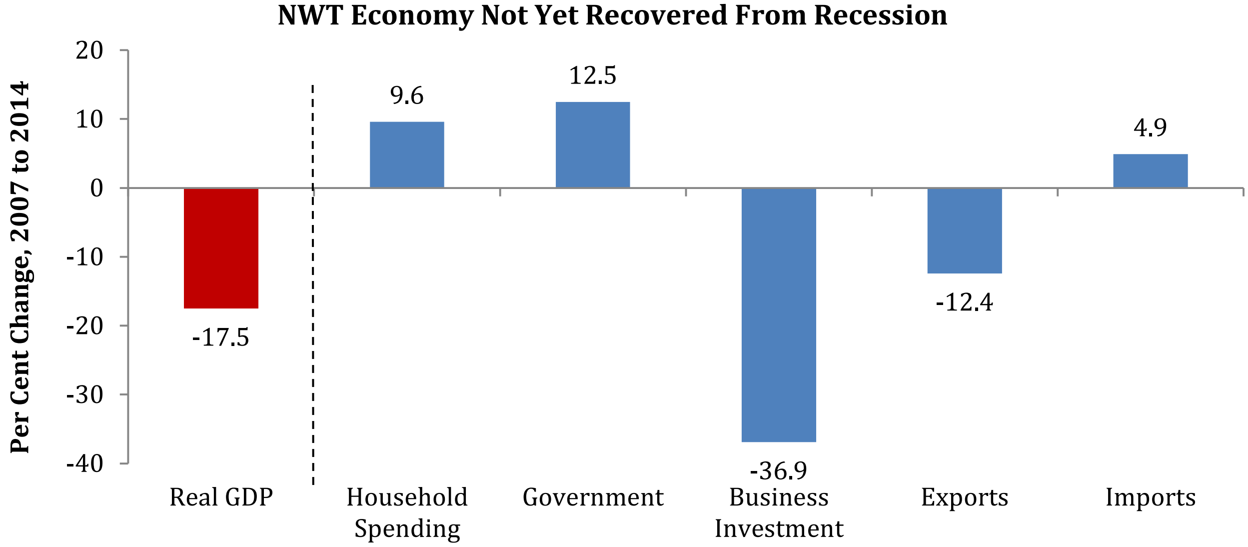
NWT Real GDP Growth Outpacing Canada



e: estimate
Source: NWT Bureau of Statistics and NWT Finance

The NWT economy remains smaller than it was in 2007 before the global financial crisis occurred. In 2014 (2015 real GDP not yet available), real GDP was 17.5 per cent below what it was in 2007 when diamond mines were producing higher quality diamonds and commodity prices were higher.

NWT Economy Not Yet Recovered From Recession

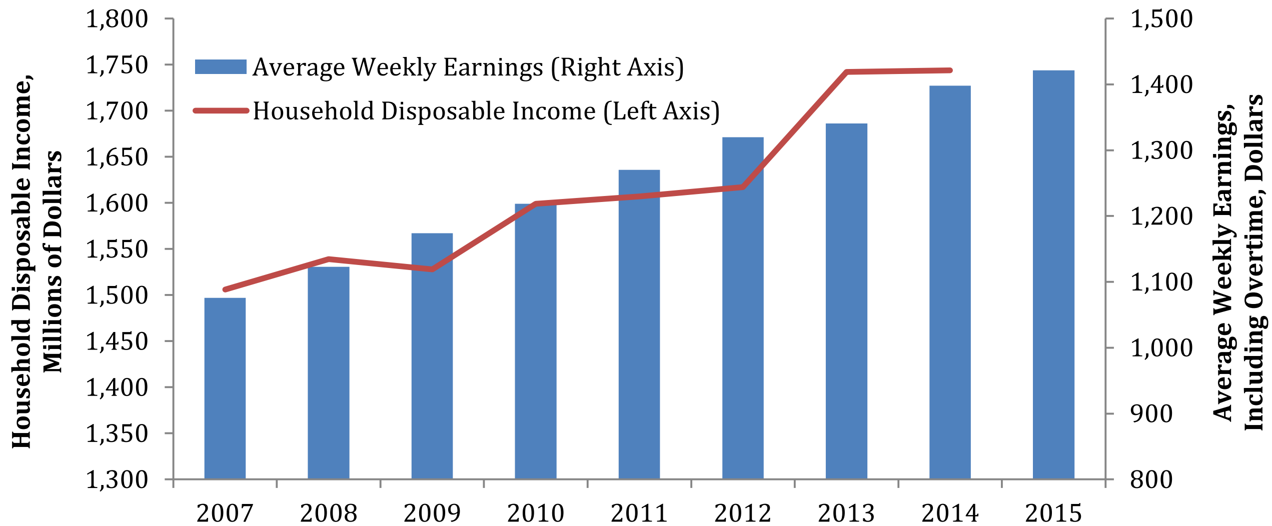


Note: Pre-recession peak is 2007. Recession trough was 2009.
Source: NWT Bureau of Statistics and NWT Finance

RECENT ECONOMIC PERFORMANCE – *Households*

Personal disposable income is the after-tax income earned by households from all income sources. It supports consumer expenditures, which account for over a third of the territory's GDP. NWT disposable income growth grew 0.1 per cent from 2013 to 2014 (2015 not yet available). This suggests consumer spending was also subdued last year. However, labour income, a large component of personal income, increased strongly in 2015, growing by 4.5 per cent compared to 2014. This indicates that personal disposable income likely also grew solidly last year.

Modest Income Growth



Source: NWT Bureau of Statistics and Statistics Canada

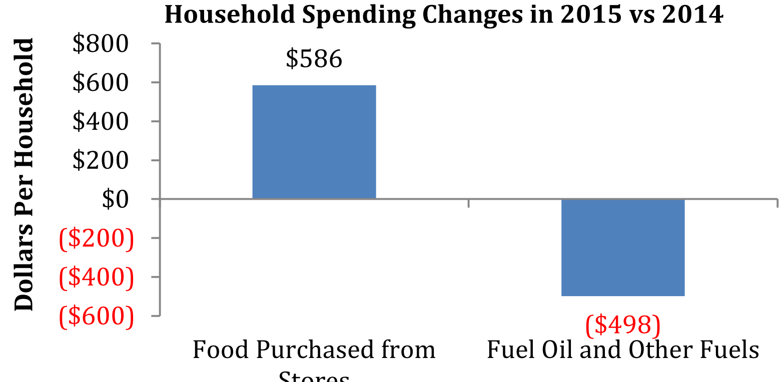
Wages and salaries earned by employees in the NWT are well above the national average. In 2015, average weekly earnings, including overtime, grew 1.7 per cent, rising from $1,398 in 2014 to $1,421 in 2015. This weekly rate was the second highest in the country, falling below only Alberta.

Box 1: Significant changes in exchange rates and prices have affected household spending.

A lower Canadian dollar has led to higher prices for imported food, while falling oil prices have lowered the price of heating fuel.

As a result, in 2015 the average NWT household paid $586 more for food bought in stores and saved $498 on heating fuel.

Household Spending Changes in 2015 vs 2014



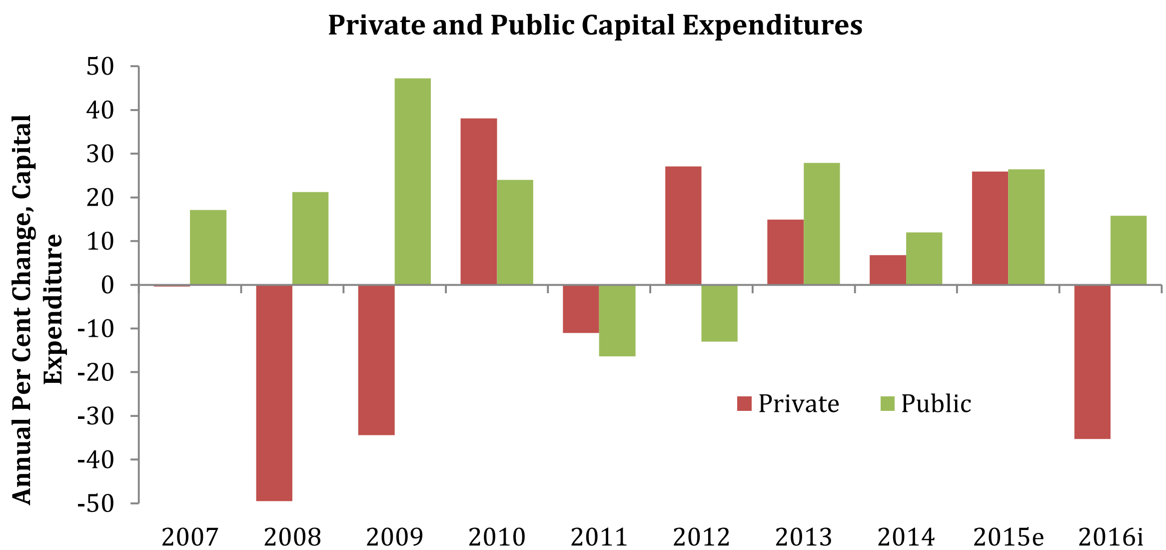
Note: calculations based on holding 2012 spending patterns constant.
Source: Statistics Canada and NWT Finance

RECENT ECONOMIC PERFORMANCE – *Investment*

Total capital expenditures in 2015 were estimated at $1,413 million, a 26.0 per cent increase over 2014 capital expenditures. This represents the largest annual increase since 2010. The ramp up in capital spending seen in 2015 will decline by 20.3 per cent this year, as total capital spending intentions for 2016 are $1,126 million.

Public sector capital expenditures grew by 26.4 per cent in 2015, rising from $328 million in 2014 to $414 million in 2015. Total public sector capital spending is expected to grow by a further 15.8 per cent this year, rising from $414 million in 2015 to $480 million in 2016, while capital expenditures in federal, territorial, and local public administration is expected to rise from $279 million in 2015 to $331 million in 2016. Ongoing investments in a number of projects, including the Stanton Territorial Hospital Renewal Project, completion of the Inuvik-Tuktoyaktuk Highway and Mackenzie Valley Fibre Optic Link, and new Building Canada Plan funds are expected to continue to contribute to increased investment over the next couple of years.

Private sector capital expenditures increased by 25.9 per cent per cent from $$793 million in 2014 to $999 million in 2015, driven largely by a 40.0 per cent increase in capital spending in the mining, and oil and gas extraction sector. Investment spending in these industries is expected to drop this year though, as construction of the Gahcho Kué diamond mine is completed. As a result of this pullback in the mining, and oil and gas extraction sector, overall capital expenditure by the private sector is expected to fall 35.3 per cent in 2016 to $647 million.

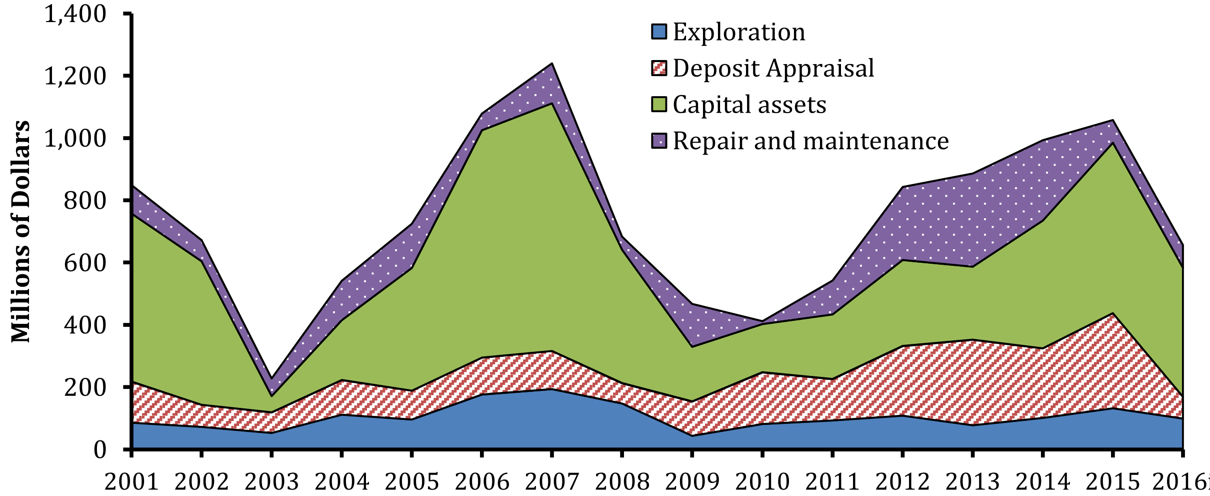


e: estimate
i: intentions
Source: NWT Bureau of Statistics and Statistics Canada

The mining industry has a major impact on the NWT economy. Total investment by the mining industry increased from $993 million in 2014 to $1,026 in 2015, but spending intentions for 2016 indicate investment spending in this sector will decline by 36 per cent this year to $657 million.

The NWT mining industry sustains itself through an investment cycle starting with exploration to identify mineral deposits. Exploration expenditures are expected to decline by 0.9 per cent in 2016, falling from $100.2 million in 2015 to $99.3 million in 2016.

NWT Mineral Resource Development Investment Cycle



i= intentions.
Source: Natural Resources Canada and NWT Finance

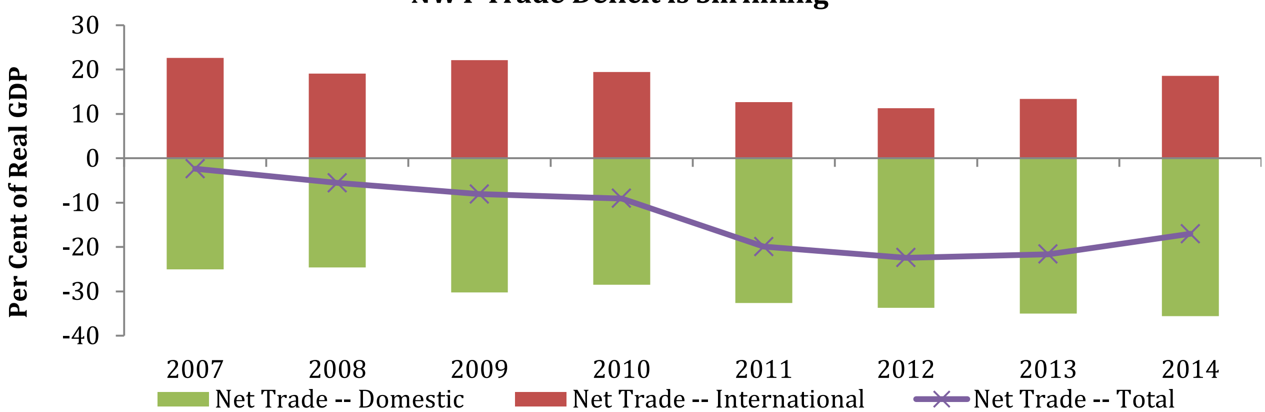
Deposit appraisal expenditures are undertaken to assess the commercial potential of the deposit including the cost of extraction and complying with environmental protection requirements. Deposit appraisal expenditures are expected to decline by almost three quarters, from $305 million in 2015 to $70 million in 2016.

Investment in capital assets began to increase in 2014 with the start of construction of the Gahcho Kué diamond mine. In 2015, investment expenditures in capital assets peaked at $548 million. During 2016 and with the completion of construction of Gahcho Kué, investment expenditures in capital assets is expected to fall to $415 million, a 25 per cent decrease from 2015. Repair and maintenance expenditures for the industry are expected to remain unchanged at $73 million.

RECENT ECONOMIC PERFORMANCE – *Trade*

The NWT is a small, open economy, dependent on trade with other jurisdictions. The NWT exports diamonds and other natural resources to global markets, and imports goods and services from southern Canada to support industry and personal consumption. As a result, the NWT has a trade surplus with other countries, but a trade deficit with the rest of Canada.

NWT Trade Deficit is Shrinking

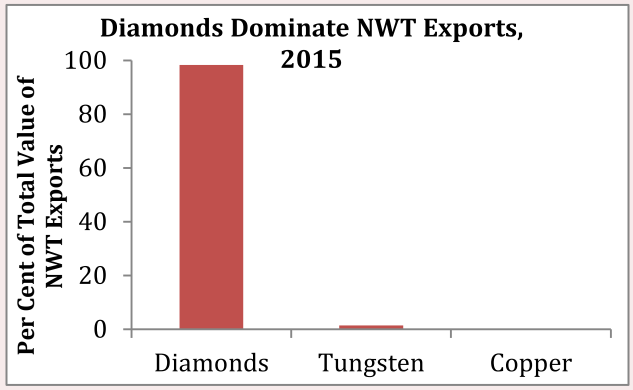


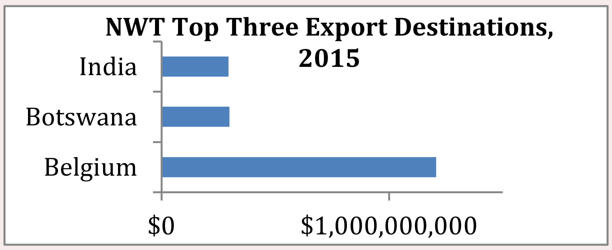
Source: Statistics Canada and NWT Finance

The NWT trade surplus with other countries, relative to real GDP, has improved over the past few years; increasing from 13.4 per cent of GDP in 2013 to 18.6 per cent in 2014. Exports have shrunk the overall NWT trade deficit from 21.6 per cent of GDP in 2013 to 17.0 per cent in 2014. Despite the improvement in the trade deficit, the imports from the rest of Canada remain high because of mine construction.

BOX 2: Diamonds are the NWT's main export.

Diamonds represent 98 per cent of the value of all exports flowing from the NWT to global markets. Because of this, the top three export destinations for NWT exports are: Belgium, the world's largest diamond processing and trade centre; Botswana, where De Beers conducts its sorting and trading operations; and India, where 90 per cent of the world's diamonds are cut and polished.

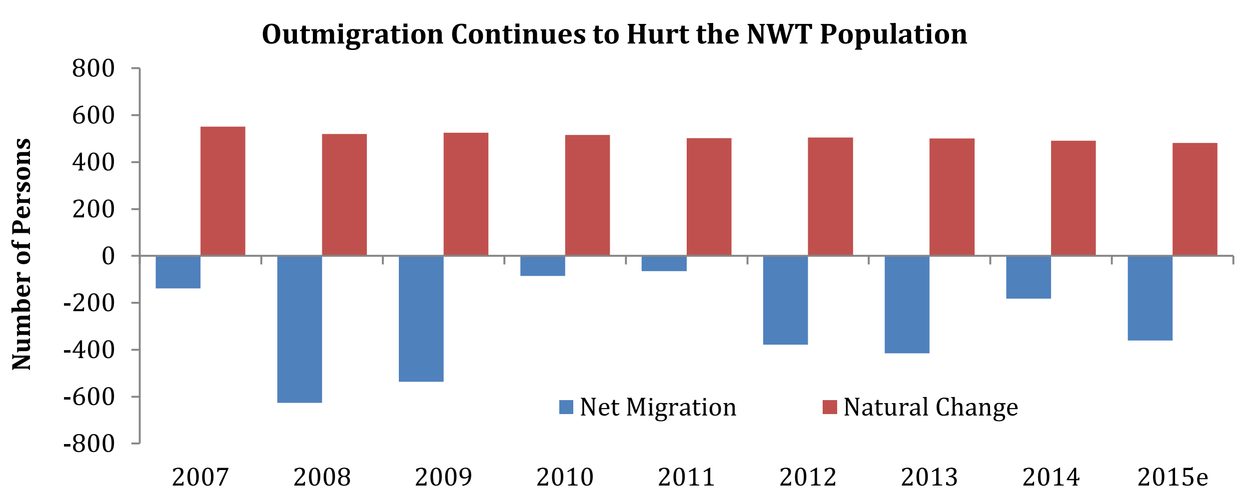




Source: Industry Canada and NWT Finance

RECENT ECONOMIC PERFORMANCE – *Population*

Population growth is a strong indicator of economic health. By providing labour to NWT businesses, demand for local goods and services, and personal income and consumption taxes, population growth helps support economic activity and sustainable government revenues. The NWT population has been relatively stable over the past decade. As of January 1, 2016, the NWT population was estimated to be 44,291 people, an increase of 122 persons, or 0.3 per cent, from January 1, 2015.

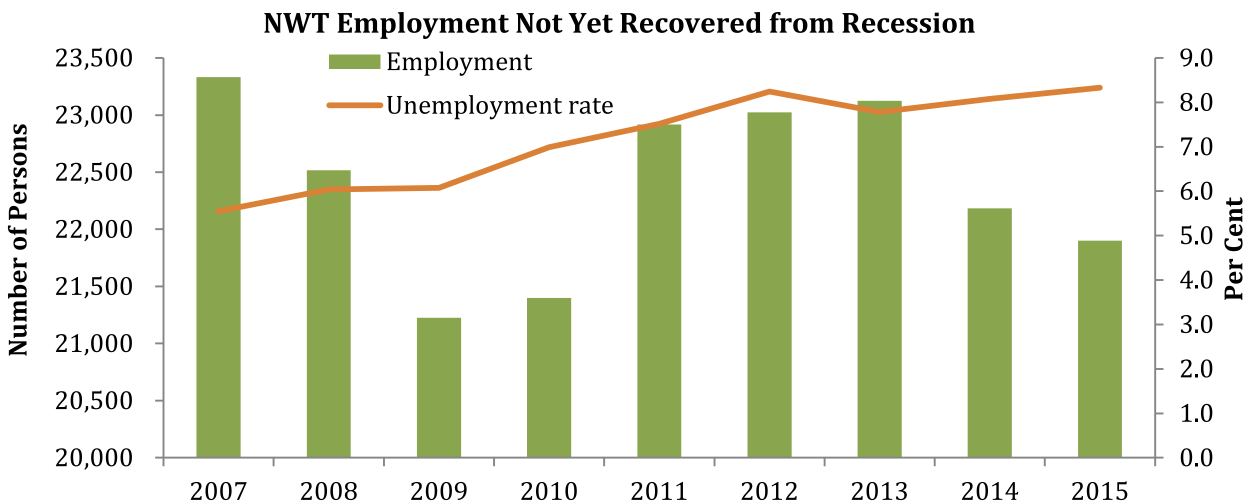


e: estimate
Source: NWT Bureau of Statistics

Three factors account for this slight population rise: natural change (births minus deaths), interprovincial migration, and international migration. Between January 1, 2015 and January 1, 2016 there was a net natural increase of 482 persons (due to 689 births and 207 deaths), while interprovincial migration resulted in a net loss of 509 persons (as 2,303 persons moved into the NWT from the rest of Canada and 2,812 persons moved out). Internationally, there was net in-migration of 149 persons.

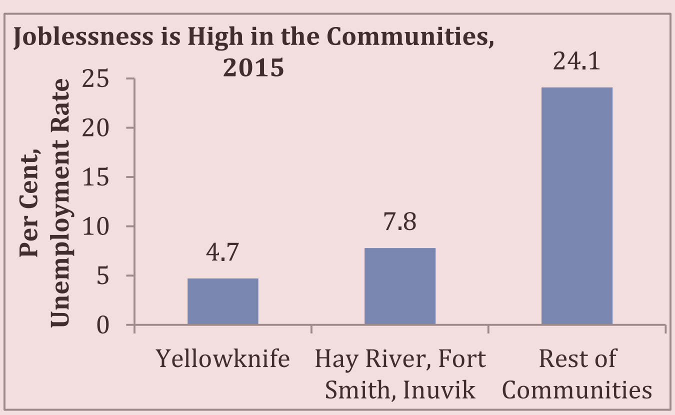
RECENT ECONOMIC PERFORMANCE – *Labour*

Despite economic growth over the past several years, the NWT labour market has remained weak. In 2015, NWT resident employment was estimated at 21,900, a decrease of 280 persons from 2014 and 1,430 persons below the 2007 pre-recession high. This decline caused the size of the NWT labour force to shrink, and the unemployment rate to rise. In 2015 the NWT jobless rate (the share of the labour force that is unemployed) was 8.3 per cent, up from 8.1 per cent in 2014, and well above the 2007 pre-recession unemployment rate of 5.6 per cent.



Note: Recession was 2009.
Source: NWT Bureau of Statistics and Statistics Canada

Box 3: The NWT unemployment rate was 8.3 per cent in 2015.



The NWT-wide unemployment rate hides significant regional variation.

While unemployment is relatively low in the larger centres of Yellowknife, Hay River, Fort Smith and Inuvik, unemployment in the other smaller, more isolated communities is high.

On average, nearly a quarter of the population of smaller communities is unemployed.

Source: NWT Bureau of Statistics

The NWT is characterized by a significant non-resident work force. This is largely due to the small size of the NWT population, and reflects the employment needs of the NWT economy that cannot be met by the domestic workforce, most commonly in the NWT's mining industry.

Between 2003 and 2011, non-resident workers accounted for about one third of the NWT workforce; the second highest rate (after Nunavut) in the country and significantly higher than in all provinces.

Non-Residents are a Significant Part of the NWT Workforce

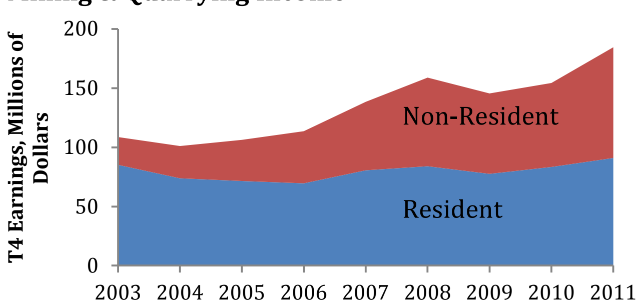
Source: Statistics Canada and NWT Finance

Each year between 5,700 and 8,600 non-residents fill jobs in the NWT. These jobs include seasonal, rotational, temporary and special projects that fill gaps that are not met by the resident workforce. Total aggregate earnings paid to non-resident workers from these jobs ranged from $139 million and $323 million between 2003 and 2011. This represents approximately 18 per cent of all employment income generated in the NWT.

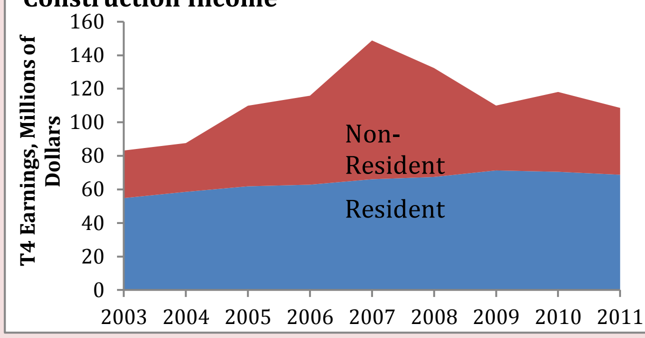
Box 4: Non-resident workers are concentrated in specific sectors.

In 2011, roughly 51 per cent of employment income in the NWT mining industry and 37 per cent of employment income in the construction sector was paid to non-resident workers.

Mining & Quarrying Income



Construction Income



3 per cent of employment income generated in NWT public administration was earned by non-residents.

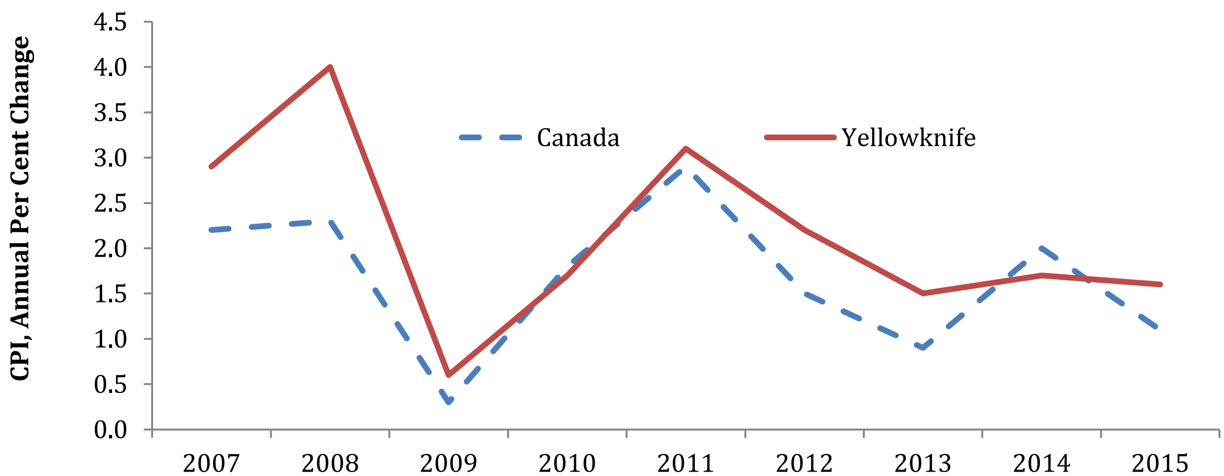
Source: Statistics Canada and NWT Finance

Non-resident workers who are employed in the NWT but live outside of the territory provide skills needed by NWT businesses. The NWT's reliance on out-of-territory workers means lost business from consumer spending that could occur in the NWT, and lost revenue for the GNWT. Policies aimed at addressing this issue must consider the reasons why people move to, and leave, the NWT. The greatest contributor to strong population growth is in-migration caused by better job opportunities in the NWT compared to the rest of Canada; or, in other words, when the NWT economy is doing well and provincial economies are not. Because the NWT is competing for skilled labour, NWT population growth strategies will depend on the ability to quickly response to changing economic conditions in other regions to quickly shift recruitment opportunities to regions where the NWT has a comparative advantage. These strategies include GNWT Recruitment and Retention Strategies, and Socio Economic Agreements, which formalize commitments made by large companies with respect to employment, training and business opportunities for NWT residents. The GNWT is also committed to addressing the other underlying factors contributing to non-resident workers, in particular, the high cost of living.

RECENT ECONOMIC PERFORMANCE – *Cost of Living*

The cost of living is high in the NWT relative to other jurisdictions. Issues of remoteness, climate, and a sparsely populated large territory mean that NWT residents, both residents and businesses, often pay more for goods and services than in neighbouring provinces. For this reason, inflation – an increase in the overall price level, resulting in reduced purchasing power – is of particular concern to NWT residents.

Consumer Price Inflation



Source: Statistics Canada

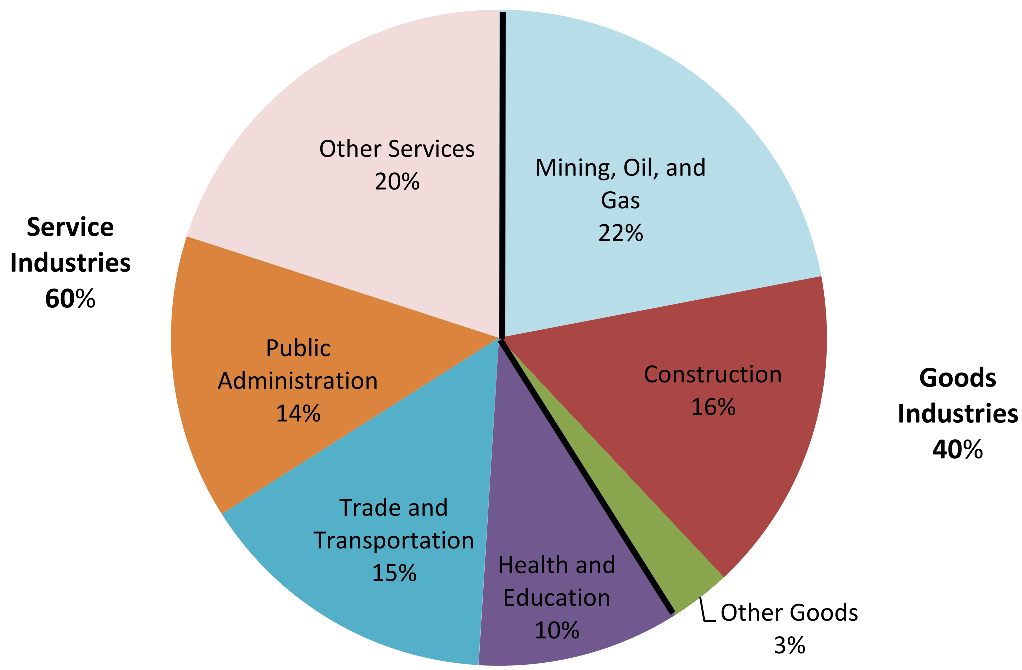
The Yellowknife Consumer Price Index (CPI) increased by 1.6 per cent in 2015, slowing slightly from a 1.7 per cent increase in 2014, largely due to lower energy and shelter costs, reflecting the decline in global oil prices. This fuel price decline was offset by higher import prices for items such as food resulting from the lower Canadian dollar. Because the NWT imports a greater portion of its consumer goods than other Canadian jurisdictions, consumer price inflation in Yellowknife was slightly higher last year than in Canada as a whole. In 2015, the change in Canada's CPI slowed from a 2.0 per cent increase in 2014 to a 1.1 per cent rise.

KEY SECTORS – *Composition of the Economy*

The NWT economy relies heavily on the extractive, non-renewable resource sector. In particular, the economy is heavily concentrated in the diamond mining industry. In 2015, the mining, oil, and gas extraction sector accounted for over a fifth of NWT GDP and almost one-third if the linkages with other sectors are considered. No other single sector dominates the NWT economy in this way. This places the NWT in a precarious position.

Economic diversity provides more stable and balanced growth by spreading risk more evenly across a number of sectors, making the economy more resilient to business cycles and external shocks. Diversification acts as insurance that reduces the sensitivity of the economy to the ups and downs associated with any single industry, market, or region. For example, more diversified economies experience lower unemployment during cyclical economic downturns.

Mining Dominates the NWT Economy, 2015

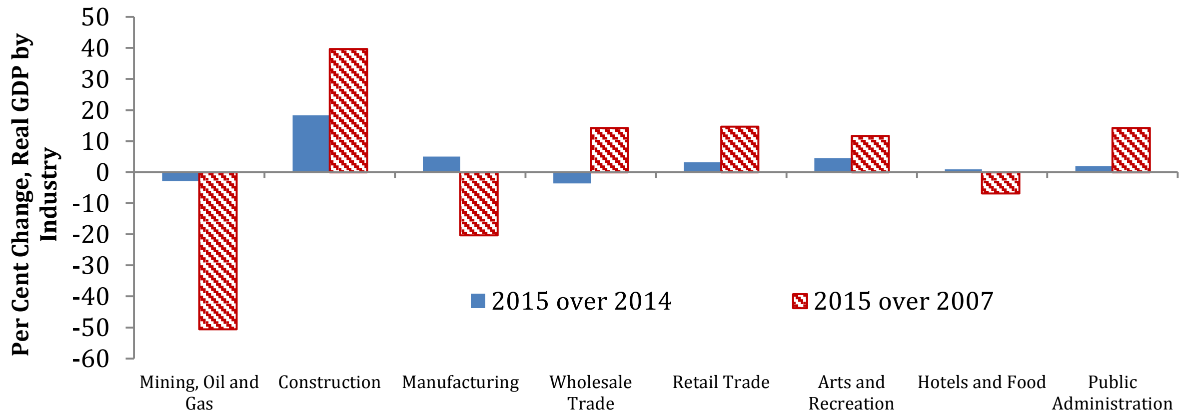


Source: Statistics Canada

The goods-producing sector accounted for 40 per cent of NWT GDP in 2015. Resource extraction industries dominate this sector in the NWT, although the share has declined over the past several years. Construction is the second biggest industry in the goods-producing sector, accounting for 16 per cent of NWT GDP in 2015. The remainder of the goods-producing sector accounted for 3 per cent of GDP and was comprised of renewable resources, utilities, and manufacturing industries.

The combined services-producing industries accounted for 60 per cent of NWT GDP in 2015. Public sector activities dominate this sector, with public administration, education, health and social services accounting for 26 per cent of NWT GDP in 2015. The remainder of this sector is comprised of industries such as wholesalers, retailers, banks, hotels, and tour operators.

Real Growth Rates of Selected NWT Industries

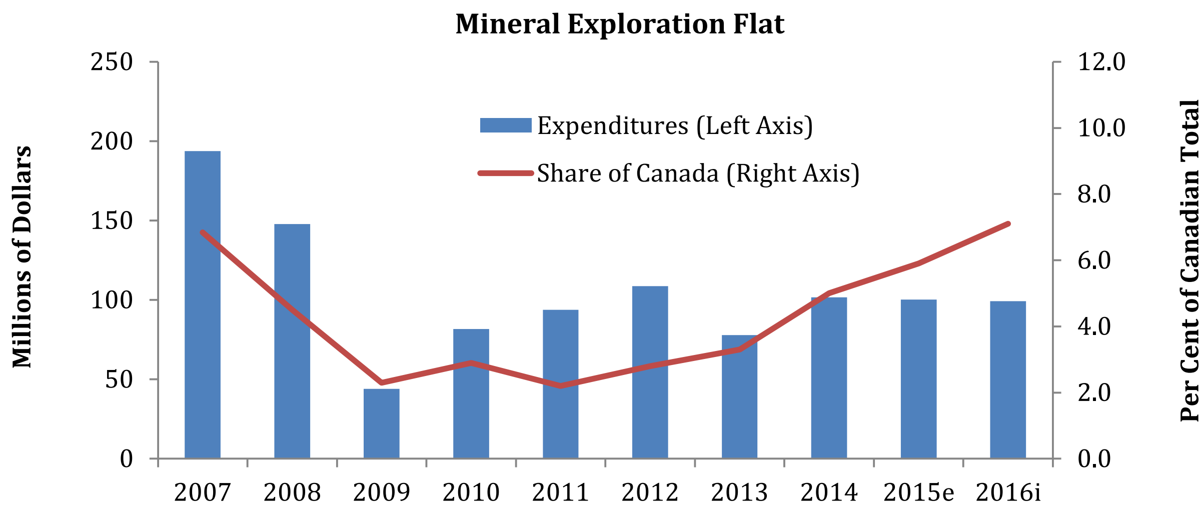


Source: Statistics Canada and NWT Finance

From 2007 to 2015, the mining, oil and gas industries shrunk by over 50 per cent, the manufacturing sector declined 20 per cent, and hotels and restaurants dropped 7 per cent. As a result, the structure of the NWT economy changed: in 2007, the goods-producing sector accounted for 51 per cent of the NWT economy, but by 2013 that share had fallen to 39 per cent before recovering to 40 per cent in 2015. This reflects the business cycle in the goods-producing industries and the global economic recession, as well specific initiatives taken by the GNWT to diversify the economy.

KEY SECTORS – *Large Industries: Mining, Oil and Gas (22% of GDP or 33% if include linkages to other sectors)*

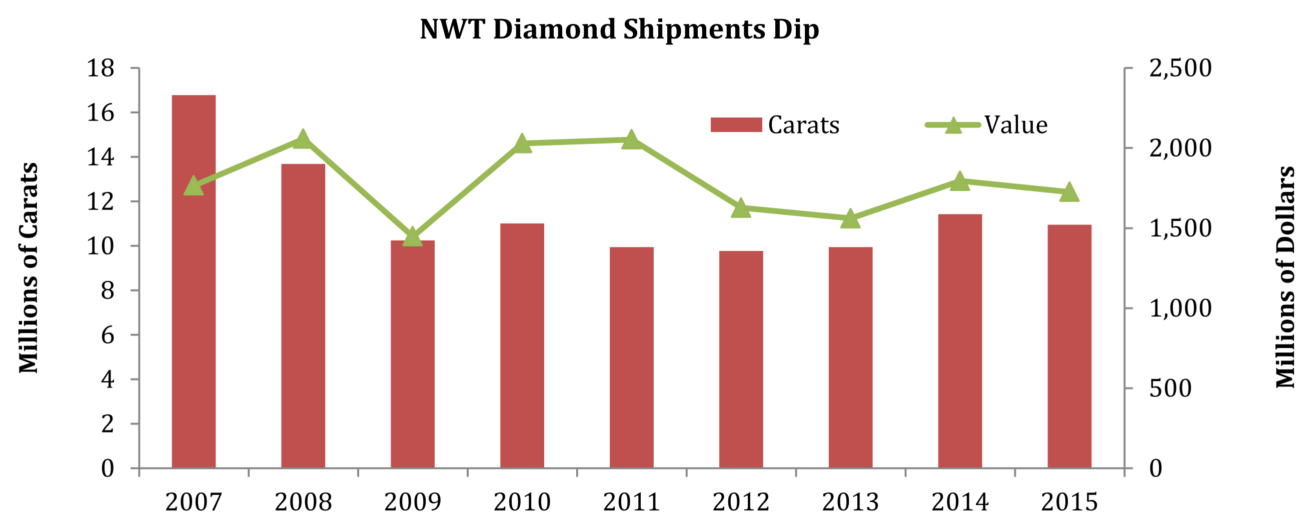
The mining, oil and gas sector is 22 per cent of GDP but comprises closer to one-third of the economy if linkages with other sectors are taken into account. NWT mineral exploration and deposit appraisal expenditures were flat last year, decreasing just slightly from $102 million in 2014 to an estimated $100 million in 2015. Similarly, spending intentions for 2016 are expected to remain relatively unchanged at $99 million. Despite this stability, exploration and appraisal expenditures remain well below pre-recession levels. As a share of the Canadian total, NWT exploration and appraisal expenditures increased from 5.0 per cent in 2014 to 5.9 per cent in 2015, and are expected to reach 7.1 per cent in 2016 as low commodity prices continue to impact resource development in Canada.



e: estimate
i: intentions
Source: Natural Resources Canada

Over half of the expenditures in 2015 were spent on mineral exploration activities related to the discovery and delimitation of mineral deposits in the NWT (both new deposits and the re-evaluation of previously discovered deposits). The remaining expenditures were spent on deposit appraisal and developing already discovered projects. Nearly 86 per cent of these expenditures went towards exploration for, and appraisal of, diamonds.

The NWT currently has two producing diamond mines: Ekati and Diavik. A third mine, Gahcho Kué, will begin production at the end of 2016. The Snap Lake mine was put on care and maintenance in December 2015.

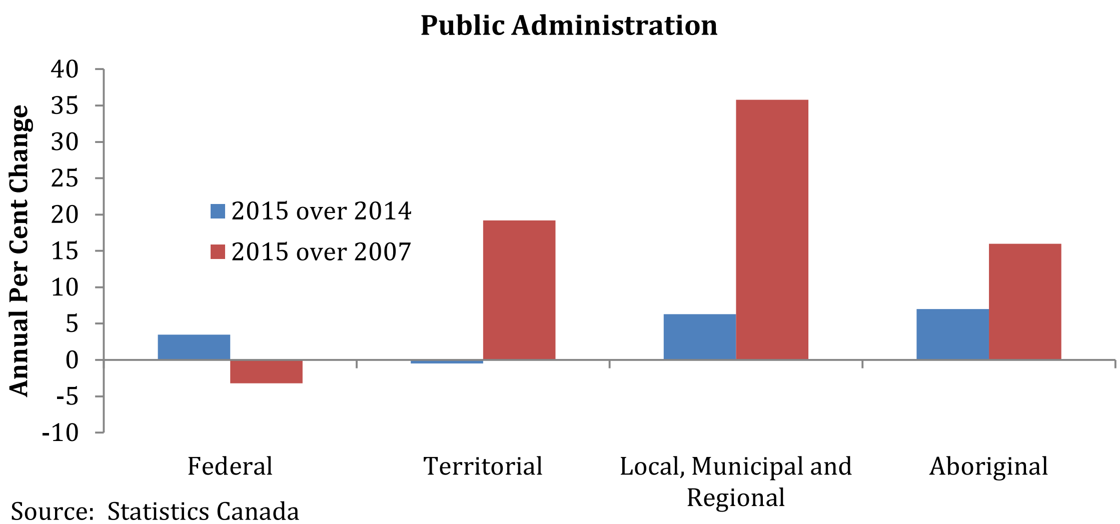


Source: NWT Bureau of Statistics and NWT Finance

Carat production at NWT diamond mines declined 4.2 per cent from 11.4 million carats in 2014 to 11.0 million carats in 2015, and the value of diamond shipments fell 3.8 per cent from $1.8 billion in 2014 to $1.7 billion in 2015.

KEY SECTORS – *Large Industries: Public Administration (14 % of GDP)*

Public administration at all levels of government (federal, territorial, municipal, and Aboriginal) is the second largest industry in the NWT, accounting for 14 per cent of GDP and contributing significantly to jobs and income creation. NWT public administration includes courts, policing, corrections services, firefighting services, defence, and government administrative work. It excludes however, the health, social services and education sectors. In addition, public administration forms a large portion of overall government expenditures, which help grow the economy and account for over half of NWT real GDP.



Source: Statistics Canada

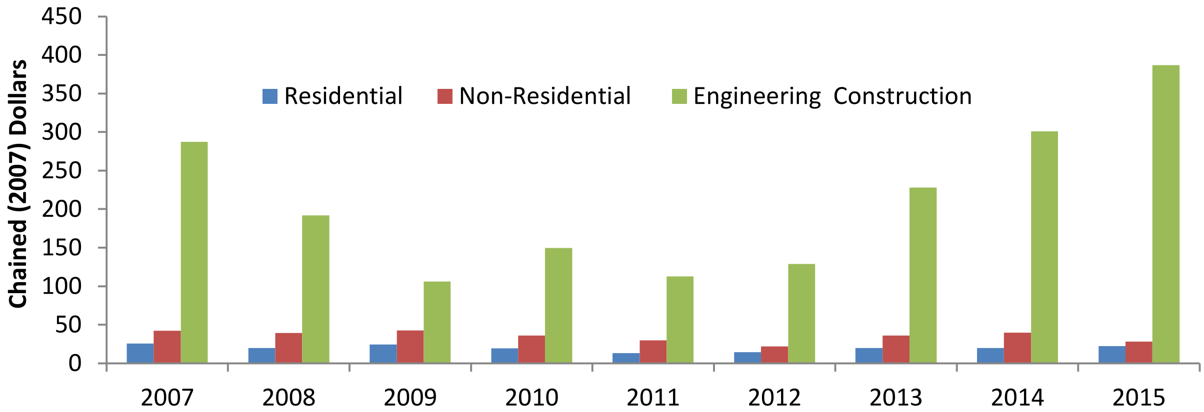
Public administration expenditures rose 1.9 per cent in 2015 compared to 2014. Since 2007, all levels of government experienced solid increases in public administration except for the federal government which declined 3.2 per cent between 2007 and 2015, partly due to devolution of the management of lands, waters and non-renewable resources to the GNWT.

KEY SECTORS – *Large Industries: Construction (16% of GDP)*

The construction sector includes residential construction, non-residential construction, and engineering services, as well as repair construction and support activities. Unlike many other jurisdictions, engineering services dominate the value of NWT construction activity, accounting for nearly 70 per cent of real construction expenditure in 2015.

Overall construction activity increased 18 per cent from 2014 to 2015, and is now 40 per cent above its pre-recession level. Work on projects such as constructing the Gahcho Kué diamond mine (total cost $1 billion), the Inuvik-Tuktoyaktuk Highway (total cost $300 million), and Mackenzie Valley Fibre Link (total cost $91 million) support increased real engineering construction spending by 28.4 per cent between 2014 and 2015, while residential construction increased by a more modest 10.5 per cent, and non-residential construction declined by 29 per cent.

Engineering Construction Dominates Construction Activity

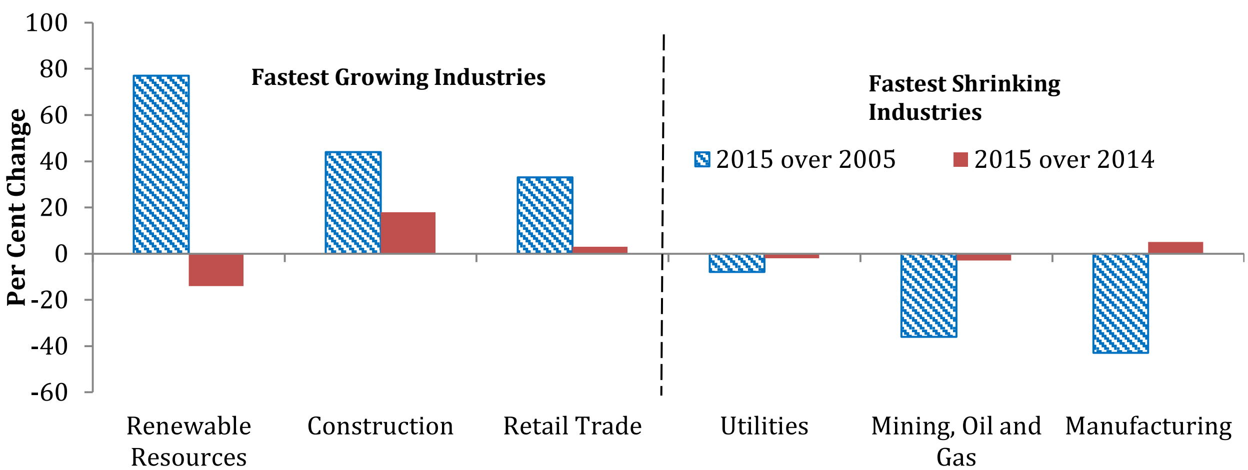


Source: Statistics Canada

KEY SECTORS – *Growth Industries*

Growth sectors are those groups of industries experiencing above average economic growth. While some of these industries may be small relative to other industries, they offer the opportunity for job creation and income growth. Over the past decade, the three industries to experience the fastest real growth are: renewable resources (fishing, hunting and trapping, agriculture, and forestry), construction, and retail trade. On the other side of the equation, industries that have experienced negative growth over the past decade include manufacturing, utilities, and mining, oil and gas.

Real GDP Growth by Industry

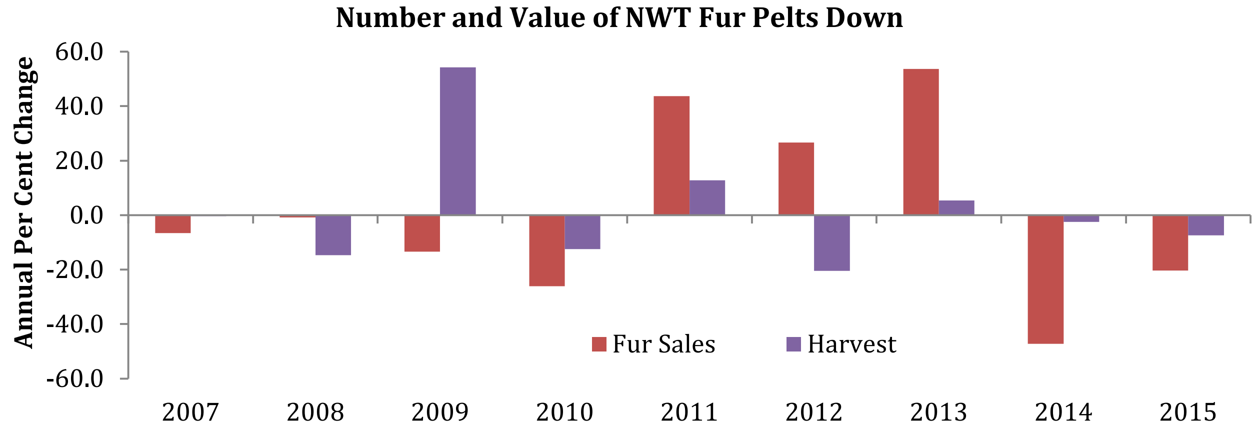


Source: Statistics Canada and NWT Finance

The renewable resource sector includes the agricultural, forestry, hunting and trapping, and fishing industries. Many NWT residents regularly engage in these activities on a recreational basis or as part of the "traditional", non-market economy. However, at a commercial level, the renewable resource sector is very small, comprising just 0.7 per cent of NWT GDP in 2015. Despite its small base, renewable resources is the fastest growing sector of the economy, nearly doubling in size in real terms over the past decade, rising from $14 million in 2005 to $25 million in 2015 (in 2007 chained dollars).

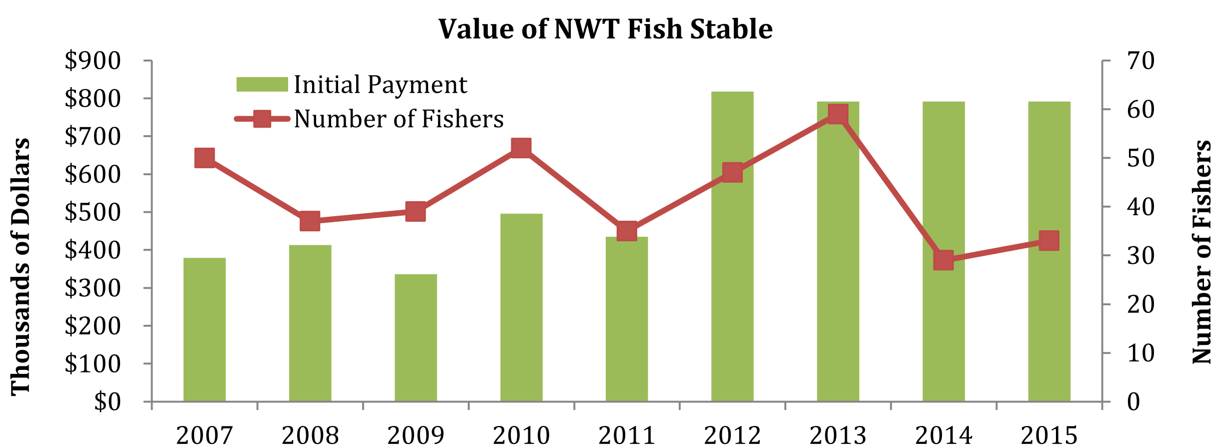
KEY SECTORS – *Growth Industries: Trapping & Fishing*

Trapping remains an important component of the renewable resource sector, and remains an important source of income for many people in the NWT, especially in smaller communities. For the year ended June 30, 2015, roughly 23,400 NWT pelts were sold, a decrease of 7.6 per cent from the previous year, while the value of fur sales decreased 21.4 per cent from the previous year to $973,800. The number of commercial trappers in the NWT declined 6.7 per cent to 654.



Source: NWT Investment, Tourism and Trade and NWT Finance

The commercial fishery in the NWT is small with room for growth. Initial payments to NWT fishers – on delivery-point, net-of-freight basis – were unchanged in 2015, decreasing 0.1 per cent from 2014 to $791,650, while the weight delivered increased 50 per cent from 288,000 kilograms in 2014 to 432,000 kilograms in 2015.



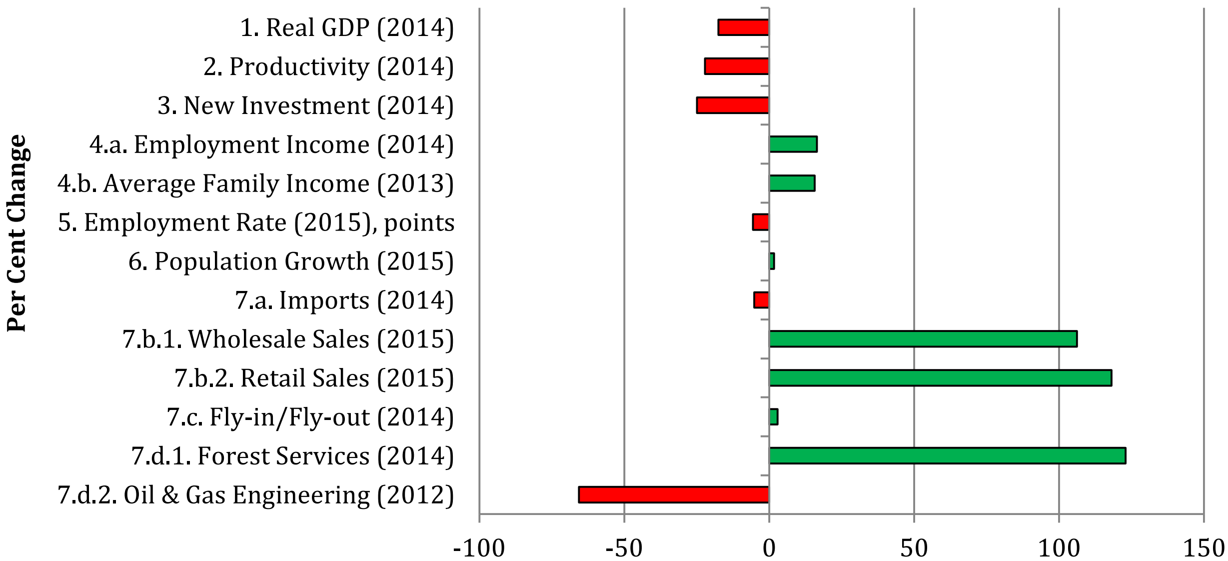
Source: Freshwater Fish Marketing Corporation

ECONOMIC PERFORMANCE INDICATORS - *MACROECONOMIC POLICY FRAMEWORK*

The GNWT's *Macroeconomic Policy Framework* is used to guide investment and policy decisions. The *Framework* includes 13 performance indicators to measure the performance of the NWT economy over time by comparing indicators to a baseline average value from 2005 to 2007. These indicators were designed to capture broad measures of economic wellbeing and provide an indication of the effectiveness of the GNWT's investments to grow and diversify the economy.

Seven of the 13 indicators have moved in a positive direction, but the key drivers of increased GDP, productivity and new investment, are in negative territory and continue to hold back growth.

Macroeconomic Policy Framework Performance Indicators



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

The NWT economy has demonstrated a low level of resiliency since the global financial crisis, and subsequent recession that hit the territory in 2009. This is evidenced by the fact that many indicators have not yet returned to their pre-recession levels. Two contributing factors to the low level of resiliency are the dependence on the extractive resource industry, and are the 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.

FISCAL REVIEW

As the first budget of the 18th Legislative Assembly, the 2016-17 Budget sets the fiscal course to deliver on the Assembly's approved mandate to achieve the vision of a Northwest Territories where people can thrive in a well-managed economy that contributes to economic well-being and quality of life and where a strong economy provides jobs and opportunities for NWT communities and funding for government programs. Advancing the priorities of the 18th Assembly requires a well-developed long-range plan to properly fund core programs and strategic initiatives in a fiscally sustainable manner while protecting the government's finances over the long term. These fiscal challenges are made difficult by a flat revenue outlook for the GNWT over the medium term and a large cash deficit created over previous Assemblies to make infrastructure investments during economic downturns.

To meet this challenge, the 2016-17 Budget presents a fiscal plan of managing expenditure growth to ensure that operating surpluses are sustained, so that the GNWT can maintain its existing infrastructure, make strategic infrastructure investments to grow the economy and deliver government programs, and avoid having to address structural deficits in the future.

Fiscal Strategy

The GNWT has two budgets: an operating budget to pay for the delivery of government programs and services, and a capital budget to fund infrastructure. Total revenues must pay for both budgets or the government must borrow and increase its debt. Borrowing is limited by the federally-imposed borrowing limit of $1.3 billion and the GNWT's own prudent debt management guidelines described in the *Fiscal Responsibility Policy*. The *Fiscal Responsibility Policy* is the key driver of the fiscal strategy, as it dictates the maximum amount of borrowing and debt that the GNWT can undertake during the year.

The over-riding objective of the 2016-17 Budget is to start the process of restoring fiscal sustainability the life of the 18th Legislative Assembly in order to continue to provide quality core programs and services, the infrastructure needed to support these programs, and to deliver on the priorities identified in the Mandate of the Assembly.

This objective is supported by the following fiscal strategy:

- Align expenditure growth to revenue growth over the life of the 18^{th} Legislative Assembly.

- Limit new funding growth, including Collective Bargaining increases, to the growth in Territorial Formula Financing, while achieving $150 million in expenditure reductions and/or revenue increases over the term of the 18th Legislative Assembly.

- Adhere to the requirements of the *Fiscal Responsibility Policy.* Under the Policy, the GNWT will not borrow for operating purposes and it will fund a minimum of 50 per cent of annual infrastructure investments with cash generated from operating surpluses.

By following the fiscal strategy, the GNWT will continue to have operating surpluses to fund infrastructure, including housing. Most of the GNWT's budget is funded through federal transfers, which limits the feasibility of producing operating surpluses through increasing taxes or other own-source revenue initiatives. Therefore operating surpluses will be achieved mainly through the prudent management of operating expenditure growth.

Options to raise more revenues are being considered, with the latest discussion paper on potential revenue options tabled in the Legislative Assembly on March 1, 2016. The objective of the March 2016 revenue options review was to find new revenues through tax changes and new taxes based on the following criteria:

- revenue-raising potential: own-source revenues are less than a quarter of total revenues, and these small tax bases limit the amount that can be raised through increased taxation;

- principles of sound tax policy: to ensure that the tax system is as predictable, fair, efficient, and as simple as possible; and

- impact on the NWT economy: including the need to be competitive with other jurisdictions and the implications for the NWT's already high cost of living, which is a barrier to attracting and retaining people in the NWT.

Actions to increase revenues will be a long-term strategy focussed on growing the NWT economic base. Even if new taxes or revenue sources are introduced, operating expenditures will still need to be reduced to match revenue growth. The GNWT cannot generate enough new revenues to address the fiscal sustainability problem without action on the expenditure side. At the same time, the GNWT needs to maintain spending in key areas so as not to compromise the delivery of core public services, but expenditure growth going forward will have to be restrained because of flat revenue projections. The GNWT simply cannot afford to outspend its revenues; to do so would create structural deficits and compromise the GNWT's fiscal future. Under the *Fiscal Responsibility Policy*, operating surpluses are required to pay for half of the annual infrastructure investments. A balanced budget alone would not allow for any infrastructure, whether to sustain existing, or invest in new, infrastructure. Using the full amount of the GNWT's revenues to fund operating expenditures would lead to an ever-growing infrastructure deficit and declining long-term economic prospects for the NWT. That in turn would lead to more difficulty retaining and attracting residents, and ultimately jeopardize the viability of public service delivery in the NWT.

Fiscal Situation

Since the 2010-11 Budget, the GNWT's efforts have been focused on keeping expenditure growth below revenue growth in order to gradually increase the operating surpluses available to invest in infrastructure. The focus on careful expenditure management has become more important because the five-year revenue outlook forecasts flat growth. Expenditure growth will have to be similarly constrained if operating surpluses are to be maintained, as required under the *Fiscal Responsibility Policy*. It is only through operating surpluses that infrastructure investments can happen in a sustainable manner.

To date, efforts to manage the growth in spending have been successful, contributing to four years of consecutive operating surpluses through 2014-15. The GNWT has maintained fiscal prudence in its operating budget with growth in program spending averaging nearly half of what it was five years ago. The resulting operating surpluses have allowed for additional infrastructure investment that would not have been possible without operating surpluses.

The GNWT's continuing fiscal prudence is recognized by Moody's Investors Service, which assigns the GNWT a credit rating of Aa1 – one of the highest ratings available. This high credit rating, which is unchanged since November 2006, qualifies the GNWT to borrow on favourable terms.

Medium-Term Outlook

The medium-term outlook reflects actions to date to link increases in expenditures to the growth in the Territorial Formula Financing Grant, which requires a target of $150 million in savings or new revenues to establish a short-term cash surplus position by the end of the 18th Assembly. The 2016-17 Budget identifies almost $53 million in expenditure reductions and $15 million in new revenues over four years, almost half of the $150 million target.

Medium-Term Outlook *($ millions)*

	2014-15 (Actual)	2015-16 (Estimate)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)	2019-20 (Forecast)
OPERATING SUMMARY						
Total Revenues	1,827	1,827	1,810	1,844	1,784	1,818
Total Expenditures[1]	(1,732)	(1,730)	(1,691)	(1,684)	(1,708)	(1,765)
Operating Surplus (deficit)	**95**	**97**	**119**	**160**	**76**	**53**
CAPITAL INVESTMENT	**236**	**201**	**379**	**243**	**158**	**117**
TOTAL (DEBT) AT MARCH 31						
Cash Surplus (Deficit) at year end	(235)	(258)	(312)	(290)	(216)	(152)
Long Term Debt and Guaranteed Debt[2]	(434)	(445)	(471)	(540)	(664)	(651)
Total (Debt) at March 31	**(669)**	**(703)**	**(783)**	**(830)**	**(880)**	**(803)**
BORROWING LIMIT	800	1,300	1,300	1,300	1,300	1,300
AVAILABLE BORROWING CAPACITY	**131**	**597**	**517**	**470**	**420**	**497**

[1] Includes infrastructure contributions.

[2] Includes debt of the NWT Power Corp., NWT Energy Corp., NWT Housing Corp., Deh Cho Bridge, and debt of the Yellowknife Public Denominational District Educational Authority.

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

The necessity for expenditure restraint is created because over the four-year period from 2015-16 to 2019-20, total revenues are essentially flat with a forecast decline of 0.5 per cent, which is a reduction of 0.1 per cent annually; while expenditures are forecast to grow 2 per cent cumulatively, or about 0.5 per cent per year. Expenditure growth is based on assuming forced growth (increased costs for existing programs and services) will be restrained to $20 million annually, no new initiatives unless found through re-profiling funds from existing department budgets, and modest annual capital budgets.

The GNWT will remain below the federally-imposed $1.3 billion borrowing limit throughout the forecast period, and total debt-servicing payments will remain below the 5 per cent limit required under the *Fiscal Responsibility Policy*. However, adherence to the *Fiscal Responsibility Policy* also requires annual cash surpluses from the operating budget to fund at least half of the infrastructure investments, which means that under the current medium-term outlook the infrastructure budget is being reduced. Additional savings or revenues will be necessary to provide more infrastructure investment to protect the existing asset base and address the $3.4 billion infrastructure deficit.

With the room that is available under the limit, strategic investments in transportation and energy infrastructure that will support a long-term increase in economic capacity and address energy costs are priorities.

Fiscal Responsibility Policy Outlook *($ millions)*

	2014-15 (Actual)	2015-16 (Estimate)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)	2019-20 (Forecast)
Cash Required for Infrastructure Investment Expenditures - Net of Deferred Contributions Received in the Year	236	201	379	243	158	117
Debt Serving Payments:						
Capital Leases	3	3	3	3	3	3
MVFL - Capital Payment	-	-	-	8	8	8
Stanton - Capital Payment	-	-	-	-	12	18
Deh Cho Bridge	9	9	9	10	11	12
Short-term Interest Expense	1	1	2	2	2	2
Total Debt Servicing Payment	**13**	**13**	**14**	**23**	**36**	**43**
Percentage of Revenues	**0.8%**	**0.8%**	**0.8%**	**1.2%**	**2.0%**	**2.4%**
Fiscal Responsibility Policy Impacts:						
1. Maximum Debt Servicing Payment - 5% of revenues	85	85	91	92	89	91
2. Operating Cash Surplus Requirements to:						
Fund Minimum 50% of Capital Acquisitions	118	101	190	122	79	59
Fund Debt Servicing Payment	13	13	14	23	36	43
Total Operating Cash Requirements	**131**	**114**	**204**	**145**	**115**	**102**
3. Operating Cash Available:						
Operating Surplus (Deficit) - Fiscal Planning Purposes	95	97	119	160	76	53
Add Amortization Expense and Other Non Cash Items	79	84	93	94	106	111
Total Operating Cash Available	**174**	**181**	**211**	**254**	**182**	**163**
4. Overage (Shortfall) in Cash Generated by Operations	**43**	**68**	**8**	**109**	**67**	**62**

Increasing revenues will be challenging. NWT economic activity is lower than the five-year pre-recession period to 2007, because resource production is declining and business investment has decreased. Lower levels of economic activity are the main reason for the NWT's muted population growth since 2004. Further, as highlighted in the March 2016 review of revenue options, small tax bases are a serious limitation for increasing own-source revenues. About two-thirds of GNWT revenues come from Territorial Formula Financing, which is outside the ability of the GNWT to influence. The GNWT's Territorial Formula Financing entitlement is projected to increase about 0.5 per cent annually over the next four years, due to assumptions about provincial/local government spending and NWT population growth relative to national growth, which are the main variables that determine the growth in Territorial Formula Financing. Both the provinces' expenditure restraint measures and low growth in the NWT population will slow the growth in Territorial Formula Financing, and therefore total revenues.

To address the need for economic growth, the GNWT has put in place a number of strategies to help create the environment for a more robust and vibrant economy. In addition, the GNWT will make strategic infrastructure investments, while adhering to its own *Fiscal Responsibility Policy* and the federally-imposed borrowing limit. These should help the economy to strengthen over the medium term.

Fiscal Review

2014-15 Final Results

Total revenues in 2014-15 were $1.83 billion, up 12.0 per cent from 2013-14, primarily because of the impact of devolution of the management of lands, waters and non-renewable resources from Canada to the GNWT, effective April 1, 2014, which resulted in a higher Territorial Formula Financing entitlement and the inclusion of resource revenues for the first time; and federal transfers for the Inuvik- Tuktoyaktuk Highway project. Excluding revenues from devolution and the Inuvik- Tuktoyaktuk Highway project, total revenues would have increased about 3.8 per cent as outside these three areas, there was minimal growth or even declines in most revenue sources, with taxation revenues actually declining from $279 million in 2013-14 to $251 million in 2014-15, because of a sharp fall in corporate income tax.

Total expenditures in 2014-15 increased 12.6 per cent, from $1.54 billion in 2013-14 to $1.73 billion, due mainly to new spending related to new responsibilities under devolution. The increases in revenues and expenditures in 2014-15 nearly offset each other, such that the operating surplus in 2014-15, at $95 million, came in very close to the year-earlier level of $94 million.

2015-16 Revised Estimates

The 2015-16 operating surplus is projected to be $97 million, $50 million lower than projected in the 2015-16 Main Estimates, due mainly to $47 million in expenditure shocks fighting forest fires and offsetting diesel electrical generation costs made necessary by the lowest water levels in 64 years on the Snare River.

The revised 2015-16 revenue forecast is $1.83 billion, unchanged from the 2015-16 Main Estimates. Own-source revenues are projected to decrease $37 million from the 2015-16 Budget, due mainly to decreased corporate income tax and resource royalties forecasts; however, this was offset by a $37 million increase in federal transfers, primarily for the Inuvik- Tuktoyaktuk Highway.

Infrastructure investment expenditures for 2015-16 are expected to be $375 million, $97 million more than projected in the *2015-16 Capital Estimates*. Most of the increase was due to construction of the Inuvik- Tuktoyaktuk Highway, as well as capital carry-overs from 2014-15. Total debt at March 31, 2016 is forecast to be $668 million. Taking into account other borrowing instruments for purposes of the federally-imposed $1.3 billion borrowing limit, total GNWT borrowing at March 31, 2016 is projected to be $703 million, leaving $597 million in borrowing room.

2016-17 Budget

The 2016-17 Budget proposes operating expenditures of $1.66 billion and forecasts revenues of $1.81 billion. After taking into account infrastructure contributions and supplementary reserve requirements, an operating surplus of $119 million is projected.

Infrastructure investments for 2016-17, approved in October 2015, are budgeted to be $320 million, including infrastructure contributions. Short-term debt is projected to be $312 million at March 31, 2017. Direct long-term debt is forecast to be $179 million, while debt of public agencies such as the NWT Hydro Corporation, the NWT Housing Corporation, and the Yellowknife Catholic Schools will total $261 million. After adding the projected $30 million in other instruments included under the definition of borrowing for the purposes of the borrowing limit, borrowing is expected to be $783 million at March 31, 2017, leaving $517 million in available borrowing room under the federally-imposed $1.3 billion borrowing limit. A short-term borrowing limit of $377 million will be requested in the *2016-17 Appropriation Act* in order to keep a cushion beneath the estimated $312 million in short-term debt.

Revenues

Revenue Forecast

Total revenues are forecast to decrease $17 million to $1.8 billion from the 2015-16 revised Estimates to the 2016-17 Main Estimates, representing a 0.9 per cent decline. The Territorial Formula Financing Grant, which continues to make up the majority of GNWT revenues, will decrease 1.0 per cent, or $13 million, in 2016-17, because of the inclusion for the first time of the resource revenue offset following devolution. Other transfers are forecast to fall by $35 million primarily because of a sharp decline in Inuvik- Tuktoyaktuk Highway funds, partially offset by increases in other areas, such as the Highway Capacity Improvement transfer.

GNWT own-source revenues (including recoveries) are expected to account for 23 per cent of total revenues in 2016-17. Tax revenues are expected to increase 12 per cent due mainly to a forecasted increase in corporate income tax. The remainder of own-source revenues are expected to remain broadly stable.

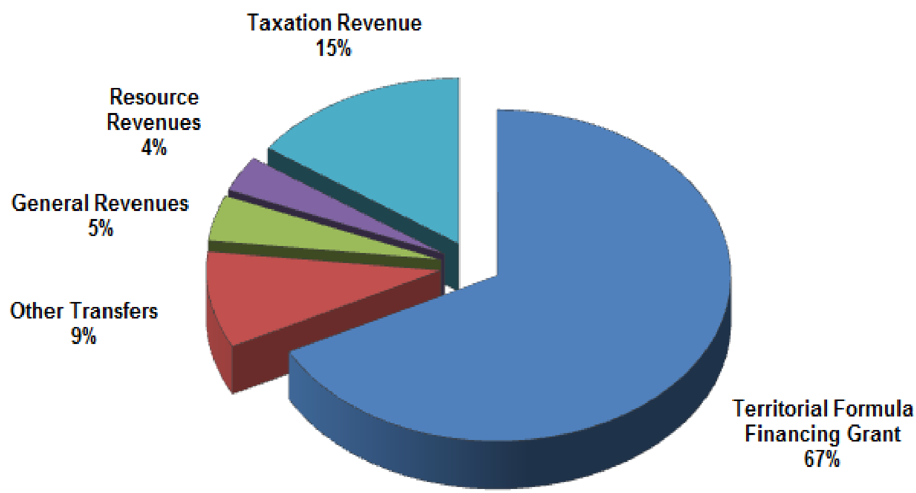
Revenue Initiatives

No new taxes are included in the 2016-17 Budget. Options for increasing revenues discussed in the Revenue Options paper tabled in March 2016 will be considered by the 18th Legislative Assembly for future budgets.

In keeping with the existing indexation policy, property tax mill rates and a number of fees were adjusted for inflation, effective April 1, 2016. This move is in line with the GNWT's policy of indexing tobacco and property tax rates, liquor mark-ups, and fees, where practicable. Due to concerns that tobacco taxes and liquor mark-ups are already among the highest of all provinces and territories, and that further increases at this time could pose enforcement challenges, tobacco tax rates and liquor mark-ups were not increased.

The Budget proposes to re-structure and increase Yellowknife airport fees to match industry averages charged by comparable airports in the south and introduce a Yellowknife airport improvement fee of $20 per passenger travelling south and $10 for those flying north. Once fully implemented, these changes will raise an estimated $10 million in new revenue annually.

2016-17 Revenues by Source

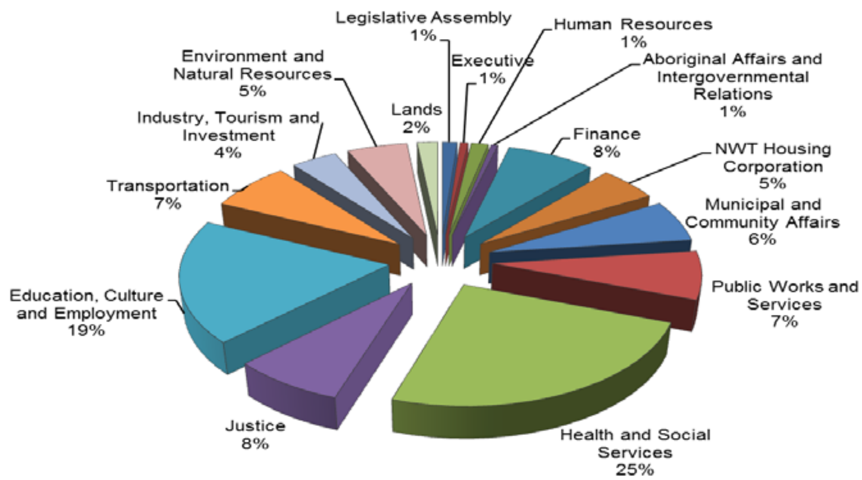


Operating Expenditures

The 2016-17 Budget proposes $1.66 billion in operating expenditures, of which $1 billion, or 63 per cent is budgeted for social programs such as education, health care, social services, housing, policing and corrections.

Operating expenditures are budgeted to increase $15 million from the 2015-16 Main Estimates despite $35 million in new initiatives. Increased costs within existing programs (forced growth) of $29 million and $8 million in other adjustments are offset by $27 million in sunsetted programs and $31 million in reductions to department budgets.

2016-17 Operations Expenditures by Department



Initiatives

Budget 2016-17 provides $35 million in initiatives in 2016-17. This budget accommodates forced growth (increased cost for existing programs), while it re-profiles spending into initiatives. Due to the difficult fiscal environment, new initiatives are funded out of program sunsets and efficiencies, and reductions found elsewhere. This approach allows the 18th Assembly the flexibility to address its priorities.

These initiatives target the priorities and the mandate of the Assembly: governance; living costs; education and youth; community wellness and safety; and the economy, environment and climate change.

Governance: Improving Accountability, Transparency and Collaboration

Initiatives to support the 18th Legislative Assembly's priority for a more modern open government will total $5.406 million in 2016-17. These initiatives support and improve accountability, transparency and collaboration.

- $240,000 for two positions to support the NWT Archives program through the transfer, review and management of files from the federal government for Devolution.
- $1.615 million to implement five trans-boundary water agreements, including support for five Bilateral Management Committees and the Mackenzie River Basin Board Technical Committee, and the addition of two Watershed Management Advisors.
- $694,000 for parks operations to be more transparent, in reflection of accounting changes in the *Financial Administration Act*, to show expenditure separately from gross revenue.
- $342,000 for expenses related to Devolution, including $300,000 for fully funding employees who were previously with the federal government, and $42,000 for a collective agreement costs for these employees.

- $108,000 for cost-sharing with federal-provincial-territorial governments for policing service contract management under Police Service Agreements.
- $316,000 for funding Community Justice activities in the NWT related to federal funding available under the Aboriginal Justice Strategy Fund. The funding will flow through to Community Justice Committees for restorative justice, victims' services and crime prevention programming based on community needs.
- $1.24 million for upgrades to internal financial and human resource information management systems.
- $851,000 to complete Phase 2 of the Communications Functional Review.

Cost of living

Cost of living initiatives in 2016-17 are budgeted to be $10.9 million, targeting electricity prices for all rate payers and housing stock for RCMP members.

- $7.535 million to offset costs associated with lower-than-average water levels in the Snare hydro system to avoid applying a rate rider to all ratepayers.
- $3.458 million for the construction of 46 market rental units for leasing to RCMP members under a collaborative effort between the Northwest Territories Housing Corporation (NWTHC), the GNWT Department of Justice and the RCMP.

Education, Training and Youth Development

The budget contains $4.3 million in initiatives targeted toward improving the ability of people from all walks of life to learn, develop and secure quality employment in the NWT. The initiatives include:

- $272,000 to provide support for community capacity in the development of early childhood care and family literacy.
- $2.223 million to increase support under the Student Financial Assistance program in support of the *Population Growth Strategy*.
- $554,000 for family housing for the Aurora College campus in Inuvik, including $85,000 to extend temporary accommodations for students with families until new student housing is constructed.
- $1.25 million under the Labour Market Agreement for Persons with Disabilities to improve the employment outcomes of persons with disabilities.

Community Wellness and Safety

There are initiatives totalling $4.3 million in the 2016-17 budget which will be focused on building positive health outcomes for residents of the NWT. The focus will include the mental well-being of residents as well as their physical health.

- $677,000 increased contribution to the Hay River Health and Social Services Authority (HSSA) for costs associated with maintaining the Long-Term Care Unit in the H.H. Williams Hospital.

- $1.95 million increased contribution to Hay River HSSA for operating costs associated with opening the new Hay River Health Centre this year.

- $1.131 million contribution to the Tłı̨chǫ Community Services Agency for the expanded Jimmy Erasmus Seniors' Home in Behchokǫ̀.

- $501,000 to implement the new *Mental Health Act*.

- $48,000 for the *Biology Casework Analysis Agreement*.

Economy, Environment and Climate Change

This budget includes $4.346 million in various initiatives that will assist in developing the economy, growing the population, improving energy efficiency and adapting to climate change.

- $169,000 for the NWT Nominee Program and other immigration programs and services in support of the *Population Growth Strategy*.

- $311,000 for installation and operation of new water monitoring stations under the Hydrometric Networking Program.

- $1.364 million to support actions under the *Mineral Development Strategy* including:

    - $149,000 to enhance business coordination,

    - $140,000 for marketing and promotion,

    - $400,000 for the Mining Incentive Program,

    - $575,000 to fund geoscience activities, and

    - $100,000 for Aboriginal Capacity Building to support engagement activities and enhance involvement with Aboriginal communities, organizations and governments in land use and resource decisions.

- $1.075 million to support actions under the *Tourism 2020* initiative including:

    - $400,000 to market the NWT as a tourist destination,

    - $125,000 for research and planning efforts,

    - $25,000 for community and industry engagement,

    - $275,000 for efforts to enhance skills development, and

    - $250,000 for Aboriginal Tourism and Community Tourism Infrastructure, including establishment of an Aboriginal Tourism Champions Advisory Council.

- $486,000 to support actions under the *Economic Opportunities Strategy* including:
  - $186,000 for marketing and the diversification of the NWT's tourism offerings,
  - $100,000 to enhance the Film Rebate Program,
  - $100,000 for the NWT Convention Bureau, and
  - $100,000 for Community Infrastructure to fund projects that improve the tourism appeal of communities for band governments, municipalities and non-profit organizations.
- $181,000 for costs related to the establishment of the Western Arctic Centre for Geomatics.
- $760,000 as a one-time contribution to the Arctic Energy Alliance for various energy conservation and renewable energy initiatives.

Infrastructure

The GNWT's 2016-17 capital budget was approved in November 2015. The capital budget consists of $292 million for the GNWT's own infrastructure plans, as well as $28 million for community infrastructure investments. It does not include funding in respect of housing investment by the NWT Housing Corporation (NWTHC), which is contained in the 2016-17 Main Estimates. Including the $22 million in proposed housing investments to be delivered through the NWTHC, the total planned infrastructure investment in 2016-17 will be $342 million.

Major highlights in the capital estimates include:

- $91 million to record the Mackenzie Valley Fibre Optic Link Project on the GNWT's balance sheet;
- $69 million for highways and winter roads across the NWT, including funding for the Inuvik-Tuktoyaktuk Highway and the first bundle of highway projects submitted under the new Building Canada Plan;
- $60 million for health facility replacements, renovations and information system upgrades, including funding required for the Stanton Territorial Hospital project;
- $28 million to continue to contribute to community infrastructure needs; and
- $20 million to begin replacing the current air tanker fleet that support forest fire operations.

Looking ahead, the GNWT will face the difficult challenge of maintaining existing assets, improving housing stock and meeting legislative requirements unless steps are taken to free up fiscal resources. The limited capital budget will be used to support the NWT's essential infrastructure base so that programs and services can continue to be delivered, to make investments in strategic infrastructure that will better position the NWT to maximize economic opportunities, and to look at options to adapting to the impact of climate change.

Risks to Fiscal Outlook

Debt risk is currently considered minimal, because debt servicing costs absorb only about one per cent of total revenues due to a relatively low overall debt burden and low current interest rates.

However, a number of other fiscal risks exist for the GNWT:

- The dependence of the NWT economy on resource industries – activity in the resource sector is highly variable, and consequently the NWT has the highest variability in economic growth in Canada. The implications for GNWT revenues can vary significantly from year to year. Resource sector activity has implications for long-term economic growth and own-source revenue volatility for the GNWT.

- Revenue volatility – historically, corporate income tax has been the GNWT's most volatile own-source revenue but the Territorial Formula Financing Grant is responsive over time to changes in corporate income tax revenues. Resource revenues are volatile and their variability will not be offset through Territorial Formula Financing, because resource revenues are outside of the formula. Resource revenues are sensitive to commodity price swings, exchange rate fluctuations, and operational decisions made by the resource developers, which makes resource revenue forecasting challenging. The risk to the operating budget of large resource revenue shocks is largely neutralized by the GNWT's commitment not to spend resource revenues on operations, but rather only on contributions to the Heritage Fund, debt repayment and infrastructure.

- Slowing revenue growth – Territorial Formula Financing is two-thirds of total revenues, affording considerable year-to-year stability to the budget. However, growth in Territorial Formula Financing relies heavily on NWT population growth relative to Canada's and provincial/local government spending. Flat population growth (or declines) or further provincial and local government fiscal austerity measures would cause growth in the Territorial Formula Financing Grant to be reduced.

- On-going operating expenditure pressures – constant pressure exists to enhance current programs and to implement new initiatives while not reducing existing program and service expenditures. Although the GNWT has made steady progress in reducing the rate of growth in program spending, continued efforts will be necessary to ensure that expenditure growth matches revenue growth, or the budgetary position could deteriorate.

- Unexpected expenditures and capital project cost overruns – operating expenditure shocks are usually unexpected events such as extraordinary fire suppression needs or other natural disasters. With the undertaking of large capital projects, the risk of capital cost over-runs that may have an impact on the fiscal framework is heightened.

Summary of Operations

	(thousands of dollars)			
	2016-2017 Main Estimates	**2015-2016 Revised Estimates**	**2015-2016 Main Estimates**	**2014-2015 Actuals**
REVENUES	**1,809,762**	1,826,965	1,826,794	1,826,916
OPERATIONS EXPENSE				
Compensation and Benefits	**369,121**	381,696	376,537	374,926
Grants, Contributions and Transfers	**772,360**	788,084	763,443	751,981
Amortization	**89,326**	80,990	80,990	79,050
Chargebacks	**18,334**	18,215	18,067	20,038
Computer Hardware and Software	**7,884**	6,289	5,905	7,615
Contract Services	**211,977**	239,496	208,205	238,290
Controllable Assets	**3,286**	4,001	4,016	4,664
Fees and Payments	**84,492**	93,639	82,966	103,625
Interest	**11,202**	11,604	11,604	8,933
Materials and Supplies	**20,899**	23,651	19,670	30,029
Purchased Services	**13,057**	15,542	13,969	14,175
Travel	**18,459**	23,142	19,999	19,557
Utilities	**39,530**	40,666	39,680	42,204
Valuation Allowances	**2,419**	2,419	2,469	3,585
TOTAL OPERATIONS EXPENSE TO BE VOTED	**1,662,346**	1,729,434	1,647,520	1,698,672
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	**147,416**	97,531	179,274	128,244
Infrastructure Contributions	**(28,402)**	(31,338)	(28,463)	(31,406)
Deferred Maintenance	**-**	(4,149)	(4,149)	(2,274)
Petroleum Products Stabilization Fund net profit (loss)	**94**	(85)	64	893
Supplementary Reserve	**(30,000)**	-	(30,000)	-
Estimated Appropriation Lapses	**30,000**	35,000	30,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	**89,526**	92,255	76,560	69,661
Expenditures	**(89,526)**	(92,255)	(76,560)	(69,661)
OPERATING SURPLUS FOR THE YEAR	**119,108**	96,959	146,726	95,457
ACCUMULATED SURPLUS, BEGINNING OF YEAR	**1,518,855**	1,421,896	1,272,101	1,326,439
ACCUMULATED SURPLUS, END OF YEAR	**1,637,963**	1,518,855	1,418,827	1,421,896

Summary of Revenues

	(thousands of dollars)			
	2016-2017 Main Estimates	**2015-2016 Revised Estimates**	**2015-2016 Main Estimates**	**2014-2015 Actuals**
GRANT FROM CANADA	**1,219,888**	1,232,755	1,232,755	1,208,840
TRANSFER PAYMENTS	**170,660**	206,441	168,796	210,835
TAXATION REVENUE				
Personal Income Tax	**110,603**	109,837	108,379	110,810
Corporate Income Tax	**60,003**	25,010	40,640	31,815
Tobacco Tax	**15,760**	15,902	15,811	16,053
Fuel Tax	**18,877**	18,722	18,817	19,260
Payroll Tax	**41,448**	41,578	42,743	40,250
Property Taxes and School Levies	**23,360**	28,737	28,797	28,261
Basic Insurance Premium Tax	**4,500**	4,600	4,600	4,383
Fire Insurance Premium Tax	**350**	480	480	293
	274,901	244,866	260,267	251,125
Non-renewable Resource Revenue				
Licences, Rental and Other Fees	**3,122**	2,410	2,283	3,281
Minerals,Oil and Gas Royalties	**59,810**	60,799	78,940	62,831
Quarry Fees	**250**	225	-	919
	63,182	63,434	81,223	67,031
GENERAL REVENUES				
Revolving Funds Net Revenue	**23,281**	23,574	26,936	25,303
Regulatory Revenues	**26,726**	21,349	21,816	19,760
Investment Income	**805**	1,140	1,140	3,156
Lease	**5,614**	5,196	5,203	9,230
Program	**20,376**	23,938	24,381	19,762
Grants in kind	**593**	593	593	1,136
Service and miscellaneous	**736**	679	684	2,710
Recovery of Prior Years' Expenditures	**3,000**	3,000	3,000	8,028
	81,131	79,469	83,753	89,085
TOTAL REVENUES	**1,809,762**	1,826,965	1,826,794	1,826,916

Summary of Operations Expenditures by Department

(thousands of dollars)

	2016-2017 Main Estimates	2015-2016 Revised Estimates	2015-2016 Main Estimates	2014-2015 Actuals
Department				
Legislative Assembly	**19,336**	21,183	21,175	19,887
Aboriginal Affairs and Intergovernmental Relations	**8,754**	9,390	9,340	8,969
Education, Culture and Employment	**315,848**	316,121	309,786	309,303
Environment and Natural Resources	**90,315**	111,588	85,981	133,983
Executive	**11,986**	12,689	11,779	13,632
Finance	**213,904**	233,821	211,262	243,137
Health and Social Services	**414,234**	424,974	406,886	401,326
Human Resources	**23,644**	24,330	24,324	21,617
Industry, Tourism and Investment	**59,870**	64,872	63,457	60,930
Justice	**127,092**	132,058	130,573	124,925
Lands	**28,253**	29,979	29,268	24,529
Municipal and Community Affairs	**104,200**	103,698	103,477	99,681
Public Works and Services	**119,711**	120,548	120,750	116,025
Transportation	**125,199**	124,183	119,462	120,728
	1,662,346	1,729,434	1,647,520	1,698,672

Summary of Infrastructure Investment by Department

	(thousands of dollars)			
	2016 - 2017 Capital Estimates	2015 - 2016 Revised Estimates	2015 - 2016 Capital Estimates	2014 - 2015 Actuals
Tangible Capital Assets				
Legislative Assembly	**200**	353	150	245
Education, Culture and Employment	**7,899**	8,114	5,796	6,257
Environment and Natural Resources	**27,939**	13,983	11,343	2,376
Finance	**1,325**	902	210	564
Health and Social Services	**20,477**	72,998	43,606	54,415
Human Resources	**-**	476	440	305
Industry, Tourism and Investment	**3,598**	7,456	2,575	2,428
Justice	**9,078**	20,413	17,166	963
Lands	**1,350**	534	-	165
Municipal and Community Affairs	**-**	-	-	-
Public Works and Services	**16,977**	21,530	12,525	18,659
Transportation	**71,891**	151,331	111,489	139,542
	160,734	298,090	205,300	225,919
Infrastructure Contributions				
Municipal and Community Affairs	**28,002**	29,762	28,002	30,614
Education, Culture and Employment	**400**	576	461	632
	28,402	30,338	28,463	31,246
Deferred Maintenance (non-capital)				
Education, Culture and Employment	**-**	300	300	-
Health and Social Services	**-**	1,313	789	767
Justice	**-**	620	620	-
Public Works and Services	**-**	2,480	2,000	1,424
Transportation	**-**	440	440	-
	-	5,153	4,149	2,191
Public Private Partnerships				
Finance	**91,000**	-	-	-
Health and Social Services	**40,000**	41,747	40,000	4,153
	131,000	41,747	40,000	4,153
Total Capital Estimates	**320,136**	375,328	277,912	263,509

Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2016-2017 Main Estimates	**2015-2016 Revised Estimates**	**2015-2016 Main Estimates**	**2014-2015 Actuals**
SHORT TERM DEBT				
Government of the Northwest Territories	**312,000**	258,000	272,000	234,859
Hay River Health & Social Services Authority	**1,000**	-	-	-
NWT Hydro Corporation	**20,000**	37,000	31,000	17,595
	333,000	295,000	303,000	252,454
LONG TERM DEBT				
Government of the Northwest Territories:				
Deh Cho Bridge - Real Return Bonds	**178,427**	177,801	180,023	178,176
Canada Mortgage and Housing Corporation	**597**	668	668	735
Public Agencies:				
NWT Hydro Corporation	**230,272**	182,999	183,735	185,098
NWT Housing Corporation	**9,189**	10,045	10,045	10,719
Yellowknife Catholic Schools	**855**	1,599	1,599	2,302
TOTAL DEBT	**752,340**	668,112	679,070	629,484
OBLIGATIONS UNDER CAPITAL LEASES				
Government of the Northwest Territories	**1,816**	2,602	1,298	3,510
NWT Hydro Corporation	**17,976**	18,382	19,719	18,787
NWT Housing Corporation	**-**	52	52	281
LOAN GUARANTEES				
Other public agencies	**250**	250	250	250
NWT Housing Corporation	**19,149**	21,234	21,881	24,142
TOTAL GROSS BORROWING PER BORROWING REGULATIONS	**791,531**	710,632	722,270	676,454
LESS:				
EXTERNALLY RESTRICTED SINKING FUNDS				
NWT Hydro Corporation	**(8,749)**	(7,988)	(8,117)	(7,194)
TERRITORIAL BORROWING	**782,782**	702,644	714,153	669,260
TERRITORIAL BORROWING LIMIT	**1,300,000**	1,300,000	800,000	800,000
AVAILABLE BORROWING AUTHORITY FOR PLANNING PURPOSES FISCAL	**517,218**	597,356	85,847	130,740

PROVINCIAL/ TERRITORIAL TAX RATES AT MAY 27, 2016

	Combined Top Marginal Personal Income Tax [a] (%)	Retail Sales Tax (%)	Fuel Tax [b] Gasoline (¢/litre)	Fuel Tax [b] Diesel (¢/litre)	Tobacco Tax [c] ($/carton)	Payroll Tax [d] (%)	Corporate Income Tax Small (%)	Corporate Income Tax Large (%)	Capital Tax on Financial Institutions [e] (%)
Northwest Territories	47.05	-	10.7	9.1	57.20	2.00	4.0	11.5	-
Nunavut	44.50	-	6.4	9.1	50.00	2.00	4.0	12.0	-
Yukon	48.00	-	6.2	7.2	42.00	-	3.0	15.0	-
British Columbia	47.70	7.0	21.2	22.7	47.80	-	2.5	11.0	-
Alberta	48.00	-	13.0	13.0	50.00	-	3.0	12.0	-
Saskatchewan	48.00	5.0	15.0	15.0	50.00	-	2.0	12.0	3.25
Manitoba	50.40	8.0	14.0	14.0	59.00	2.15	0.0	12.0	6.00
Ontario	53.53	8.0	14.7	14.3	30.95	1.95	4.5	11.5	1.25[e]
Quebec	53.31	10.0	19.2	20.2	29.80	4.26	8.0	11.9	1.25[e]
New Brunswick [f]	53.30	8.0	15.5	21.5	44.52	-	3.5	14.0	5.0
Nova Scotia	54.00	10.0	15.5	15.4	55.04	-	3.0	16.0	4.0
Prince Edward Island [g]	51.37	9.0	13.1	20.2	50.00	-	4.5	16.0	5.0
Newfoundland & Labrador [h]	49.80	8.0	16.5	16.5	49.00	2.00	3.0	15.0	6.0
Weighted average [i]	51.70	7.3	16.4	16.8	38.06	1.84	4.5	11.9	1.41

Notes:

(a) Combined federal-provincial/ territorial highest 2016 personal income tax rate 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, 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) Ontario and Quebec levy capital tax on life insurance institutions.
(f) New Brunswick's portion of the HST will increase to 10 per cent on July 1, 2016.
(g) PEI's portion of the HST will increase to 10 per cent on October 1, 2016.
(h) Newfoundland's gasoline and diesel tax rates will increase 16.5 cents/litre and 5 cents/litre, respectively, on June 2, 2016. The provincial portion of the HST will increase to 10 per cent on July 1, 2016. Individuals will pay a temporary deficit reduction levy of up to $900 starting July 1, 2016.
(i) Average weighted by provincial/ territorial populations at July 1, 2015.