Resourcing our Legacy

REPORT ON BUDGET DIALOGUE 2013

Northwest Territories Finance

Kīspin ki nitawihtīn ā nīhīyawihk ōma ācimōwin, tipwēsinēn.

Cree

ʔerihtł’ís dëne sųłiné yati t’a huts’elkër xa beyéyati theʔą ʔat’e, nuwe ts’ën yółti.

Chipewyan

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

English

Si vous voulez ces renseignements en français, contactez-nous.

Français

Jii gwandak izhii ginjìk vat’atr’ijąhch’uu zhìt yinohthan jì’, diits’àt ginohknìi.

Gwich’in

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.

Inuinnaqtun

ᑕᒃᑯᐊ ᑎᑎᕐᒃᑲᐃᑦ ᐱᔪᒪᒍᕕᒋᑦ ᐃᓄᒃᑎᑐᓕᕐᒃᓯᒪᓗᑎᒃ, ᐅᕙᑦᑎᓐᓄᑦ ᐅᕐᑲᓚ ᔪᓐᓇᕐᒃᑐᑎᑦ.

Inuktitut

UVANITTUAQ ILITCHURISUKUPKU INUVIALUKTUN, QUQUAQLUTA.

Inuvialuktun

K’éhshó got’ı̨ne xədə́ k’é hederi ʔedı̨htl’é yeriniwę nídé dúle.

North Slavey

Edi gondı dehgéh got’ı̨e zhatié k’ę́ę́ edatł’éh enahddhę nide.

South Slavey

Tłı̨chǫ yati k’ę̀ę̀ dè wegodıì wek’èhoı̨zǫ nę̨ę̨wǫ dè, gots’ǫ̀ goahde.

Tłı̨chǫ

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BUDGET DIALOGUE 2013 PROCESS

A. Context for Dialogue 2013

Budget Dialogue 2013 is a continuation of public discussions that began in 2012 about the Government of the Northwest Territories (GNWT) budget. Last fall, the NWT Minister of Finance held public meetings in the seven regional centres to hear Northerners' views on GNWT budget priorities and get ideas for ways to achieve the most value from government spending on programs and services.

This fall, the Minister of Finance used Budget Dialogue 2013 as an opportunity to report on actions taken as a result of Budget Dialogue 2012 and to discuss with Northerners the GNWT's proposed plan to responsibly manage its share of resource revenues. That plan centres on transforming resource revenues into a legacy of savings and infrastructure that will benefit current and future generations when the GNWT gains responsibility for the management of its lands, waters and non-renewable resources on April 1, 2014.

The following reports on the results of this dialogue on resource revenues and other budget matters.

B. Budget Dialogue 2013 Process

Budget Dialogue 2013 took place over two months, beginning September 16, 2013 and concluding on November 15, 2013. The process engaged Northerners through face to face regional meetings as well as email or mail submissions.

Meetings in the seven regional centres were held in the evenings to maximize participation from individuals, families and businesses. In partnership with the NWT Association of Communities, community representatives were invited to attend regional meetings. Each Dialogue 2013 meeting began with opening remarks by Minister Miltenberger, a brief context-setting presentation from a Department of Finance representative, followed by an explanation of the questions to which answers were being sought. From that point, participants were invited to engage in asking questions or providing comments.

In addition to the meetings, feedback was sought through email or mail. Supporting documentation was distributed during meetings and online, including a summary of considerations and questions to guide feedback and plain language frequently asked questions (see Appendix).

Budget Dialogue 2013 was widely advertised, including print advertising in seven territorial and regional newspapers, radio advertising, posters, Facebook, the NWT Chamber of Commerce fax list, and the NWT Association of Communities newsletter.

C. Budget Dialogue 2013 Discussion

The Dialogue 2013 discussions began with a reporting back on results and subsequent actions from Dialogue 2012, followed by an explanation of the rationale behind the GNWT's proposed approach to transforming resource revenue into a lasting heritage for all Northerners, now and in the future.

Through Budget Dialogue 2012, residents and businesses were asked their priorities for GNWT spending and ideas for ways to help the GNWT live within its means. Dialogue 2012 produced three overarching themes: harnessing opportunities to make better use of resources within existing programs; duplication of programs and services; and, that prevention should be a key priority for investment. Over 140 participants provided valuable ideas that were reflected in the GNWT 2013-14 Budget's investments in mental health and addictions prevention, midwifery services, support for economic development, energy efficiency, and innovation in health service delivery. Future GNWT budgets will continue to reflect what was heard in Budget Dialogue 2012.

Budget Dialogue 2013 took the discussion in another direction to focus on resource revenue management and how it fits into the GNWT's fiscal strategy. The Minister described the challenges in the budget process to find a balance between competing spending priorities and the GNWT's limited ability to raise new revenues. Participants were introduced to a brief background on the GNWT's fiscal strategy to protect existing programs and services while slowing the growth in spending below the growth in revenues. Limiting expenditure growth allows the GNWT to produce operating surpluses that can be used to pay down short-term borrowing and fund infrastructure investments. Under the GNWT's guidelines for debt management, the GNWT will not borrow for operating expenditures and a minimum of 50 per cent of infrastructure must be funded through cash from operating surpluses. Although the GNWT may borrow for infrastructure, it cannot borrow beyond the federally-imposed borrowing limit of $800 million and tries to keep its borrowing at least $100 million below that limit to be prepared for unexpected expenditure or revenue shocks.

Devolution of the management of NWT lands, waters and resources on April 1, 2014 will not change the GNWT's fiscal strategy to live within its means, but it does provide additional revenues. The new resource management responsibilities will be funded through an extra $67.3 million added to the Territorial Formula Financing transfer from Canada. Under the devolution agreement with Canada, the GNWT will collect all resource revenues generated in the NWT starting April 1, 2014. However, after Territorial Formula Financing offsets, the GNWT will receive a Net Fiscal Benefit of 50 per cent of resource revenues to a cap of about $70 million in 2014-15 and growing annually. The GNWT has agreed to share 25 per cent of the Net Fiscal Benefit with Aboriginal governments.

The GNWT views resource revenues differently from other revenues because they are non-renewable. Therefore these revenues need to be managed in a way that focuses on investments and savings that recognize that non-renewable resources belong to both present and future generations. In developing its proposed approach to resource revenue management, the GNWT considered the following: the uncertainty and volatility of resource revenues; the inaccessibility of money invested in the Heritage Fund; the size of the GNWT infrastructure deficit; and, continued dependence on federal transfers. The GNWT is currently constrained in reducing its $3 billion infrastructure deficit by its *Fiscal Responsibility Policy* and a federally-imposed borrowing limit. Legacy infrastructure projects that can transform the NWT, such as hydro investment, require incremental investment.

The GNWT proposes that investments and savings from non-renewable resources benefit present and future generations through the following resource revenue management approach:

- Ensuring resource revenues are not used to fund programs and services;
- Investing in infrastructure to benefit today's and tomorrow's NWT residents and NWT economy;
- Repaying debt to reduce the burden of today's debts on future generations; and
- Investing 5 per cent of the GNWT's Net Fiscal Benefit in the NWT Heritage Fund whose principal can never be withdrawn ensuring benefits in perpetuity.

The NWT Heritage Fund was created in 2012 as a way to save for future generations. Savings put into the Fund can never be taken out. Beginning in 2032-33, the income that the Fund has earned can be removed but no more than 5 per cent of the balance can be removed at any one time. Today, the Financial Management Board is the Fund's trustee so that administration costs are kept

NWT Heritage Fund Facts

Established in 2012 to: "to ensure that future generations of people of the Northwest Territories benefit from on-going economic development, including the development of non-renewable resources."

Withdrawals can begin after 20 years and cannot exceed 5% of the balance; the principal can never be withdrawn.

Current Balance: $504,000

Governance: the Financial Management Board is the Fund's trustee until enough funds are accumulated to make arms-length investment management feasible.

low. Once the Fund becomes large enough, management by arms-length investment advisors may be considered.

Northerners' opinions were sought on the management principles and the following questions were put forward for consideration:

- How do you see the GNWT ensuring non-renewable resource revenues are used for the benefit of current and future residents of the NWT?
- Is there an optimal split between investing in infrastructure, debt repayment, and the Heritage Fund?
- Is there a minimum amount we should be devoting to any one purpose?

BUDGET DIALOGUE 2013 RESULTS

Approximately 80 people participated in seven regional meetings and 20 individuals and organizations made submissions. Participation in the meetings and the submissions included individuals and organized groups, who put forward comments and recommendations in support of their organization's priorities. Their feedback has been incorporated into the synthesis of results in the following sections.

Community	Date	Estimate of Participants
Behchokǫ̀	October 3, 2013	3
Fort Simpson	October 7, 2013	2
Hay River	October 8, 2013	14
Fort Smith	October 15, 2013	12
Yellowknife	October 28, 2013	25
Inuvik	November 12, 2013	14
Norman Wells	November 13, 2013	10

While some common themes emerged, such as not putting resource revenues in the operating budget, there was a diversity of views on the remaining components of the proposed plan for managing resource revenues. Particularly, opinions on the optimal level of contribution to the Heritage Fund ranged across a wide spectrum both across and within regional centres. Most Hay River and some Norman Wells' participants as well as some submissions agreed with a lower contribution to the Heritage Fund in order to invest in more infrastructure that would help support economic opportunities. Conversely, in Yellowknife, a large contingent of participants called for 100 per cent of resource revenues to be committed to the Heritage Fund. Opinions in other regions and in submissions, varied from individual to individual. Participants also brought forth ideas about how they wanted to see the Heritage Fund, and any income flowing from it, managed. Finally, continuing with the theme of Budget Dialogue 2012, some participants also expressed their views on the GNWT's budget priorities.

The goal of Budget Dialogue 2013 was to hear what Northerners wanted to tell the Minister about management of resource revenues. The following summary of the results begins with a summary of perspectives on various aspects of resource revenue management, followed by a summary of comments made on the GNWT's fiscal plan and program and service priorities.

A. Keeping Resource Revenues out of Programs and Services

Participants and submissions were mostly united in their call to ensure new resource revenues are not used to finance programs and services. With the exception of a few comments and a couple submissions (detailed below), most agreed that spending on programs and services or in the operating budget is not a good use of resource revenues.

> *"It is important that we do not use the additional resources to pay for the policies and services for today, but rather put the money into investments that will accrue for future generations."*

> *"I agree that it shouldn't go into services, I think that's a good policy."*

> *"The Norman Wells & District Chamber of Commerce is in full support of the GNWT's commitment to keep resource revenues outside of programs and services."*

One Inuvik participant suggested that in addition to not spending on programs and services, consideration should be given to additional 'belt-tightening' on the GNWT's existing operating budget in order to save for future generations beyond just resource revenues.

In their discussions, participants and submissions drew on two primary objections to spending resource revenues on programs and services. First, many expressed concern that resource revenues would easily be subsumed into the current budget. One submission noted the additional revenues and expenditure savings, such as increased income tax and less need for social assistance, already realized from resource development have been 'lost' in the operating budget.

> *"It's really important that you don't roll that [resource revenues] into your overall basket, because it'll get lost in a real hurry."*

> *"You could take $42 million and put it all into health care, and next year, you'll need another $42 million. And at the end of your 5 years or 20 years, you have virtually nothing; it's all O and M."*

The second primary objection to using resource revenues for programs was that it ignores the finite nature of non-renewable resource revenues, both from an intergenerational equity point of view, but also the riskiness of funding programming with such an uncertain revenue source:

> *"If the GNWT just uses these funds to provide more educational or health care facilities/services, we will wind up financing a system that may not be able to be serviced in the future when royalties diminish."*

There were some exceptions to the rule, with two submissions specifically preferring to spend some resource revenues on social programs and services, and another suggesting it should be spent to find economic opportunities and on such things as training.

> *"Such revenue should be invested in the people of the NWT: education, health, and social services. This is the stuff that quality of life is made of - more important than roads or bridges or other big infrastructure projects that seem to get all the attention."*

Some suggested that a portion of resource revenues be used to monitor and mitigate the ecological impacts of resource development, including investments in collecting baseline environmental data, and improving past regulatory monitoring and compliance enforcement effort. Noting the impact of development on wildlife and access to wildlife, one submission suggested funding should be allocated to plan and implement strategies to ensure continued traditional food security.

A couple of meeting participants and one submission proposed that resource revenues could be used for investments in children in order to ensure intergenerational equity. More specifically, participants advocated for a universal early childhood education program based on the Quebec model, noting research that shows early childhood outcomes are strong predictors of success later in life, and that universal childcare has the potential to raise revenues as more women enter the workforce. One participant in Inuvik noted the importance of funding youth activities in the region to support healthy living, and wanted to see some revenues devoted to benefit current and future generations through youth activities.

Another Inuvik participant asked that part of the resource revenues be invested in heritage centres because these centres are great meeting places where culture and history can be transferred inter-generationally, but also showcased to non-indigenous residents and tourists.

B. Investment in Infrastructure

While most participants acknowledged the important role infrastructure plays in the NWT economy, views varied on how resource revenues should be used to build infrastructure. Some participants were very enthusiastic about building an infrastructure legacy with resource revenues, and made specific suggestions on where they would like to see the investments made. Others were more measured in their enthusiasm for using resource revenues for infrastructure investment.

Several participants in Hay River, Fort Smith, and Norman Wells, as well as several submissions, preferred building up infrastructure immediately using resource revenues. They saw infrastructure as supporting economic activity and lowering the cost of living for today's and tomorrow's generations. Further, some noted the immediate 'multiplier effect' of capital investment on jobs, wages, taxes, and population.

Participants also suggested specific types of infrastructure they would like to see built using resource revenues, with an emphasis on 'legacy' infrastructure. Projects thought to bring inter-generational benefits included power generation/transmission lines, import replacement of items like heating fuel, and road access to communities and resources. A couple of calls for investments in renewable and green energy infrastructure were heard, and one submission noted:

> *"Fossil fuels won't last forever and we'll just end up destroying the environment over time if we continue to go forward with that approach. It's time we try a new and lasting approach in conserving energy and finding new and energy efficient ways to heat our homes, offices, communities, etc."*

Others noted the urgent need for road infrastructure including upgrading of existing roads, such as Highway 7. Participants in several communities also showed strong support for investment in new opportunities like the Mackenzie Valley Highway, and to a lesser extent, the Bear River Bridge. One suggestion was to look at how much debt can be financed through the cash flow from resource revenues so that larger capital projects can be undertaken.

> *"I'd like to see us boldly spend that money and go after the Mackenzie Highway"*

Several submissions wanted some portion of resource revenues targeted towards infrastructure to support existing resource development and exploration. One submission emphasized that roads are critical for prospectors to find new resource deposits, noting that many of the NWT's current deposits were discovered by individuals with limited financial resources. Using resource revenues to build a road to the Lac de Gras region that would open access to areas of high resource potential was seen as an opportunity for securing the futures of following generations:

> *"We have to use our resource revenues wisely, and a Heritage Fund, while appealing, restricts our ability to invest in an infrastructure that will generate returns many times a passive fund would generate."*

Another noted the critical role transportation and power infrastructure play in lowering the cost of doing business, making more mineral deposits economical to develop, and thereby ensuring future resource revenues.

> *"We have the ability to sustain these [resource] revenues, if we can attract exploration investment to replace the resources as we deplete them. Investing in infrastructure to reduce operating costs can help sustain and grow our industry."*

In fact, one submission suggested that consideration be given to using a portion of the resource revenues to provide incentives for further exploration and development opportunities.

Finally, the urgent infrastructure needs of communities were mentioned in three regional centres, as well as several submissions. Participants noted the challenges in funding community infrastructure with a funding envelope from the GNWT that has been fixed for several years, as well as community infrastructure deficits exasperated by new regulations from higher levels of government with no accompanying increases to transfers.

> *"It is our position that a major portion of new revenues resulting from devolution should be devoted to the construction of municipal infrastructure identified as lacking."*

Suggestions were made to consider transferring a share of resource revenues directly to communities for their investment in infrastructure. Others asked that a review of funding levels be done in concert with decisions on allocation of resource revenues:

> *"It is our position that a review of funding levels currently being provided to communities should be an element of the planning now underway for the allocation of new resource revenues, that the NWT Association of Communities should participate as a partner in this review, and that recommendations from the review be considered in determining the allocation of post devolution resources."*

The impact of climate change on municipal infrastructure was also emphasized as contributing to higher costs of maintaining existing infrastructure, along with more costly construction standards for new infrastructure to withstand climate change impacts.

> *"It is our position that a major portion of new revenues be applied to a specific fund devoted to meet the costs of adapting to and remediating damage to infrastructure resulting from climate change."*

Using resource revenues to build housing infrastructure was another suggestion made by some submissions and participants. Lack of affordable, accessible and adequate housing was seen as an obstacle to economic development and well-being. Some also noted that critical programs and services in smaller communities are affected when housing cannot be found for staff in critical positions, such as teachers. Technology infrastructure to improve equality of access for education, as well as Family and Community Resource Centres in each community were other suggestions for infrastructure investment.

In addition to the voices advocating for investing resource revenues in infrastructure, a couple of cautionary voices emerged as well. Two participants and one submission specifically noted that any infrastructure investment needs to consider the operating and maintenance costs that are associated with new infrastructure that would be added to the operating budget. One participant specifically questioned whether such investments could create a potential liability for future generations if there was a future decline in royalties. Similarly, another participant expressed concern about the ability to fund infrastructure spending using a volatile and uncertain revenue source like royalties.

Finally, a couple of participants said they'd like to see more participation of industry in infrastructure maintenance and construction, especially where benefits accrue to industry. Others noted the need for more participation of the federal government in funding northern infrastructure.

C. Investment in Debt Repayment

Although discussion about investment in debt repayment was scant, some participants did have questions about the precise split between infrastructure and debt repayment, as well as how other jurisdictions approached the split. One submission expressed concern about debt and a preference for seeing it paid back sooner rather than later, asking that 50 per cent of resource revenues be devoted to this purpose, with the remainder going to the Heritage Fund (5 to 10 per cent) and infrastructure (40 to 45 per cent). Another suggested earmarking some portion of returns that resource development provides, in the form of increased tax revenues or expenditure savings, for debt repayment. One participant wanted to see any money saved should all debt be repaid, contributed to the Heritage Fund.

D. Investment in the NWT Heritage Fund

Many submissions and participants expressed support for the idea of a tamper-proof Heritage Fund that provided an income stream from today's resources to future generations. Discussions on investment in the NWT Heritage Fund centred on two primary issues:

- The proportion of resource revenues to be put into the Fund; and
- The governance of the Heritage Fund, including what will happen with the money put into the Fund and any future income from it.

Contributions to the NWT Heritage Fund

In the plan outlined for feedback, the GNWT proposed 5 per cent of its resource revenues would be used for savings into the Heritage Fund. Once the infrastructure deficit and debt are addressed, that amount could be increased. With the exception of participants in Hay River, some in Norman Wells, and a couple of submissions, most participants expressed a desire to see the proportion of resource revenues contributed to the Fund to be higher. Beginning at the lower end of the spectrum and progressing to the other end, the following outlines a summary and rationale for participant opinions.

Participants that favoured immediate investment in infrastructure to grow the economy also favoured commensurate lower contributions to the Heritage Fund. Generally, most participants in Hay River, some in Norman Wells, as well as several submissions favoured 5 per cent contributions to the Heritage Fund. These participants saw infrastructure investment as something to be equally shared with future generations, especially 'legacy' investments in new roads, renewable energy or transmission lines. One Norman Wells participant noted that other jurisdictions that contribute significantly to their Heritage Funds already have infrastructure in place, making inter-jurisdictional comparisons problematic.

> *"My thought would be that, while I agree with the Heritage Fund, I think that 5 per cent is a nice small figure while we don't have the necessary infrastructure … possibly even look at something like an escalating Heritage Fund, that in the longer term we would put more away because we have built some infrastructure capacity."*

> *"I think it would be wise to allow for flexibility in case something came up that you didn't see; that's why I'm okay with the 5 per cent for the Heritage Fund. At least early on, I think that's the best way to go."*

> *"[We recommend] contributions to the Heritage Fund be initially capped at 5 per cent. The contribution could increase based on a sliding scale (1 per cent per year commencing in 2019 – five years after devolution to allow for much needed infrastructure development), on an escalating scale (a percentage tied to the dollar value of the revenues) or upon completion of identified infrastructure priorities."*

Generally, Fort Smith, Yellowknife, most Inuvik participants, as well as youth participants in Norman Wells, were concerned that a 5 per cent contribution to the Fund was too low for a number of reasons. Some participants felt that 5 per cent contributions won't yield much money in ten or twenty years and that the issue should be looked at from an ethical rather than financial lens, leaving more for future generations.

> *"If you only go with the 5 per cent then you're not really satisfying the intended goal of what the Heritage Fund is for [intergenerational equity]."*

> *"Front-end load your Heritage Fund, let it build, then in twenty years you can take it out … Having $2 million per year is peanuts when you've got $1.6 billion in O&M."*

A good number of participants preferred the contribution rate set higher in the initial years. Some noted that a higher contribution rate early on would be easier to implement than ramping it up in the future when a dependency on resource revenues had been developed.

Some participants in Inuvik settled on 10 per cent as a good rate, while others preferred higher rates ranging from 35 to 75 per cent. Most participants in Fort Smith advocated for a contribution rate closer to 25 per cent. Some noted it was in line with what is done in Alaska, while others liked the balance it struck with infrastructure needs. One participant in Fort Smith summed his rationale for 25 per cent as follows:

> *"That way you still have money to pay for infrastructure and pay down debt, but then the Heritage Fund gets to a meaningful size."*

> *"A Heritage Fund must not be used to save a token amount for the future. It must be a sincere effort to ensure that future generations have a substantial amount of capital to use to secure their own economic future once the resources are no*

longer as plentiful, accessible or easily extracted. Alternatives North is of the view that a very significant portion of resource revenues should be directed into the NWT Heritage Fund. A minimum of 50 per cent of resource revenues should flow directly into the Fund."

"50 per cent to 75; we're taking the resources out of the land which is never going to be there again, this is for our future children and it should be a heck of a lot. Debt can always be paid by something else."

For those wanting closer to 100 per cent in the Heritage Fund, including most Yellowknife participants and some in Fort Smith, rationales varied. Some thought that the Heritage Fund is the only true way to ensure intergenerational equity by putting away the money from a finite revenue source for when that revenue source is no longer present. Others noted that only by committing as much as possible now, can the Fund reach a point where the income generated can be useful.

"The idea of saving for the future is to have enough money in the future to be able to use it. I believe that 50, 75 or even 100 per cent should be going into the Heritage Fund."

"Without development, and first, exploration, we will have no resource royalty revenues. And right now those exploration expenditures are at an all-time low … We know there are circumstances beyond our control that are going to dictate how, and when, and if there is any further resource extraction. Given those uncertainties, I think it's only prudent that whatever we get in the way of resource royalty revenues, we take 100 per cent of it and put it away in the Heritage Fund, and let it grow, because there is no guarantee that we will have resource revenues ten years down the road."

"If you took ten years at $40 million, you're going to end up with $500 million, including the interest payments. With a 5 per cent drawdown after that, … you could pay for an awful lot of road or kilometres of a road."

One participant also expressed a desire to legislate the contribution rate so as to not allow future governments to pick and choose:

"Committing to contribute is not enough; I'd like to see it written in legislation how much will be put away."

An alternative view was expressed by one submission that did not see binding future governments' decision-making with respect to resource revenues use part of good public governance.

"In the interest of democratic control over the public purse it is important that all public revenues be paid into the NWT Consolidated Revenue Fund and that all appropriations therefrom be made on an annual basis by vote of the Legislative

Assembly … The current government and Assembly can be trusted to choose the best uses for resource royalties during their term of office."

Another participant in Inuvik felt that considerations should be given to the target residents want to achieve rather than focusing on the percentage. By concentrating on what kind of income stream we would like to see in twenty years, we can better adapt contributions working toward that goal.

Governance of NWT Heritage Fund

In addition to discussions regarding contribution rates, several participants asked questions about the governance of the NWT Heritage Fund and the income generated by it.

First, participants had concerns about how 'tamper-proof' the Fund was, emphasizing the importance of ensuring that future governments would not be able remove the principal from it. A couple of participants in Yellowknife said they would like to see an arms-length board managing the Fund. Others had questions about how the principal in the Fund would be invested. One participant wanted to see the investments be in ethical investments, and having no negative impact on communities around the world. One submission expressed concern about identification of a regular funding stream, public governance, investment strategies and eventual use of the funds, and suggested a public review of the NWT Heritage Fund is needed.

Participants had many questions regarding what the income from the NWT Heritage Fund would be used for, and some called for the establishment of strict guidelines today. Some participants linked questions about how much should be contributed to the Heritage Fund today, to what the interest income will be used for in the future. They saw these two pieces intricately linked and noted that an understanding of the ultimate use of the income from the Fund is necessary to understand how much should be contributed. Some felt that it was too late to establish rules governing the use of income from the Fund once it is up and running, preferring to see those rules established now.

One participant emphasized that given the cap on resource revenues, the GNWT should consider managing resource development in a way that avoids big booms and maximizes how much revenue stays in the territory.

Several participants, especially in Yellowknife, and some submissions and Fort Smith participants, asked if Northerners are getting a good return on the resources being extracted. One participant in Fort Smith commented that we could consider mining taxes above the royalties already levied. One submission and participant asked for a review of rents.

"I would like to see a commitment towards a public review of economic rent from non-renewable resource development in the Northwest Territories."

"We suggest a representative and experienced panel of experts be appointed to conduct a public review [of economic rents from non-renewable resources extracted in the NWT]."

E. Other Budget Ideas

While Dialogue 2013 focused on management of resource revenues, participants and submissions also touched on broader fiscal and budgetary issues. Priority spending areas mentioned included: training and education; a universal childcare system; community infrastructure; tourism; and health services.

Some participants were concerned about the ability of current programming to address prevention, noting that most interventions occur 'after the fact,' such as in the corrections system. Another participant felt that there will never ever be enough money for health, education, and justice, and putting resources elsewhere may produce better results. Another participant was concerned that the minimum wage was not appreciating enough for people to be able to live on, especially given a rise in food prices.

Some participants and submissions expressed dissatisfaction with the community infrastructure funding formula, and noted that municipalities have infrastructure deficits that require attention and adequate funding.

One submission also brought attention to priorities to improve NWT education, such as sustainable funding for breakfast programs, organized and administered by a hired community coordinator. Several areas requiring support to improve inclusive schooling were also identified, including: changes to the funding formula for schools based on student needs; trained school counsellors; educational assistants; access to specialists; and time for teachers to prepare lessons.

A couple of Yellowknife participants, and one submission, suggested the GNWT should open up the revenue side of the debate about budgets:

"I don't think it's something to be proud of that we don't have higher taxes, if we have children living in poverty then we need to look at where we can get more money from. If it's taxation, then so be it."

BUDGET DIALOGUE 2013 NEXT STEPS

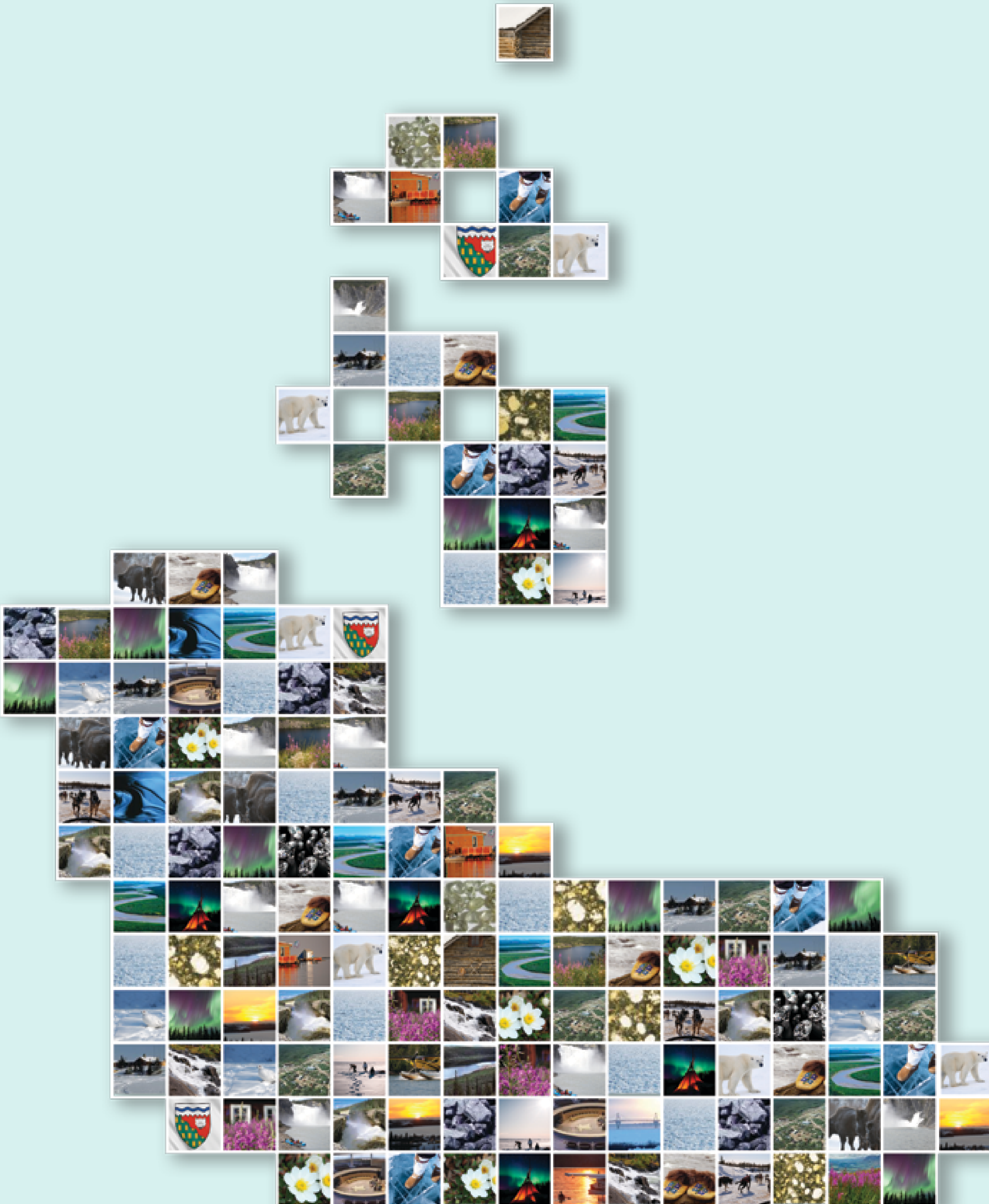
Budget Dialogue 2013 was an opportunity for the Minister of Finance to engage residents in the government's fiscal decision-making, and especially about how they see non-renewable resource revenues being managed for today's and tomorrow's generations.

The proposal to keep resource revenues out of the operating budget received general support. Opinions were split on the optimal allocation of resource revenues between the NWT Heritage Fund, infrastructure investment and debt repayment.

The results of this process will be used to inform Legislative Assembly discussion in its February 2014 session, and beyond. Working together to address the priorities and concerns of Northerners to develop a resource revenue management plan will help the 17th Legislative Assembly achieve its vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories. Other feedback pertaining to the government's fiscal priorities and programs and services will be used in the upcoming budget and future budget planning cycles.

APPENDIX – MEETING MATERIALS

1. Brochure: *Resourcing our Legacy*
2. Resource Revenue Dialogue: Frequently Asked Questions
3. Presentation: *Dialogue 2013 Resourcing our Legacy*



Resourcing our Legacy

Northwest Territories Finance

Resourcing our Legacy

Starting April 1, 2014, the Government of the Northwest Territories (GNWT) will become steward of the Northwest Territories' lands, waters, and non-renewable resources and will share the revenues from these resources with the federal and Aboriginal governments. Recognizing that revenues from non-renewable resources will not last forever, the GNWT is committed to transforming non-renewable resource revenues into a legacy of infrastructure and savings to maximize the benefits of these resources for NWT residents today and in the future.

We want the view of NWT residents on how to create a legacy that benefits today's residents while providing for future generations.

Unique Nature of Non-Renewable Resource Revenues

Non-renewable revenues will disappear as the resources on which they are levied are depleted. For this reason, many people support turning the revenues from their sale into investments that will provide a stream of benefits over time. Long-term investment of resource revenues helps provide 'intergenerational equity' where the benefits of the non-renewable resources are preserved for future generations.

A Resource Legacy for the Benefit of All Generations

A goal of the 17th Legislative Assembly is to maximize the benefits of resource development for all NWT residents. Current NWT residents, as guardians of the future NWT, have choices to make about how best to maximize these benefits over time. The GNWT's approach to ensuring intergenerational equity is to never borrow for day-to-day government operations and to borrow only for investments in infrastructure which can benefit many generations. Under this approach, resource revenues generated today are viewed as belonging to present and future generations and should therefore not be used to fund government operations but instead invested as follows:

1 ***Infrastructure:*** Infrastructure is a long-term asset, and investment in infrastructure, such as building a new road or health centre, can be enjoyed by future generations. Strategic infrastructure investment creates the environment for new economic opportunities and new sources of revenue for government. The GNWT's $3 billion infrastructure deficit means rising costs to support aging infrastructure and missed opportunities for strategic infrastructure investment.

2 ***Debt repayment:*** Long-term debt places a burden on future generations to pay for today's expenditures. The GNWT has borrowed to invest in infrastructure and using non-renewable resource revenues to retire this debt reduces the burden on future generations.

3 ***Heritage Fund:*** In 2012, the GNWT passed the *Northwest Territories Heritage Fund Act* to create a vehicle for long-term investment. Amounts invested can never be taken out and only the income generated by this invested principal can be used by future generations.

NWT Heritage Fund:
established in 2012
"to ensure that future generations of people of the Northwest Territories benefit from on-going economic development, including the development of non-renewable resources."
Withdrawals can begin after 20 years and cannot exceed 5% of the balance; the principal can never be withdrawn.

Current Balance: $501,497

Given pressing infrastructure needs and a federally-imposed borrowing limit, the GNWT is proposing a 5% contribution of resource revenues to the Heritage Fund so that there will be adequate funds to make meaningful debt repayment and investment in strategic infrastructure. As the GNWT's infrastructure deficit is reduced to a more sustainable level, debt is reduced, or resource revenues rise with more resource development, contributions to the Heritage Fund can be increased accordingly.

How much resource revenues are we expecting to receive?

Beginning April 1, 2014, the GNWT will collect all resource revenues in the NWT. At the same time the Territorial Formula Financing Grant that the GNWT receives from the federal government will be reduced by half the amount collected, or slightly more if the cap on resource revenues is triggered. Effectively, the GNWT will keep a Net Fiscal Benefit of 50% of resource revenues up to a maximum of $70 million, growing each year. The GNWT has committed to sharing up to 25% or $18 million of what it keeps, or the Net Fiscal Benefit with Aboriginal governments, leaving a maximum of $52 million annually for the GNWT.

Had devolution happened in 1999, the GNWT's share, after sharing with Aboriginal governments, would have been $364 million or an average of $28 million annually. Since we spend over $1.5 billion each year on programs and services, we will continue to depend on federal transfers for the majority of our revenue. Federal transfers currently make up about three-quarters of total GNWT revenues.

What about funding programs and services?

When the GNWT assumes control over lands and resources on April 1, 2014, the additional responsibilities to manage these resources will be financed through a $67.3 million adjustment to the Territorial Formula Financing Grant and will grow annually. This means that resource revenues do not have to be used to fund GNWT programs to manage NWT lands, waters and non-renewable resources; nor are resource revenues needed for other programs and services if the GNWT maintains its commitment to fiscal sustainability.

The GNWT's pledge to ensure fiscal sustainability is built on the principle of living within our means. This commits the GNWT to not spend more than it brings in, ensuring that it does not borrow from future generations for today's programs and has resources available for investment in infrastructure.

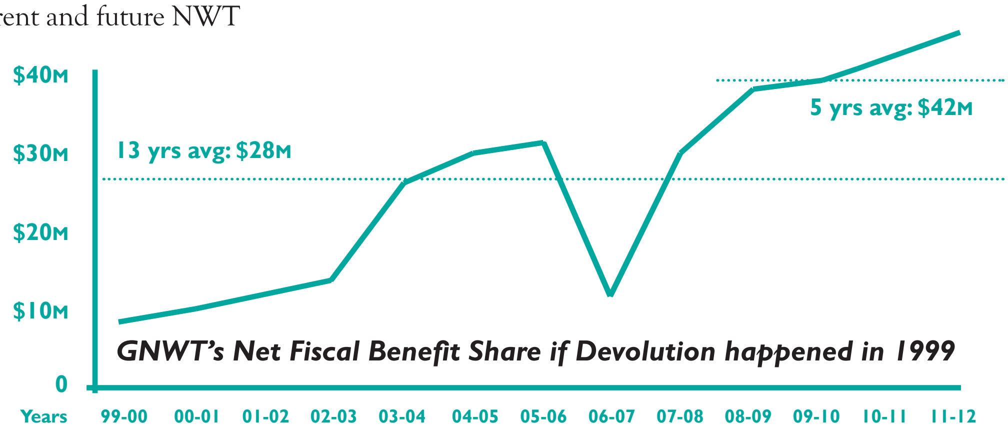
Keeping resource revenues separate from general revenues used to pay for operating expenditures is part of this fiscal sustainability goal. Unlike Alberta or Newfoundland and Labrador, whose resource revenues make up more than 25% of their budget, the GNWT's resource revenues will be less than 4% of the budget. The modest level of resource revenues in relation to expenditures means that the revenues could quickly become subsumed in the operating budget. Only by continuing to live within our means can the GNWT ensure these funds are used for the long-term benefit of current and future NWT residents.

Similarly, we will need more than resource revenues to reduce the infrastructure deficit. Generating operating surpluses to help pay for infrastructure will continue to be part of the GNWT's prudent borrowing strategy and help it adhere to its *Fiscal Responsibility Policy* to fund at least half of infrastructure spending through cash generated from operating surpluses. In its 2013 credit analysis of the GNWT, Moody's Investors Service regarded the GNWT's approach to resource revenues as demonstrating "long-term planning and fiscal discipline, which is considered credit positive."

Investing resource revenues outside the operating budget has the added benefit of mitigating the need to drastically cut programs in the face of falling non-renewable resource revenues. Non-renewable resource revenues are volatile; over the past decade revenues have fluctuated from year to year, doubling or tripling in some years and falling more than 60% in others. If the GNWT had received resource revenues beginning in 1999, they would have fluctuated between $9 and $49 million annually. Using such volatile revenues to fund programs and services can result in fiscal distress during resource busts, a time when government spending is needed most, and runs the risk of creating program expectations and dependencies where the funding source is highly unpredictable.

Note: Norman Wells project profits are excluded from resource revenues

Source: NWT Dept. of Finance - Fiscal Policy (July 2013)



Tell us what you think:

How do you see the GNWT ensuring non-renewable resource revenues are used for the benefit of current and future residents of the NWT?

Is there an optimal split between investing in infrastructure, debt repayment, and the Heritage Fund?

Is there a minimum amount we should be devoting to any one purpose?

Issues to Consider

Here are some things that you may want to consider:

Flexibility of Funds: Resource revenues transferred into the Heritage Fund become the principal of the Fund and can never be spent, only the income they generate can ever be withdrawn. In other words, the Heritage Fund is not a 'rainy day' fund; any money invested in the Heritage Fund will not be accessible in the future in case of an emergency or economic downturn.

Uncertainty of Revenues: Resource revenues are sensitive to events beyond the government's control such as commodity price swings or operational decisions like maintenance shutdowns, and can fluctuate significantly.

Infrastructure Deficit: The GNWT has a large infrastructure deficit and is constrained in financing infrastructure through debt by its *Fiscal Responsibility Policy* and the federally-imposed borrowing limit.

Continued Dependence on Transfers: The GNWT receives about three-quarters of its revenues from the federal government. We will not generate enough resource revenues to significantly alter this relationship in the foreseeable future.

We want to hear from YOU!

Tell the Finance Minister at:

Behchokǫ̀	Thursday, October 3 at the Charlie Charlo Building Meeting Room
Fort Simpson	Monday, October 7 at the Nahanni Inn Boardroom
Hay River	Tuesday, October 8 at the Ptarmigan Inn Louisa Alexandra Falls Room
Fort Smith	Tuesday, October 15 at the Pelican Rapids Inn Blue Room
Yellowknife	Monday, October 28 at the Explorer Hotel Janvier Room
Inuvik	Tuesday, November 12 at the Mackenzie Hotel Boardroom
Norman Wells	Wednesday, November 13 at the Heritage Hotel Boardroom

All meetings start at 7:30pm.

Send a letter to: Dialogue 2013, Department of Finance, GNWT
PO Box 1320, Yellowknife, NT X1A 2L9

Send an email to: *budgetdialogue@gov.nt.ca*

For locations and more information please visit *www.fin.gov.nt.ca*

Si vous souhaitez vous exprimer en l'une ou l'autre des langues officielle des Territoires du Nord-Ouest (autre que l'anglais), veuillez nous écrire à l'adress *budgetdialogue@gov.nt.ca*

If you wish to use an NWT official language other than English, please email the address above.

Resource Revenue Dialogue: Frequently Asked Questions

What are resource revenues?

Resource revenues are money collected by the government from mineral and oil and gas production, and uses of water, on public land in the NWT. Resource revenues are currently collected by the federal government. As a result of devolution, the GNWT will start collecting resource revenues on April 1, 2014.

How much resource revenue will the GNWT get?

The GNWT will collect all resource revenues on public lands. After offsets to transfers it receives from the federal government, it will keep 50% of resource revenues up to a maximum of $70 million growing annually. The GNWT has agreed to share 25% of what it keeps with Aboriginal governments, leaving the GNWT a maximum of $52 million. Resource revenues are expected to be lower than the maximum, for example, had devolution happened five years ago the GNWT would have received an average of $42 million per year.

Are resource revenues different from other money the GNWT uses to pay for programs?

Yes, because resource revenues come from non-renewable resources like minerals or oil and gas. Once a non-renewable resource is used it is gone forever, and is not available for future generations. Some people suggest that money from non-renewable resources need to be reinvested to ensure benefits are preserved for future generations.

What does the GNWT want to do with resource revenues?

The GNWT's wants to build a legacy from resource revenues that future generations can enjoy. GNWT will invest resource revenues in infrastructure enjoyed by current and future generations, reducing the debt burden on future generations, and savings in the NWT Heritage Fund. GNWT programs and services will continue to be funded by general revenue, not by resource revenues. The GNWT is receiving money from the federal government to fund the new programs that are being transferred with devolution. Keeping resource revenues outside of programs and services reduces risks during resource busts, and ensures the GNWT continues to 'live within its means' because resource revenues alone will not build the infrastructure needed to grow our Territory.

What is the NWT Heritage Fund?

The NWT Heritage Fund was created in 2012 as a way to save for future generations. Savings put into the Fund can never be taken out. Beginning in 2032-33, the income that the Fund has earned can be removed but no more than 5% of the balance can be removed at any one time. Today the Fund has a balance of $501,597. The GNWT proposes that 5% of annual resource revenues be transferred to the Fund as a long-term investment for future generations.

If we haven't answered all of your questions, please send an email to: budgetdialogue@gov.nt.ca
Or write to: Dialogue 2013, Department of Finance, GNWT, P.O. Box 1320, Yellowknife, NT X1A 2L9