

# **Budget Address**

## **2017 - 2018**

***NORTHWEST TERRITORIES***

**The Honourable Robert C. McLeod**  
Minister of Finance

**Second Session of the  
Eighteenth Legislative Assembly**

**February 1, 2017**



## Introduction

Mr. Speaker, there is a tradition of Finance Ministers in Canada wearing new shoes when delivering the budget address as a symbol for the direction described in the annual budget. Today, I am wearing my mukluks. I do this as a reminder to myself of where we come from and the importance of the work we do here for residents in all communities, large and small, throughout the Northwest Territories.

A budget address not only describes important activities that the government is investing in the upcoming fiscal year, but also how we will manage the public resources that we are responsible for. My mukluks remind me of my past, but also how the decisions we make on investments and managing the Government's resources impact not only today's generation, but also future generations.

At the beginning of the 18<sup>th</sup> Assembly, Members of this House worked together to produce a mandate that would contribute to creating strong individuals, families and communities that would share in the benefits and responsibilities of an economically prosperous and environmentally sustainable Northwest Territories.

This Government's first Budget, last June, set the course for achieving this by making difficult choices to begin to put our fiscal house in order. The 2017-18 Budget continues this effort to guarantee that we can provide the core programs and services that Northwest Territories residents need, and deliver on the priorities identified in this Assembly's Mandate.

As we enter the second year of our Mandate, we are clear on our priorities. These priorities can be summarized as follows.

We want to foster lifelong learning, skills development, training and employability. We need to start our children off on the right foot. We need to see they get every opportunity to lead fulfilling and productive lives. We need to ensure that Northerners have the skills and training to fill jobs that will be available over the coming decades.

We want to lower the cost of living for NWT residents by increasing the amount of affordable housing, supporting the use of energy-efficient technology and providing the infrastructure to reduce major cost drivers for both residents and industry.

We want to foster community wellness and safety by providing the core social programs that support our residents to live healthy lifestyles in their home communities.

We want to invest in our economy, encourage economic diversification, lead in environmental stewardship and create business and employment opportunities for Northerners.

As a government we want to improve accountability and transparency in how we operate and to work together with Aboriginal and community governments, the federal government, industry, and NWT residents to ensure our future prosperity.

In short, we want to invest today in a better tomorrow, but we have to do this without breaking the bank.

This is a budget about building a prosperous future on a sustainable fiscal foundation. This Budget continues our strategy for making crucial investments to strengthen our communities and develop our economy within an environment of flat revenue growth.

## **Economic Outlook**

Mr. Speaker, the economic outlook for the Northwest Territories continues to be mixed. While the economy did not grow in 2016, we do expect it to grow faster than any other province or territory next year because of the economic activity created by the first full year of commercial production at our newest diamond mine and higher diamond mine production in general. However, we must not lose sight of the fact that while growth will be strong next year, the underlying outlook for the economy continues to show troubling signs.

Our non-renewable resource sector has been good to us and continues to be the cornerstone of our economy. When the last gold mine shut down we opened the first diamond mine. But just because we have three world-class diamond mines providing good paying jobs in our territory doesn't mean that all is well. Oil and gas is not coming back in the near term as shown by work bids that were returned in December. And while diamond mine production is increasing in the immediate future, investment for mineral exploration fell by one half in 2016 from the previous year. This is not good news for the discovery and development of the next generation of Northwest Territories mines.

The Northwest Territories economy competes in the global market, whether it is marketing diamonds or attracting tourists. We remain vulnerable to global financial conditions, currency movements, and global economic stability.

For years we have been saying that we must build on our resource industry and diversify our economy. We need to remember that these world-class mines don't last forever and the next mine closure may come as early as seven years from now.

We cannot leave our economic future to luck.

We need to support the expansion and diversification of the economy, which will create new opportunities for businesses and jobs. In today's economy capital is almost free because interest rates are so low. Access to capital is not an obstacle but attracting that capital is. This is especially true for the capital-intensive mining industry. Strategic GNWT

investments in transportation, communications, and energy infrastructure can reduce costs and make business opportunities more economically viable.

We also need to create an environment that supports innovation and risk-taking for Northwest Territories residents and businesses to build a lasting economy.

Building an strong economic future goes hand in hand with investing in our people to ensure we have a healthy, educated workforce to take advantage of the opportunities available in the Northwest Territories.

## **Fiscal Strategy**

Mr. Speaker, this Assembly inherited an unsustainable fiscal situation. Projections before our first budget showed that unless we took action, the GNWT would start running operating deficits in 2018-19. To cover deficits, we need to borrow, and this in turn adds to net debt.

To get our fiscal house in order, we started to make the difficult decisions in last year's Budget to reduce spending and re-profile our funds to meet the Mandate and priorities of the 18<sup>th</sup> Assembly. Budget 2017-18 is part of a multi-year plan to return the GNWT to fiscal sustainability.

We are projecting to spend \$1.7 billion to deliver government programs and services in 2017-18 and we have approved a capital budget of \$266 million for this year. It is important to remember that both our operating expenses and capital investments need to be paid with our \$1.9 billion in revenues.

As we have committed to in our *Fiscal Responsibility Policy*, we have managed to keep operating expenditures below revenues for the last seven years. However, over the same seven years and further into the past, we have borrowed to invest in infrastructure and other capital investments. As a consequence, every year we have needed to borrow more and our debt continues to rise. In particular, our short-term debt is expected to grow to \$320 million by the end of 2016-17. This Assembly is left with a choice: we either start paying this back to restore fiscal sustainability or expose the GNWT to serious cuts in capital investment and operating expenditures because we would be out of other options.

Our fiscal strategy is simple. We have to reduce the amount we spend on programs and services to ensure we are able to deliver our core programs and services, and pay for our on-going infrastructure needs, without adding to our short-term debt. We need to carefully manage the growth in our operating and maintenance budget to ensure it doesn't exceed the growth in our revenues. We have to reduce our reliance on short-term borrowing to finance our operations. Or put even more simply, we shouldn't spend what we don't have.

Our fiscal strategy is working despite a flat revenue forecast over the medium term. We are reducing and re-profiling expenditures and increasing revenues where we can without

compromising our delivery of essential programs and services. These are difficult decisions to make, as we need to balance service delivery and infrastructure investment in all regions of the Northwest Territories with our Mandate and the fiscal realities that we face.

This Budget includes \$27 million in expenditure reductions, building on the efforts outlined in the 2016-17 Budget. In total, we have identified approximately \$100 million in expenditure reduction and revenue initiatives when fully implemented during the life of the 18<sup>th</sup> Legislative Assembly. By staying the course with our fiscal strategy and implementing the actions we have identified, we will start to lower our debt levels in the next three years, while still allowing us to deliver on promises made in the 18<sup>th</sup> Assembly's Mandate.

## **Budget Highlights**

This Budget proposes an operating and maintenance budget of \$1.7 billion, a 0.4 per cent decrease from the 2016-17 revised estimates. Total revenue is projected to increase only 0.7 per cent from last year to almost \$1.9 billion in 2017-18.

While we have found savings of \$68 million from programs that were already scheduled to end in 2017-18 and on-going program reductions, we have also added \$55 million in new initiatives and to strengthen existing programs.

The difficult decisions made in this Budget will produce an operating surplus of \$167 million. After the capital investment is taken into account, we expect to have an overall cash surplus of \$15 million for 2017-18. While this is a very modest cash surplus, 2017-18 will mark only the second time in the last ten fiscal years that the GNWT will generate a cash surplus, reversing the trend of continuing to increase the short-term debt. I think it is fair to say that our fiscal management efforts have allowed us to begin to turn the corner on our over-reliance on short-term borrowing.

## **Revenues**

Mr. Speaker, at the start of the 18<sup>th</sup> Legislative Assembly we reviewed our tax regime to ensure that we are raising 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. As always, we need to balance our need for revenues with real concerns about the high cost of living in our territory. The few options that that could generate significant revenues would leave individuals and families with fewer dollars in their pockets and risk discouraging business investment and economic growth.

Although there will be no new taxes announced in this Budget, we intend to adjust some taxes and fees for inflation and to better reflect the cost of providing services. We also will

raise tobacco taxes to 30.4 cents per cigarette and 27.2 cents per gram of loose tobacco, effective April 1, 2017.

With the amendments to the *Revolving Fund Act* we are proposing, we will be setting up a revolving fund for the Yellowknife Airport so that the revenues that the airport generates are used to fund ongoing capital and operations and maintenance expenditures. The revolving fund will give the Airport the flexibility to make improvements to support air carrier operations, increase the number of services available to travellers, create new business opportunities, and transform the Airport into a key asset to shape our future economy.

We have signed the *Pan-Canadian Climate Change Framework* and have committed to investigating the introduction of a price on carbon of \$10 per tonne of greenhouse gas emissions in 2018-19. Significant work remains before a carbon price could be introduced, including developing appropriate offsets to mitigate adding to the already high cost of living and doing business in the Northwest Territories. The purpose of carbon pricing is to provide price incentives to reduce greenhouse gas emissions. However, we know that until there are economically-viable alternatives, carbon pricing mechanisms alone will not significantly reduce greenhouse gas emissions in the Northwest Territories, especially since the high fuel prices already create an incentive to curtail consumption of carbon-intensive fuels in the territory's communities and within the business sector.

This Assembly already has made investments in alternative energy options for territorial residents and businesses a priority. We expect to continue to make investments in alternative energy and to work closely with the federal government in our efforts to provide reliable, affordable alternatives to carbon-intensive fuels for our communities and businesses.

Mr. Speaker, next year we also intend to investigate introducing a sugary drink tax as a price incentive to discourage the consumption of sugary drinks that are linked to health issues such as obesity and diabetes. While our intention is to introduce a sugary drink tax in 2018-19, we will take the time during the upcoming fiscal year to ensure our approach is as effective as possible.

The tax and fee increases proposed for this year, while important, will not solve our fiscal problems. Instead we intend, through our commitment to our fiscal strategy, to not only introduce modest revenue initiatives but also to carefully manage expenditures so that we will have the fiscal flexibility to make investments to support and grow our economy so that our tax base expands and our revenues increase.

## **Expenditures**

Mr. Speaker, despite the seriousness of our revenue outlook and our absolute commitment to responsible fiscal management, we are still making significant expenditures. Our

\$1.7 billion operating budget is the equivalent of spending \$37,500 on every Northwest Territories resident.

Our core social programs delivered by the departments of Health and Social Services, Education Culture and Employment, Municipal and Community Affairs and Justice and by the NWT Housing Corporation make up over \$1.0 billion, or 63 per cent of our \$1.7 billion operating budget.

We are also providing \$92 million through this Budget to protect and manage our environment and wildlife through the Department of Environment and Natural Resources and \$26 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.

Protection of our natural environment is part of the legacy that this Assembly will leave to future generations and improving the environment for the Northwest Territories economy to grow and prosper is another important gift of the 18<sup>th</sup> Assembly to the future. We are supporting the Department of Industry, Tourism and Investment with \$56 million to manage mineral and petroleum resources responsibly, and partner with others to promote and support economic prosperity, diversification and community self-reliance.

Without investments in schools, health clinics, community infrastructure and other public works, we cannot deliver programs and services and without investments in transportation infrastructure our economic potential is reduced. We have provided the new Department of Infrastructure with a budget of \$240 million to provide residents with public transportation infrastructure and to support the facilities and technology infrastructure required for the government to deliver its programs and services and to support the Northwest Territories economy.

### ***Education, Training and Youth Development***

Curtailing expenditures is difficult when the initiatives we start today bear fruit in the future. Almost 40 per cent of Northwest Territories five-year old children are not at the social, emotional and knowledge levels that they should be at that age. How can we expect our children to do well in school when practically half need support to bring them to a level ready for kindergarten, let alone grade one? We have added \$1.5 million to the Budget to help offset the costs of the junior kindergarten program as it is rolled out in all Northwest Territories communities for four-year old children to provide the foundation for our children to learn. I am also committing today that we will add an additional \$2.7 million to the funding for schools before the end of the 18<sup>th</sup> Legislative Assembly to ensure that the junior kindergarten program can be implemented in all communities.

We need to provide opportunities for youth outside of the regular classroom and the Arctic Winter Games is a venue that provides a host of opportunities for youth to learn and develop, whether it is through participation in the sporting events themselves or volunteering to help host the Games. We are proposing to increase our support for Hay



River and Fort Smith's joint bid for the Arctic Winter Games to \$1.5 million in 2017-18 with an additional \$500,000 in this Budget.

Mr. Speaker, the best social program is a good paying job. The need to support employment opportunities in smaller communities is a message we often hear. This Budget proposes an additional \$3 million to be added to the Small Community Employment Support program that provides opportunities for youth in small and remote communities to gain work experience and opportunities for all residents in these communities to gain the skills that lead to employment and increased self-reliance. A portion of this funding will be used in 2017-18 to develop and implement a *Small Community Employment Strategy* that will be used to improve the effectiveness of the Small Community Employment Support program's enhanced \$4.3 million annual budget.

This Budget proposes \$220,000 in one-time funding to upgrade the security systems of our existing schools to meet the new Safe Schools legislated requirements.

### ***Cost of living***

Lowering the cost of living in the Northwest Territories will help reduce many challenges in the economy and is a vital support for Northwest Territories residents in their daily lives. This Budget proposes an additional \$4.2 million in increased support for income assistance, including \$2.2 million because of the increased number of income assistance recipients and \$2 million to increase allowances to address higher prices for food and other basic necessities.

Not every family that struggles to make ends meet uses the Income Assistance Program. This Budget provides an additional \$750,000 in support for the NWT Child Benefit. This funding depends on approval of the amendments to the NWT *Income Tax Act* proposed in the 2016-17 Budget and will be used to enhance direct support for children in families to \$1.9 million in 2017-18 and \$2.2 million annually in the following years. When fully phased-in, this enhancement will add \$1 million to the current program and will provide benefits to more than 2,000 NWT families with children whose annual income is under \$80,000. This compares to the current program that completely eliminates benefits for a one-child family at annual income of \$41,000 and a five-child family at annual income of \$61,000.

We also continue to provide \$22 million in tax relief to NWT residents through the refundable Cost of Living Tax Credit to help defray the high cost of living in the North. This Budget proposes adding another \$250,000 to cover the expected increased cost of this credit as employment income for low to middle income earners rises.

Government programs support many aspects of this Assembly's Mandate and the proposed \$500,000 in this Budget to provide a home repair program that assists seniors with income below the core need threshold to make necessary repairs to their residences is one such example. This new program will provide help for repairs to make a senior's home healthier, safer and more energy efficient and that in turn will help these seniors to live

independently for as long as possible in their home community with a support system of their families and friends.

### ***Community Wellness and Safety***

The 18<sup>th</sup> Legislative Assembly Mandate calls for actions to foster community wellness and safety; actions that will enhance the lives of Northwest Territories residents and over the longer term reduce the need for some social programs. The 2017-18 Budget proposes to deliver almost \$19 million in new funding that directly supports actions to improve the health of our communities.

We are proposing to support actions to address homelessness in Yellowknife that were outlined in the last October's Yellowknife Homelessness Road Map Action Plan, with \$230,000 to extend the hours that the Yellowknife Day Shelter is open from 8 to 12 hours per day and \$520,000 to help offset the costs of creating a sobering centre in Yellowknife. Plans are already underway for the program design for the sobering centre based on the goal to operate up to 14 hours a day every day with separate male and female areas, a meal each evening, and capacity for 30 to 40 people.

We take our responsibility to meet the most fundamental and primary needs of our most vulnerable residents for shelter seriously. This Budget proposes adding \$103,000 in emergency shelter funding to help shelter providers address increased demand to temporarily house people in need and to address increased rent and food costs. A further \$294,000 is proposed in this Budget to offset increased costs to support operations at the Charlotte Vehus, Billy Moore and Inuvik Community Group Homes. In keeping with the Government's priority to take action on the crisis of family violence, \$120,000 is included to offset increased operating costs at family violence shelters across the Northwest Territories.

With the passage of this Budget, we will provide \$616,000 in one-time funding to implement a territorial-wide 9-1-1 service. This funding will allow for a Basic 9-1-1 service with a single Public Safety Answering Point that will give Northwest Territories residents improved emergency response to available medical, fire protection and police services in all communities.

We need medical travel to provide access to medical services for all Northwest Territories residents. Both the need for medical travel and the costs to provide this travel continue to increase annually. As a result, this Budget proposes to add \$6.4 million to address cost pressures in the medical travel budget. Some of the shortfall relates to increased air ambulance costs that include improvements to service, safety and quality. New initiatives to modernize the Medical Travel Policy and investments in overall health program improvements should help reduce the use of medical travel and improve services to remote communities while at the same time containing costs.

We have a growing number of Northwest Territories residents with a diverse range of special needs and these residents are better placed in southern facilities where they can

receive specialized treatment for severe and difficult to treat conditions that require clinical, residential, and educational programming services that are beyond the financial ability of the GNWT to provide. This Budget provides an additional \$3.2 million to address the shortfall in funding this vital program and preserve the quality of life for these individuals, many of whom will remain in care for the remainder of their lives.

The cost to deliver critical health services to NWT residents continues to increase. This Budget proposes an additional \$3.3 million to address the operating costs of new health centres in Hay River and Norman Wells, increased costs of medical supplies, and increased security needs at Stanton Territorial Hospital. In keeping with the Government's priority of ensuring support is in place for seniors who can no longer live in their homes, we are proposing \$877,000 for operating costs associated with the expansion of long term care at the Jimmy Erasmus Seniors Home in Behchokò, and \$778,000 in funding to maintain long term care beds at the H.H. Williams Hospital until the expansion of Woodland Manor is completed.

There is \$1.6 million included in this Budget to support the transition of all health and social services authorities to the Government's Technology Service Centre. This transition is necessary to implement shared systems such as the territorial Electronic Medical Records, which will not only improve care for residents, but will allow improved tracking and analysis of health data and expenditures for evidence-based decision-making.

We are proposing to inject another \$1.5 million for justice activities. This includes the GNWT's share of RCMP costs of \$429,000 to create an Internet Child Exploitation Unit to address the cost pressures caused by increased investigations of NWT residents' involvement in internet child pornography, \$385,000 to increase the number of relief positions needed because of increased mandatory training hours for the Emergency Response Team, \$182,000 for cell and interview room recording systems upgrades to maintain safety and security for the RCMP, the public and offenders, and \$78,000 for RCMP isolated post allowances. This funding also provides \$224,000 to add two Sheriff Officers to address the increasing workload demand including increased vehicle seizures and increased provision of security coverage for Justice of the Peace Court.

In co-operation with the federal government, we are continuing to fund the *Framework for Enhancing Victim Services Agreement* with \$749,000 in on-going funding starting in this Budget. This funding will help the Community Justice program support communities to develop and implement sustainable local justice programming in the areas of restorative justice, victim services, community policing and crime prevention.

## ***Economy, Environment and Climate Change***

Mr. Speaker, Canada as a whole has moved a long way on the environment since we presented the 2016-17 Budget, including the development of the *Pan-Canadian Framework on Climate Change*. Over the next year we will continue to work with the rest of Canada to

ensure the success of this pan-Canadian initiative while recognizing the unique challenges for our territorial economy and environment.

We have extended the funding of almost \$2.1 million for transboundary water management agreements under the *Water Stewardship Strategy and Action Plan* and propose adding \$82,000 to expand the hydrometric networking program. We are continuing \$253,000 in funding for permafrost research and development.

We are also proposing to use \$130,000 in this Budget to fund an Unmanned Aircraft Systems Coordinator. This small investment will help GNWT departments expand their environmental and infrastructure monitoring capabilities at a reduced cost and use this more accurate and comprehensive information to improve decision-making and knowledge sharing.

Budget 2017-18 includes \$15.3 million in various initiatives that will assist in developing the economy including almost \$14 million for operations for the Mackenzie Valley Fibre Link project. This critical piece of infrastructure is expected to be completed this winter and is already providing interim services that are improving internet capacity for residents, businesses and government in communities along the route and providing a critical link between the expanding satellite stations located at Inuvik and the rest of the world.

We need fresh ideas and energy to build a more diversified economy and the 18<sup>th</sup> Legislative Assembly Mandate supports this need, in part, through its goal to increase the number of immigrants working and investing in the NWT. We propose to support an immigration strategy that improves the application processes, increases awareness of immigration programs, and combines administrative supports through a \$132,000 investment to fund an Investment and Immigration Officer position dedicated to support the Northwest Territories Nominee Program.

We also propose to spend more to maintain the quality of the services we provide to our growing tourism industry with \$132,000 in additional resources for a North Slave Tourism Development Officer. Over the past few years the North Slave region has added 15 new tour operators because of increased demand, especially from the adventure travellers who want to experience winter activities in our pristine environments.

As always, we need transportation infrastructure to connect our communities and keep our economy on the move. While the 2017-18 investments in transportation infrastructure is part of the *Capital Estimates* approved last October, the operation and maintenance of our infrastructure investments is a significant part of this Budget. We propose to provide an additional \$698,000 for increased costs related to the Fort Simpson Region Highway and Winter Road contracts, \$298,000 for the operation and maintenance of the Inuvik to Tuktoyaktuk Highway, which is scheduled to begin operation later this year, and the remaining amount of the \$182,000 invested over three years for construction and maintenance of the Wekweètì winter road.

The Assembly has included completion of the all-season road from Highway 3 to Whatì in its Mandate. With the recent federal announcement to fund a portion of the Tłıchǫ All Season Road through their P3 Canada Fund, our Government intends to move forward as quickly as possible on this initiative. The Tłıchǫ All Season Road will provide the benefits of year-round access to the highway corridor for Whatì residents and increases the potential for resource development in the area. In the near term, this important piece of infrastructure will provide an economic boost for local employment and business opportunities.

### ***Governance: Improving Accountability, Transparency and Collaboration***

Effective April 1, 2017, we are amalgamating the central agency departments of Executive and Aboriginal Affairs and Intergovernmental Relations into one department called Executive and Indigenous Affairs and amalgamating the Department of Human Resources and the Department of Finance. These amalgamations are reflected in this Budget and are expected to strengthen overall service delivery and save approximately \$1 million in expenditures. Much of the savings will be realized by the creation of a shared corporate services function that will support the two new departments.

The amalgamation of the departments of Transportation and Public Works and Services into the Department of Infrastructure on April 1, 2017 will save more than \$5 million in expenditures when fully implemented and lead to more effective program delivery to NWT residents and businesses and to the GNWT.

The Single Window Service Centres that provide residents in smaller communities with one-stop access to GNWT programs and services are an excellent example of action to improve transparency for NWT residents in dealing with the GNWT. Our 20 Single Window Service Centres staffed by Government Service Officers who serve as community liaisons and provide outreach services, including home visits, are becoming the face of the GNWT for many of our residents. We are pleased to propose expanding the program by adding \$95,000 in this Budget for a single-window service centre on the Kátł'odeeche First Nation reserve.

We continue to work to make the machinery of government as efficient and effective as possible. As part of our ongoing Financial Renewal Strategy, we are upgrading our core financial, procurement, human resource and payroll systems. This \$3.9 million investment will support the upgrade and allow for delivery of support for our administrative systems as well as standard maintenance updates for the next seven years.

We can't borrow without paying the piper and have added \$200,000 to the Budget to meet the interest expense on our long-term debt.

Mr. Speaker, the results of the 2014 Municipal Funding Review show that our funding to help community governments provide municipal services is not enough to meet the needs of community governments. We made a commitment in our Mandate to do better to close

the gap in funding levels to meet municipal core needs. As part of the larger strategy to improve asset management and encourage communities to become as self-sufficient as their economic bases allow, we propose to add \$528,000 to begin to address community operating and maintenance budget shortfalls and a further \$601,000 in additional water and services transfers to our communities in this Budget. This additional water and services funding will provide community governments with resources to maintain solid waste sites and provide garbage collection services.

The Property Taxation Revenue Grant Program is used to grant the property tax revenue generated in the General Taxation Area communities to the respective municipal governments in an effort to transfer more decision-making authority and resources to community governments. While the property tax revenues increase in these communities, the grant budget has not and in this Budget we are adding \$90,000 to cover the shortfall.

This Budget also adds almost \$5.5 million in one-time funding to continue the construction of 45 market rental units for leasing to RCMP members in Inuvik, Norman Wells, Hay River, Fort Smith and Fort Simpson. This one-time funding initiative is a northern solution for a housing problem where the NWT Housing Corporation and the Department of Justice are working in partnership with the RCMP to meet their housing needs so that they are better able to deliver policing services to NWT residents and not worry about constructing and maintaining housing units for their members. This initiative gives the NWT Housing Corporation an opportunity to generate more revenues and, through its procurement approach and use of the existing property management services of its Local Housing Organizations, will provide employment opportunities for northern communities for years.

## Looking Ahead

Mr. Speaker, despite the serious fiscal challenges, we have continued to provide quality programs and services to the residents of the Northwest Territories. We have made investments and initiated policy changes in key areas that will benefit the Northwest Territories for years to come. This Budget builds on the foundation we laid in last year's Budget and is very much part of the work in progress to achieve the goals and priorities of the 18<sup>th</sup> Legislative Assembly. We made some difficult fiscal choices in these two Budgets to put us on a sound long-term fiscal plan so that we can have the flexibility to continue to make investments today that will produce, in the longer-term, the benefits of a protected environment, a stronger, more diversified economy, and healthy, self-reliant people.

We know there will be more difficult decisions ahead but if we keep our focus clearly on the Mandate that has been set by this Legislative Assembly, we will be able to achieve a powerful legacy that will benefit our territory for years to come. Our focus must be broad enough to encompass a longer-term perspective and be able to look ahead to ensure that we have the resources to make future investments in our people, in the land, and in the economy.

## Conclusion

Mr. Speaker, I believe this Budget should provide cautious optimism that we have turned the corner towards a more sustainable financial footing as a government.

The decisions we have made to reduce our spending on programs and services and implement initiatives to increase our revenues are a solid start. This stronger footing is reflected in the small forecast cash surplus for 2017-18, reversing the pattern of the last several years where we spent more in the year than we brought in as revenue.

But we are not there yet. Just one unpleasant shock to our revenues or another disastrous forest fire season, and we will be back to adding to the debt that future residents will have to pay. We also know that our revenue outlook shows modest growth for the immediate future which means we will need to continue to manage spending growth in the coming years.

However, we must also not lose sight of what we have achieved while coping with our fiscal environment.

We are protecting our core programs and services for our residents and in many cases have managed to enhance them.

We are advancing this Assembly's Mandate through investments in our priorities.

We are investing in infrastructure to provide programs and services to our residents and to support our economy now and in the future.

We are doing all this without adding to the debt our grandchildren will have to pay.

With the support of this Assembly and residents we will continue this responsible fiscal path to invest in individuals, families and communities to ensure the Northwest Territories is a place where our people can thrive and be healthy, where a well-managed environment contributes to our economic wellbeing and quality of life, and where a strong economy provides jobs and opportunities for our communities.

Thank you, Mr. Speaker.





# **Budget Address**

**2017 – 2018**

***NORTHWEST TERRITORIES***

## **BUDGET PAPERS**

**A ♦ Economic Review**

**B ♦ Fiscal Review**

**February 1, 2017**



## **ECONOMIC REVIEW**

### **Outlook**

The economic outlook for the Northwest Territories (NWT) is mixed. Real GDP was flat in 2016, growing only 0.2 per cent over 2015 but is forecast to increase 13.7 per cent in 2017. This forecast growth is driven largely by the first full year of commercial production at the Gahcho Kué diamond mine as well as increased carat production by the industry. These increases will offset declines in private-sector investments and reduced government spending.

The outlook for the NWT diamond industry is also mixed. All existing NWT diamond mines are set to close by 2034. The Diavik diamond mine is expected to close first with operations scheduled to stop in 2023. The Ekati diamond mine, with its investment in the Jay Pipe, is expected to extend its production life until 2034. Gahcho Kué has a planned mine life to 2030.

While diamond mine production is increasing in the immediate future, mineral exploration investments fell by one half from 2015 to 2016, putting into question the discovery and development of the next generation of NWT mines.

Public sector investments in projects such as Stanton Territorial Hospital and infrastructure linked to the federal Building Canada Funds will increase in the near term, contributing to a more diversified economic base. However, government investments will be dwarfed by a steep decline in mining industry investments, which in turn will have a negative impact on the construction and wholesale sectors.

The NWT economy competes in the global market, whether it is marketing diamonds or attracting tourists. Global financial conditions, currency movements, and global economic stability can directly impact the NWT economic outlook.

## NWT Economic Outlook

<b>Indicator</b>		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017f</b>
Gross Domestic Product	chained (2007) millions of dollars	3,612	3,803	3,854	3,861	4,389
	<i>per cent change</i>	2.9	5.3	1.3	0.2	13.7
Total Investment	chained (2007) millions of dollars	1,255	1,300	1,523	1,403	1,140
	<i>per cent change</i>	7.1	3.6	17.2	(7.9)	(18.7)
Household Expenditure	chained (2007) millions of dollars	1,372	1,392	1,418	1,431	1,450
	<i>per cent change</i>	1.7	1.5	1.9	0.9	1.3
Government Expenditure	chained (2007) millions of dollars	1,673	1,765	1,826	1,810	1,748
	<i>per cent change</i>	1.3	5.5	3.5	(0.9)	(3.4)
Exports	chained (2007) millions of dollars	2,519	2,672	2,616	2,678	3,345
	<i>per cent change</i>	2.8	6.1	(2.1)	2.4	24.9
Imports	chained (2007) millions of dollars	3,319	3,457	3,635	3,571	3,407
	<i>per cent change</i>	2.8	4.2	5.1	(1.8)	(4.6)
Employment (Resident)	number of persons	23,200	22,100	21,900	22,500	22,800
	<i>per cent change</i>	0.4	(4.7)	(0.9)	2.7	1.3
Average Weekly Earnings	dollars	1,340	1,398	1,421	1,405	1,441
	<i>per cent change</i>	1.6	4.3	1.7	(1.2)	2.6
CPI (All-Items), Yellowknife	2002=100	126.2	128.4	130.4	132.0	134.5
	<i>per cent change</i>	1.5	1.7	1.6	1.2	1.9

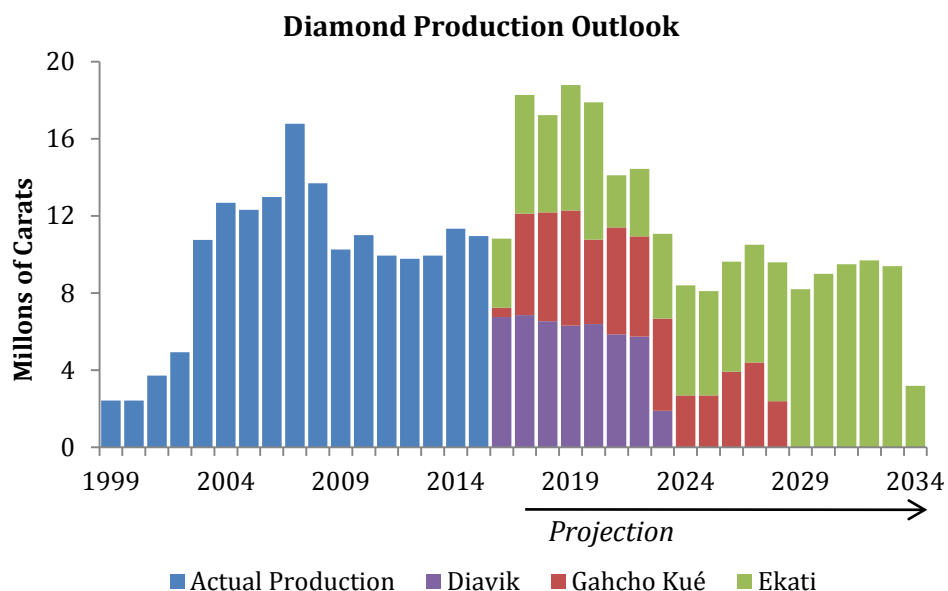
e: estimate

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, and those expected to be submitted for environmental review and permitting, are all set to end production by 2034. 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.



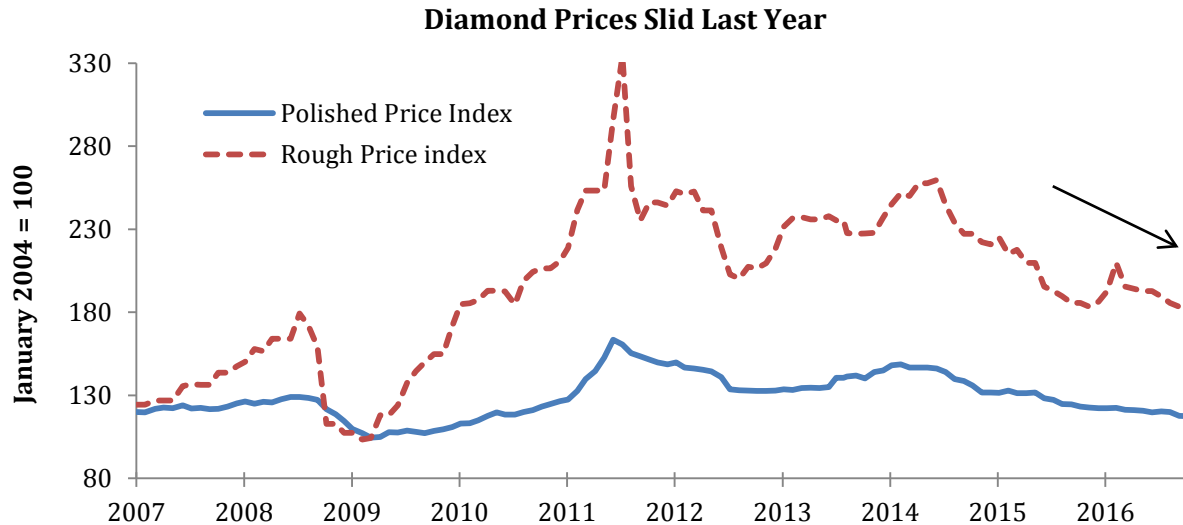
Source: Natural Resources Canada, mining plans and technical reports, NWT Finance

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 by between 5 and 10 percent from 2015 to 2016. Part of the decrease in rough diamond prices is because of the increase in the supply of diamonds as three new mines, Gahcho Kué in the Northwest Territories, Victor in Ontario and one in Lesotho, began production. Rough diamond prices are also declining because of lower polished diamond prices. The businesses selling polished diamonds are making reduced profits because of increased financing costs, currency volatility, and weak demand. As a result, the demand for rough diamonds has decreased, which also reduces the price for rough diamonds. The demand for polished diamonds is expected to increase as the economies of China and India improve, which should improve polished diamond prices.

Responding to the slump in prices, diamond companies took steps to rebalance the supply and demand for rough diamonds. The supply of rough diamonds delivered to the market was reduced through lower mine production and higher rough diamond inventories. Market demand for rough diamonds was stimulated by reducing prices. For example, DeBeers reduced its prices by 17 per cent over the last two years.

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

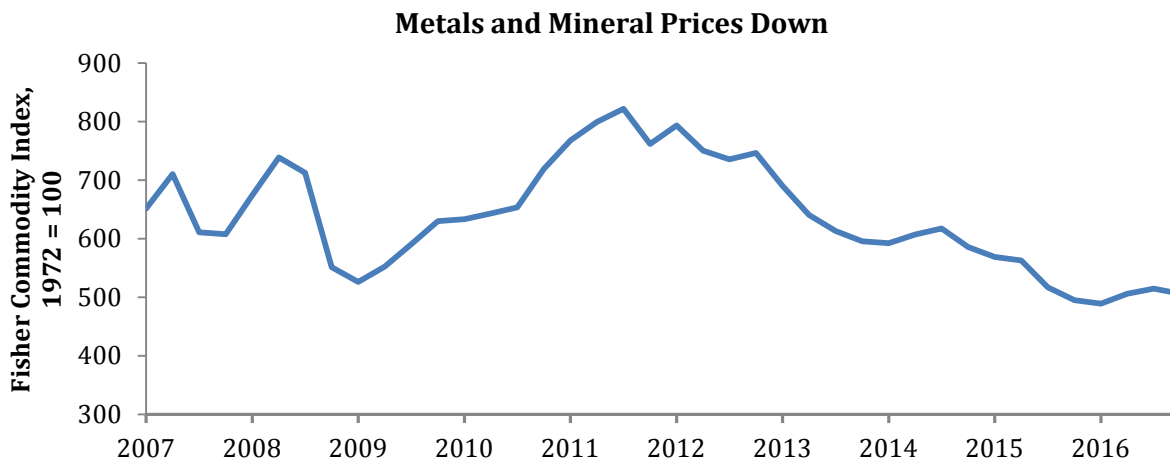
polished diamond prices. The spread between rough and polished stones has squeezed the profit margins of manufacturers, and point to potential future price pressures because many manufacturers have closed their businesses. NWT diamond mines produce rough diamonds, exporting them to manufacturers who cut, polish, and clean the stones, making the price spread a key risk to the NWT economic outlook.



Source: PolishedPrices.com and WWT Overall Rough Diamonds

### 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. 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.

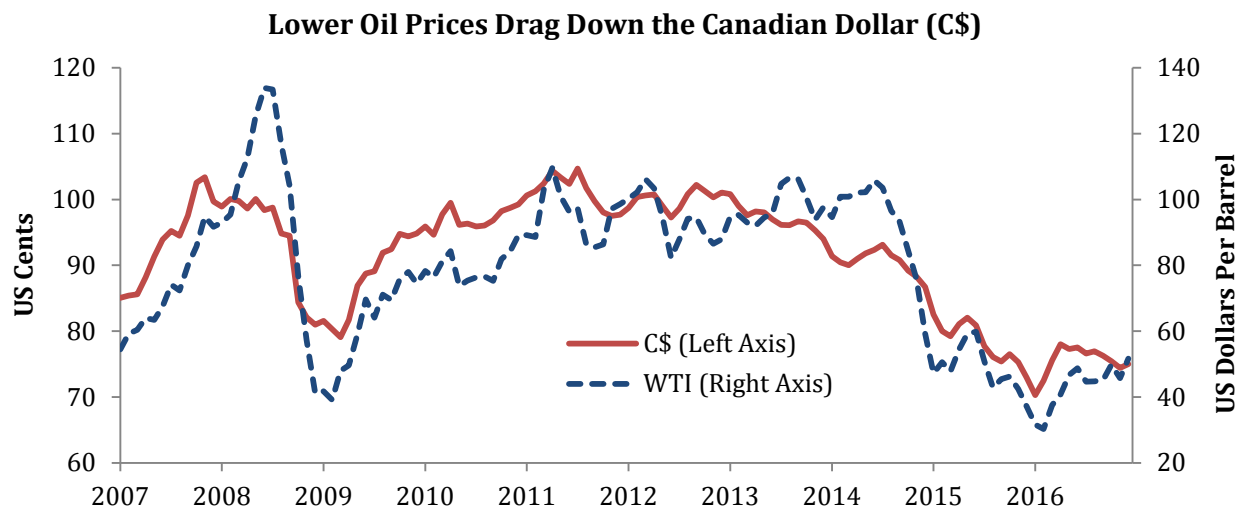


Source: Bank of Canada

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. The benchmark West Texas Intermediate (WTI) crude oil price fell over 40 per cent in less than six months. This trend reached a bottom of \$26.19US on February 11, 2016, and now appears to be reversing. By the end of 2016 WTI was trading above \$50US per barrel. Because the NWT exports a small amount of oil to international markets, the drop in oil prices will have a slight negative effect on NWT trade 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 fuel costs for many businesses and households. A rebound in WTI price 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.



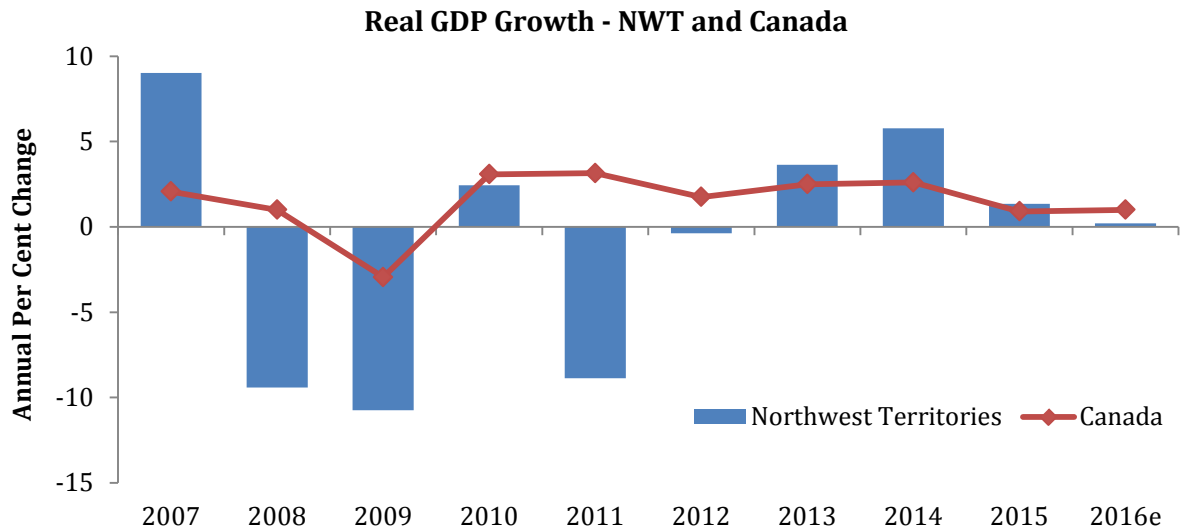
Source: US Energy Information Administration and Bank of Canada

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 75 US cents in 2016, down 4 per cent from 78 US cents in 2015 and down 17 per cent from 91 US cents in 2014. With oil prices expected to remain low, the Canadian dollar is likely to also remain low. At the beginning of 2017 the Canadian currency was trading at 75 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*

The NWT economy slowed in 2016. Real GDP increased just 0.2 per cent in 2016 after rising 1.3 per cent in 2015. Flat growth reflected declines in private investment by diamond mines with the completion of major construction activities at Gahcho Kué and reduced government expenditures.



e: estimate

Source: NWT Bureau of Statistics and NWT Finance

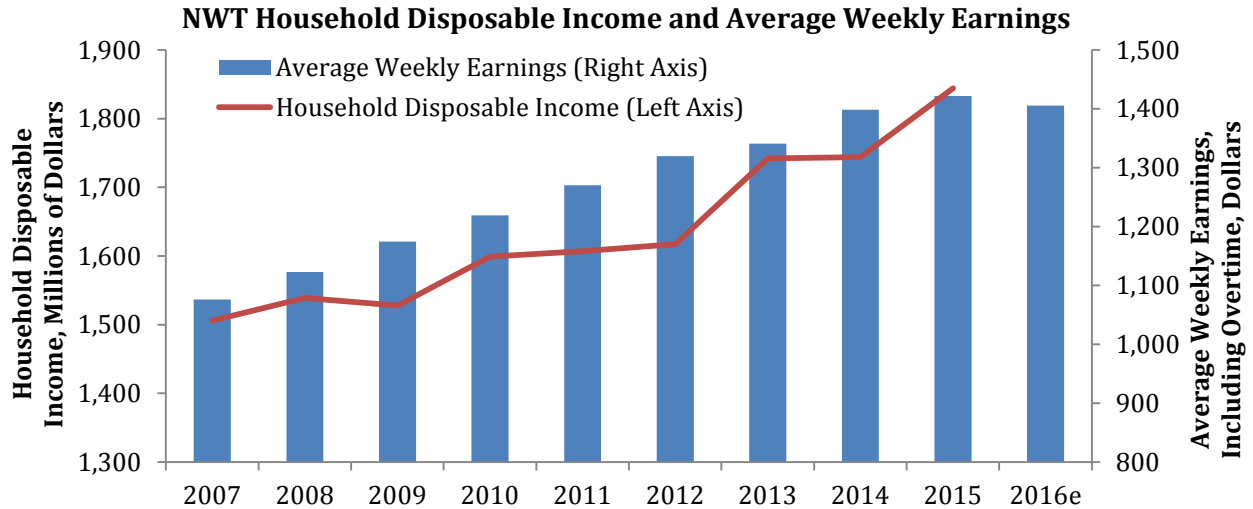
The NWT economy remains smaller than it was in 2007 before the global financial crisis occurred and when the diamond mines were investing in mine construction. In 2016 real GDP was 17.3 per cent below what it was in 2007 when diamond mines were producing higher quality diamonds, commodity prices were higher, and mine construction was underway.

## 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 5.7 per cent from 2014 to 2015. However, during the first nine months of 2016, labour income, a large component of personal income, decreased by 0.3 per cent compared to the same period in 2015.

Wages and salaries earned by employees in the NWT are well above the national average. In 2015, average weekly earnings, including overtime, declined 1.1 per cent, from \$1,422 in 2015 to \$1,405 in 2016. This weekly rate was the second highest in the country, below only Alberta.





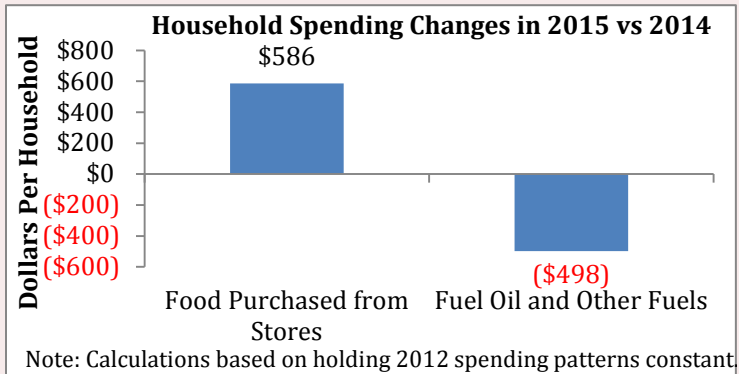
e: estimate

Source: NWT Bureau of Statistics and Statistics Canada

**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.



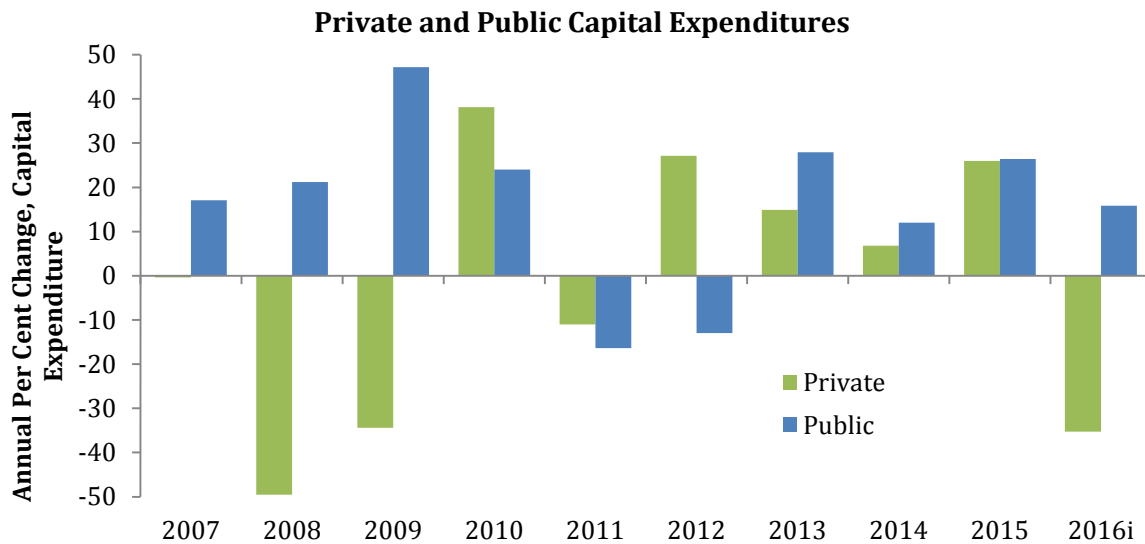
**Recent Economic Performance – Investment**

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 in 2016, as indicated by reduced total capital spending intentions of \$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 projects 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 per cent increase in capital spending in the mining, and oil and gas extraction sector. Much of this investment spending in these industries was for the

construction of the Gahcho Kué diamond mine and now that this construction is completed, overall capital expenditure by the private sector is expected to fall 35 per cent in 2016 to \$647 million.



i = intentions

Source: NWT Bureau of Statistics and Statistics Canada

The mining industry has a major impact on the NWT economy. A single diamond mine may involve capital expenditures of over a billion dollars and, in an economy where the GDP hovers between four and five billion dollars, the economy will show a large increase with the start of construction. When the mine construction ends and commercial operation begins, the GDP will drop because of the lower construction investment but will remain higher than the pre-construction GDP level because of the value of the annual production. When a mine stops production, the absolute level of the NWT GDP will be lower. The investment cycle is very pronounced.

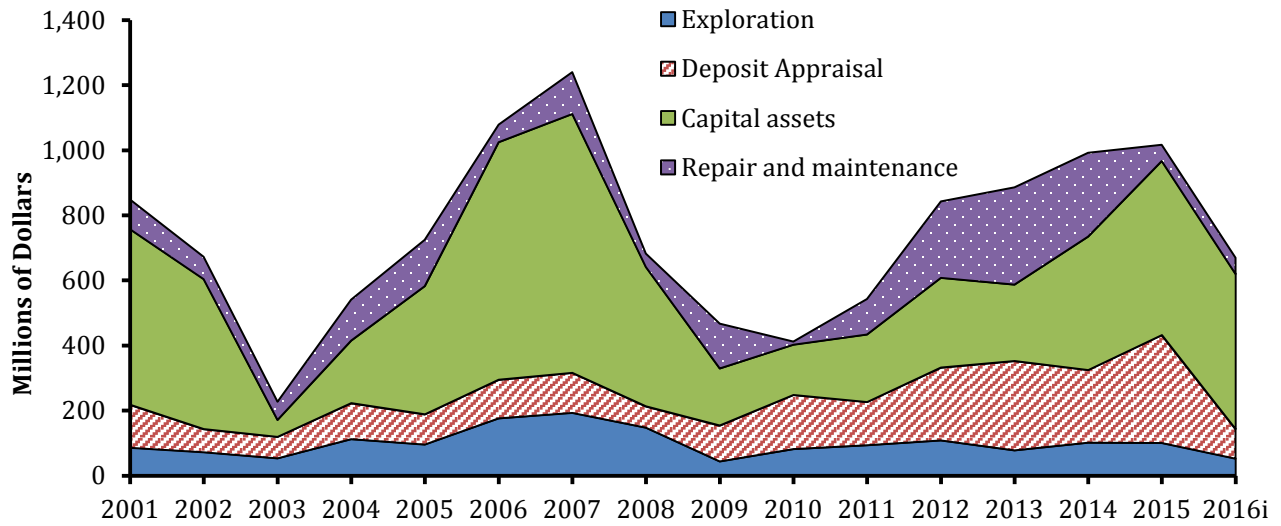
Total investment by the mining industry increased from \$993 million in 2014 to \$1,026 in 2015, reflecting major construction expenditures from the Gahcho Kué diamond mine. Spending intentions for 2016 indicate investment spending in this sector will decline by 36 per cent this year to \$657 million.

The NWT mining industry sustains itself through an investment cycle starting with exploration to identify mineral deposits. Exploration expenditures are expected to decline by 47.5 per cent in 2016, falling from \$101 million in 2015 to \$53 million in 2016.

Deposit appraisal expenditures are undertaken to assess the commercial potential of the deposit including the costs of extraction and complying with environmental protection requirements. Deposit appraisal expenditures are expected to decline by almost three quarters, from \$331 million in 2015 to \$90 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 \$535 million. During 2016 and with the completion of construction of Gahcho Kué, investment expenditures in capital assets is expected to fall to \$477 million, an 11 per cent decrease from 2015. Repair and maintenance expenditures for the industry are expected to remain unchanged at \$50 million.

**NWT Mineral Resource Development Investment Cycle**



i = intentions

Source: Natural Resources Canada and NWT Finance

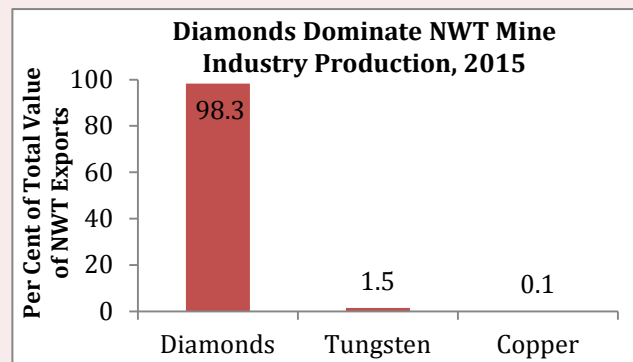
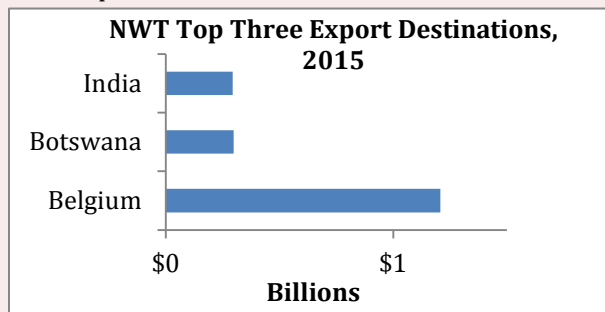
**Recent Economic Performance - Trade**

The small, open NWT economy depends on trade with other jurisdictions. The NWT exports natural resources (mainly diamonds) 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.

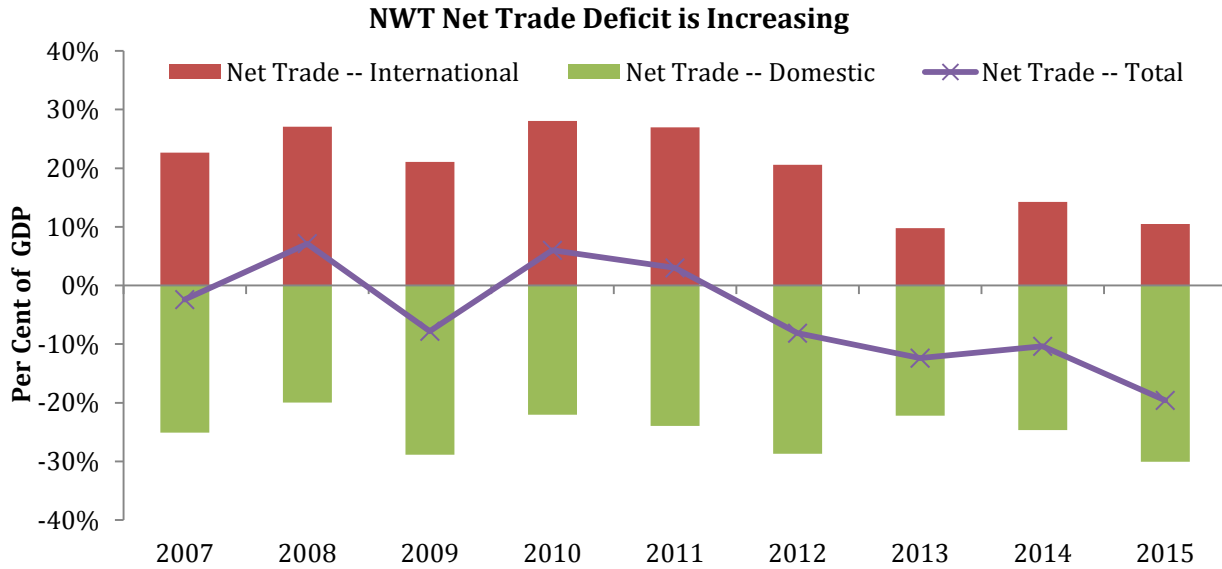
The NWT trade surplus with other countries, relative to real GDP, has declined over the past few years; decreasing from 14.3 per cent of GDP in 2014 to 10.5 per cent in 2015. Imports have increased the overall NWT trade deficit from 10.3 per cent of GDP in 2014 to 19.6 per cent in 2015.

**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

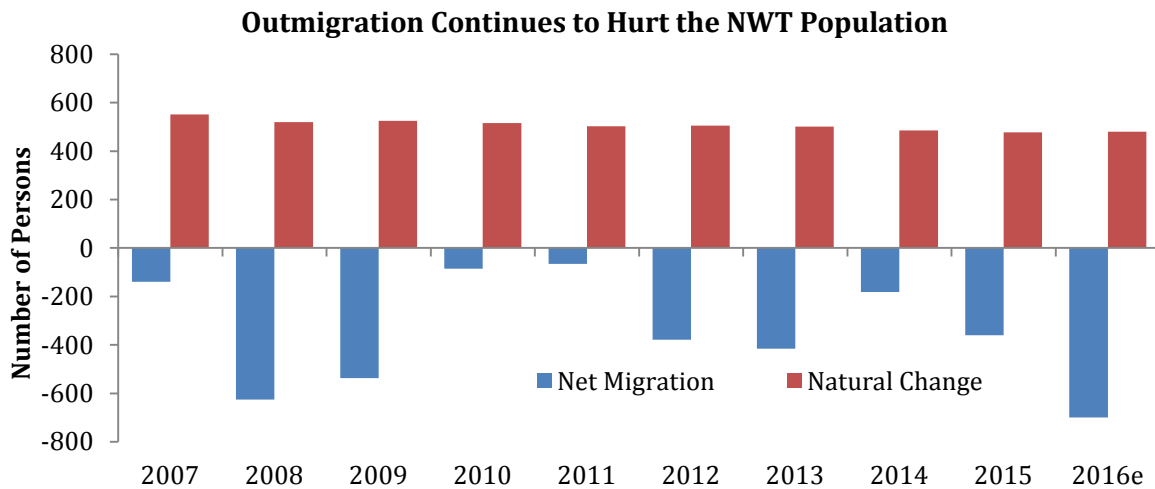


Source: Statistics Canada and NWT Finance

## 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’s population has been relatively stable over the past decade. As of July 1, 2016, the NWT population was estimated to be 44,469 people, an increase of 225 persons, or 0.5 per cent, from July 1, 2015.

Three factors account for this population increase of 225: natural change (births minus deaths), interprovincial migration, and international migration. Between July 1, 2015 and July 1, 2016 there was a net natural increase of 452 persons (685 births minus 233 deaths), while interprovincial migration resulted in a net loss of 421 persons (2,323 persons moved into the NWT from the rest of Canada and 2,744 persons moved out). Internationally, there was net in-migration of 194 persons.

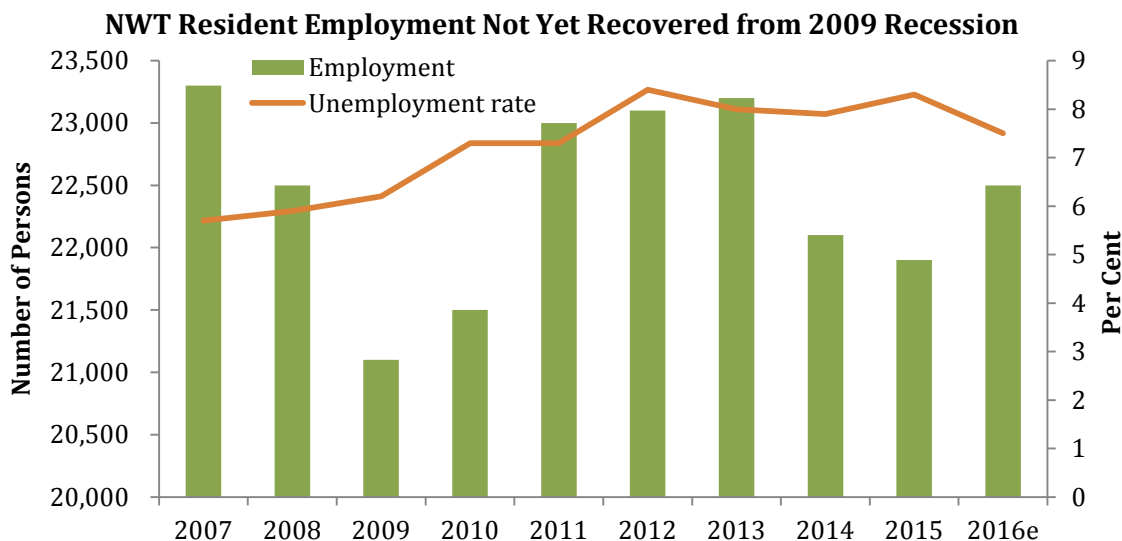


e: estimate

Source: NWT Bureau of Statistics

## Recent Economic Performance – Labour

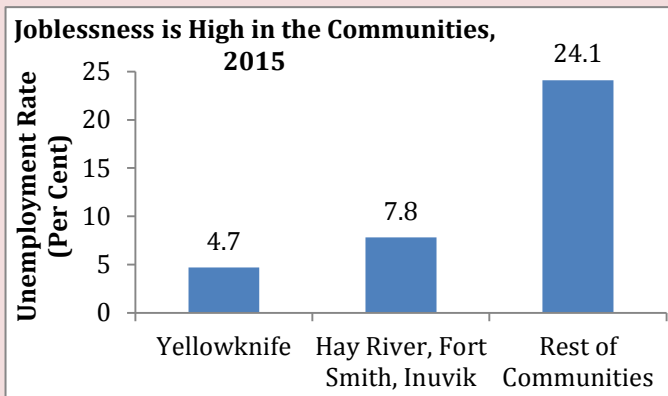
In 2016, NWT resident employment was estimated at 22,700, an increase of 800 persons from 2015 and 600 persons below the 2007 pre-recession high. This increase reflected an increase in the size of the NWT labour force and a reduction of the unemployment rate from 8.3 per cent in 2015 to 7.5 per cent in 2016. In 2016, the NWT employment rate (the share of the labour force that is employed) was 69.8 per cent, up from 68.5 per cent in 2015, but well below the 2007 pre-recession employment rate of 74.0 per cent.



e: estimate

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.

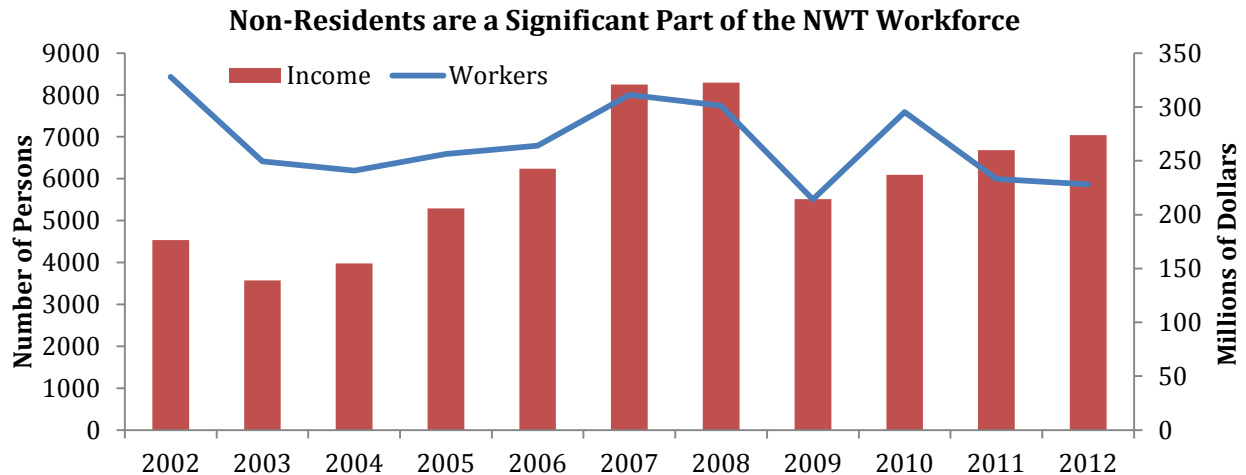
While unemployment is relatively low in the larger centres of Yellowknife, Hay River, Fort Smith and Inuvik, unemployment in the other smaller, more isolated communities is high.

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 2002 and 2012, non-resident workers accounted for about one third of the NWT workforce.



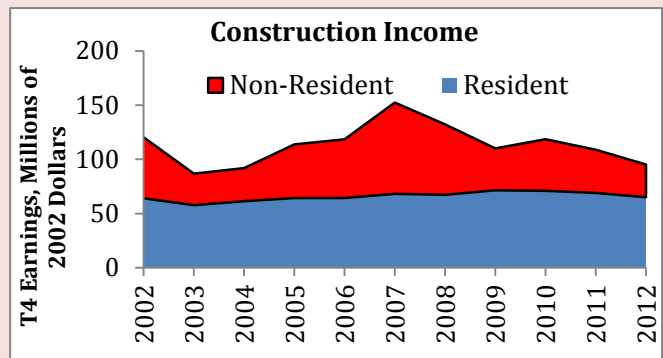
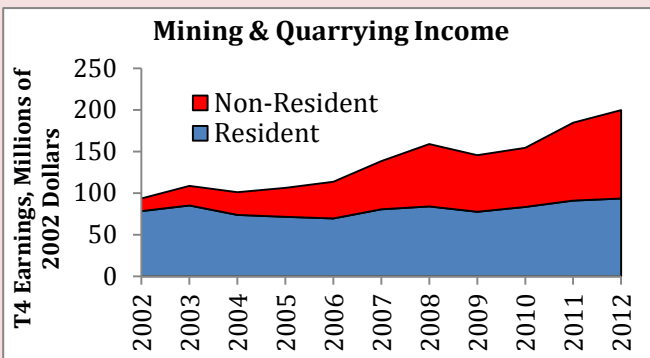
Source: Statistics Canada and NWT Finance

Each year 5,000 to 8,000 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 2002 and 2012. This represents approximately 18 per cent of all employment income generated in the NWT.

Non-resident workers who are employed in the NWT provide skills needed by NWT businesses but this reliance on out-of-territory workers means lost NWT business from consumer spending 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 immigration 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 respond to changing economic conditions in other regions in order to shift recruitment opportunities to 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.

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

In 2012, 53 per cent of employment income in the NWT mining industry and 32 per cent of employment income in the construction sector was paid to non-resident workers.

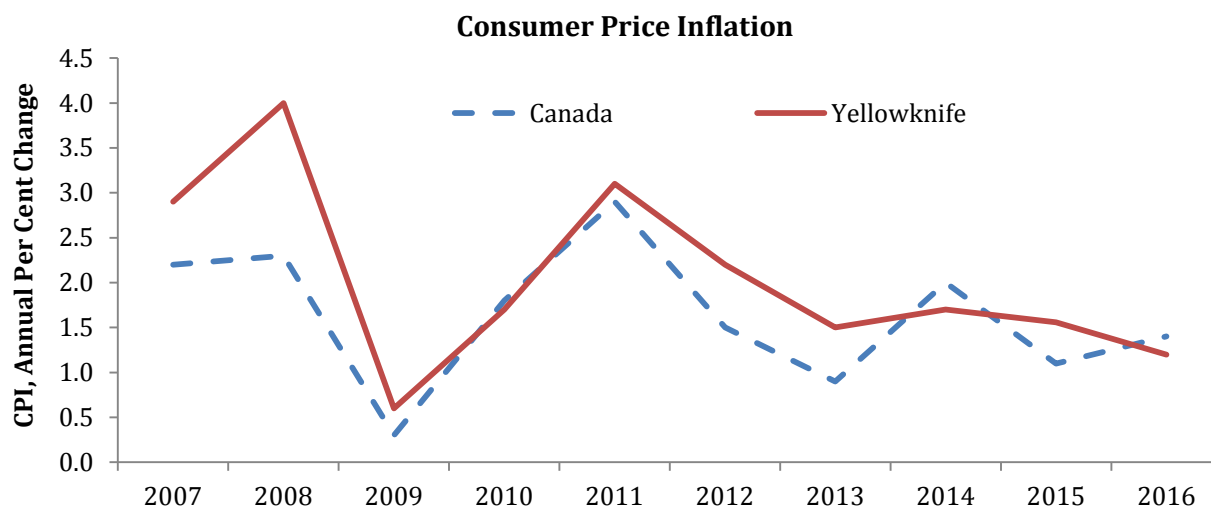


Source: Statistics Canada and NWT Finance

## 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 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.

The Yellowknife Consumer Price Index (CPI) increased by 1.2 per cent in 2016, slowing slightly from a 1.6 per cent increase in 2015, 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 lower last year than in Canada as a whole.



Source: Statistics Canada

## Key Sectors – *Composition of the Economy*

The NWT economy relies heavily on the extractive, non-renewable resource sector, especially the diamond mining industry. In 2015, the mining, oil, and gas extraction sector accounted for over a fifth of NWT GDP if 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.

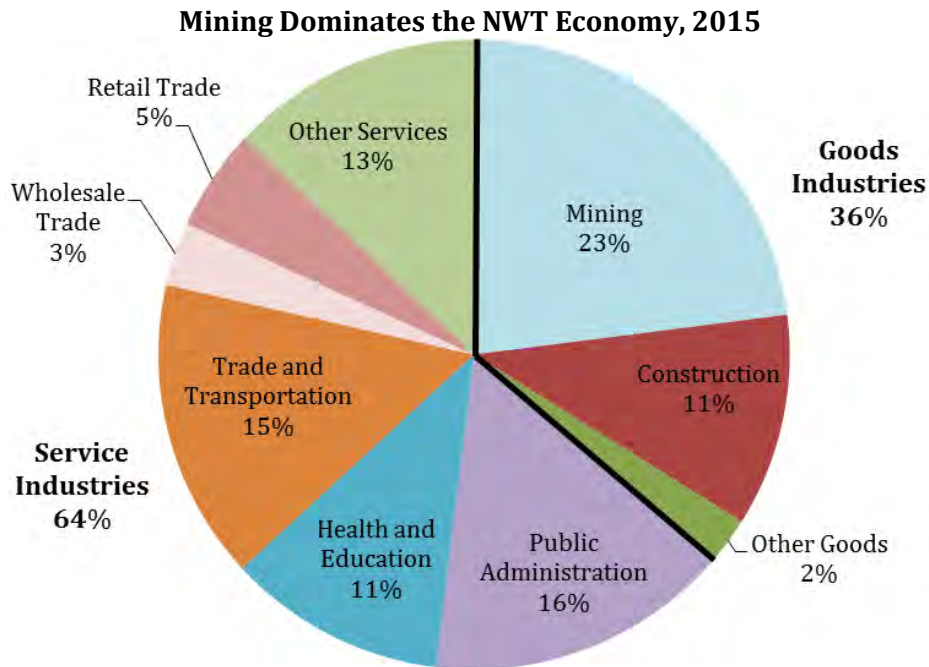
Economic diversity provides more stable and balanced growth by spreading risk more evenly across a number of sectors, making the economy more resilient to business cycles and external shocks. Diversification acts as insurance that reduces the sensitivity of the economy to the ups and downs associated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

The goods-producing sector accounted for 36 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



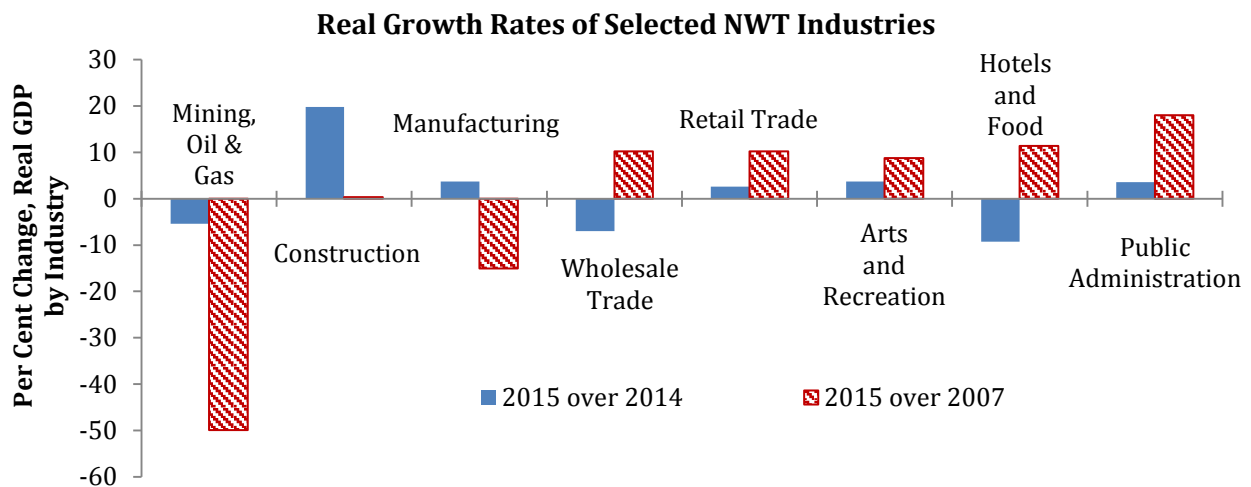
11 per cent of NWT GDP in 2015. The remainder of the goods-producing sector accounted for 2 per cent of GDP and was comprised of renewable resources, utilities, and manufacturing industries.

The combined services-producing industries accounted for 64 per cent of NWT GDP in 2015. Public sector activities dominate this sector, with public administration, education, health and social services accounting for 27 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.



Source: Statistics Canada

From 2007 to 2015, the mining, oil and gas industries shrunk by 50 per cent, the manufacturing sector declined 15 per cent, but hotels and restaurants grew 11 per cent. This has meant that the structure of the NWT economy has changed: in 2007, the goods-producing sector accounted for 51 per cent of the NWT economy, but by 2015 that share had fallen to 36 per cent. This reflects the business cycle in the goods-producing industries and the global economic recession.

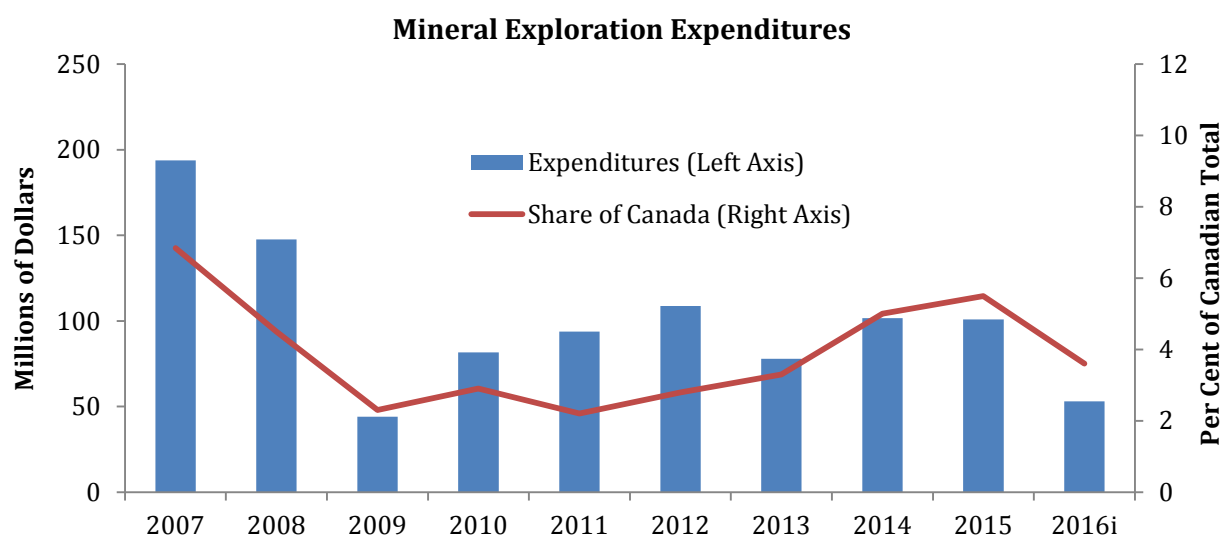


Source: Statistics Canada and NWT Finance



### Key Sectors – Large Industries: Mining, Oil and Gas (23 % of GDP)

The mining, oil and gas sector accounts for 23 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 slightly from \$102 million in 2014 to an estimated \$100 million in 2015. However spending intentions for 2016 are expected to fall to \$53 million. Exploration expenditures are increasingly focussing on diamonds, which account for over three-quarters of intended expenditures in 2016 compared to just over one-quarter between 2010 and 2012. 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, falling to a 3.6 per cent share in 2016. Low commodity prices continue to impact resource development in Canada.



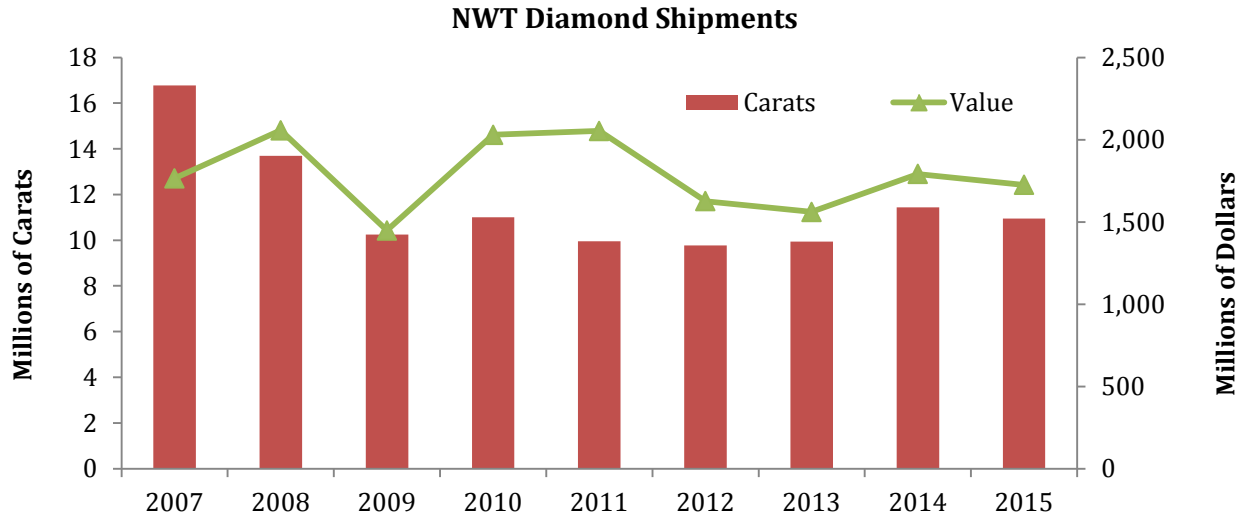
i: intentions

Source: Natural Resources Canada

Over half of 2015 expenditures were spent on mineral exploration activities related to the discovery and re-evaluation of mineral deposits in the NWT. 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 has three producing diamond mines: Ekati, Diavik and Gahcho Kué, which started commercial production in early January 2017. The Snap Lake mine was put on care and maintenance in December 2015 and will be flooded in early 2017.

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.

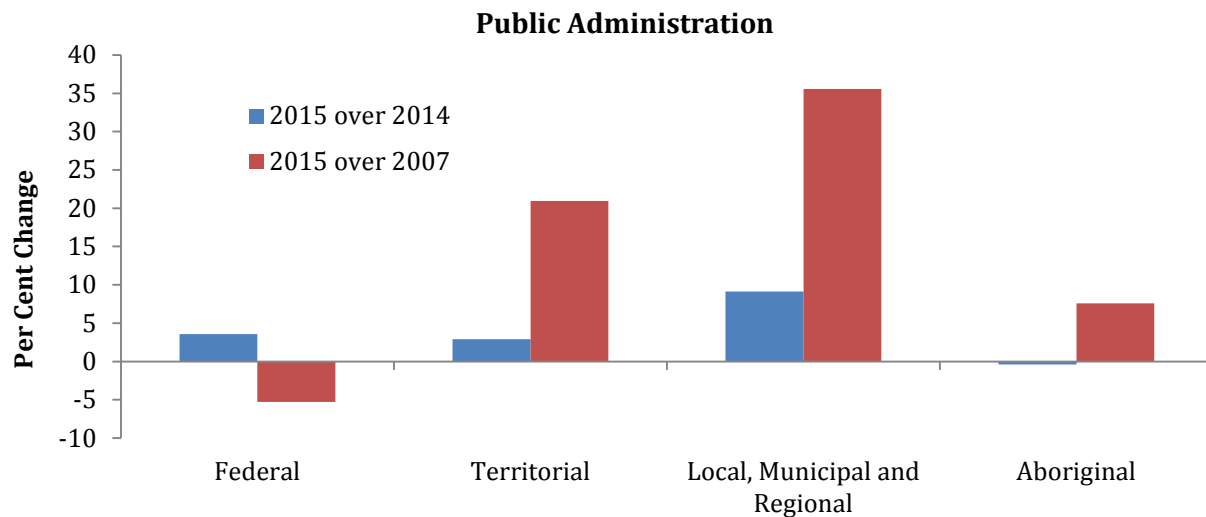


Source: NWT Bureau of Statistics and NWT Finance

### Key Sectors – Large Industries: Public Administration (16% of GDP)

Public administration at all levels of government (federal, territorial, municipal, and Aboriginal) is the second largest industry in the NWT, accounting for 16 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 but excludes however, the health, social services and education sectors.

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 on April 1, 2014.

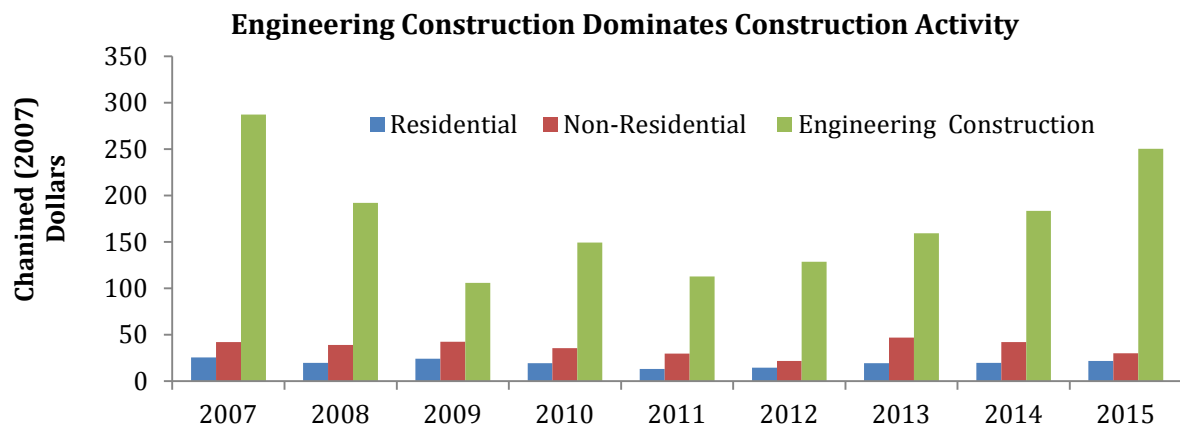


Source: Statistics Canada

## Key Sectors – Large Industries: Construction (11% 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 two-thirds of real construction expenditure in 2015.

Overall construction activity increased 20 per cent from 2014 to 2015, and is now recovered to its pre-recession level. Work on projects such as constructing the Gahcho Kué diamond mine (cost \$1 billion), the Inuvik-Tuktoyaktuk Highway (cost \$300 million), and Mackenzie Valley Fibre Link (cost \$91 million) support increased engineering construction spending by over one third between 2014 and 2015, while residential construction increased by a more modest 10 per cent, and non-residential construction declined by 29 per cent.

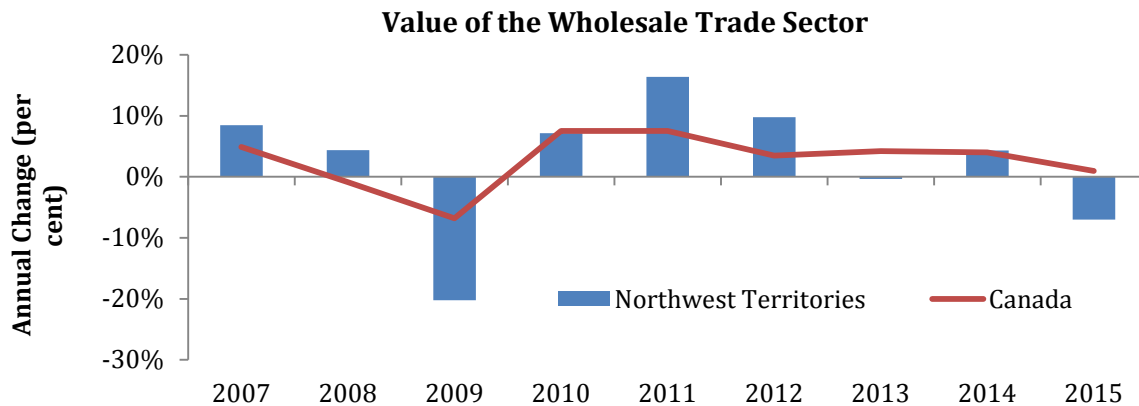


Source: Statistics Canada

## Other Sectors

### Wholesale Trade (3% of GDP)

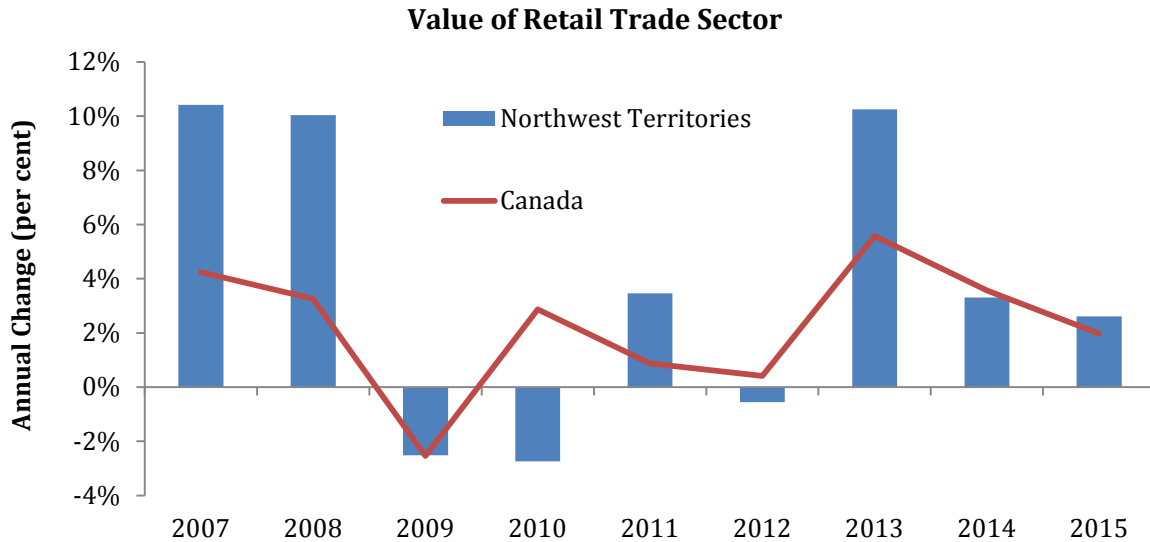
The NWT wholesale trade sector fell from \$141 million in 2014 to \$131 million in 2015, a decline of 7.0 per cent. The national wholesale trade industry recorded a small annual increase of 0.9 per cent over the same period.



Source: Statistics Canada

## Retail Trade (5% of GDP)

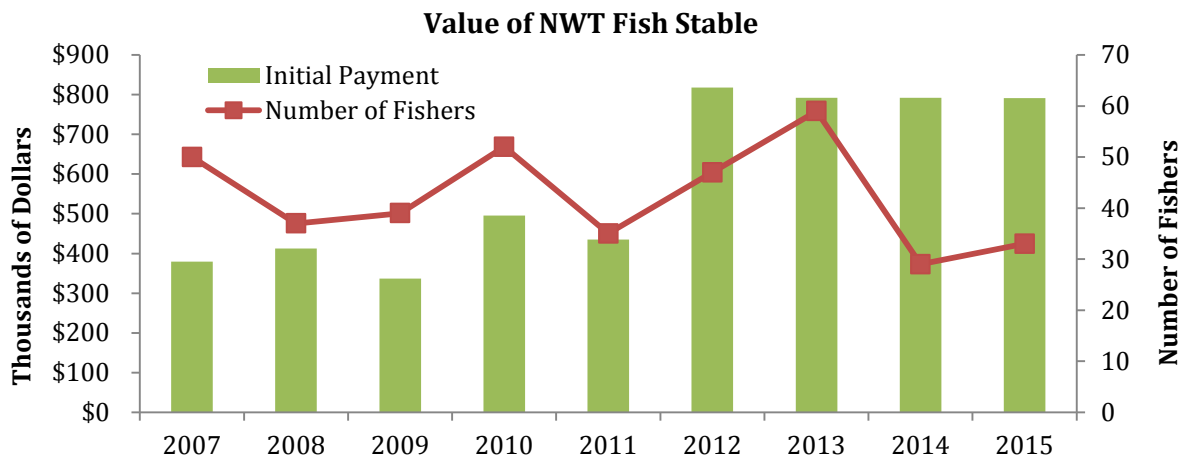
In 2015 the NWT retail trade sector increased from \$203 million in 2014 to \$209 million, an increase of 2.6 per cent. The national retail trade industry recorded increased by 2 per cent over the same period.



Source: Statistics Canada

## Commercial Fisheries

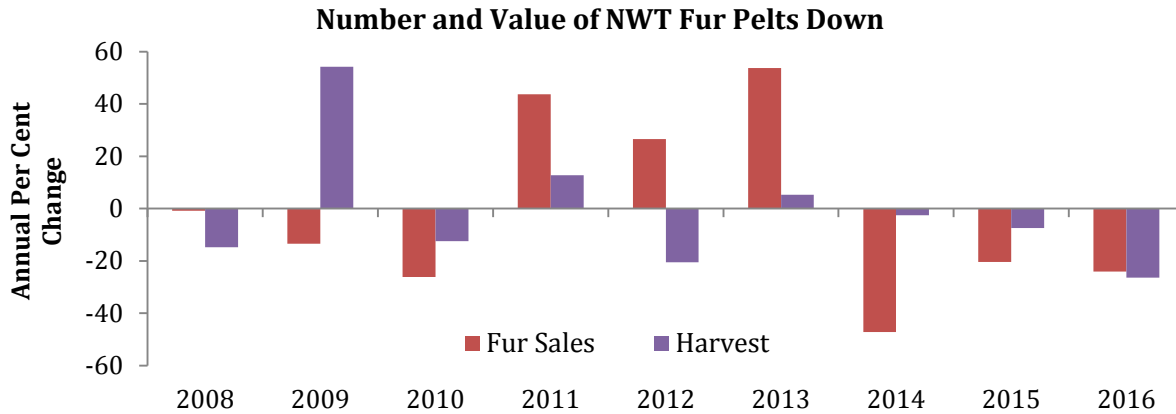
The commercial fishery in the NWT is small with room for growth. Initial payments to NWT fishers – on delivery-point, net-of-freight basis – were unchanged in 2015, decreasing 0.1 per cent from 2014 to \$791,650, while the quantity increased 50 per cent from 288,000 kilograms in 2014 to 432,000 kilograms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



Source: Freshwater Fish Marketing Corporation

### Trapping and Hunting

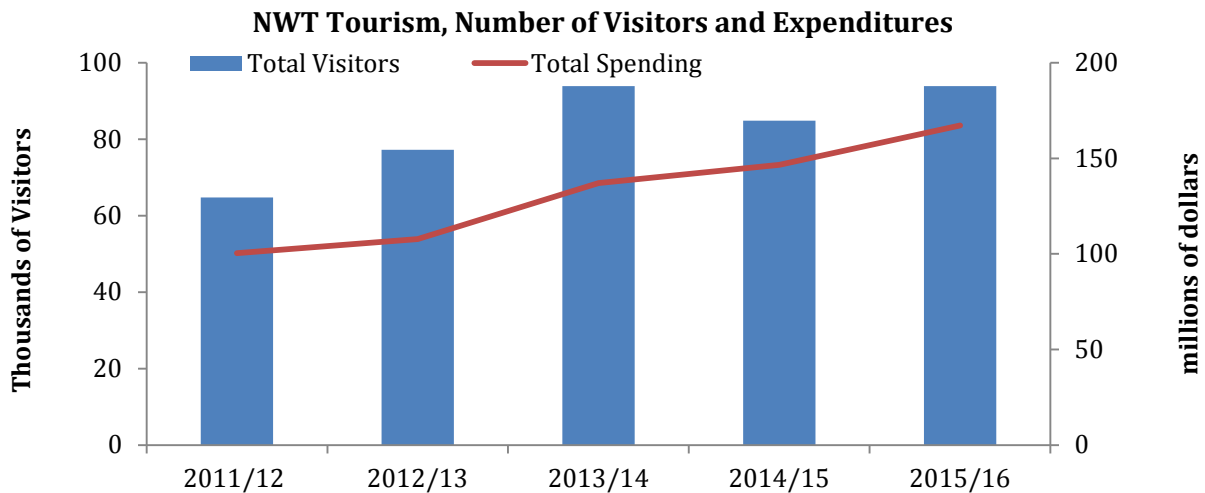
Trapping is a component of the renewable resource sector, and is important to many NWT residents for food, especially in smaller communities. For the year ended June 30, 2016, roughly 17,250 NWT pelts were sold, a decrease of 26 per cent from the previous year, while the value of fur sales decreased 24 per cent to \$742,200. The number of commercial trappers in the NWT increased 3.5 per cent to 677. Although there is a continued decline in total sales which reflects current market conditions, the Genuine Mackenzie Valley Fur program continues to perform as intended by stabilizing the market for NWT trappers, thereby providing financial support.



Source: NWT Industry, Trade and Investment and NWT Finance

### Tourism

Tourism is not formally defined as an industry in the NWT GDP data. However, the tourism industry has direct implications for measured components of GDP such as travel services, accommodations, retail trade industries, and other supporting industries. From 2014-15 to 2015-16, the number of visitors increased 10.7 per cent from 84,800 to 93,900. Over the same period, visitor expenditures rose by 14.0 per cent, increasing from \$147 million to \$167 million.



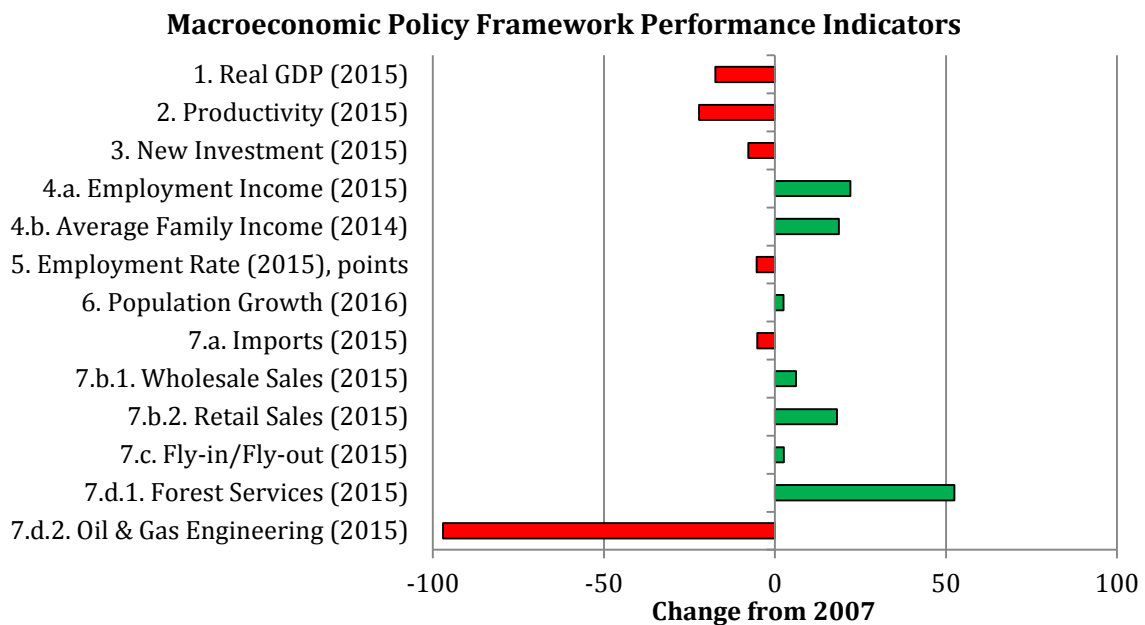
Source: Department of Industry, Trade and Investment

## 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 change in the performance of the NWT economy over time by comparing indicators to their baseline values in 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 economic growth. In the following figure, the indicators with red bars show the percentage decrease in their values and the indicators with green bars show the percentage increase in their values since the baseline year.

The NWT economy has demonstrated a low level of resiliency since the 2008 global financial crisis and the subsequent recession that hit the territory in 2009. This is shown by the many indicators that have not yet returned to their pre-recession levels. Two contributing factors to the low level of resiliency is the economic dependence on the extractive (mainly diamonds) resource industry, and 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.



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

## FISCAL REVIEW

Budget 2017-18 continues to follow the course set at the beginning of the 18<sup>th</sup> Legislative Assembly to deliver on the priorities described in the Assembly's Mandate. For this to be possible, the overriding objective of Budgets 2016-17 and 2017-18 is to ensure the Government of the Northwest Territories' (GNWT) fiscal sustainability. Without this long-range fiscal plan, the GNWT risks the ability to provide quality core programs and services, to invest in the infrastructure needed to support these programs, and to invest in the priorities of the 18<sup>th</sup> Assembly.

The GNWT's revenue outlook remains flat over the medium term. This limits the ability of the Government to respond to the priorities in the 18<sup>th</sup> Assembly's Mandate without reducing expenditures in other areas. Operating expenditures continue to be carefully managed so that the cash deficit incurred over previous Assemblies can be reduced over the 18<sup>th</sup> Assembly. This limits the ability of this Assembly to introduce new initiatives or enhance existing programs and services.

Budget 2017-18 advances the fiscal strategy to ensure that operating surpluses achieved since 2011-12 are sustained. Operating surpluses are needed to make strategic infrastructure investments to grow the economy and deliver government programs and services, support its existing infrastructure assets with repairs and maintenance, and provide flexibility to respond to one-time surprise expenses such as forest fire suppression and diesel subsidies due to low water levels in the hydro system.

## 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 strategy must provide for a fiscal plan to have operating surpluses so that the GNWT will continue to be able to fund infrastructure, including housing, health centres, and school renovations, in adherence to the *Fiscal Responsibility Policy*.

The fiscal strategy adopted early in the 18<sup>th</sup> Legislative Assembly has three main objectives:

- establish more sustainable growth in operating expenditures by managing the growth in programs and services spending so that it does not exceed the growth in revenues;
- increase the GNWT's fiscal capacity by reducing operating expenditures and increasing revenues so that it can address the territory's infrastructure deficit and make other strategic investments; and
- return the GNWT towards a small cash surplus position by the end of the life of the 18<sup>th</sup> Assembly.

Following the fiscal strategy requires fiscal discipline; mainly on the expenditure side. 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 revenues. However, options provided in a discussion paper on potential revenue options tabled in the Legislative Assembly on March 1, 2016 are being considered based on their revenue-raising potential; the principles of sound tax policy, including predictability, fairness, efficiency, and ease of administration; and, the impact of the potential taxes on the Northwest Territories (NWT) economy.

Revenue actions are a long-term strategy. Because of the relatively small portion of the budget that is funded through own-source revenues, new taxes or increased rates alone would not be sufficient to meet the fiscal challenges and risk serious implications for the cost of living and doing business in the NWT. Slow-growing total revenues are due to slow growth in federal transfers, which not only make up the majority of the GNWT's revenue but are also beyond the control of the GNWT to directly influence. Therefore operating surpluses will be achieved mainly through the prudent management of operating expenditure growth.

## **Fiscal Situation and Outlook**

Since the 2010-11 Budget, the GNWT's efforts have been focused on keeping expenditure growth below revenue growth in order to produce operating surpluses for infrastructure investment. The focus on careful expenditure management has become more important because the five-year revenue outlook forecasts relatively flat growth. Given the weak revenue outlook, expenditure growth will have to be similarly constrained if operating surpluses are to be realized, and it is only through operating surpluses that infrastructure investments can be made in a sustainable manner.

To date, efforts to manage the growth in spending have been successful, contributing to five years of consecutive operating surpluses from 2011-12 through 2015-16 and an operating surplus is projected for 2016-17. Provided the current fiscal plan continues, operating surpluses are projected for the 2017-18 Budget and the remainder of the 18<sup>th</sup> Legislative Assembly. The GNWT has maintained fiscal prudence in its operating budget with growth in program spending having halved from five years ago. The resulting operating surpluses were used to make infrastructure investments that otherwise would not have been possible. However, these investments have increased short-term borrowing that must be paid back in the near future.



The GNWT's continuing fiscal prudence is recognized by Moody's Investors Service, which has assigned the GNWT a credit rating of Aa1 continually since 2006 – one of the highest ratings available. As a result, the GNWT is able to borrow on favourable terms.

### ***2016-17 Revised Estimates***

The 2016-17 operating surplus is projected to be \$126 million, \$7 million higher than projected in the 2016-17 Main Estimates, due to a \$36 million increase in estimated revenues partially offset by anticipated increases in supplementary expenditures. The revised 2016-17 revenue forecast is \$1.846 billion, a 2.0 per cent increase from the 2016-17 Main Estimates. Transfers are expected to increase \$17 million from the 2016-17 Main Estimates. Own-source revenues are revised upward by \$20 million due mainly to a rebound in corporate income tax and some growth in personal income tax, and property taxes and school levies. These increases were partially offset by decreases in non-renewable resource revenue, down \$7 million compared to the Main Estimates, and other general revenues, down \$3.5 million.

Infrastructure investment expenditures for 2016-17 are expected to be \$489 million, \$169 million more than projected in the *2016-17 Capital Estimates*. Most of the increase was due to carry-overs from 2015-16, while \$26 million of the increase was new funding for transportation infrastructure.

Total debt at March 31, 2017 is forecast to be \$961 million, leaving \$339 million in borrowing room available from the federally-imposed \$1.3 billion borrowing limit.

### ***2017-18 Budget***

The 2017-18 Budget proposes operating expenditures of \$1.66 billion and forecasts revenues of \$1.86 billion. After adjusting for infrastructure contributions and supplementary reserve requirements, an operating surplus of \$167 million is projected.

Total revenues are forecast to increase \$13 million from the 2016-17 Revised Estimates to the 2017-18 Main Estimates, which is an essentially flat growth rate. The Territorial Formula Financing Grant, which continues to make up the majority of GNWT revenues, will increase 1.0 per cent, or \$13 million, in 2017-18. Other transfers are forecast to remain steady, with a slight \$1 million decrease, or 0.6 per cent.

GNWT own-source revenues (including recoveries) are expected to account for 24 per cent of total revenues in 2017-18. Tax revenues are expected to remain flat due to a projected rebound in corporate income tax offset by forecast declines in personal income tax and property taxes and school levies. Mineral royalties, which are the majority of resource revenues, are projected to be stable in 2017-18. The remainder of own-source revenues are expected to remain broadly stable.

Infrastructure investments for 2017-18, approved in October 2016, are budgeted to be \$266 million, including infrastructure contributions.

Budget 2017-18 marks the turning point in the battle with increasing short-term borrowing with a projected small cash surplus of \$15 million being derived from operations, decreasing the overall cash deficit to \$305 million at March 31, 2018.

Total debt, which includes the NWT Hydro Corporation and other public agencies, is expected to be \$990 million at March 31, 2018, leaving \$310 million in available borrowing room under the federally-imposed \$1.3 billion borrowing limit.

## Medium-Term Outlook

Measures taken to support the Government's fiscal strategy objectives have improved the medium term outlook. The outlook projects that the cash deficit will be almost eliminated by the first year of the next Assembly, which represents a substantial improvement in the GNWT's fiscal position.

### Medium-Term Outlook (\$ millions)

	2015-16 (Actual)	2016-17 (Revised)	2017-18 (Estimate)	2018-19 (Forecast)	2019-20 (Forecast)	2020-21 (Forecast)
<b>OPERATING SUMMARY</b>						
Total Revenues	1,833	1,846	1,859	1,824	1,876	1,928
Total Expenditures <sup>1</sup>	(1,723)	(1,720)	(1,692)	(1,705)	(1,765)	(1,796)
Operating Surplus (deficit)	<b>109</b>	<b>126</b>	<b>167</b>	<b>119</b>	<b>111</b>	<b>132</b>
<b>CAPITAL INVESTMENT</b>	<b>201</b>	<b>379</b>	<b>253</b>	<b>185</b>	<b>140</b>	<b>121</b>
<b>TOTAL (DEBT) AT MARCH 31</b>						
Cash Surplus (Deficit) at year end	(245)	(320)	(305)	(244)	(137)	(12)
Long Term Debt and Guaranteed Debt <sup>2</sup>	(519)	(641)	(685)	(737)	(756)	(777)
Total (Debt) at March 31	<b>(764)</b>	<b>(961)</b>	<b>(990)</b>	<b>(981)</b>	<b>(893)</b>	<b>(789)</b>
<b>BORROWING LIMIT</b>	1,300	1,300	1,300	1,300	1,300	1,300
<b>AVAILABLE BORROWING CAPACITY</b>	<b>536</b>	<b>339</b>	<b>310</b>	<b>319</b>	<b>407</b>	<b>511</b>

<sup>1</sup> Includes infrastructure contributions.

<sup>2</sup> 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.

Expenditure restraint continues to be necessary throughout the outlook because revenue growth is forecast to be relatively flat, with a forecast increase of 1.1 per cent annually. In keeping with the fiscal strategy, the current outlook aligns expenditure growth with revenue growth at 1.1 per cent annually over the same period. Expenditure growth assumes increased costs for existing programs and services will be restrained.

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 while the existing cash deficit is lowered as well. Actions taken to date will not eliminate this short term borrowing over the life of the 18<sup>th</sup> Legislative Assembly. 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.

Strategic investments in transportation and energy infrastructure remain priorities, because they will both support the economy longer term and lower the territory's high energy costs.

Quite apart from economic developments, small tax bases are a serious limitation for increasing own-source revenues. About two-thirds of GNWT revenues come from Territorial Formula Financing (three-quarters from federal transfers generally), which is outside the ability of the GNWT to influence. The Territorial Formula Financing entitlement is projected to increase about 1.7 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.

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 strategies should, in time, help the economy to strengthen and diversify.

### Fiscal Responsibility Policy Outlook (\$ millions)

	2015-16 (Actual)	2016-17 (Revised)	2017-18 (Estimate)	2018-19 (Forecast)	2019-20 (Forecast)	2020-21 (Forecast)
Cash Required for Infrastructure Investment Expenditures - Net of Deferred Contributions Received in the Year	201	379	253	185	140	121
<b>Debt Servicing Payments:</b>						
Capital Leases	3	3	3	3	3	3
MVFL - Capital Payment	-	-	8	8	8	8
Stanton - Capital Payment	-	-	-	12	18	18
Deh Cho Bridge	9	9	10	11	12	12
Short-term Interest Expense	1	2	2	2	2	2
<b>Total Debt Servicing Payment</b>	<b>13</b>	<b>14</b>	<b>23</b>	<b>36</b>	<b>43</b>	<b>43</b>
<b>Percentage of Revenues</b>	<b>0.8%</b>	<b>0.8%</b>	<b>1.2%</b>	<b>2.0%</b>	<b>2.3%</b>	<b>2.2%</b>
<b>Fiscal Responsibility Policy Impacts:</b>						
1. Maximum Debt Servicing Payment - 5% of revenues	86	92	93	91	94	96
2. Operating Cash Surplus Requirements to:						
Fund Minimum 50% of Capital Acquisitions	101	189	126	92	70	60
Fund Debt Servicing Payment	13	14	23	36	43	43
<b>Total Operating Cash Requirements</b>	<b>114</b>	<b>203</b>	<b>149</b>	<b>128</b>	<b>113</b>	<b>103</b>
3. Operating Cash Available:						
Operating Surplus (Deficit) - Fiscal Planning Purposes	109	126	167	119	111	132
Less Deferred Contributions	-	-	-	(3)	(3)	(3)
Add Amortization Expense and Other Non Cash Items	84	93	98	107	112	115
<b>Total Operating Cash Available</b>	<b>194</b>	<b>219</b>	<b>265</b>	<b>223</b>	<b>219</b>	<b>244</b>
<b>4. Overage (Shortfall) in Cash Generated by Operations</b>	<b>80</b>	<b>15</b>	<b>115</b>	<b>94</b>	<b>106</b>	<b>140</b>

## ***Risks to Fiscal Outlook***

Debt risk is currently considered to be low, because debt servicing costs are expected to absorb only about two per cent of total revenues over the outlook 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 overruns that may have an impact on the fiscal framework is heightened.

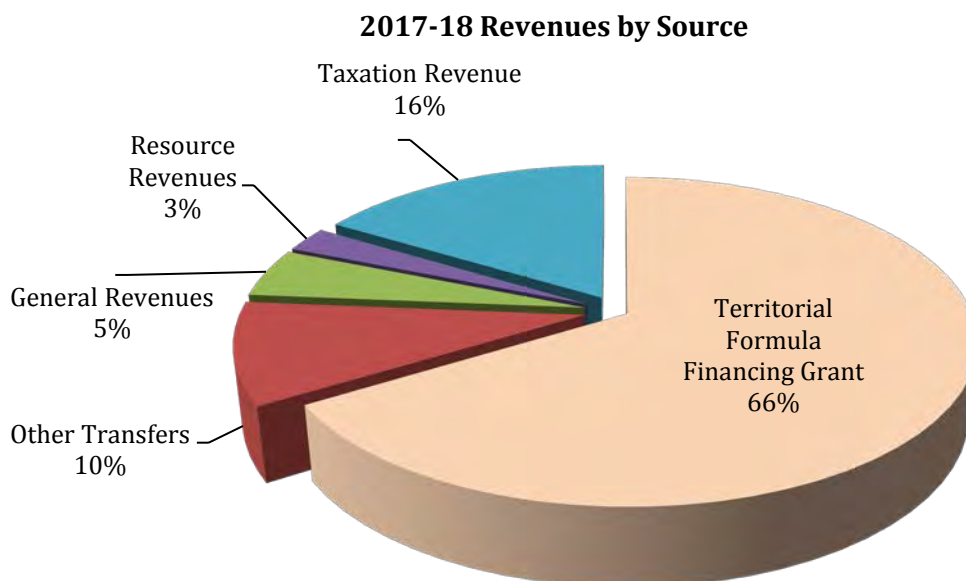
## BUDGET 2017-18

### *Revenue Initiatives*

There are no new taxes announced in Budget 2017-18.

The tobacco tax rates increase effective April 1, 2017 to \$0.304 per cigarette and \$0.272 per gram of loose tobacco. Property tax mill rates and a number of fees will be adjusted for inflation, effective April 1, 2017. These increases result from the GNWT's policy of indexing tobacco and property tax rates, liquor mark-ups, and fees, where practicable.

Budget 2017-18 commits to investigate the introduction of two new taxes: a carbon tax and a sugary drinks tax. The GNWT signed the pan-Canadian Climate Change Framework and committed to investigating the implications of introducing a carbon tax in 2018-19 at \$10 per tonne of greenhouse gas emissions as part of a pan-Canadian national carbon pricing program. This investigation will include examining ways to make the carbon tax revenue-neutral for NWT residents and industry. The sugary drinks tax is being considered as a way to discourage consumption of sugary drinks, in the expectation that reduced sugar consumption will reduce certain health problems in the population including obesity and diabetes.

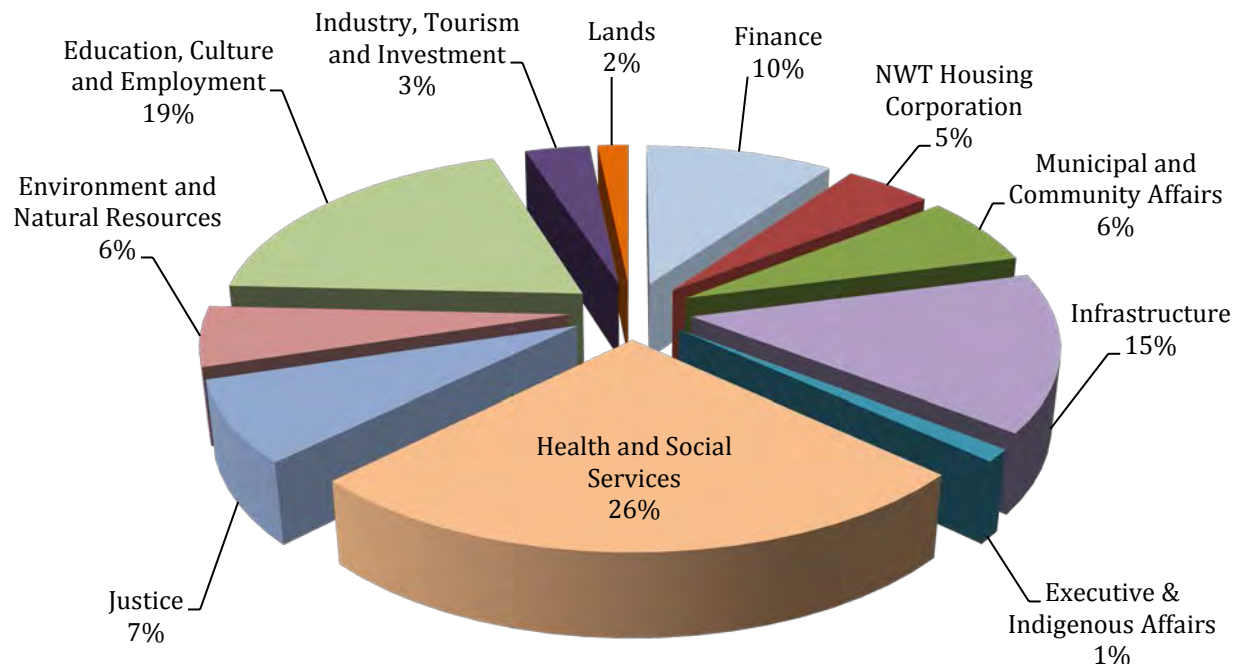


### *Operating Expenditures*

The 2017-18 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 decrease \$6 million from the 2016-17 Main Estimates despite \$32 million in new initiatives. Increased costs within existing programs (forced growth) of \$23 million and \$7 million in other adjustments are offset by \$41 million in sunsetted programs and \$27 million in reductions to department budgets.

### 2017-18 Operations Expenditures by Department



## Initiatives

Budget 2017-18 provides \$32 million in new initiatives and adds \$23 million for increased costs or enhancements for existing programs. Due to the difficult fiscal environment, new initiatives are funded out of program sunsets and efficiencies, and reductions found elsewhere. This approach – consistent with last year’s Budget – allows the 18<sup>th</sup> Assembly the flexibility to address its priorities, without compromising the GNWT’s fiscal health.

The initiatives in the 2017-18 Budget are focused on the five priorities of the Assembly: education and youth; living costs; community wellness and safety; the economy, environment and climate change; and, governance.

### *Education, Training and Youth Development*

The budget contains \$5 million for three initiatives targeted toward improving the ability of young people to learn, develop and gain worthwhile experience. The initiatives include:

- \$3 million to support employment opportunities for residents of small communities.
- \$1.5 million to partially offset the expected implementation costs of junior kindergarten.
- \$500,000 to support Hay River and Fort Smith’s joint bid for the 2018 Arctic Winter Games.

### ***Cost of living***

Propose new cost of living initiatives in 2017-18 total \$2.5 million to support the following measures:

- \$2 million for increased food, clothing and incidental allowances for recipients of income assistance.
- \$500,000 in increased funding to eligible seniors for undertaking repair programs on their residences so that they may remain at home as they get older.

### ***Community Wellness and Safety***

There are initiatives totalling \$2.8 million in the 2017-18 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.

- \$877,000 as a contribution to the Tẖcẖ Community Services Agency for the expansion of the Jimmy Erasmus Seniors Home in Behchoḵ.
- \$750,000 in support of actions to address homelessness and addictions:
  - \$520,000 for the establishment of the Yellowknife Sobering Centre; and
  - \$230,000 to increase funding for the Yellowknife Day Shelter.
- \$616,000 for the implementation of 911 emergency phone service.
- \$331,000 to meet needs arising from Devolution and land use management for health and social services programs.
- \$88,000 to meet the incremental costs of leased space to accommodate Wellness Courts.
- \$50,000 to provide for a Consumer Price Index-related adjustment to homeless shelter funding, in reflection of their higher costs resulting from increased prices.
- \$46,000 for the implementation of the new *Mental Health Act*.

### ***Economy, Environment and Climate Change***

Budget 2017-18 proposes \$14.9 million in new initiatives to assist in developing the economy, growing the population, improving energy efficiency and adapting to climate change.

- \$14 million for several aspects of the Mackenzie Valley Fibre Link project:
  - \$10.845 million for the primary service payment to the project's contractor;

- \$2.531 million to establish land access and indisputable right of use for the project's right of way along the construction route, as well as other project costs; and
- \$611,000 to meet the interim service costs of the project.
- \$132,000 to staff an Investment and Immigration Officer position.
- \$130,000 to hire an Unmanned Aircraft Systems Coordinator.
- \$601,000 in additional water and sewer services transfers to communities.

### ***Governance: Improving Accountability, Transparency and Collaboration***

Proposed initiatives to support the 18<sup>th</sup> Legislative Assembly's priority for a more effective government will total \$6.2 million in 2017-18. These initiatives will improve delivery of government programs and services.

- \$5.498 million in one-time funding 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. The 46 units will be allocated as follows: Inuvik (18 units), Norman Wells (3 units), Hay River (12 units), Fort Smith (6 units) and Fort Simpson (7 units).
- \$528,000 to support community government operations and maintenance budgets.
- \$95,000 for the creation of a single-window service centre on the Hay River reserve.
- \$87,000 to enhance French language communications and services.

### ***Enhanced Spending for Existing Programs and Services***

New spending is often portrayed as funding for new initiatives but the operating budget also includes funding for existing programs to pay for increased costs due to higher demand for programs or inflation. Budget 2017-18 proposes \$23 million to fund these cost pressures. A significant portion of this funding has been allocated to programs and services for the Departments of Health and Social Services (\$16 million) and Education, Culture and Employment (\$3 million).

- \$220,000 in funding to support school lockdown procedures.
- \$2.22 million for Income Assistance increased client uptake.
- \$53,000 for the Consumer Price Index adjustment for shelter funding.
- \$221,000 for the NWTTA Northern Allowance rate increase.
- \$237,000 to cover increased costs for the provision of forest management personnel services.
- \$250,000 for increases in the Cost of Living Tax Credit.



- \$200,000 for additional interest expenses on Long-Term Debt.
- \$3.246 million for additional costs for residential southern placements for adults.
- \$238,000 for additional health care software and equipment licensing and maintenance costs.
- \$760,000 for additional health care supply costs.
- \$120,000 to cover additional costs for Family Violence Shelters.
- \$200,000 for the Stanton Hospital Security Contract.
- \$105,000 for additional operating costs at the Inuvik Group Home.
- \$189,000 for additional operating costs at the Charlotte Vehus and Billy Moore Community Group Homes.
- \$6.422 million increase in funding to cover shortfall for Medical Travel costs.
- \$2.829 million increased contribution to the Hay River Health and Social Services Authority.
- \$296,000 increased operating cost contribution for the new Norman Wells Health Centre.
- \$51,000 to change a Territorial Parks Maintenance Officer position from seasonal to full time.
- \$132,000 for a Tourism Development Officer for the North Slave region to address higher demand for services.
- \$375,000 for Asset Inventory Adjustments to provide for maintenance costs of new GNWT assets brought into service.
- \$44,000 in additional funding for the Wekweètì Winter Road construction and maintenance.
- \$698,000 for costs related to the Fort Simpson Region Highway and Winter Road contracts.
- \$298,000 to cover additional Inuvik to Tuktoyaktuk Highway operation and maintenance costs.
- \$224,000 to increase the number of additional Sheriff's Officers to cover increased demand for Court Services.
- \$69,000 to address recommendations in the Judicial Remuneration Commission Report.
- \$1.074 million to fund enhancements to services provided by RCMP.
- \$90,000 to address shortfalls in the Property Tax Revenue Grant Program.
- \$2.503 million for increased computer network costs and other miscellaneous adjustments.

### ***Infrastructure***

The GNWT's 2017-18 capital budget was approved in October 2016. The capital budget consists of \$266 million for the GNWT's own infrastructure plans, including \$28 million for community infrastructure investments. If the \$24 million for the NWT Housing Corporation (NWT HC) housing investments included in the 2017-18 Main Estimates is considered, total planned infrastructure investment in 2017-18 will be \$290 million.

Community governments will receive \$15.3 million in Gas Tax funding, and \$28.9 million from the Public Transit Infrastructure Fund and the Clean Water and Waste Water Fund in 2017-18.

Major highlights in the capital estimates include:

- \$93 million for health facility replacements and renovations, including funding required for the construction of the new Stanton Territorial Hospital project;
- \$76 million for highways, winter roads, bridges and culverts across the NWT. This includes funding for the Inuvik-Tuktoyaktuk Highway and for highway projects submitted under the *Building Canada Plan*;
- \$28 million to continue to provide funding to community government for their infrastructure needs;
- \$23 million for new education facilities and renovations to existing facilities; and
- \$15 million to continue work on the new Territorial Female Correctional Centre in Fort Smith.

The GNWT continues to face the difficult challenge of maintaining existing assets, improving housing stock and meeting legislative requirements. By freeing up fiscal resources through reductions in the operating budget, additional funds are being dedicated to infrastructure, investment that would not otherwise be financially feasible. In turn, investments in strategic infrastructure will better position the NWT to maximize economic opportunities in the territory, and to explore options for adapting to the impact of climate change.

## Summary of Operations

(thousands of dollars)

	2017-2018 Main Estimates	2016-2017 Revised Estimates	2016-2017 Main Estimates	2015-2016 Actuals
<b>REVENUES</b>	<b>1,859,038</b>	1,846,054	1,809,762	1,833,237
<b>OPERATIONS EXPENSE</b>				
Compensation and Benefits	362,436	369,401	369,141	379,866
Grants, Contributions and Transfers	762,211	772,286	773,054	774,445
Amortization	95,931	89,326	89,326	83,870
Chargebacks	18,680	18,362	18,332	19,900
Computer Hardware and Software	11,429	7,872	7,876	7,729
Contract Services	213,892	211,836	210,984	205,636
Controllable Assets	3,019	3,155	3,305	5,857
Fees and Payments	86,373	85,012	84,950	105,131
Interest	11,378	11,202	11,202	9,429
Loss on Sale of Assets	-	-	-	780
Materials and Supplies	19,621	20,697	20,802	25,497
Purchased Services	13,153	13,042	13,045	16,077
Travel	18,376	18,797	18,380	17,285
Utilities	37,606	39,530	39,530	37,873
Valuation Allowances	2,419	2,419	2,419	3,081
<b>TOTAL OPERATIONS EXPENSE TO BE VOTED</b>	<b>1,656,524</b>	1,662,937	1,662,346	1,692,456
<b>OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS</b>	<b>202,514</b>	183,117	147,416	140,781
Infrastructure Contributions	(28,402)	(31,473)	(28,402)	(29,002)
Deferred Maintenance	(2,000)	(2,939)	-	(1,918)
Petroleum Products Stabilization Fund net profit (loss)	(100)	115	94	(182)
Supplementary Reserve	(35,000)	(43,000)	(30,000)	-
Estimated Appropriation Lapses	30,000	20,000	30,000	-
<b>WORK PERFORMED ON BEHALF OF OTHERS</b>				
Recoveries	73,546	101,112	89,526	81,115
Expenditures	(73,546)	(101,112)	(89,526)	(81,115)
<b>OPERATING SURPLUS FOR THE YEAR</b>	<b>167,012</b>	125,820	119,108	109,679
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<b>1,657,395</b>	1,531,575	1,518,855	1,421,896
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<b>1,824,407</b>	1,657,395	1,637,963	1,531,575

## Summary of Revenues

(thousands of dollars)

	2017-2018 Main Estimates	2016-2017 Revised Estimates	2016-2017 Main Estimates	2015-2016 Actuals
<b>GRANT FROM CANADA</b>	<b>1,232,439</b>	1,219,888	1,219,888	1,232,755
<b>TRANSFER PAYMENTS</b>	<b>186,329</b>	187,382	170,660	194,153
<b>TAXATION REVENUE</b>				
Personal Income Tax	113,268	119,716	110,603	109,837
Corporate Income Tax	83,723	73,477	60,003	25,010
Tobacco Tax	15,624	15,742	15,760	16,191
Fuel Tax	19,465	19,306	18,877	19,750
Payroll Tax	42,525	41,965	41,448	42,085
Property Taxes and School Levies	25,364	29,463	23,360	28,380
Basic Insurance Premium Tax	4,500	4,500	4,500	4,755
Fire Insurance Premium Tax	350	350	350	406
	<b>304,819</b>	304,519	274,901	246,414
<b>Non-renewable Resource Revenue</b>				
Licences, Rental and Other Fees	2,380	12,441	2,287	2,414
Minerals, Oil and Gas Royalties	43,370	43,060	59,810	55,759
Quarry Fees	250	250	250	173
	<b>46,000</b>	55,751	62,347	58,346
<b>GENERAL REVENUES</b>				
Revolving Funds Net Revenue	23,545	23,281	23,281	23,548
Regulatory Revenues	35,789	24,412	27,542	24,442
Investment Income	805	805	805	4,364
Lease	5,905	5,630	5,630	6,008
Program	17,927	20,022	20,344	21,996
Grants in kind	583	593	593	445
Service and miscellaneous	1,897	771	771	1,622
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	19,144
	<b>89,451</b>	78,514	81,966	101,569
<b>TOTAL REVENUES</b>	<b>1,859,038</b>	1,846,054	1,809,762	1,833,237

### Summary of Operations Expenditures by Department

(thousands of dollars)

	2017-2018 Main Estimates	2016-2017 Revised Estimates	2016-2017 Main Estimates	2015-2016 Actuals
<b>Department</b>				
Legislative Assembly	19,336	19,336	19,336	20,307
Education, Culture and Employment	314,879	315,848	315,848	312,186
Environment and Natural Resources	91,517	90,315	90,315	110,513
Executive and Indigenous Affairs	19,194	19,194	19,194	18,898
Finance	235,743	238,734	238,734	242,515
Health and Social Services	423,457	414,519	414,234	424,773
Industry, Tourism and Investment	55,511	59,870	59,870	62,438
Infrastructure	240,419	245,578	245,270	241,105
Justice	123,417	127,200	127,092	129,512
Lands	26,291	28,143	28,253	27,284
Municipal and Community Affairs	106,760	104,200	104,200	102,925
	<b>1,656,524</b>	<b>1,662,937</b>	<b>1,662,346</b>	<b>1,692,456</b>
<b>Expenditure Category</b>				
Compensation and Benefits	362,436	369,401	369,141	379,866
Grants, Contributions and Transfers	762,211	772,286	773,054	774,445
Amortization	95,931	89,326	89,326	83,870
Chargebacks	18,680	18,362	18,332	19,900
Computer Hardware and Software	11,429	7,872	7,876	7,729
Contract Services	213,892	211,836	210,984	205,636
Controllable Assets	3,019	3,155	3,305	5,857
Fees and Payments	86,373	85,012	84,950	105,131
Interest	11,378	11,202	11,202	9,429
Loss on Sale of Assets	-	-	-	780
Materials and Supplies	19,621	20,697	20,802	25,497
Purchased Services	13,153	13,042	13,045	16,077
Travel	18,376	18,797	18,380	17,285
Utilities	37,606	39,530	39,530	37,873
Valuation Allowances	2,419	2,419	2,419	3,081
	<b>1,656,524</b>	<b>1,662,937</b>	<b>1,662,346</b>	<b>1,692,456</b>

### Summary of Infrastructure Investment by Department

(thousands of dollars)

	2017-2018 Capital Estimates	2016-2017 Revised Estimates	2016-2017 Capital Estimates	2015-2016 Actuals
<b>Tangible Capital Assets</b>				
Legislative Assembly	-	318	200	234
Education, Culture and Employment	23,211	11,896	7,899	5,551
Environment and Natural Resources	3,439	30,514	27,939	11,796
Finance	1,325	1,475	1,325	955
Health and Social Services	13,140	66,000	20,477	28,259
Human Resources	-	-	-	175
Industry, Tourism and Investment	3,773	6,435	3,598	4,295
Infrastructure - Public Works and Services	12,017	26,579	16,977	13,211
Infrastructure - Transportation	79,694	134,998	71,891	112,985
Justice	16,683	26,309	9,078	4,806
Lands	110	1,768	1,350	113
	<b>153,392</b>	<b>306,292</b>	<b>160,734</b>	<b>182,380</b>
<b>Infrastructure Contributions</b>				
Education, Culture and Employment	400	510	400	598
Municipal and Community Affairs	28,002	29,360	28,002	28,402
	<b>28,402</b>	<b>29,870</b>	<b>28,402</b>	<b>29,000</b>
<b>Deferred Maintenance (non-capital)</b>				
Education, Culture and Employment	-	798	-	-
Health and Social Services	-	969	-	344
Infrastructure - Public Works and Services	2,000	922	-	1,513
Infrastructure - Transportation	-	140	-	10
	<b>2,000</b>	<b>2,829</b>	<b>-</b>	<b>1,867</b>
<b>Public Private Partnerships</b>				
Finance	-	91,000	91,000	65,007
Health and Social Services	82,331	58,847	40,000	36,630
	<b>82,331</b>	<b>149,847</b>	<b>131,000</b>	<b>101,637</b>
<b>Total Capital Estimates</b>	<b>266,125</b>	<b>488,838</b>	<b>320,136</b>	<b>314,884</b>

### Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2017-2018 Main Estimates	2016-2017 Revised Estimates	2016-2017 Main Estimates	2015-2016 Actuals
<b>SHORT TERM DEBT</b>				
Government of the Northwest Territories	305,000	320,000	312,000	244,803
Hay River Health & Social Services Authority	1,000	1,000	1,000	-
NWT Hydro Corporation	30,000	30,000	20,000	32,600
	<b>336,000</b>	351,000	333,000	277,403
<b>LONG TERM DEBT</b>				
Government of the Northwest Territories:				
Deh Cho Bridge - Real Return Bonds	177,562	176,295	178,427	177,801
Mackenzie Valley Fibre Optic Link capital lease	81,000	81,000	-	65,007
Stanton Territorial Hospital Debt	133,500	80,900	-	13,730
Canada Mortgage and Housing Corporation	521	595	597	666
Public Agencies:				
NWT Hydro Corporation	227,226	231,146	230,272	182,547
NWT Housing Corporation	8,256	9,063	9,189	9,911
Yellowknife Catholic Schools	663	1,417	855	2,130
<b>TOTAL DEBT</b>	<b>964,728</b>	931,416	752,340	729,195
<b>OBLIGATIONS UNDER CAPITAL LEASES</b>				
Government of the Northwest Territories	950	1,835	1,816	2,665
NWT Hydro Corporation	17,571	17,976	17,976	18,568
NWT Housing Corporation	-	-	-	53
<b>LOAN GUARANTEES</b>				
Other public agencies	-	-	250	-
NWT Housing Corporation	15,805	19,006	19,149	21,926
<b>TOTAL GROSS BORROWING PER BORROWING REGULATIONS</b>	<b>999,054</b>	970,233	791,531	772,407
<b>LESS:</b>				
<b>EXTERNALLY RESTRICTED SINKING FUNDS</b>				
NWT Hydro Corporation	<b>(9,518)</b>	(8,749)	(8,749)	(8,717)
<b>TERRITORIAL BORROWING</b>	<b>989,536</b>	961,484	782,782	763,690
<b>TERRITORIAL BORROWING LIMIT</b>	<b>1,300,000</b>	1,300,000	1,300,000	1,300,000
<b>AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES</b>	<b>310,464</b>	338,516	517,218	536,310

### Provincial/ Territorial Tax Rates at January 26, 2017

	Combined	Retail Sales Tax (%)	Fuel Tax <sup>(b)</sup>		Tobacco Tax <sup>(c)</sup> (\$/carton)	Payroll Tax <sup>(d)</sup> (%)	Corporate Income Tax		Capital Tax on Financial Institutions <sup>(e)</sup> (%)
	Top Marginal		Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)	
	Personal Income Tax <sup>(a)</sup> (%)								
Northwest Territories <sup>(f)</sup>	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	21.17	22.67	47.80	-	2.5	11.0	-
Alberta	48.00	-	17.49	18.35	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	14.3	14.7	30.95	1.95	4.5	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	29.80	4.26	8.0	11.8	1.25
New Brunswick	53.30	10.0	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	51.37	10.0	13.1	20.2	50.00	-	4.5	16.0	5.0
Newfoundland & Labrador <sup>(g)</sup>	51.30	10.0	33.0	21.5	49.00	2.00	3.0	15.0	6.0
Weighted average <sup>(h)</sup>	51.72	7.3	17.2	17.5	38.07	1.84	4.5	11.8	1.41

## Notes:

(a) Combined federal-provincial/ territorial highest 2017 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, which are uniform across the province but the BC fuel tax includes surtaxes in Victoria and the Lower Mainland. Quebec fuel tax rates also vary regionally. Alberta's fuel tax includes carbon tax.

(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. Saskatchewan and Manitoba also levy capital tax on provincial crown corporations.

(f) As of April 1, 2017, NWT will increase the cigarette tax to \$60.8 per carton.

(g) Individuals pay a temporary deficit reduction levy of up to \$900 from July 1, 2016 to December 31, 2019.

(h) Average weighted by provincial/ territorial populations at July 1, 2016.