

Budget Address

2018 - 2019

NORTHWEST TERRITORIES

The Honourable Robert C. McLeod
Minister of Finance

Third Session of the
Eighteenth Legislative Assembly

February 8, 2018



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

English

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

French

Kīspin ki nitawihtīn ē nīhīyawihk ōma ācimōwin, tipwāsinān.

Cree

Tł̥chǫ yati k'èè. Dı wegodı newo dè, gots'o gonede.

Tłicho

ʔerıhtł'ís Dëne Sųłiné yati t'a huts'elkér xa beyáyatı theɂą ɻat'e, nuwe ts'ën yólti.

Chipewyan

Edı gondı dehgáh got'ię zhatié k'ée edat'eh enahddhę nide naxets'ę edahkí.

South Slavey

K'áhshó got'ıne xədə k'é hederı ɬedıħtl'é yeriniwę nídé dúle.

North Slavey

Jii gwandak izhii ginjìk vat'atr'ijahch'uu zhit yinohthan jì', diits'at ginohkhìi.

Gwich'in

Uvanittuaq ilitchurisukupku Inuvialuktun, ququaqluta.

Inuvialuktun

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.

Inuinnaqtun

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

Introduction

Mr. Speaker, this, the third Budget of the 18th Legislative Assembly, demonstrates determined progress in providing opportunities for Northwest Territories residents to build a better future, even in the face of declining revenues and economic uncertainty.

At the start of this Assembly we defined what we wanted to accomplish together for the long-term future of the Northwest Territories. This Budget continues to support this vision by investing in the priorities set out in this Assembly's Mandate and by protecting and enhancing existing programs and services while holding firm on restoring fiscal sustainability.

This Budget provides resources to update our land and natural resource management and to work on long-term energy and climate change plans to help lower the cost of living and help our people adapt to the effects of climate change.

This Budget provides the funds to enhance our efforts to provide residents with better training and education for the jobs of the future.

This Budget provides the means to support our communities to become stronger, safer and more caring and to enhance support for our people struggling with personal challenges like mental health and addictions.

This Budget provides resources to further our evolving relationships with Northwest Territories Indigenous governments so that our common priorities benefit all Northwest Territories residents.

This Budget provides investments to continue our work to strengthen traditionally strong sectors of our economy in an environmentally responsible manner and to support economic diversification and new economic opportunities.

I would like to thank my Cabinet colleagues, the Standing Committees, and all the other groups and individuals, for their input and advice.

Fiscal Strategy and Budget Highlights

Mr. Speaker, the 2018-19 Budget proposes operating expenditures of \$1.713 billion, paid for with \$1.75 billion in estimated revenues. This leaves a projected operating surplus of \$23 million, the lowest in seven years. The size of this surplus raises two red flags for our fiscal plan. First, as most would know, we have two spending budgets, the operating budget that I am presenting today and the capital budget that was approved in the last Session, which totalled \$237 million in infrastructure spending for 2018-19. We use our operating surpluses to pay for at least a portion of our annual infrastructure budget. A smaller operating surplus leaves less available cash to continue to invest in our infrastructure plan without adding to our debt.

Second, lower operating surpluses into the future mean that the Government will not be in a position to reduce its overall cash deficit during this Assembly. In fact, short-term borrowing is now projected to increase; but by less than what was accumulated during each of the last two Assemblies.

Coming into the 18th Legislative Assembly we knew that our expenditures were growing faster than our revenue and that we needed to adopt a fiscal strategy that aligned expenditure growth with revenue growth, that created capacity to invest in our priorities, and that returned us to generating a cash surplus to reduce our accumulated short-term debt.

The Budget I am presenting today has \$84 million less revenue than what we had at the start of this Assembly. This decline over a three-year period is unprecedented in the history of our government and underscores the need for the steps we have had to take.

When we set our fiscal objectives we knew that achieving them would require difficult choices. We believe that in the medium term we will start to see modest revenue increases, but we will need to continue to manage our financial resources very carefully so that we do not compromise our ability to deliver quality programs and services and our ability to take steps to address the issues we face as a territory.

In this Budget we continue to meet this challenge. We are making investments needed to support existing programs and to address the priorities in our Mandate through new initiatives without compromising our fiscal strategy.

Expenditures

This Budget proposes a net spending increase of \$57 million from the 2017-18 budget, including \$21 million in new initiatives and \$20 million to enrich or maintain existing programs. We are also intending to add \$37.8 million in expenditures to adjust department budgets that currently do not reflect the realities in their spending pressures.

This increase in spending is offset by \$28 million in expenditure savings and from programs that are scheduled to expire. In total, we are proposing to spend \$1.713 billion in 2018-19 of which fully \$1.1 billion, or 64 per cent, will be invested in social programs such as education, health care, social services, housing, policing and corrections.

Economy, Environment and Climate Change

Mr. Speaker, our economy needs support. Following the oil price collapse, the Beaufort Delta has depended on GNWT infrastructure projects such as the construction of the Inuvik-Tuktoyaktuk Highway for jobs. While the Sahtu region has received the good news that the National Energy Board has approved the plans to repair the Norman Wells pipeline, this is tempered by the announcement last December that the Mackenzie gas project joint-venture has ended and our Delta gas is stranded without access to southern markets for the foreseeable future. In as little as ten years, one of our world-class diamond mines may close.

We are being rewarded for past investments in the economy through jobs and opportunities for our communities. The Inuvik-Tuktoyaktuk Highway is now open. This important piece of our transportation network has attracted national attention for its design and construction and will pay dividends to Northerners in the region through lower prices and year-round access to trade, which will create economic opportunities into the future. This Budget proposes to ensure the continued success of this transportation corridor with an additional \$1.7 million for the incremental operations and maintenance costs for the new highway.

To develop our economy further, the first step is to look to the key economic driver of the territory: mining. The diamond mines account for almost one-fifth of the NWT economy and directly employ almost 3,000 people. When the linkages to other business are considered, the importance is considerably more. We have been through the gold mines closing and know what will happen to our economy as the diamond mines mature if there is nothing else to take their place.

The good news is that the global mining industry is showing signs of growing interest and activity. Capital investment in the Northwest Territories mining sector is increasing as a result of the expansion projects at the existing diamond mines. There are other projects at various stages of development that need capital financing and then could be underway. The exploration sector also appears to be starting to grow as the number of prospectors applying for Mineral Incentive Program funding is increasing.

We need to support the mining sector so that we can maintain a cycle of exploration and development that as much as possible has a new mine starting production as an existing mine winds down. We want systematic development of our mineral resources to provide good paying jobs and business opportunities for Northwest Territories residents for years to come.

To achieve this goal, we are proposing \$1.1 million in this Budget to further work under the *Mineral Development Strategy*, complete the review of the *Mineral Resources Act*, and continue the on-going commitment to the expanded Mining Incentive Program. This funding will continue the GNWT's work in convincing the global mining industry that the Northwest Territories is an attractive place to invest. As important, the funding will also allow us to better evaluate the effectiveness of the *Mineral Development Strategy* over the past few years in advancing the Legislative Assembly's Mandate.

The second step is to strengthen our efforts to support economic diversification. Industries like tourism play an important role in our economy and the investments that we have made in the tourism industry have helped to increase the number of visitors over the last few years. To further support diversification, this Budget proposes to add \$1.3 million to implement the *Agriculture Strategy*. These funds will help reduce the barriers to commercial agriculture by improving access to land that is viable for agriculture and creating the regulatory framework for the safe production, distribution, and sale of farm products. This funding will also be used to protect the environment, wildlife and people through developing both rules governing waste management and plans for reducing the risk of new pathogens and potentially dangerous invasive species and pests that increases with the introduction of different animals and crops.

Over top of the direct actions to support the economy, our over-arching imperative is to protect the land. We want to see a well-managed environment contributing to our economic well-being and quality of life for Northerners. For that reason, we are proposing to invest an additional \$1.2 million for activities in support of climate change resilience and adaptation capacity, to advance candidate protected areas and for caribou management. These new funds will be used to advance the GNWT's five-year northern approach to conservation network planning, including finalizing the

process for existing candidate areas, such as the Thaidene Nënë Park, and defining the ultimate extent and components of the conservation network.

The measure of a strong economy is not just the growth in GDP but whether it provides good jobs for Northwest Territories residents. Our responsibility is to invest in skill development so that our residents have every opportunity possible to develop the knowledge and abilities to take advantage of the jobs that are available. We propose to add \$2.2 million in this Budget to begin implementation of the *Skills 4 Success* strategy, as well as implement a new program that will increase training positions available within the GNWT, and to continue to improve our Student Financial Assistance program.

Every year on average, there are 750 Northwest Territories post-secondary students in their final year of studies who are expected to be seeking employment. This additional funding will create a team to help these students seize the employment opportunities in the territory for the many jobs that require post-secondary education and raise the awareness of high school students and other youth about the many employment and training opportunities that exist in Northwest Territories, the academic requirements of these jobs, and how to acquire the necessary skills and qualifications to obtain them.

Education, Training and Youth Development

There may not be a more important priority for this government than ensuring that more children finish high school with a quality education that gives them the option of pursuing post-secondary education. We expect that over the next 15 years, over three-quarters of the jobs in the Northwest Territories will require some form of post-secondary schooling and less than one in ten jobs will require less than high school. If our children are already behind by Grade 3, their future choices for employment as adults are already starting to narrow. We must build on successes from our \$155 million annual investment in Junior Kindergarten to Grade 12 system to improve our children and youths' education outcomes.

Seven years ago, the Beaufort-Delta Divisional Education Council started a pilot project that changed distance learning in the district with school-based support teachers and in-person meetings with students. The GNWT's Education Renewal initiative helped transform this project into the Northern Distance Learning program with the happy result that where other approaches rarely saw even one-third of the courses completed, this program has brought student course completion rates to 70 per cent.

We propose in this Budget to build on this success through a \$1.6 million investment in the Northern Distance Learning program for small communities. This initiative will bring a higher level of access to quality education to students in these small schools than we have seen since grade extensions began in the 1990's.

Now that Junior Kindergarten has been implemented in all 33 communities, we are making good on our promise in last year's Budget with an additional \$2.1 million investment. With overall enrolments less than what we expected, we are also going to direct an additional \$881,000 towards providing inclusive schooling funding for Junior Kindergarten students.

Mr. Speaker, discussions with our youth has made it clear that they face our most serious social stressors alone, including substance abuse, family violence, unemployment and homelessness, because the adults in their lives also struggle with these issues. This Budget calls for an additional \$1.5 million to put more Child and Youth Mental Health Counsellors in our schools. These positions will add significant capacity to help our youth and their families address mental health and addiction issues, to support mental wellness, and to build coping and resiliency skills.

We are the only jurisdiction in Canada to have eleven official languages. This Budget includes the \$4.3 million in funding received from the federal government to support French and Indigenous languages within the Northwest Territories. This funding helps to implement our action plans for French and Indigenous languages so that we can better connect to each other, preserve our heritage, and tell our stories about the land that sustains us.

Community Wellness and Safety

Delivering health and social services to Northwest Territories residents consumes over a quarter of the GNWT's total operating expenses. This year's budget expands and strengthens our health and social services and ensures programs are resourced at appropriate levels through a \$20.7 million adjustment for out-of-territory hospital and physician services, residential southern placements, extended health benefits, and Métis health benefits. We also propose to adjust the departmental budget to provide \$6.8 million in on-going operations support for our long-term care facilities and home care, community care, and mental health and addictions services across the territory and \$500,000 for on-going funding for the youth-in-crisis mental health program. Finally, a further \$6.7 million for the new territorial hospital annual service payment is added to the budget adjustments.

We continue to invest in the priorities of the Assembly through new initiatives. Through this Budget we propose to invest \$1.5 million to improve services for children with development delays and to develop a more co-ordinated and effective approach to enhance services to address the differing needs of children and adults with complex disorders such as Fetal Alcohol Spectrum Disorder and Autism Spectrum Disorder. Almost half of this additional funding will be targeted to expand services for young children in small communities who need speech language therapy, occupational therapy, and audiology services as well as enhancing services for other complex neurological disorders.

Homelessness and public intoxication are issues in our communities. In Yellowknife, the dual tragedies of mental health problems and addictions are played out in public areas and on downtown streets and have increased pressures on government services including the RCMP, the City of Yellowknife's ambulance service, and the Stanton Territorial Hospital's Emergency Department over the past two years. We are working with our partners to put better programs in place to address these issues. As an important step, this Budget proposes \$762,000 for the Yellowknife Sobering Centre to make sure that there is a safe shelter and safe transportation to that shelter, for intoxicated and homeless people at all hours of the day.

We continue to support community safety through a \$2.6 million enhancement to the Department of Justice's budget to improve access to justice services, to increase support for Community Justice Committees, and to further support the RCMP.

Mr. Speaker, we propose to change the way we address murdered and missing persons cases by investing \$304,000 to fund a Historical Case Unit that will focus on the continued investigation of unsolved murdered and missing persons. Currently, the RCMP Major Crimes Unit is responsible for these investigations and has 63 open, but unsolved, cases. A dedicated Historical Case Unit within the RCMP will allow the Major Crimes Unit to continue to deal with the newest cases as they happen while the new unit focuses on solving older murdered and missing cases. We expect to close more cases through this new unit.

We also propose in this Budget to allocate \$224,000 to support assigning the responsibility for prisoner security to the Yellowknife Sheriff's Office, so that our RCMP officers may focus on their other policing responsibilities that require their specialized skills.

Cost of Living

The high cost of living is a reality for northern communities. The GNWT invests more than \$186 million annually in programs that directly support low income families and that offset the high cost of living for residents across the Northwest Territories. Despite this, almost one in five Northwest Territories residents does not always have enough to eat.

This is unacceptable, especially for a people who can obtain good, nutritious food from hunting, fishing and gathering. This Budget proposes to address the 18th Legislative Assembly's Mandate to improve food security by investing \$412,000 in a Country Food Strategy. Working with Northwest Territories residents, we expect to produce a consensus vision and objectives and to propose actions that will guide the development of country food programming and to support the long-term sustainability of country food systems.

We also propose to include \$3.3 million in additional resources to further support low income residents and offset the high cost of living for everyone. The new funding will be directed to increase income assistance, funding for anti-poverty initiatives, and to address pressures in the Senior Citizen and Disabled Persons Property Tax Relief Program and the Territorial Power Subsidy Program.

Affordable housing is a priority for this Assembly and we propose to help address this priority with \$3.8 million to provide incentives for homeowners to replace fuel tanks and to provide funding to cover additional costs for water and sanitation services for public housing. This funding also includes resources for the market rental units being constructed for the RCMP, which will provide ongoing revenue for the NWT Housing Corporation as well as employment opportunities in the communities for the construction and long-term maintenance of the assets.

Governance

Mr. Speaker, this Assembly has worked together in many ways to change the way we do business to reinforce our consensus government and strengthen collaboration with Northwest Territories Indigenous governments.

This Budget intends to continue improving accountability, transparency and collaboration and general good governance through an additional \$1.3 million in funding for community governments. This includes greater funding for operations and maintenance, and water and sewer expenses for community governments as part of our commitment to ensure that community governments are funded adequately for municipal services.

When we took responsibility for our lands and resources under the Devolution Agreement, we knew we would have a lot of work ahead of ourselves. Together with collaborative partnerships at other levels of government, we transitioned through Devolution smoothly. This Budget allocates \$1.3 million to support the GNWT efforts to increase its capacity for land use planning through a new land use planner position and to advance our tenure enforcement efforts concerning unauthorized occupancy on public lands. This funding will also be used to convert maturing equity leases to fee simple title so that Northwest Territories residents holding these leases can be comfortable with building homes, starting businesses and contributing to the economic development of the territory.

Our Mandate includes collaboration with other Northwest Territories governments and to improve government-to-government relations with all governments. We propose to invest \$1 million through this Budget to help advance lands, rights and resources and self-government agreements and strengthen our capacity to work with the federal government. Creating certainty around land ownership and access to land will help develop the economy, providing jobs, services, and income to Northwest Territories residents.

This Budget proposes to invest \$485,000 to support key partnerships and initiatives including the Northwest Territories-Nunavut Council of Friendship Centres, the Women in Politics Mandate priority, and our annual contribution to the Arctic Inspiration Prize.

Infrastructure

This Assembly approved infrastructure investments of \$237 million last October for the 2018-19 fiscal year. The 2018-19 capital budget will invest \$133 million for highways, winter roads, bridges and culverts and \$44 million for health facilities, including the Stanton Territorial Hospital Renewal project. Another \$60 million is budgeted for other investments, including community government infrastructure, new and renovated education facilities, information technology upgrades and deferred maintenance and energy retrofits. Including the \$24 million NWT Housing Corporation investments, total GNWT capital investments will be \$261 million.

As many would be aware, the federal government has announced significant new spending on cost-shared programs to invest in territorial infrastructure. While the details of these programs are still being finalized, I want to provide assurance that our fiscal strategy will place the GNWT in a position to be a partner in these critical projects.

Revenue

Mr. Speaker, with the exception of the property and education mill rates that we increase by inflation every year, this Budget does not propose to change the tax rates on any of our existing taxes.

However, careful management on the expenditure side of our Budget must be balanced with new revenues where possible. During 2018-19 we will be developing detailed proposals to implement a Land Transfer Tax similar to other jurisdictions. This tax will raise an additional \$3.1 million annually and can be structured progressively by levying a smaller percentage on property of lower value to lower the impact on modest income homeowners.

In last year's Budget we announced our intention to introduce a sugary drinks tax in 2018-19 with the objective to discourage consumption of sugary drinks. Excess sugar in the diets of many Northwest Territories residents is a serious public health concern and this tax is one of the ideas to help reduce health problems such as obesity and diabetes and to improve oral health. We will continue to work with stakeholders on a proposed approach and to get feedback from residents.

Last November, we released our plan to address our responsibilities under the federal initiative to legalize cannabis consumption in July 2018 and expect to introduce draft legislation this month. In December, Canadian finance ministers agreed in principle to a cannabis taxation approach that we hope will best meet the objectives to restrict cannabis use by youth and as much as possible eliminate the illegal market. When we formalize this two-year agreement, the GNWT will receive 75 per cent of the federal cannabis excise tax generated in the Northwest Territories below the federal cap of \$100 million and 100 per cent of excise tax generated in the Northwest Territories above the federal cap.

Revenue estimates from cannabis taxes are not included in 2018-19 Budget because federal legislation to legalize cannabis has not been passed. Early estimates indicate that revenues from cannabis for the GNWT will be modest and that there are likely to be some increased expenditure pressures.

As noted in last year's budget we have signed the *Pan-Canadian Framework on Clean Growth and Climate Change*, which includes carbon pricing as one of the pillars to reduce greenhouse gas emissions. Over the course of this year, we have considered the implications of carbon pricing on the Northwest Territories economy and cost of living and have held a public discussion on the issue through an online survey. Later this year, the GNWT will announce its plans for carbon pricing and appropriate offsets to mitigate the effects on our already high cost of living and doing business in the Northwest Territories. We also look forward to further discussions regarding

the Prime Minister's commitment to work with us to address our unique circumstances and to mitigate any Territorial Formula Financing implications.

Looking Ahead

Mr. Speaker, looking ahead is about our expectations for the legacy of our changes. We are building a future on changes in the way we offer programs and services and are making the necessary investments to support the economy and our communities and to create the environment for our residents to seize opportunities to create better futures for themselves. We are two years from the start of a new Assembly and we are continuing to look for ways to improve the future for our children and grandchildren.

The Northwest Territories economy continues to be built on a foundation of resource development. We are, however, facing the reality of maturing diamond mines and we cannot take for granted that this economic foundation will last forever. Our challenge, and perhaps our legacy, is to ensure that we are making public investments that strengthen our economic foundation, while also supporting diversification initiatives. We need to ensure that we have the infrastructure and the legislation and regulations to support our Northern goal of a balanced approach to our economy and our environment.

Our investments in our children's education will enhance our next generation's chances for success and provide the economy with a well-educated workforce with the skills and knowledge needed to take advantage of any opportunities that will arise in the Northwest Territories. We are looking ahead almost a generation with our investments now.

At the moment, we face serious health and social issues and are making investments now to support our residents and meet the challenging social issues that many of our residents currently are struggling with. We see a future healthy and thriving population taking advantage of our enhanced ability to deliver health care services at home and in health care facilities. We see residents benefitting today from our increased investments to address mental health issues and addictions so they may achieve a better tomorrow.

We know that our territory is truly spectacular and we see our investments as helping to secure a future with the same spectacular environment that we enjoy today. At the same time, we see rapid changes in our landscape that are rooted in climate change. Our land is vital to our well-being and we embrace our duty to be responsible stewards and protect it through our investments to conserve our land,

waters and wildlife. These are investments in our traditions and culture and in our future.

This Assembly has worked very hard to make these investments in our future a reality while sticking to the fiscal strategy and plan and accepting the challenges of restoring fiscal sustainability that make these investments possible.

Conclusion

Mr. Speaker, the 18th Legislative Assembly has done a remarkable job of managing expenditure growth, which has become more important with revenue growth faltering. We have, through careful management of our expenditures, proposed substantial investments in this Budget to harness change in program delivery and to add initiatives to build a better tomorrow. We have focused our new spending on building on the success of past initiatives and in addressing our priorities through increased funding for key programs and services so that we are supporting our residents where it is needed most.

We cannot rest yet. Revenue shocks beyond our control have meant we are not where we wanted to be by this time in our fiscal plan. We must accept that we are still adding to the debt that future residents will have to pay. However, we must not lose sight of the fact that our revenue decreases this year and next year and slow revenue growth into the future reflect the state of our economy and the critical importance of making investments that will help support economic growth in the future.

Our fiscal situation creates challenges but we remain committed to reducing our level of expenditures so that we can ensure on-going operating surpluses that are, in addition to prudent borrowing, critical to supporting investments for the benefit of Northwest Territories residents for decades to come. Our investments in our priorities are supporting current Northwest Territories residents and will also benefit future generations by ensuring a well-managed environment that contributes to our well-being and quality of life and a strong economy that provides jobs and opportunities for our communities.

This Assembly's past actions as responsible fiscal stewards have kept our fiscal strategy on track. The fiscal plan is working. With the continued support of this Assembly we can address our fiscal environment while still investing for a better tomorrow.

Thank you, Mr. Speaker.

Budget Address

2018 – 2019

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦ Economic Review

B ♦ Fiscal Review

February 8, 2018

ECONOMIC REVIEW

Outlook

The economic outlook for the Northwest Territories (NWT) is mixed. Real GDP grew in 2017, increasing by a strong 8.2 per cent over 2016, but is expected to moderate in the near term, decreasing by a projected 0.1 per cent in 2018. Solid economic growth in 2017 was driven by the first full year of commercial production at the Gahcho Kué diamond mine as well as increased carat production by the industry. However, in 2018, this increased carat production will be offset by a decline in public sector investment as the Stanton Territorial Hospital Renewal Project enters its final phase.

The outlook for the NWT diamond industry is also mixed. Although Gahcho Kué is now operational, all existing NWT diamond mines are set to close by 2034. The Diavik diamond mine is expected to close first with operations scheduled to finish 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 has increased, diamond exploration investments fell by over 40 per cent from 2016 to 2017, and total exploration investment fell by three per cent over this same period. This puts into question the discovery and development of the next generation of NWT mines.

Public sector investments in projects such as the Stanton Territorial Hospital Renewal, Tłı̨chǫ All-Season Road and infrastructure linked to the federal Building Canada Funds have increased, contributing to a more diversified economic base. However, government investments are set to slow as current projects are completed and a steep decline in mining industry investments will further reduce economic activity. This 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

Indicator		2014	2015	2016	2017e	2018f
Gross Domestic Product	chained (2007) millions of dollars	3,789	3,839	3,868	4,187	4,183
	<i>per cent change</i>	4.9	1.3	0.8	8.2	(0.1)
Total Investment	chained (2007) millions of dollars	1,315	1,482	1,412	1,145	1,086
	<i>per cent change</i>	4.8	12.7	(4.7)	(18.9)	(5.1)
Household Expenditure	chained (2007) millions of dollars	1,393	1,416	1,422	1,432	1,447
	<i>per cent change</i>	1.5	1.7	0.4	0.7	1.0
Government Expenditure	chained (2007) millions of dollars	1,800	1,787	1,799	1,787	1,788
	<i>per cent change</i>	7.6	(0.7)	0.7	(0.7)	0.1
Exports	chained (2007) millions of dollars	2,624	2,505	2,522	2,966	2,988
	<i>per cent change</i>	8.0	(4.5)	0.7	17.6	0.7
Imports	chained (2007) millions of dollars	3,431	3,431	3,379	3,252	3,235
	<i>per cent change</i>	6.6	0.0	(1.5)	(3.8)	(0.5)
Employment (Resident)	number of persons	22,100	21,900	22,500	21,300	21,400
	<i>per cent change</i>	(4.7)	(0.9)	2.7	(5.3)	0.5
Average Weekly Earnings	dollars	1,398	1,421	1,403	1,402	1,425
	<i>per cent change</i>	4.1	1.7	(1.3)	(0.1)	1.6
CPI (All-Items), Yellowknife	2002=100	128.4	130.4	131.9	133.4	134.8
	<i>per cent change</i>	1.7	1.6	1.2	1.1	1.1

e: estimate

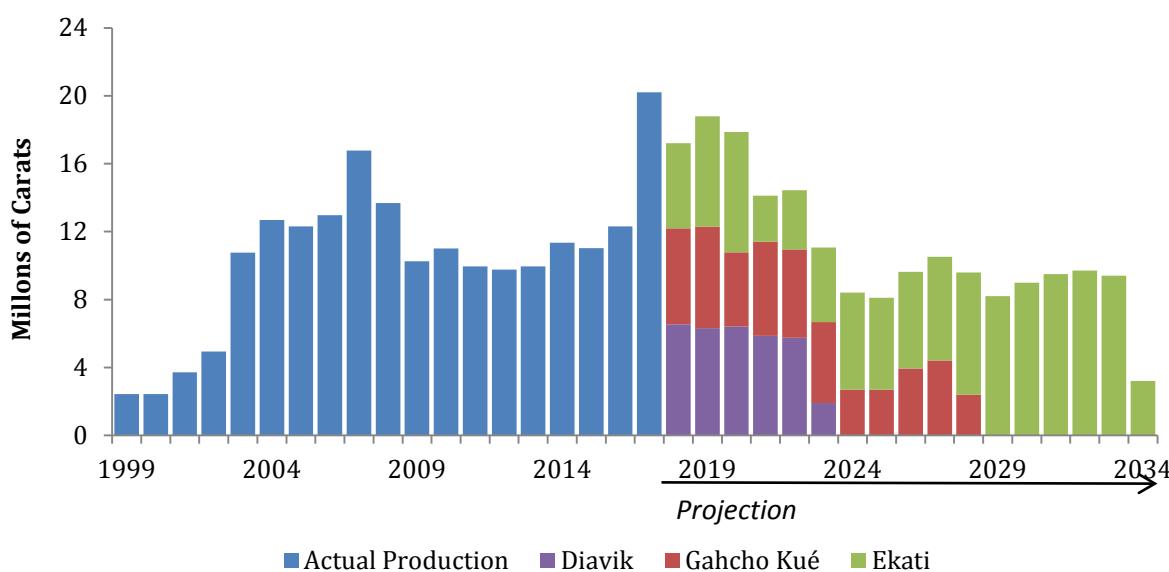
f: forecast

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.

Diamond Production Outlook

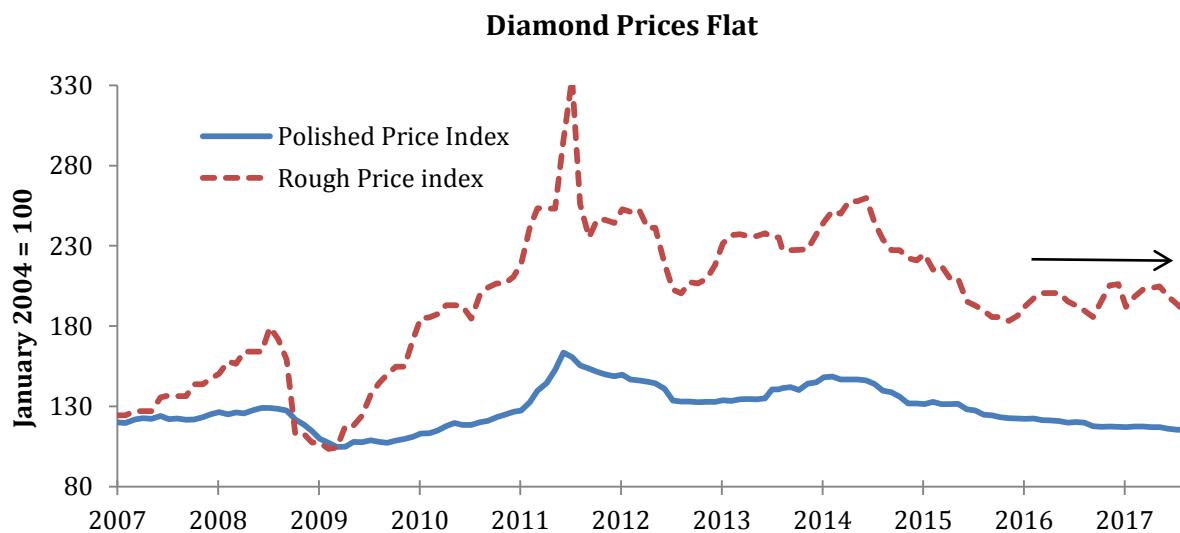


Source: Natural Resources Canada, mining plans and technical reports, NWT Finance

The final decision to construct new mines depends on a range of economic and financial factors, including global capital credit conditions, currencies, and prices. Indexed diamond prices for polished stones declined by approximately 3.0 percent from 2016 to 2017, while indexed prices for rough stones rose by the same amount. This maintained the price spread between rough and polished stones.

Rough diamonds remain expensive relative to polished stones, as rough diamond prices 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.

Part of the decrease in polished diamond prices last year is due to competition from other luxury products, although retail sales from key jewellery markets such the United States, China and India suggest demand for diamonds will increase, which should improve polished diamond prices.

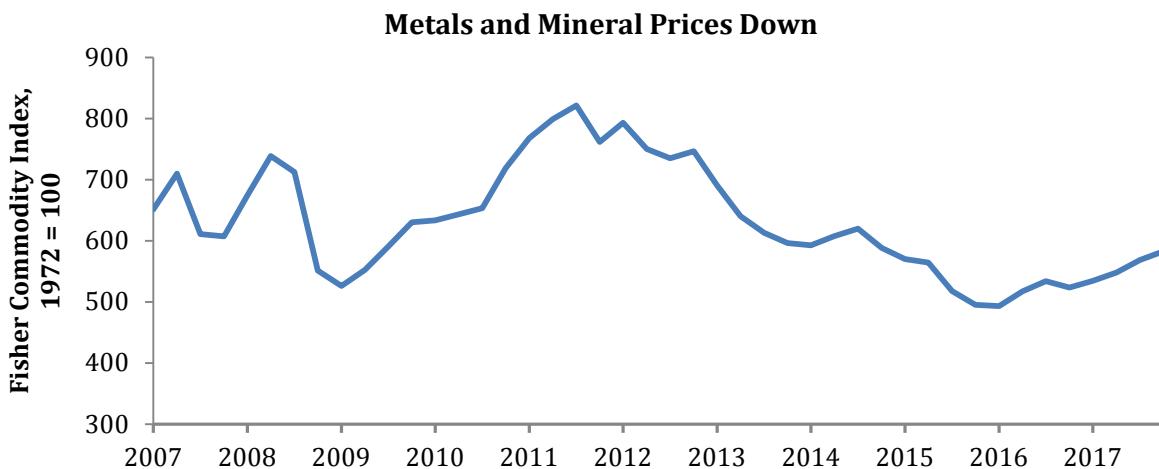


Source: PolishedPrices.com and WWW Overall Rough Diamonds

OUTLOOK – Risks to the Forecast: Mineral and Metal Prices

Global prices for other resource commodities, including many metals and minerals found in the NWT, rebounded in 2017, though they remain muted compared to previous years. Indexed metals and minerals prices rose by about 8.0 per cent from 2016 to 2017, following two consecutive years of decline. Gold prices were flat in 2017, rising just 0.5 per cent, following a 7.8 per cent rise in 2016. This rise in prices corresponds with moderate growth in the global economy, and a stabilisation in many emerging markets, including China and India. Improving global growth suggests that metals and minerals prices may rebound further over the near term.

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.

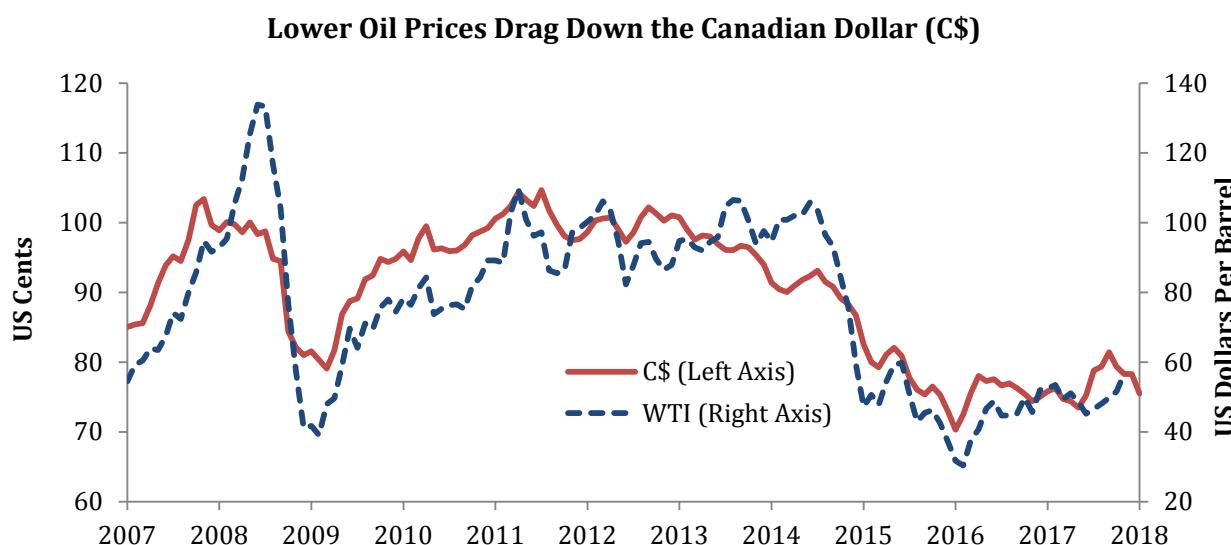


Source: Bank of Canada

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

Oil prices remain low. The benchmark West Texas Intermediate (WTI) crude oil price fell sharply in the second half of 2014, declining over 40 per cent in less than six months. This trend reached a bottom of US\$26.19 on February 11, 2016, and now appears to be reversing. By the end of 2017 WTI was trading above US\$55 per barrel.

Because the NWT exports a small amount of oil to international markets, low oil prices have had a slight negative effect on NWT trade. More concerning, low oil prices have had a serious negative effect on oil exploration activity in the Sahtu and Beaufort-Delta regions of the NWT. However, these negative impacts will be offset by lower fuel costs for many businesses and households. A rebound in WTI price is not projected as increased global supply over the near term is expected to continue putting downward pressure on oil prices.



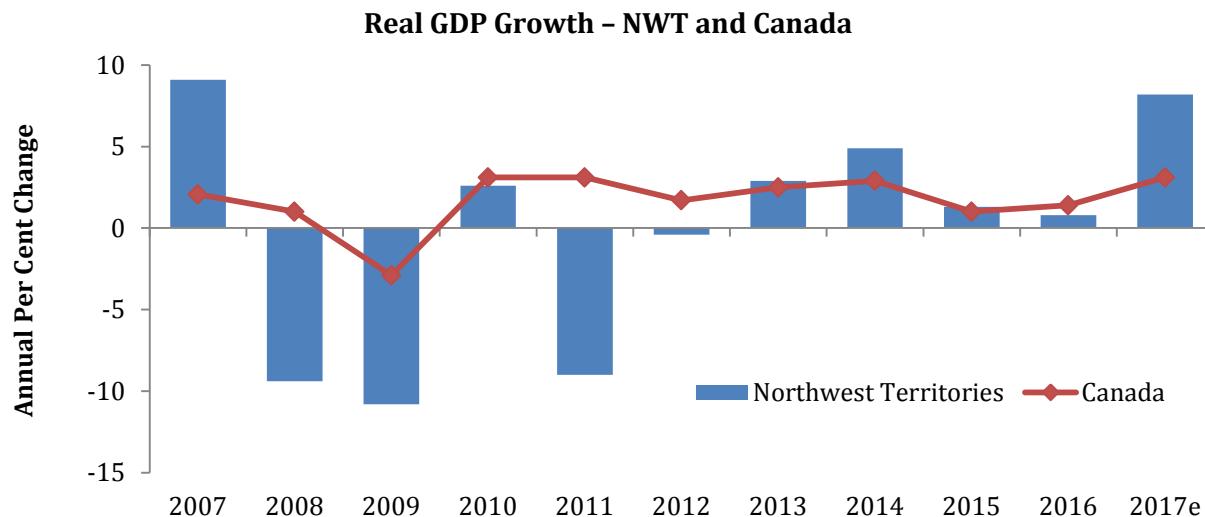
Source: US Energy Information Administration and Bank of Canada

As an oil-exporting country, the drop in global oil prices has lowered the value of the Canadian dollar vis-à-vis the US dollar. The Canadian dollar averaged 77 US cents in 2017, up 2.1 per cent from 75 US cents in 2016 and down 1.5 per cent from 78 US cents in 2015. With oil prices expected to remain low, the Canadian dollar is also likely to remain low.

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 country 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*

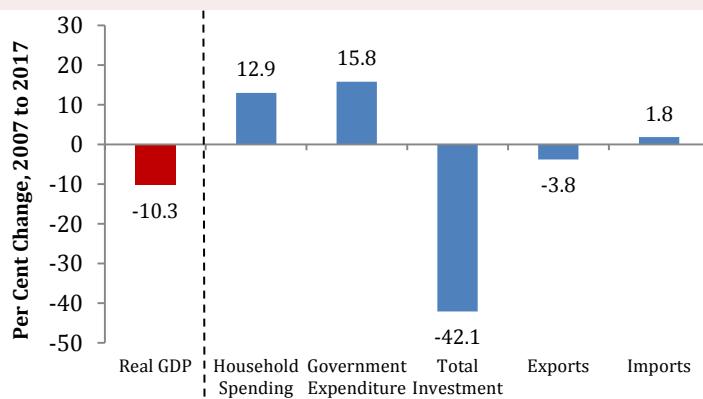
The NWT economy expanded strongly in 2017. Following two consecutive years of weak growth, real GDP increased 8.2 per cent in 2017 compared to 2016. This solid growth reflected a 17.6 per cent rise in real exports, driven by increased diamond production due to the first full year of production at Gahcho Kué. Robust export growth helped to offset an 18.9 per cent decline in real investment in the territory due to decreased capital expenditures at the diamond mines and a drop in public investment.



e: estimate

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

Despite strong economic growth in 2017, 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.



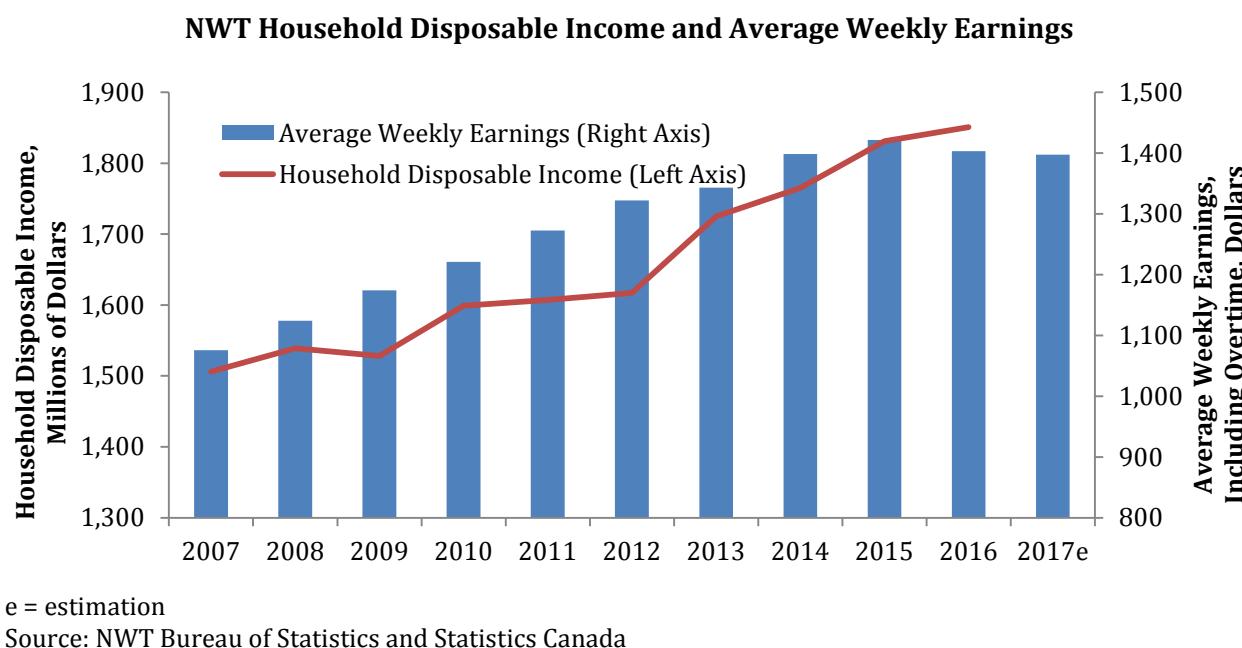
Box 1: The NWT economy remains smaller than it was before 2007.

The NWT economy has not yet returned to pre-recession levels. In 2017 real GDP was 10.3 per cent below what it was in 2007 when diamond mines were producing higher quality diamonds, commodity prices were high, 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 grew 3.7 per cent from 2015 to 2016. However, during the first nine months of 2017, labour income, which is a large component of personal income, stagnated, increasing by just 0.5 per cent compared to the same period in 2016.

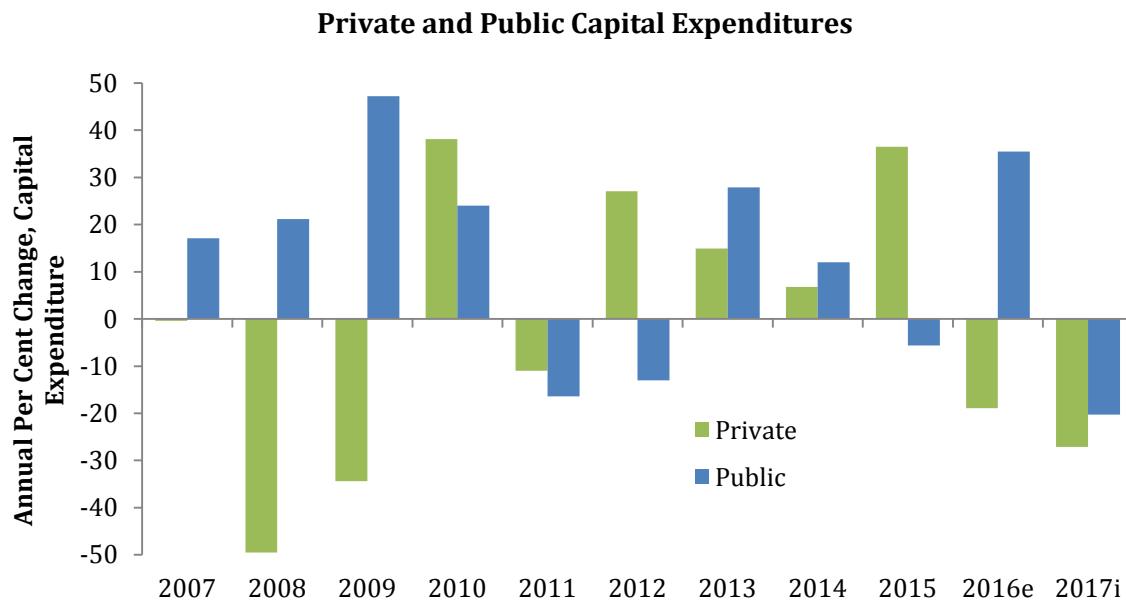
Wages and salaries earned by employees in the NWT are well above the national average. However, average weekly earnings, including overtime, remained flat last year, declining 0.4 per cent from \$1,403 in 2016 to \$1,397 in 2017.



RECENT ECONOMIC PERFORMANCE – *Investment*

Total capital expenditures in 2017 are expected to be \$975 million, a 25.0 per cent decrease from 2016. This represents the second consecutive year of decline and the largest annual decrease since the start of the global financial crisis in 2008. The drop in capital spending expected in 2017 follows a significant ramp up in capital expenditures in 2015, due largely to construction of Gahcho Kué. Declines in both public sector and private sector investment are expected in 2017.

Public sector capital expenditures grew by 36.5 per cent in 2016, rising from \$310 million in 2015 to an estimated \$419 million in 2016. Total capital spending intentions by the public sector dropped by 20.3 per cent in 2017, as ongoing investments in a number of projects neared completion, including the Stanton Territorial Hospital Renewal Project and Inuvik-Tuktoyaktuk Highway. In January 2018 the federal and NWT governments announced that \$96 million will be spent on upgrading NWT transportation infrastructure, which will help soften near-term declines in overall investment expenditures.



e = estimate, i = intentions

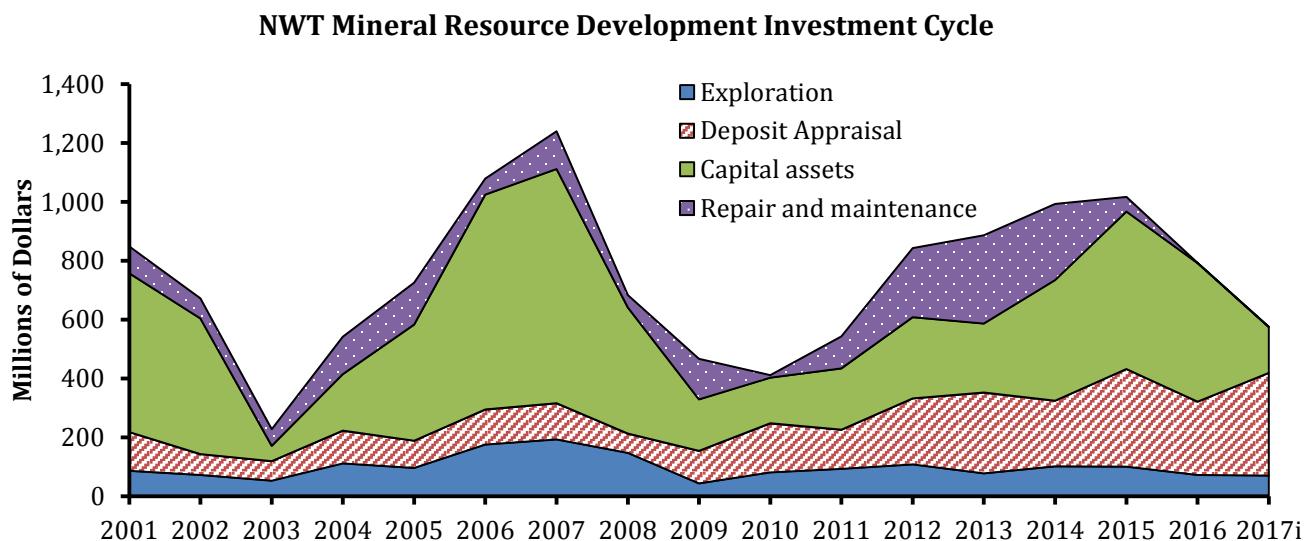
Source: NWT Bureau of Statistics and Statistics Canada

Private sector capital expenditures decreased by 18.9 per cent per cent in 2016, falling from \$1,083 million in 2015 to \$879 million in 2016. This drop was driven largely by a 28 per cent decrease in capital spending in the mining and oil and gas extraction sector as construction of the Gahcho Kué diamond mine wound down. Now that this construction is completed, overall capital expenditure intentions by the private sector fell 27.1 per cent in 2017 to \$640 million.

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 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, 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 decreased from \$1,018 million in 2015 to \$793 million in 2016, reflecting the completion of major construction of the Gahcho Kué diamond mine. Spending intentions for 2017 indicate investment spending in this sector will decline by a further 27.4 per cent to \$576 million.

The NWT mining industry sustains itself through an investment cycle starting with exploration to identify mineral deposits. Exploration expenditures are expected to be relatively stable, falling slightly from \$73 million in 2016 to \$71 million in 2017.



i = intentions

Source: Natural Resources Canada and NWT Finance

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 rise by 40.1 per cent, from \$248 million in 2016 to \$348 million in 2017.

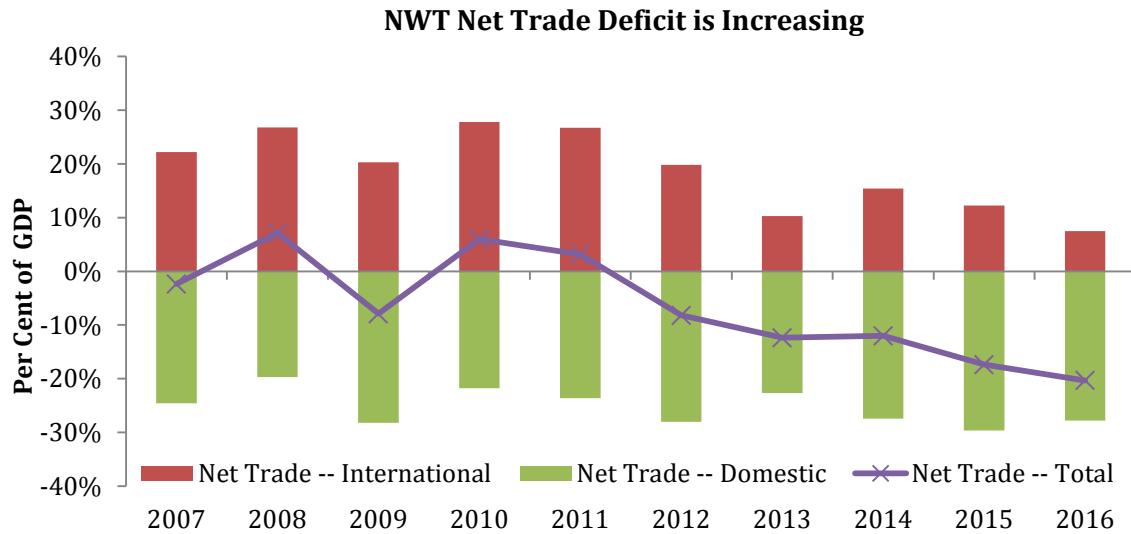
Investment in capital assets began to increase in 2014 with the start of construction of the Gahcho Kué diamond mine. In 2015, investment expenditures in capital assets peaked at \$535 million. With the completion of construction of Gahcho Kué, investment expenditures in capital assets is expected to fall to \$156 million in 2017, a 71 per cent decrease from 2015.

Repair and maintenance expenditures for the industry collapsed in 2016, falling from \$49.9 million in 2015 to \$0.4 million in 2016, reflecting the end of production operations at Snap Lake diamond mine. With Snap Lake continuing on 'care and maintenance' last year, total repair and maintenance expenditures in the sector are expected to remain unchanged at \$0.4 million in 2017.

RECENT ECONOMIC PERFORMANCE – *Trade*

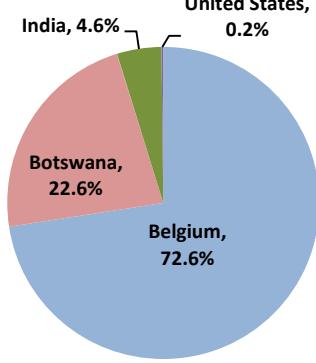
The small, open NWT economy depends on trade with other jurisdictions. The NWT exports natural resources (mainly diamonds) to global markets, and imports goods and services from southern Canada to support industry and personal consumption. As a result, the NWT has a trade surplus with other countries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

The NWT trade surplus with other countries, relative to GDP, has declined over the past few years; decreasing from 12.3 per cent of GDP in 2015 to 7.5 per cent in 2016. Imports have increased the overall NWT trade deficit from 17.4 per cent of GDP in 2015 to 20.3 per cent in 2016.



Source: Statistics Canada and NWT Finance

Top Destinations for NWT Exports, 2016



Source: Industry Canada and NWT

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.

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.

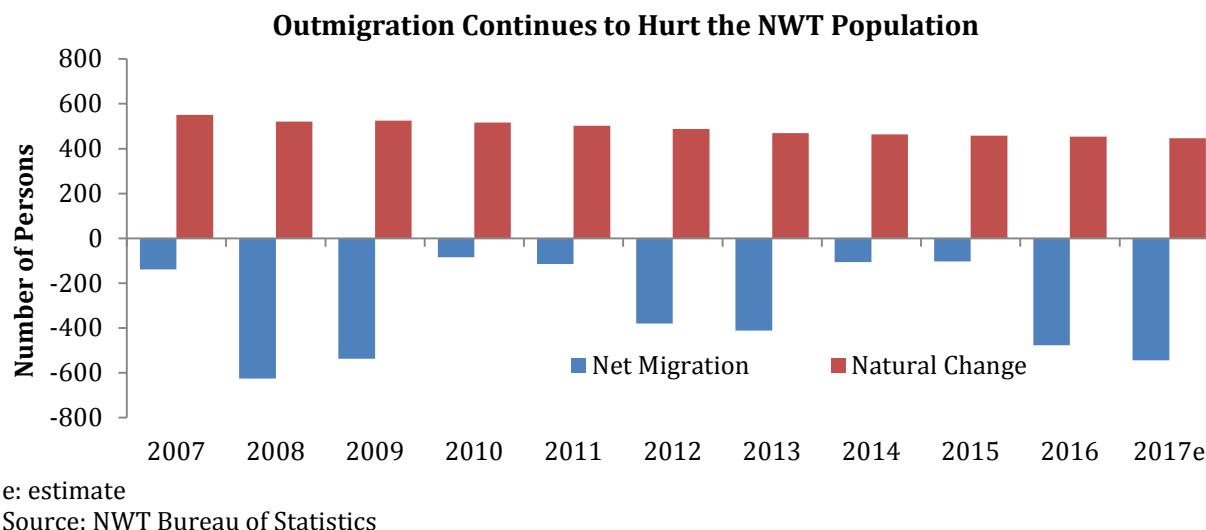
While the United States is an important trading partner for the rest of Canada, less than one per cent of NWT goods and services are exported south of the border.

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, 2017, the NWT population was estimated to be 44,520 people, a decrease of 97 people, or 0.2 per cent, from July 1, 2016.

Three factors account for this population decrease: natural change (births minus deaths), interprovincial migration, and international migration. Between July 1, 2016 and July 1, 2017 there was a net natural increase of 447 people (666 births minus 219 deaths), while interprovincial migration resulted in a net loss of 837 people (2,149 people moved into the NWT from the rest of

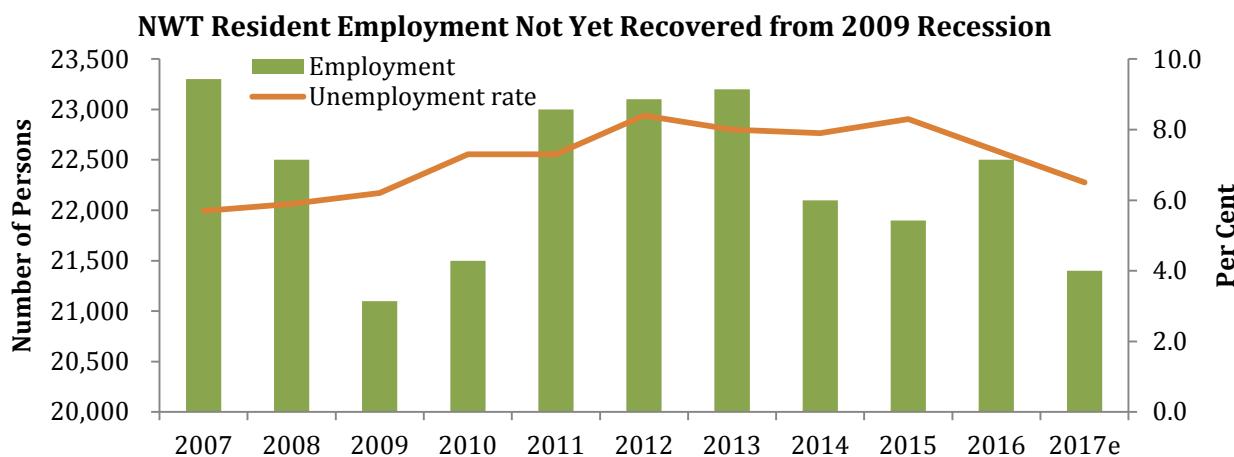
Canada and 2,986 people moved out). Internationally, there was net in-migration of 293 people. In 2017, Dominion Diamond Corporation moved its corporate head office from Yellowknife to Calgary, worsening the net migration loss of the Northwest Territories.

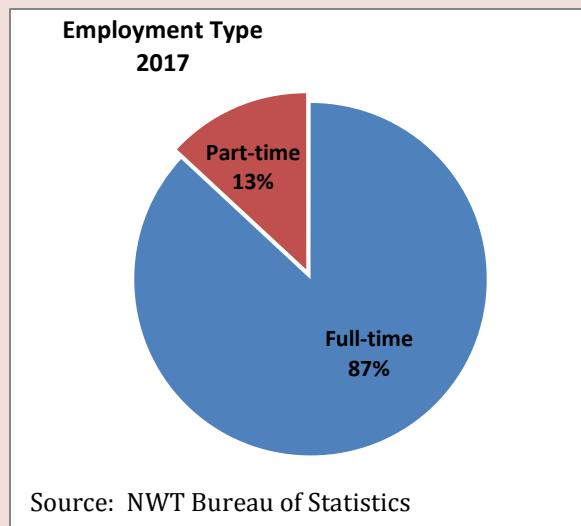


RECENT ECONOMIC PERFORMANCE – *Labour*

In 2017, NWT resident employment was estimated at 21,400, a decrease of 1,100 people from 2016 and 1,900 people below the 2007 pre-recession high.

Despite this significant drop in employment, the unemployment rate in the territory also declined, falling from 7.4 per cent in 2016 to 6.5 per cent in 2017. These decreases reflected a decline in the size of the NWT labour force and a reduction of the NWT employment rate (the share of the labour force that is employed). The NWT employment rate fell from 69.2 per cent in 2016 to 66.1 per cent in 2017. While this puts the current NWT employment rate well below the 2007 pre-recession employment rate of 74.0 per cent, it remains well above the Canada average of 61.6 per cent.



Box 3: Full-time Positions Declined in 2017.

Resident employment declines occurred solely in full-time positions last year. Between 2016 and 2017, full-time resident employment fell 5.6 per cent, while part-time positions remained flat. Because full-time jobs typically command higher salaries than part-time work, a decline in these positions has a greater negative effect on NWT income.

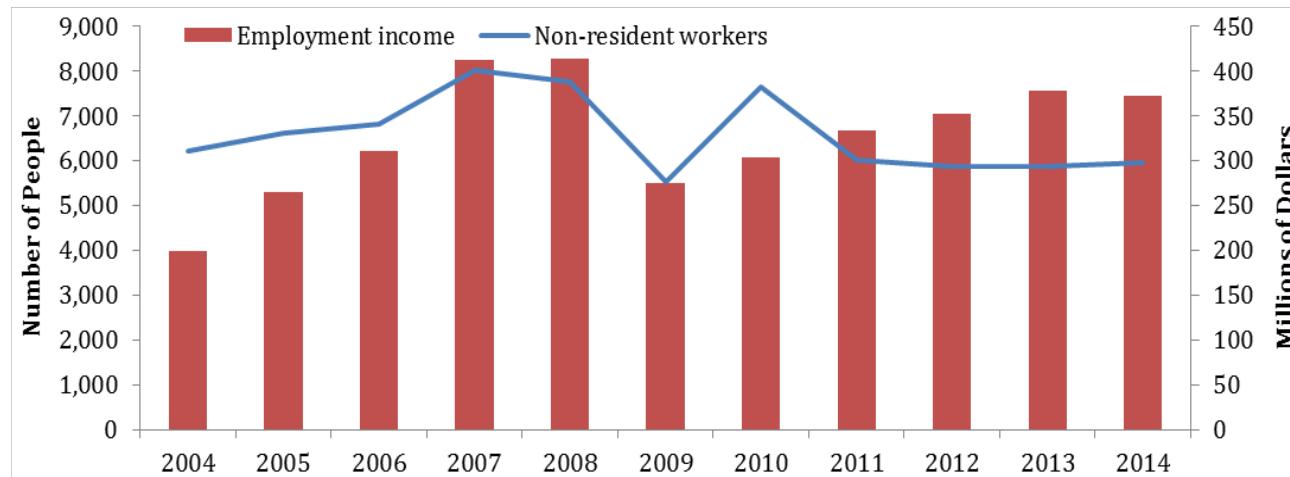
Despite this, the majority of resident employment in the NWT remains full-time, representing 87 per cent of all positions.

However, full-time jobs have declined from 2007 pre-recession levels, falling 12.3 per cent between 2007 and 2017, while part-time positions have increased 27.3 per cent.

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 2014, non-resident workers accounted for about one third of the NWT workforce.

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 \$178 million and \$414 million between 2002 and 2014. This represents approximately 18 per cent of all employment income generated in the NWT.

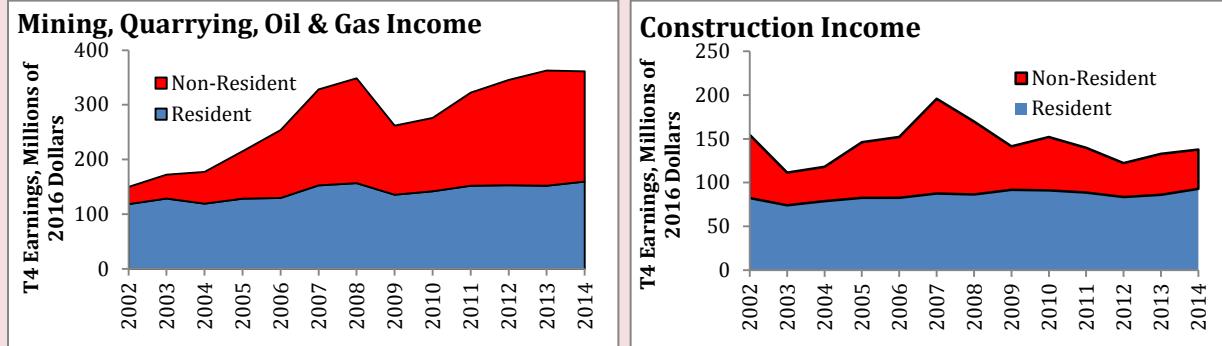
Non-resident workers who are employed in the NWT provide skills needed by NWT businesses but this reliance on out-of-territory workers means lost NWT business from consumer spending and lost revenue for the GNWT.

Non-Residents are a Significant Part of the NWT Workforce

Source: Statistics Canada and NWT Finance

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

In 2014, 56 per cent of employment income in the NWT mining, oil and gas industry and 33 per cent of employment income in the construction sector was paid to non-resident workers. Employment income generated in other sectors of the economy, such as Public Administration, is paid almost entirely to residents.



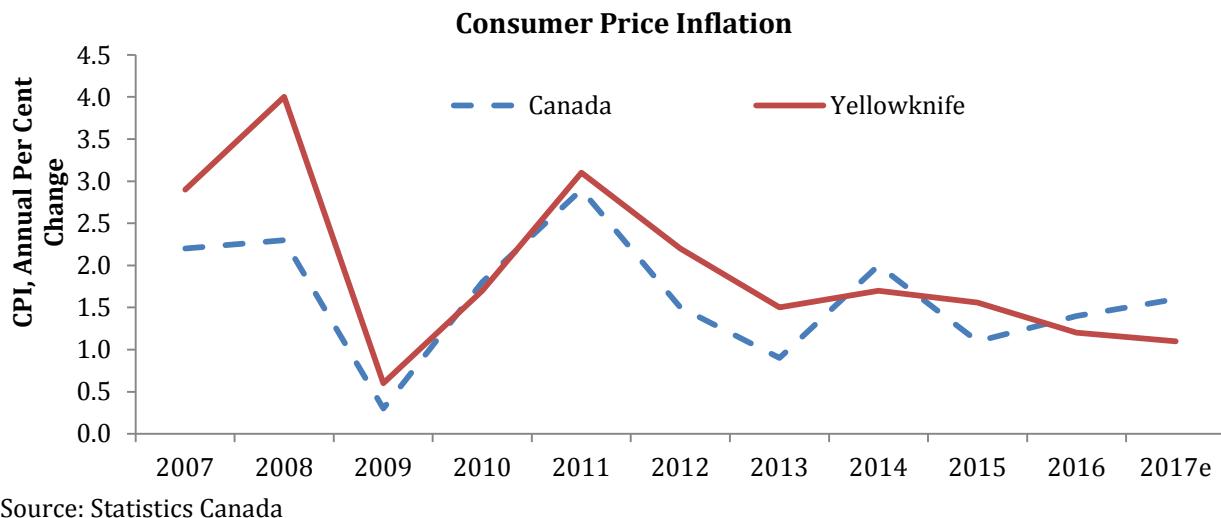
Source: Statistics Canada and NWT Finance

Policies aimed at addressing this issue must consider the reasons why people move to, and leave, the NWT. The greatest contributor to strong population growth is in-migration caused by better job opportunities in the NWT compared to the rest of Canada; or, in other words, when the NWT economy is doing well and provincial economies are not. Because the NWT is competing for skilled labour, NWT population growth strategies will depend on the ability to quickly 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.

RECENT ECONOMIC PERFORMANCE – *Cost of Living*

The cost of living is high in the NWT relative to other jurisdictions. 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 2017, which is unchanged from the growth in 2016, largely due to lower transportation and shelter costs, reflecting persistently low global oil prices. However, lower prices in these categories were offset by higher import prices for items such as food resulting from the lower Canadian dollar.



KEY SECTORS – *Composition of the Economy*

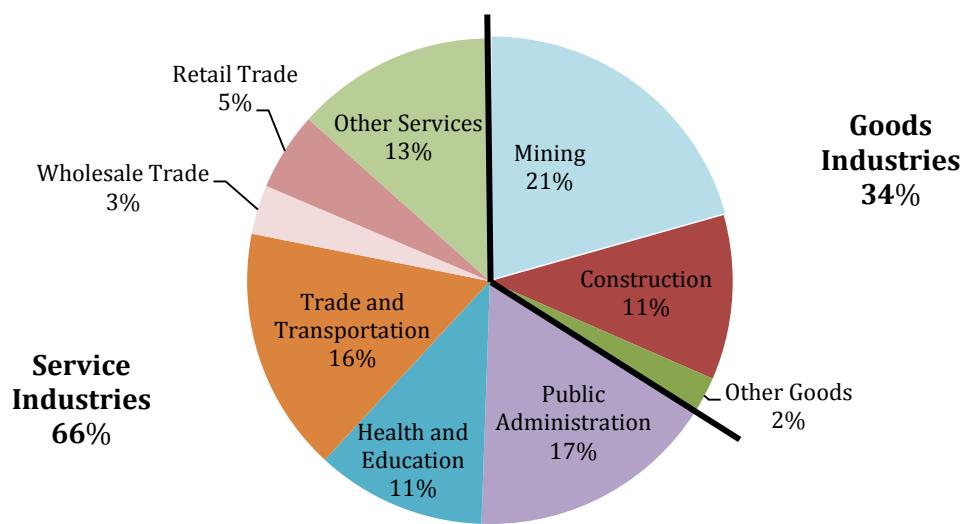
The NWT economy relies heavily on the extractive, non-renewable resource sector, especially the diamond mining industry. In 2016, the mining, oil, and gas extraction sector accounted for over a fifth of direct NWT GDP. While the share of the economy directly generated by the mining, oil and gas sector has declined from 40 per cent in 2007, it remains the dominant sector in the NWT economy, placing the NWT in a precarious position.

Economic diversity provides more stable and balanced growth by spreading risk 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 34 per cent of NWT GDP in 2016. 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 2016. 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 66 per cent of NWT GDP in 2016. Public sector activities dominate this sector, with public administration, education, health and social services accounting for 28 per cent of NWT GDP in 2016. The remainder of this sector is comprised of industries such as wholesalers, retailers, banks, hotels, and tour operators.

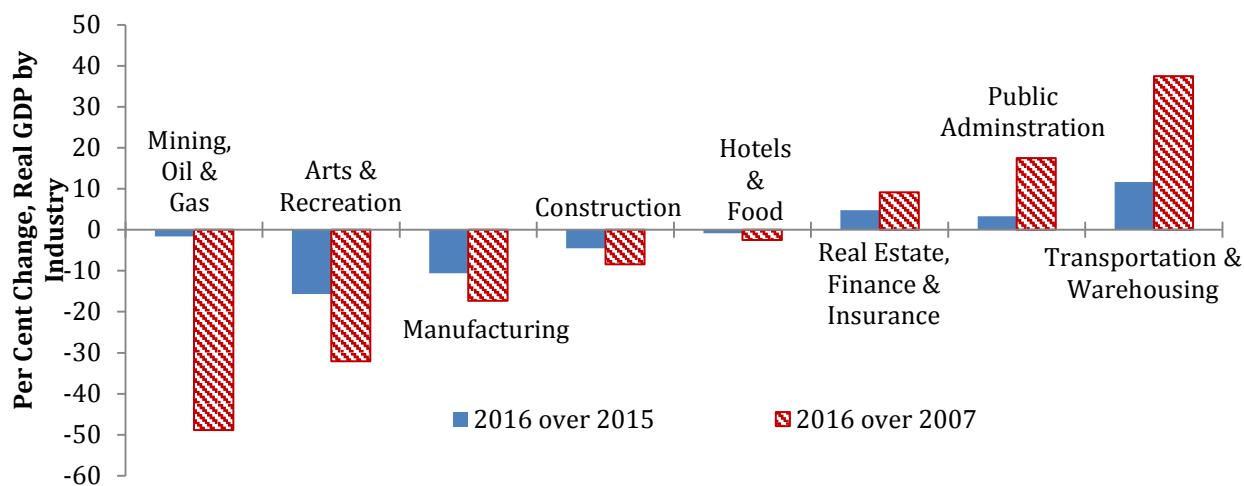
Mining Dominates the NWT Economy, 2016



Source: Statistics Canada

From 2007 to 2016, the mining, oil and gas industries shrunk by 49 per cent, the manufacturing sector declined 17 per cent, and construction fell 8 per cent, but transportation and warehousing grew by 37 per cent, public administration expanded 18 per cent, and the real estate, finance and insurance industries increased by 9 per cent. This shows 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 2016 that share had fallen to 34 per cent. This reflects not only economic diversification efforts, but also the business cycle in the goods-producing industries and the global economic recession.

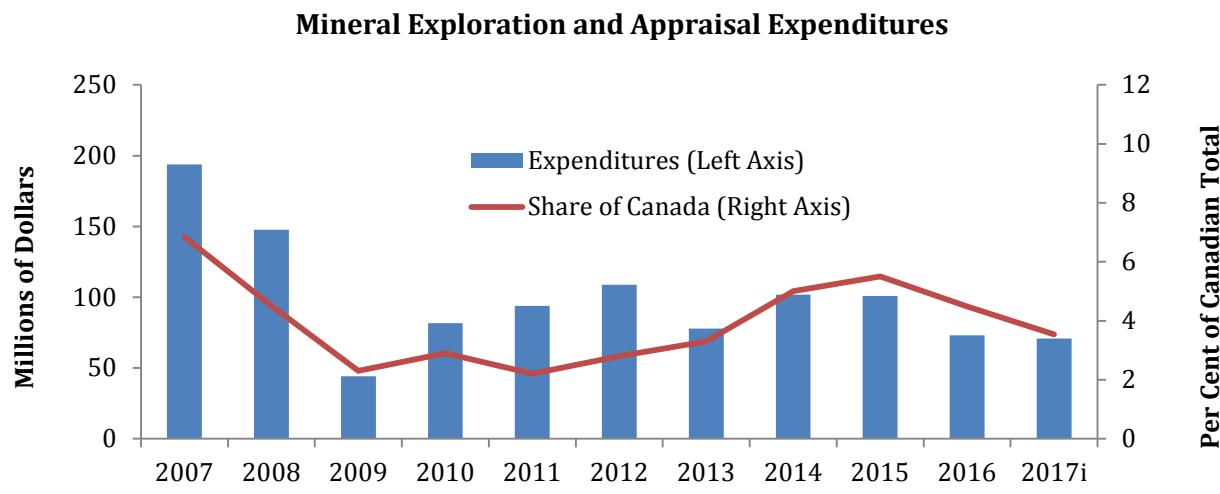
Real Growth Rates of Selected NWT Industries



Source: Statistics Canada and NWT Finance

KEY SECTORS – *Large Industries: Mining, Oil and Gas (21 % of GDP)*

The mining, oil and gas sector accounts for 21 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 declined in 2016, decreasing from \$101 million in 2015 to an estimated \$73 million in 2016, and spending intentions for 2017 are expected to further fall to \$71 million. Exploration and appraisal expenditures are focussed on diamonds, which account for nearly half of intended expenditures in 2017. The NWT exploration and appraisal expenditures share of the Canadian total decreased from 5.5 per cent in 2015 to 4.5 per cent in 2016 and 3.5 per cent in 2017. Low commodity prices continue to effect resource development in Canada.



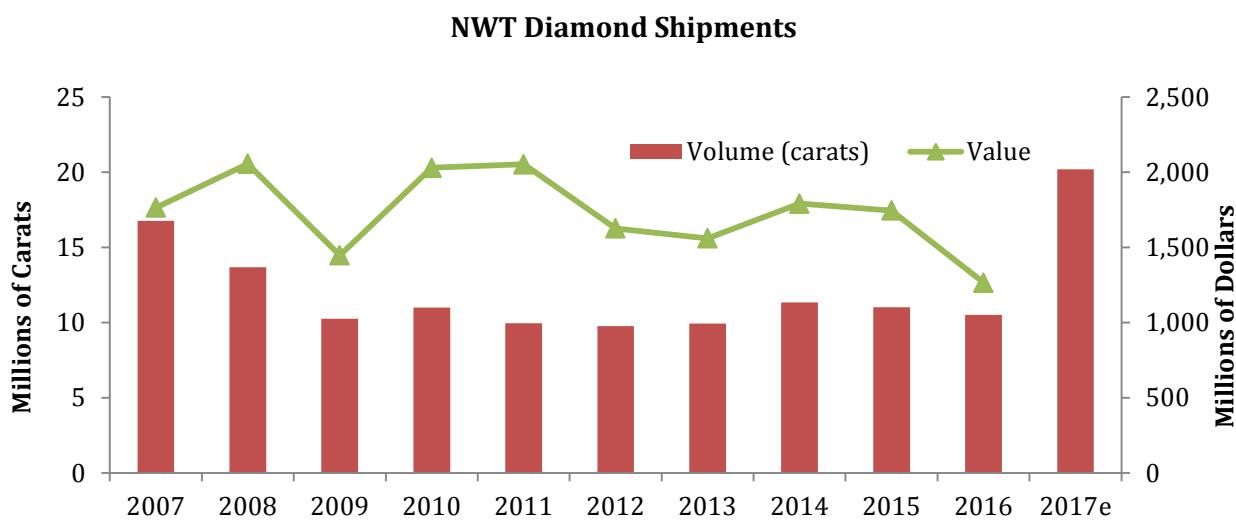
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Source: Natural Resources Canada

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 projects from already discovered deposits. 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 was flooded in early 2017. De Beers announced in December 2017 that it will file a final closure and reclamation plan for the Snap Lake mine site.

Carat production at NWT diamond mines (excluding pre-commercial production at Gahcho Kué) declined 4.8 per cent from 11.0 million carats in 2015 to 10.5 million carats in 2016, and the value of diamond shipments fell 27.5 per cent from \$1.7 billion in 2015 to \$1.3 billion in 2016, largely due to low diamond prices. With Gahcho Kué fully operational, carat production is projected to nearly double to 20.2 million carats in 2017.

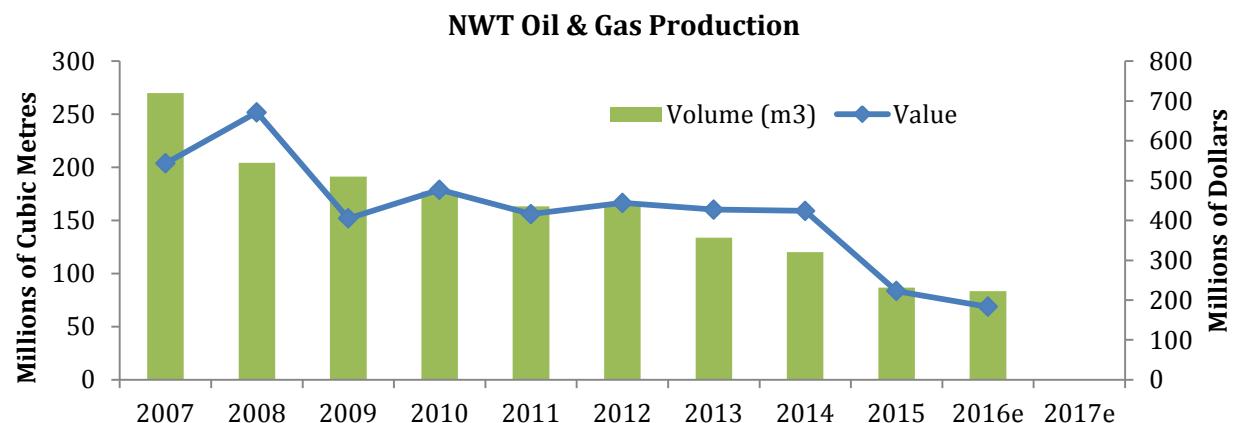


Source: NWT Bureau of Statistics and NWT Finance

Note: 2016 does not include pre-commercial production at Gahcho Kué

Oil and gas production in the NWT has declined dramatically in recent years, falling an average of 11 per cent per year over the past decade. In 2016, oil and gas production fell 3.8 per cent from 87 million cubic metres in 2015 to 84 million cubic metres, putting production 69 per cent lower than pre-recession production in 2007. The value of NWT oil and gas fell by 17.7 per cent in 2016 from \$223 million in 2015 to \$183 million dollars.

Oil and gas production in Norman Wells was suspended in early 2017, while production at the Cameron Hills field was suspended in early 2015. Currently, oil and gas production in the NWT is limited to the Ikhil gas field in Inuvik which produced just 2.7 million cubic metres through the first eight months of 2017, down 21.0 per cent from the same period in 2016. In December 2017, the long-delayed Mackenzie Gas Project was officially cancelled.

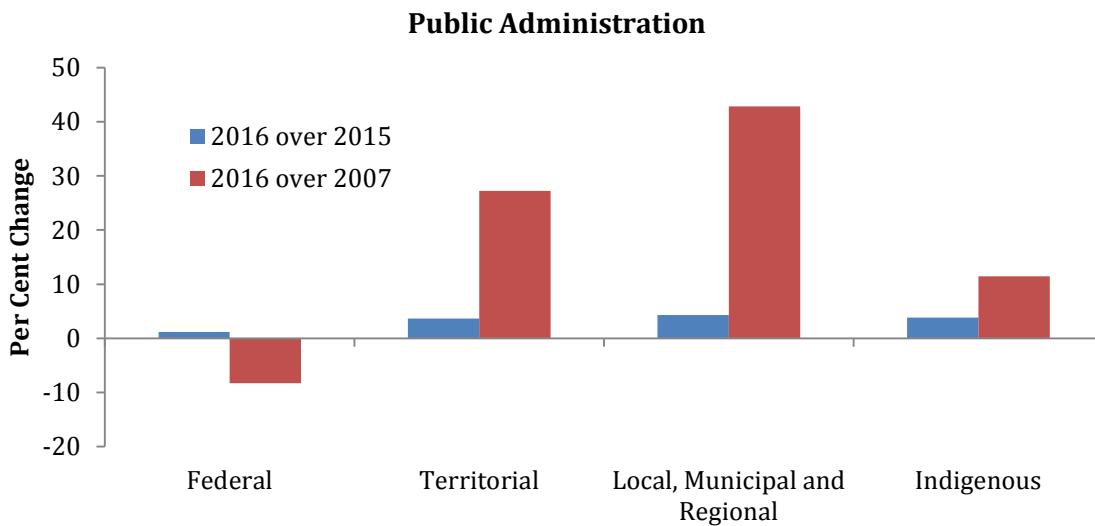


Source: NWT Bureau of Statistics and NWT Finance

KEY SECTORS – *Large Industries: Public Administration (17% of GDP)*

Public administration at all levels of government (federal, territorial, municipal, and Indigenous) is the second largest industry in the NWT, accounting for 17 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 3.3 per cent in 2016 compared to 2015. Since 2007, all levels of government experienced increases in public administration except for the federal government which declined 8.3 per cent between 2007 and 2016, partly due to devolution of the management of lands, waters and non-renewable resources to the GNWT on April 1, 2014.

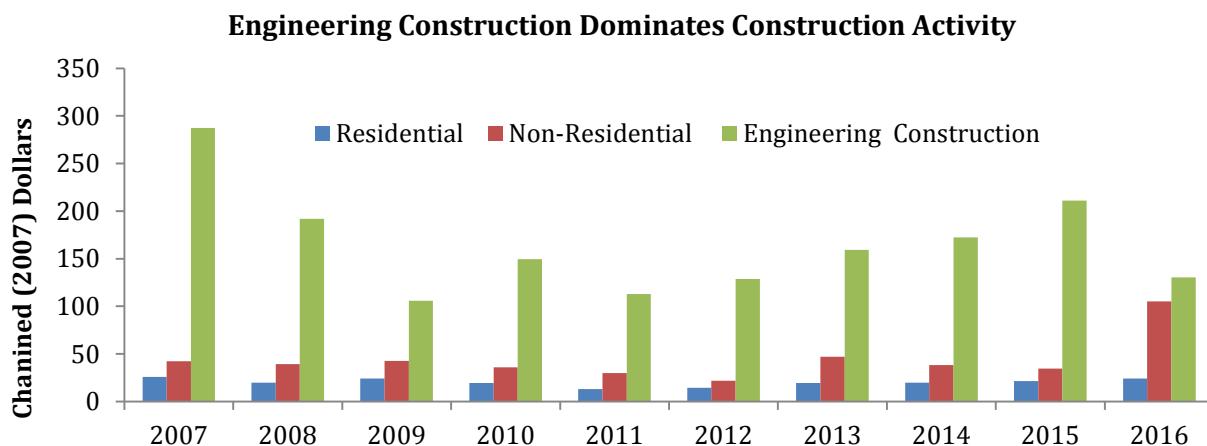


Source: Statistics Canada

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, residential construction makes up only a small portion of the value of NWT construction activity, accounting for just 6.6 per cent of real construction expenditure in 2016. This compares to other Canadian provinces and territories, where residential construction comprised, on average, over one-third of real construction expenditure in 2016.

Overall, construction activity declined by 4.5 per cent in 2016, compared to 2015, and remains below its pre-recession level. Construction on several large infrastructure projects was completed in 2016, including work on the Gahcho Kué diamond mine (cost \$1 billion), the Inuvik-Tuktoyaktuk Highway (cost \$300 million), and Mackenzie Valley Fibre Link (cost \$91 million), leading to a 38.2 per cent decline in real engineering construction spending in 2016 compared to 2015. This decline was partially offset by increased non-residential activity as work on the Stanton Territorial Hospital (cost \$350 million) helped triple real non-residential construction expenditures from \$35 million in 2015 to \$105 million in 2016. Residential construction increased by a more modest 11.6 per cent.



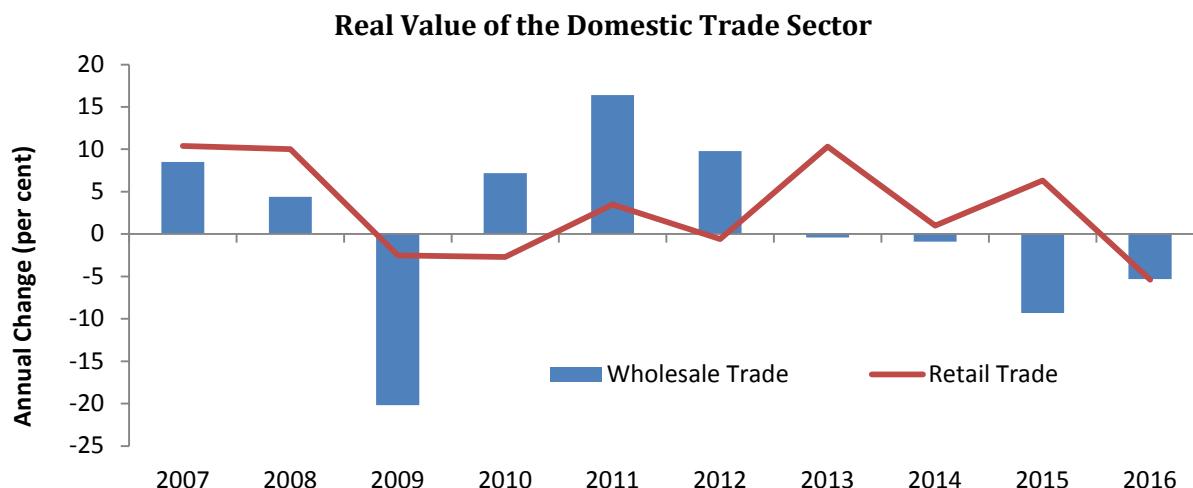
Source: Statistics Canada

OTHER SECTORS – *Wholesale and Retail Trade (8% of GDP)*

Domestic trade, both retail and wholesale, facilitates the exchange of goods and services within the NWT. This makes domestic trade key to the health of the economy.

Both wholesale and retail trade declined in 2016. The value of NWT real wholesale trade fell from \$122 million in 2015 to \$115 million in 2016, a decline of 5.3 per cent, while the value of NWT real retail trade fell from \$211 million in 2015 to \$200 million, a decrease of 5.4 per cent.

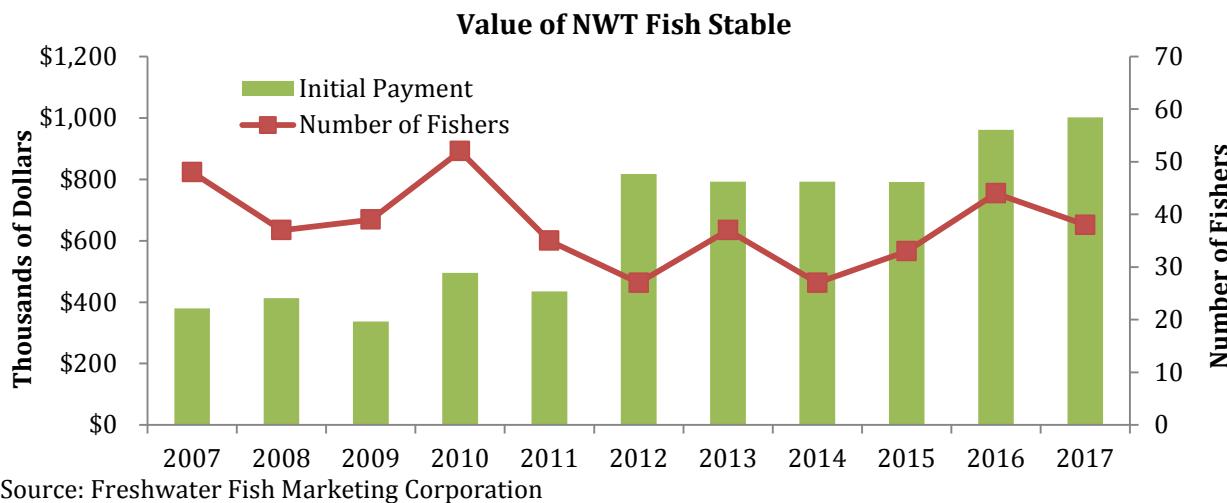
Wholesale trade is an intermediate step in the distribution of goods and services, connecting buyers and vendors with raw materials, merchandise and services incidental to the sale merchandise, while retail trade delivers final products directly to consumers. Wholesale and retail trade ensures that goods and services are effectively distributed in the economy, which supports economic growth.



Source: Statistics Canada

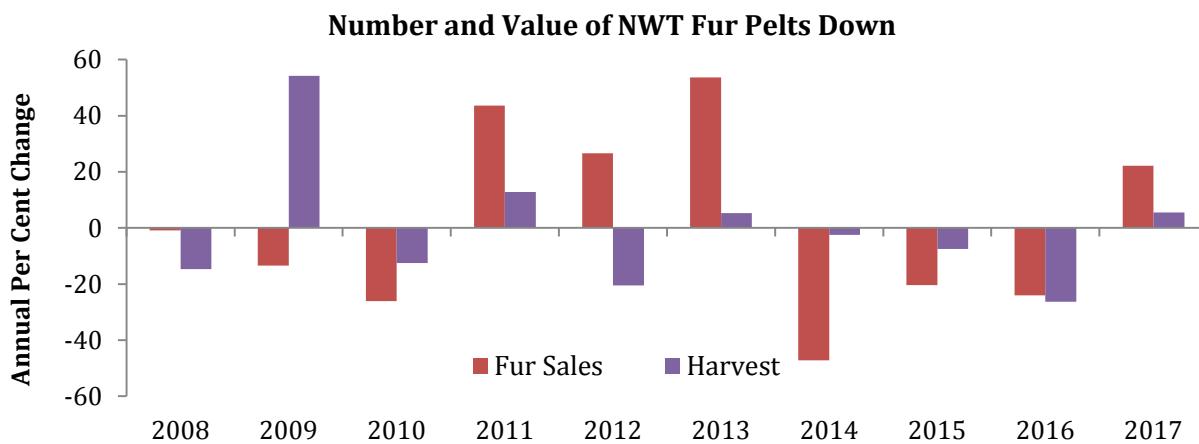
OTHER SECTORS - *Commercial Fisheries*

The commercial fishery in the NWT is small with room for growth. Initial payments to NWT fishers – on delivery-point, net-of-freight basis – rose to over a million dollars in 2017, increasing 4.2 per cent from 2016 to \$1,001,290 in 2017, despite a 1.2 per cent decrease in the quantity of fish from 520,460 kilograms to 514,435 kilograms. The majority of fish (by weight) delivered in 2017 was whitefish.



OTHER SECTORS - *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, 2017, about 18,220 NWT pelts were sold, an increase of 5.5 per cent from the previous year, while the value of fur sales rose 22.1 per cent to \$906,500. The number of commercial trappers in the NWT decreased 8.9 per cent to 617. The fur market is cyclical and, although last year's sales were modest, 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

OTHER SECTORS - *Tourism*

Tourism is not formally defined as an industry in NWT GDP data. However, the tourism industry has direct implications for measured components of GDP such as travel services, accommodations, retail trade, and other supporting industries. From 2015-16 to 2016-17, the number of visitors increased 15.5 per cent from 93,900 to 108,480. Over the same period, visitor expenditures rose by 20.5 per cent, increasing from \$167 million to \$201 million.



Source: Department of Industry, Trade and Investment

Leisure travel represented over half of visitor expenditures in 2016-17, with one quarter of total visitor spending associated with Aurora viewing.

Box 5: International Visitors



The majority of visitors to the NWT are Canadian. However, international travellers remain an important contributor to NWT tourism and are an area for future growth.

The majority of international visitors (as recorded at the Yellowknife Airport) were from Japan, the United States, and China. Japanese tourists have long considered the NWT a favourable destination, though their numbers have declined in recent years.

Chinese tourists have increased dramatically over the past five years, increasing from 591 visitors in 2012-13 to over 6,200 in 2016-17.

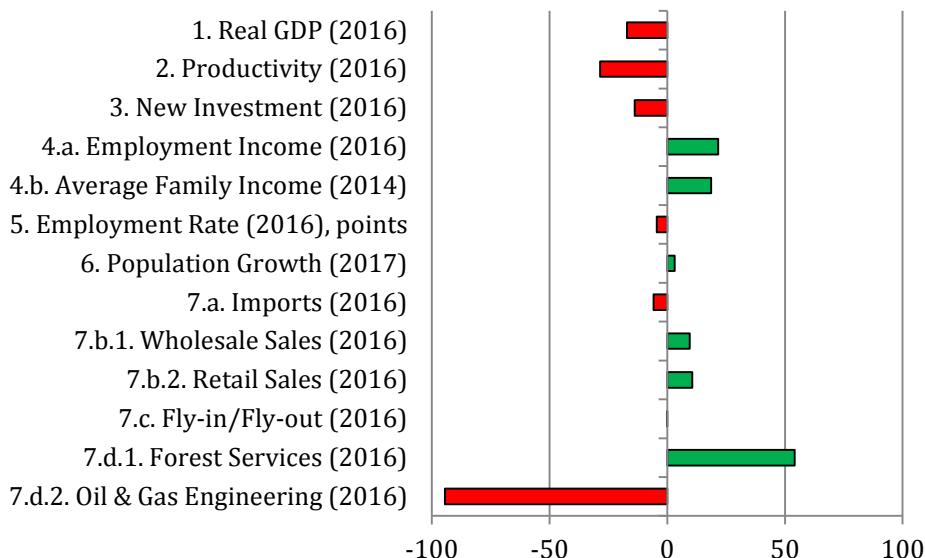
ECONOMIC PERFORMANCE INDICATORS - *MACROECONOMIC POLICY FRAMEWORK*

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.

Macroeconomic Policy Framework Performance Indicators



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

FISCAL REVIEW

Budget 2018-19 continues to deliver on the priorities of the Government of the Northwest Territories (GNWT) 18th Legislative Assembly. The GNWT remains committed to a fiscal strategy that works to align revenue and expenditure growth with a focus on longer term fiscal sustainability.

Although the long-range fiscal plan ensures that the GNWT can continue to provide quality programs and services and invest in needed infrastructure, revenue declines projected for 2017-18 and forecast for 2018-19 mean that the schedule for reducing short term borrowing is revised. The actions of the two previous budgets gave the GNWT the flexibility to absorb the revenue shocks with narrowing operating surpluses and reduced infrastructure investments in the future but fiscal challenges remain.

The GNWT's revenue growth outlook projects modest 2.1 per cent growth over the next five years from 2017-18 to 2021-22. Challenges on the revenue side limit the ability of the Government to respond to the priorities in the 18th Assembly's Mandate without reducing expenditures in other areas. The medium-term fiscal plan provides for an average 2.2 per cent growth in operating expenditures over the next five years but with only 0.7 per cent growth from 2016-17 to 2017-18 and no increase in expenditures in 2018-19. Operating expenditures continue to be carefully restrained so that the cash deficit can be managed. The growth in the cash deficit limits the ability of the 18th Assembly to introduce new initiatives or enhance existing programs and services.

Operating surpluses are needed to make strategic infrastructure investments to grow the economy and deliver government programs and services, support existing infrastructure assets with repairs and maintenance, and provide flexibility to respond to unexpected expenses such as forest fire suppression or other emergency expenses outside of the GNWT's ability to control.

The medium-term outlook in Budget 2018-19 continues to provide operating surpluses, which have been realized since 2011-12, to partially fund the capital budget and this will continue over the forecast period, though at reduced levels from recent years.

Fiscal Strategy

The GNWT has two spending 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*.

Under the *Fiscal Responsibility Policy*, the GNWT requires operating surpluses to fund at least half of the annual infrastructure budget that provides the housing, health centres, schools, roads and airports that serve Northwest Territories residents and economy. Therefore, the GNWT may only borrow to pay for a maximum of 50 per cent of the annual infrastructure budget.

The fiscal strategy adopted early in the 18th 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 to a small cash surplus position by the end of the life of the 18th Assembly.

Significant progress on the objectives to establish more sustainable growth and increase the GNWT's fiscal capacity were made in the 2016-17 and 2017-18 budgets; however the projected decline of \$84 million in revenues from 2015-16 actual to the 2018-19 Budget means that the GNWT's cash deficit will continue to the end of the 18th Legislative Assembly.

Following the fiscal strategy requires fiscal discipline, mainly on the expenditure side because most of the GNWT's budget is funded through federal transfers. Federal transfers make up the majority of the GNWT's revenue and are beyond the control of the GNWT to directly influence and the small Northwest Territories economy and population limit the feasibility of producing operating surpluses through increased taxes or other own-source revenues. A discussion paper on potential revenue options was tabled in the Legislative Assembly in March 2016 and the options in that paper are still being considered, based on several principles: revenue-raising potential; the principles of sound tax policy, including predictability, fairness, efficiency and ease of administration; and potential impact on the 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 are not enough to meet the fiscal challenges. Additionally, they would have potentially significant implications for the cost of living and doing business in the Northwest Territories.

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 of two years of declining revenue and the slow five-year revenue growth forecast of 2.1 per cent. Given the weak revenue outlook, expenditure growth will have to be similarly constrained. If operating surpluses are to continue, revenue and expenditure growth need to be aligned and operating surpluses are crucial for ensuring enough funds for infrastructure investments.

To date, efforts to manage the growth in spending have been successful, contributing to six years of consecutive operating surpluses from 2011-12 through 2016-17. The current fiscal plan projects operating surpluses for 2017-18 and 2018-19. The GNWT has maintained fiscal prudence in its operating budget with growth in program spending having halved from its rate in the last decade and early on in this decade. The resulting operating surpluses were used to make infrastructure investments that otherwise would not have been possible. However, these infrastructure investments also increased short-term borrowing since they were too large to finance solely with operating surpluses.

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

2017-18 Revised Estimates

The 2017-18 operating surplus is projected to be \$75 million; \$82 million lower than projected in the 2017-18 Main Estimates, due to a \$46 million decrease in estimated revenues and higher projected expenditures of \$40 million, with other adjustments increasing the surplus \$4 million.

The revised 2017-18 revenue forecast is \$1.802 billion, a decrease of 2.5 per cent from the 2017-18 Main Estimates. Transfers are expected to increase \$8 million from the 2017-18 Main Estimates, mainly because of higher funding for French and Indigenous language instruction. Own-source revenue projections are revised downward by \$54 million due mainly to declines in personal income tax, corporate income tax, and resource revenues forecasts, which are partially offset by modest gains elsewhere.

Operating expenses are expected to increase to \$1.696 billion in 2017-18, up 2.4 per cent from the 2017-18 Main Estimates. However, careful expenditure management continues and the revised 2017-18 operating expenditures are only 0.8 per cent higher than 2016-17 actual expenditures.

Total debt at March 31, 2018 is forecast to be \$969 million, leaving \$331 million in borrowing room available from the federally-imposed borrowing limit of \$1.3 billion.

2018-19 Budget

The 2018-19 Budget forecasts revenues of \$1.749 billion and projects operating expenditures after adjustments of \$1.726 billion, which will result in an operating surplus of \$23 million - the smallest in seven years.

Total revenues are forecast to decrease 2.9 per cent, or \$53 million, from the 2017-18 Revised Estimates to the 2018-19 Main Estimates. The Territorial Formula Financing Grant, which makes up the majority of GNWT revenues, will increase 1.9 per cent, or \$24 million, in 2018-19. Other transfers are forecast to drop \$46 million, from \$194 million to \$148 million, because transfers for the Inuvik-Tuktoyaktuk Highway are completed and transfers through the Highway Capacity Improvement Fund are lower.

GNWT own-source revenues (including recoveries) are expected to account for 20 per cent of total revenues in 2018-19. Tax revenues are expected to decrease \$9 million because of a nearly 50 per cent decline in corporate income tax (down \$31 million), partially offset by higher personal income tax (up \$21 million). Mineral royalties, which are the majority of resource revenues, are projected to decline from \$35 million in 2017-18 to \$16 million in 2018-19.

Total 2018-19 operating expenditures are expected to remain the same as the 2017-18 Revised Estimates, reflecting the GNWT's efforts to restore fiscal sustainability despite two years of declining revenue.

Infrastructure investment spending in 2018-19, approved in October 2017, are estimated to be \$261 million, which includes \$27 million in contribution funding to community governments and \$24 million for the NWT Housing Corporation.

Budget 2018-19 forecasts a minimal cash surplus of \$2 million being derived from operations, slightly reducing the overall cash deficit to \$301 million at March 31, 2019.

Total debt, which includes the NWT Hydro Corporation and other public agencies, is expected to be \$1,052 million at March 31, 2019, leaving \$248 million in available borrowing capacity.

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 increase, but the increase will be less than what was experienced in the two previous Assemblies. The cash deficit would also have been higher had the GNWT not reduced the growth rate of operating expenditures, especially given that revenue growth had turned negative for two years.

Expenditure restraint continues to be necessary throughout the outlook because revenue growth is forecast to be moderate, with a forecast increase of 2.1 per cent annually over the medium term. The current outlook for expenditure growth is 2.2 per cent average growth, slightly higher than revenue growth. Expenditure growth assumes increased costs for existing programs and services will be restrained and that new initiatives will be funded from re-profiled spending.

Medium-Term Outlook (\$ millions)

	2016-17 (Actual)	2017-18 (Revised)	2018-19 (Estimate)	2019-20 (Forecast)	2020-21 (Forecast)	2021-22 (Forecast)
OPERATING SUMMARY						
Total Revenues	1,870	1,802	1,749	1,873	1,933	1,957
Total Expenditures ¹	(1,715)	(1,727)	(1,726)	(1,800)	(1,842)	(1,884)
Operating Surplus (deficit)	155	75	23	73	90	73
CAPITAL INVESTMENT	266	277	202	171	161	160
TOTAL (DEBT) AT MARCH 31						
Cash Surplus (Deficit) at year end	(237)	(303)	(301)	(309)	(253)	(223)
Long Term Debt and Guaranteed Debt ²	(653)	(666)	(751)	(808)	(851)	(877)
Total (Debt) at March 31	(890)	(969)	(1,052)	(1,117)	(1,104)	(1,100)
BORROWING LIMIT	1,300	1,300	1,300	1,300	1,300	1,300
AVAILABLE BORROWING CAPACITY	410	331	248	183	196	200

¹ Includes infrastructure contributions.

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

Totals may not equal sums of individual figures due to rounding.

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*. Adherence to the *Fiscal Responsibility Policy* also requires annual operating surpluses to fund at least half of the infrastructure investments. The outlook maintains core infrastructure spending; however total infrastructure spending will decline starting in 2018-19 as large infrastructure projects such as the Inuvik-Tuktoyaktuk Highway and the Stanton Territorial Hospital Renewal Project are completed. Actions taken to date have not been sufficient to reduce short-term borrowing over the life of the 18th Legislative Assembly, indicating that fiscal pressures remain.

Almost 80 per cent of GNWT total revenues come from federal transfers, of which about two-thirds come from Territorial Formula Financing and are outside the ability of the GNWT to influence. The Territorial Formula Financing entitlement is projected to increase 2.5 per cent annually over the medium-term outlook due to assumptions about provincial/local government spending and NWT population growth relative to national growth, which are the main variables that determine growth in Territorial Formula Financing. Recent years' expenditure restraint measures by the provinces has contributed to relatively weak revenue growth, and persistently low growth in the NWT population is also a factor in low 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 *Fiscal Responsibility Policy* and the federally-imposed borrowing limit. These initiatives should, in time, help the economy to broaden and diversify.

Fiscal Responsibility Policy Outlook (\$ millions)

	2016-17 (Actual)	2017-18 (Revised)	2018-19 (Estimate)	2019-20 (Forecast)	2020-21 (Forecast)	2021-22 (Forecast)
Cash Required for Infrastructure Investment Expenditures - Net of Deferred Contributions Received in the Year	260	278	199	169	161	160
Debt Serving Payments:						
Capital Leases	-	2	2	2	2	2
MVFL - Capital Payment	-	7	7	7	7	7
Stanton - Capital Payment	-	-	4	11	11	11
Tlicho Road - Capital Payment	-	-	-	-	-	-
Deh Cho Bridge	9	9	9	9	9	10
Short-term Interest Expense	2	2	2	2	2	2
Total Debt Servicing Payment	11	20	24	31	31	32
Percentage of Revenues	0.6%	1.1%	1.4%	1.7%	1.6%	1.6%
Fiscal Responsibility Policy Impacts:						
1. Maximum Debt Servicing Payment - 5% of revenues	94	90	87	94	97	98
2. Operating Cash Surplus Requirements to:						
Fund Minimum 50% of Capital Acquisitions	130	139	99	85	81	80
Fund Debt Servicing Payment	11	20	24	31	31	32
Total Operating Cash Requirements	141	159	123	116	112	112
3. Operating Cash Available:						
Operating Surplus (Deficit) - Fiscal Planning Purposes	155	90	23	73	90	73
Less Deferred Contributions	-	-	-	-	-	-
Add Amortization Expense and Other Non Cash Items	89	97	103	112	117	120
Total Operating Cash Available	245	187	126	185	207	193
4. Overage (Shortfall) in Cash Generated by Operations	104	28	3	69	95	81

Risks to Fiscal Outlook

The GNWT is subject to a number of fiscal risks, including:

- The Northwest Territories economy's dependence on resource industries – activity in the resource sector is highly variable, and consequently the Northwest Territories has among the highest variability in economic growth in Canada. Resource sector activity has implications for long-term economic growth and creates significant volatility in GNWT own-source revenues.
- 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.

- Increased interest rates – Debt risk is currently considered to be low because debt servicing costs are expected to absorb less than two per cent of total revenues over the outlook. A relatively low overall debt burden provides protection against the risk of rising interest rates. If rates increase, more interest will be paid on the current stock of debt, increasing debt service payments and decreasing the amount of money available for programs, services, and infrastructure investment.
- Slow revenue growth – Territorial Formula Financing is over 70 per cent of total revenues, affording considerable year-to-year stability to the budget. However, growth in Territorial Formula Financing relies heavily on Northwest Territories 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 reduce growth in the Territorial Formula Financing Grant.
- 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 2018-19

Revenue Initiatives

Budget 2018-19 does not contain any tax rate increases on existing taxes, other than the annual adjustment of property tax mill rates for inflation, effective April 1, 2018, and an increase in territorial park fees and permits. These increases result from the GNWT's ongoing policy of indexing tobacco and property tax rates, liquor mark-ups, and fees, where practicable.

The GNWT requires additional revenues to maintain the current level of programs and services and is exploring new revenue initiatives. Consequently, Budget 2018-19 proposes to introduce a Land Transfer Tax. It is anticipated once the tax is fully implemented it will generate \$3.1 million in revenue.

Later in 2018, the GNWT will announce its plans for carbon pricing in response to its commitment under the *Pan-Canadian Framework on Clean Growth and Climate Change*.

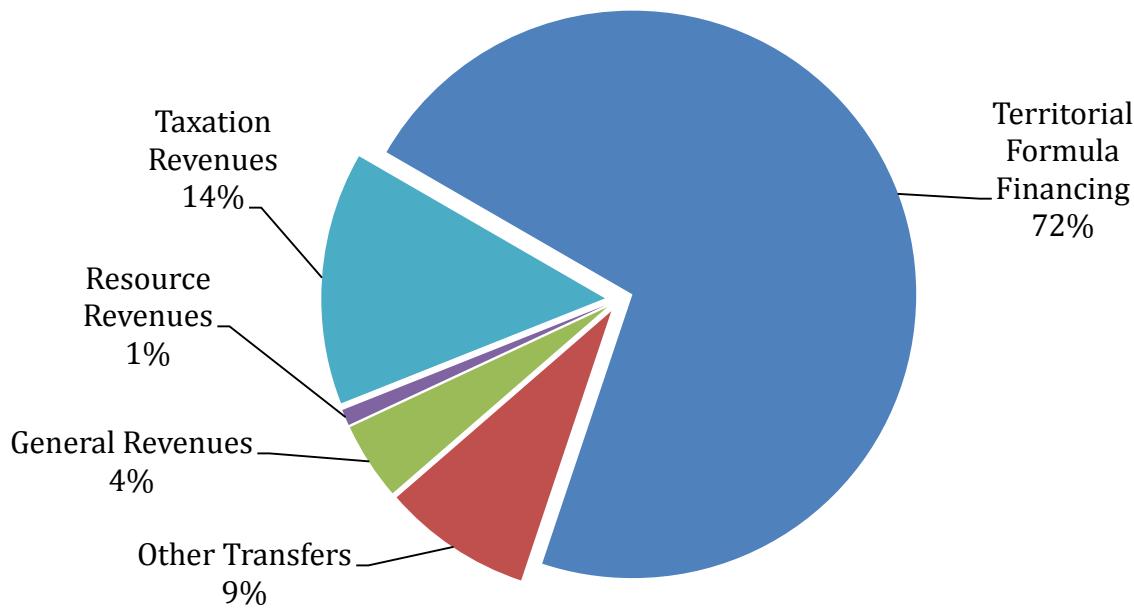
Budget 2017-18 committed to introducing a sugary drinks tax in 2018-19 with the objective of discouraging consumption of sugary drinks, in the expectation that reduced sugar consumption will reduce certain health problems including obesity and diabetes and improve oral health. This work

is on-going with discussions with stakeholders to work out technical aspects of administering the tax.

Federal legislation is expected to be passed in time to legalize cannabis consumption in July 2018. On November 24, 2017 the GNWT released its proposed plan to address its responsibilities for cannabis legalization and is working to introduce draft legislation in February 2018. Canadian finance ministers have agreed in principle to an approach to cannabis taxation for the initial two years to meet the dual objectives of cannabis legalization to restrict use by youth and as much as possible eliminate the illegal market. Under the GNWT commitment to the agreement in principle:

- The GNWT agrees to the federal government applying an excise tax on cannabis at the producer level on behalf of the Northwest Territories at a combined rate that will not exceed the higher of \$1 per gram, or 10 per cent of a producer's selling price.
- The GNWT will receive 75 per cent of the federal cannabis excise tax revenue generated in the Northwest Territories below the federal national cap of \$100 million and 100 per cent of excise tax revenue generated in the Northwest Territories above the federal cap.
- NWT Liquor Commission cannabis mark-ups will cover operating cost and capital expenses and a normal rate of return. Excess profits will not be allowed.
- The GNWT has the option to apply an additional mark-up equivalent to a sales tax up to the highest prevailing general provincial sales tax (currently 10 per cent) or agree to an additional duty collected by the federal government.

Projected 2018-19 Revenues by Source



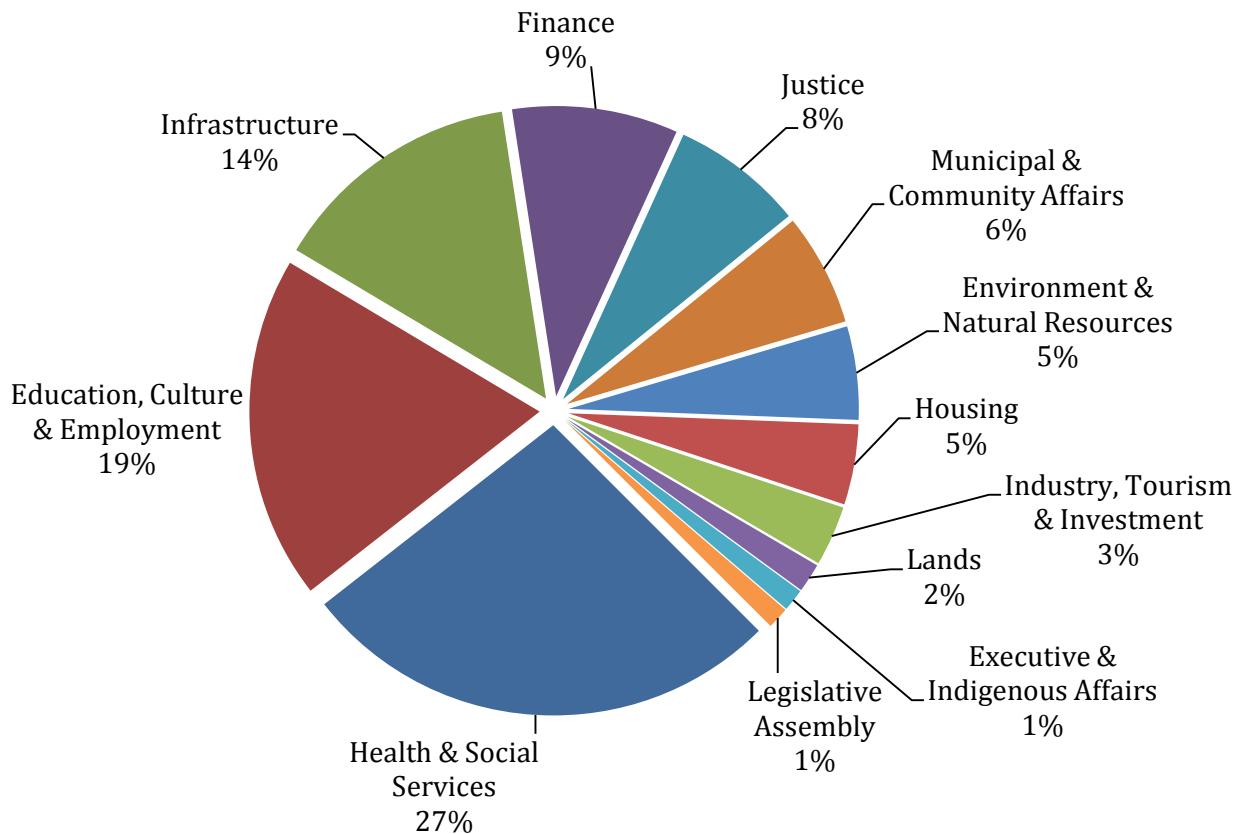
Operating Expenditures

The 2018-19 Budget proposes \$1.713 billion in operating expenditures, of which \$1.1 billion, or 64 per cent, is budgeted for social programs such as education, health care, social services, housing, policing and corrections.

Operating expenditures are budgeted to increase \$56.5 million from the 2017-18 Main Estimates, an increase of 3.4 per cent. The 2018-19 Budget proposes \$21 million in initiatives and \$20 million for increased costs within existing programs (forced growth). To better reflect department budget requirements, operating expenditures have been increased \$37.8 million through other adjustments, with the majority of the increase in the Department of Health and Social Services (\$27.1 million) followed by the Department of Education, Culture and Employment (\$7.6 million).

Generally, new initiatives have been funded out of program sunsets, efficiencies, and savings found in the two previous budgets. Sunsetting programs (those set for expiry) and reductions in 2018-19 amount to \$27.8 million. This approach allows the 18th Assembly the flexibility to address its priorities, without compromising the GNWT's fiscal health.

2018-19 Operations Expenditures by Department



Budget Highlights

The new spending proposed in the 2018-19 Budget is focused on the five priorities of the Assembly: the economy, environment and climate change; education, training and youth development; community wellness and safety; cost of living; and governance.

Economy, Environment and Climate Change

Budget 2018-19 proposes \$8.7 million in new expenditures to assist in developing the economy, growing the population, improving energy efficiency, and adapting to climate change, including:

- \$1.724 million for operations expenditure for the Inuvik-Tuktoyaktuk Highway;
- \$1.367 million to establish a Skills 4 Success (S4S) Territorial Support Team;
- \$1.311 million to implement the new *Agriculture Strategy, The Business of Food: A Food Production Plan*;
- \$1.204 million for developing mineral resources, including the *Mineral Development Strategy*, updating the *Mineral Resources Act*, increased support for the Mining Incentive Program, as well as for the NWT Geological Survey to establish a permafrost database;
- \$600,000 annually to fund training positions within the GNWT;
- \$482,000 to support Indigenous and community governments actions under the *NWT Climate Change Strategic Framework*;
- \$440,000 to complete negotiations and establish, manage, and monitor candidate protected areas;
- \$310,000 for Indigenous governments and organizations to develop monitoring and management options with respect to the Bathurst caribou herd; and
- \$145,000 for a two-year term Fishing Sector Support Officer in Hay River to support the fishery revitalization strategy.

Cost of Living

Budget 2018-19 proposes \$7.3 million in new funding aimed at reducing the cost of living, including:

- \$3.234 million to the Northwest Territories Housing Corporation of which \$2.934 million on-going per year is for 46 market rental units for the RCMP in Inuvik, Norman Wells, Hay River, Fort Smith and Fort Simpson and \$300,000 is for its three-year incentive program for private homeowners to replace above-ground fuel tanks;
- \$2.421 million to increase Income Assistance support for the increased number of clients, rent and utility costs, and for anti-poverty funding;
- \$665,000 for provide increases to the Senior Citizens and Disabled Persons Tax Relief Program, and the Territorial Power Subsidy Program in communities outside of Yellowknife; and
- \$412,000 to develop a Country Food Strategy and to support on-the-land activities related to hunting, trapping, fishing, and gathering.

Education, Training and Youth Development

Budget 2018-19 contains \$9.7 million for initiatives to improve the ability of young people to learn, develop, and gain worthwhile experience, including:

- \$4.319 million for French and Indigenous languages under a Canada-Northwest Territories agreement;
- \$2.135 million to fund Junior Kindergarten in all Northwest Territories communities;
- \$1.595 million to expand the Northern Distance Learning to all 20 small schools in the Northwest Territories; and
- \$1.514 million to begin increasing mental health and wellness resources for children, youth and their families through Child and Youth Care Counsellors placed in schools and communities.

Community Wellness and Safety

Budget 2018-19 proposes \$41.2 million in new funding focused on building positive health outcomes for residents of the Northwest Territories, including:

- \$20.731 million adjustment for out-of-territory hospital and physician services, residential southern placements, extended health benefits, and Métis health benefits;
- \$6.864 million in on-going operations support for long-term care facilities and home care, community care and mental health services, and \$6.716 million for the start of annual service payments for the Stanton Territorial Hospital;
- \$2.649 million for enhancements for access to justice services, support for Community Justice Committees and increased support for the RCMP;
- \$848,000 to improve diagnosis and case management services for people with Autism Spectrum Disorder (ASD) and Fetal Alcohol Spectrum Disorder (FASD);
- \$762,000 to fund a Sobering Centre Program facility in Yellowknife;
- \$653,000 to increase services for children with developmental delays and disorders requiring speech language therapy, occupational therapy, and audiology services;
- \$304,000 to establish a RCMP Historical Case Unit with focus on unsolved murdered and missing persons cases; and
- \$224,000 to transfer prisoner security functions in Yellowknife from the RCMP to the GNWT.

Governance: Improving Accountability, Transparency and Collaboration

Budget 2018-19 proposes \$8.3 million in new funding and enhancements to support the 18th Legislative Assembly's priority for more effective governance including:

- \$1.3 million in support for community governments, including \$800,000 for operations and maintenance funding and \$500,000 for water and sewer funding ;
- \$1.051 million for tenure enforcement regarding unauthorized occupancy on public lands and to convert maturing equity leases to fee simple title;
- \$595,000 to advance, finalize and implement self-government agreements with Indigenous governments;

- \$485,000 to support key partnerships and initiatives including the Northwest Territories-Nunavut Council of Friendship Centres, the Women in Politics Mandate priority, and an annual contribution to the Arctic Inspiration Prize;
- \$430,000 for the Office of the Clerk communication and building improvements;
- \$400,000 for two labour relations and compensation analyst positions;
- \$250,000 for a new land use planner to increase GNWT and community capacity for land use planning;
- \$207,000 for the Office of the Chief Electoral Officer for election preparations; and
- \$190,000 for the Human Rights Commission (two-year legal counsel position).

Infrastructure

The GNWT's 2018-19 capital budget was approved in October 2017. The capital budget consists of \$237 million for the GNWT's own infrastructure plans, including \$27 million for community infrastructure investments. If the \$24 million for the NWT Housing Corporation (NWTHC) housing investments included in the 2018-19 Main Estimates is considered, total planned infrastructure investment in 2018-19 will be \$261 million.

Community governments will also be receiving \$16 million in federal Gas Tax funding and \$20.5 million from the federal Clean Water and Waste Water Fund in 2018-19. Therefore, total public infrastructure spending in the NWT for 2018-19 will reach approximately \$349 million.

Major highlights of the GNWT 2018-19 capital budget include:

- \$115 million for highways, winter roads, bridges and culverts. This includes funding of \$67 million for the Tłı̨chǫ All-season Road project and \$30 million for Building Canada Plan projects;
- \$44 million for health facility replacements, renovations and equipment, including funding of \$30.1 million for the Stanton Territorial Hospital Renewal project;
- \$27.2 million to continue to provide funding to community governments for their infrastructure needs;
- \$13.6 million for new and enhanced information technology functionality and upgrades;
- \$10.2 million for new education facilities and renovations to existing facilities; and
- \$8.8 million for deferred maintenance and energy upgrades to existing GNWT assets.

The GNWT strives to meet several infrastructure spending demands: maintain existing assets, improve the housing stock, invest in capital to spur economic growth, and meet legislative requirements. Investments in strategic infrastructure, in particular, will better position the NWT to maximize economic opportunities and facilitate climate change adaptation. Capital investment has decreased somewhat in recent years, but remains substantial. Freeing up fiscal resources through reductions in the operating budget has made such investment possible; without reductions elsewhere, the current capital program would not be financially sustainable.

Summary of Operations

	(thousands of dollars)			
	2018-2019 Main Estimates	2017-2018 Revised Estimates	2017-2018 Main Estimates	2016-2017 Actuals
REVENUES	1,749,312	1,802,039	1,848,394	1,870,244
OPERATIONS EXPENSE				
Compensation and Benefits	358,352	361,352	360,560	372,408
Grants, Contributions and Transfers	784,300	779,782	766,568	767,291
Amortization	100,790	95,931	95,931	89,127
Chargebacks	20,011	18,906	18,816	20,001
Computer Hardware and Software	7,006	11,574	11,429	7,938
Contract Services	234,367	234,956	212,721	207,839
Controllable Assets	3,126	3,017	3,017	8,242
Fees and Payments	101,718	85,287	85,052	105,609
Interest	11,434	11,028	11,028	10,695
Loss on Sale of Assets	-	-	-	1,143
Materials and Supplies	18,982	19,905	19,621	22,855
Purchased Services	13,699	14,308	13,404	14,143
Travel	19,476	19,581	18,287	16,147
Utilities	37,353	38,202	37,671	36,628
Valuation Allowances	2,419	2,419	2,419	3,010
TOTAL OPERATIONS EXPENSE TO BE VOTED	1,713,033	1,696,248	1,656,524	1,683,076
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS				
Infrastructure Contributions	36,279	105,791	191,870	187,168
Deferred Maintenance	(27,748)	(28,736)	(28,402)	(28,872)
Petroleum Products Stabilization Fund net profit	(2,000)	(2,165)	(2,000)	(2,956)
Supplementary Reserve	(150)	(110)	(100)	185
Estimated Appropriation Lapses	(20,000)	(15,000)	(35,000)	-
WORK PERFORMED ON BEHALF OF OTHERS	37,000	15,000	30,000	-
Recoveries	109,906	125,919	73,546	84,298
Expenditures	(109,906)	(125,919)	(73,546)	(84,298)
OPERATING SURPLUS FOR THE YEAR	23,381	74,780	156,368	155,525
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,761,880	1,687,100	1,657,395	1,531,575
ACCUMULATED SURPLUS, END OF YEAR	1,785,261	1,761,880	1,813,763	1,687,100

Summary of Revenues

(thousands of dollars)

	2018-2019 Main Estimates	2017-2018 Revised Estimates	2017-2018 Main Estimates	2016-2017 Actuals
GRANT FROM CANADA	1,256,289	1,232,439	1,232,439	1,219,888
TRANSFER PAYMENTS	148,217	193,859	186,329	186,900
TAXATION REVENUE				
Personal Income Tax	103,076	82,514	113,268	122,322
Corporate Income Tax	31,299	61,856	83,723	68,617
Tobacco Tax	16,087	16,276	15,624	15,336
Fuel Tax	21,684	21,526	19,465	21,288
Payroll Tax	44,866	43,986	42,525	43,643
Property Taxes and School Levies	29,235	28,665	25,364	29,431
Insurance Premium Taxes	4,850	4,850	4,850	5,129
	251,097	259,673	304,819	305,766
Non-renewable Resource Revenue				
Licences, Rental and Other Fees	2,380	3,333	2,380	20,101
Minerals, Oil and Gas Royalties	13,460	31,234	43,370	43,060
Quarry Fees	180	250	250	123
	16,020	34,817	46,000	63,284
GENERAL REVENUES				
Revolving Funds Net Revenue	28,410	25,531	23,992	23,678
Regulatory Revenues	23,206	27,159	26,661	26,414
Interest	725	725	725	804
Investment Income	80	80	80	1,827
Lease	3,815	4,255	4,255	5,935
Program	16,946	17,902	17,802	19,932
Grants in kind	214	583	583	443
Service and miscellaneous	1,293	2,016	1,709	1,645
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	13,728
	77,689	81,251	78,807	94,406
TOTAL REVENUES	1,749,312	1,802,039	1,848,394	1,870,244

Summary of Operations Expenditures

(thousands of dollars)

	2018-2019 Main Estimates	2017-2018 Revised Estimates	2017-2018 Main Estimates	2016-2017 Actuals
Department				
Legislative Assembly	20,790	19,336	19,336	18,379
Education, Culture and Employment	327,341	322,024	314,564	318,634
Environment and Natural Resources	88,954	98,120	91,452	89,769
Executive and Indigenous Affairs	21,393	19,944	19,844	18,901
Finance	234,688	235,863	235,863	237,573
Health and Social Services	461,563	427,141	423,273	441,128
Industry, Tourism and Investment	57,420	58,113	55,446	60,118
Infrastructure	239,941	258,588	240,473	240,959
Justice	126,093	123,934	123,352	127,289
Lands	27,673	26,226	26,226	26,354
Municipal and Community Affairs	107,177	106,959	106,695	103,972
	1,713,033	1,696,248	1,656,524	1,683,076
Expenditure Category				
Compensation and Benefits	358,352	361,352	360,560	372,408
Grants, Contributions and Transfers	784,300	779,782	766,568	767,291
Amortization	100,790	95,931	95,931	89,127
Chargebacks	20,011	18,906	18,816	20,001
Computer Hardware and Software	7,006	11,574	11,429	7,938
Contract Services	234,367	234,956	212,721	207,839
Controllable Assets	3,126	3,017	3,017	8,242
Fees and Payments	101,718	85,287	85,052	105,609
Interest	11,434	11,028	11,028	10,695
Loss on Sale of Assets	-	-	-	1,143
Materials and Supplies	18,982	19,905	19,621	22,855
Purchased Services	13,699	14,308	13,404	14,143
Travel	19,476	19,581	18,287	16,147
Utilities	37,353	38,202	37,671	36,628
Valuation Allowances	2,419	2,419	2,419	3,010
	1,713,033	1,696,248	1,656,524	1,683,076

Summary of Infrastructure Investment

(thousands of dollars)

	2018-19 Capital Estimates	2017-2018 Revised Estimates	2017-2018 Capital Estimates	2016-2017 Actuals
Tangible Capital Assets				
Legislative Assembly	390	14	-	735
Education, Culture and Employment	11,208	29,087	23,211	9,443
Environment and Natural Resources	2,974	10,635	3,439	28,570
Finance	7,130	2,135	1,325	569
Health and Social Services	13,975	45,581	13,140	34,813
Industry, Tourism and Investment	3,773	7,680	3,773	3,082
Infrastructure	64,102	158,630	91,711	109,855
Justice	4,892	27,886	16,683	3,285
Lands	1,623	1,069	110	1,188
Municipal and Community Affairs	115	-	-	154
	110,182	282,717	153,392	191,694
Infrastructure Contributions				
Education, Culture and Employment	300	586	400	704
Finance	255	-	-	-
Municipal and Community Affairs	27,193	28,150	28,002	28,168
	27,748	28,736	28,402	28,872
Deferred Maintenance (non-capital)				
Education, Culture and Employment	-	75	-	580
Health and Social Services	-	90	-	591
Infrastructure	2,000	2,000	2,000	856
	2,000	2,165	2,000	2,027
Public Private Partnerships				
Finance	-	-	-	25,894
Health and Social Services	30,112	88,457	82,331	105,393
Infrastructure	67,000	-	-	-
	97,112	88,457	82,331	131,287
Total Capital Estimates	237,042	402,075	266,125	353,880

Summary of Debt and Estimated Borrowing Capacity

(thousands of dollars)

	2018-2019 Main Estimates	2017-2018 Revised Estimates	2017-2018 Main Estimates	2016-2017 Actuals
SHORT TERM DEBT				
Government of the Northwest Territories	301,000	303,000	305,000	234,807
Hay River Health & Social Services Authority	1,000	1,000	1,000	-
NWT Hydro Corporation	19,671	6,984	30,000	-
	321,671	310,984	336,000	234,807
LONG TERM DEBT				
Government of the Northwest Territories:				
Deh Cho Bridge - Real Return Bonds	176,607	176,622	177,562	178,277
Mackenzie Valley Fibre Optic Link, P3 debt	75,000	77,200	81,000	90,900
Stanton Territorial Hospital, P3 debt	135,700	138,500	133,500	51,181
Tłı̨chǫ All-Season Road, P3 debt	50,100	-	-	-
Canada Mortgage and Housing Corporation	444	521	521	595
Public Agencies:				
NWT Hydro Corporation	253,088	227,224	227,226	230,265
NWT Housing Corporation	6,456	8,256	8,256	9,064
Yellowknife Catholic Schools	-	68	663	1,417
TOTAL DEBT	1,019,066	939,375	964,728	796,506
OBLIGATIONS UNDER CAPITAL LEASES				
Government of the Northwest Territories	337	950	950	1,834
NWT Hydro Corporation	17,255	17,705	17,571	18,120
LOAN GUARANTEES				
NWT Business Development and Investment Corp.	2,500	2,200	-	733
NWT Housing Corporation	12,684	14,642	15,805	17,404
TOTAL GROSS BORROWING PER BORROWING REGULATIONS	1,051,842	974,872	999,054	834,597
LESS:				
EXTERNALLY RESTRICTED SINKING FUNDS				
NWT Hydro Corporation	-	(6,220)	(9,518)	(5,800)
TERRITORIAL BORROWING	1,051,842	968,652	989,536	828,797
TERRITORIAL BORROWING LIMIT	1,300,000	1,300,000	1,300,000	1,300,000
AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES	248,158	331,348	310,464	471,203

Provincial/ Territorial Tax Rates at January 1, 2018

	Combined	Retail	Fuel Tax ^(b)		Tobacco Tax ^(c) (\$/carton)	Payroll Tax ^(d) (%)	Corporate Income Tax		Capital Tax on Financial Institutions ^(e)
	Top Marginal Personal Income Tax ^(a) (%)		Sales Tax (%)	Gasoline (¢/litre)			Small (%)	Large (%)	(%)
Northwest Territories	47.05	-	10.7	9.1	60.80	2.00	4.0	11.5	-
Nunavut	44.50	-	6.4	9.1	50.00	2.00	4.0	12.0	-
Yukon ^(f)	48.00	-	6.2	7.2	50.00	-	2.0	12.0	-
British Columbia	49.80	7.0	21.17	22.67	49.40	-	2.0	12.0	-
Alberta	48.00	-	17.49	18.35	50.00	-	2.0	12.0	-
Saskatchewan	47.50	6.0	15.0	15.0	54.00	-	2.0	11.5	4.0
Manitoba	50.40	8.0	14.0	14.0	59.00	2.15	0.0	12.0	6.0
Ontario	53.53	8.0	14.7	14.3	32.95	1.95	3.5	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	29.80	4.26	8.0	11.7	1.25
New Brunswick	53.30	10.0	15.5	21.5	51.04	-	3.0	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 ^(f)	51.30	10.0	24.5	20.5	49.00	2.00	3.0	15.0	6.0
Weighted average ^(g)	51.98	7.3	17.0	17.5	39.32	1.84	4.0	11.9	1.43

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 does not include surtaxes that apply only in Victoria and the Lower Mainland. Quebec fuel tax rates also vary regionally. Alberta's fuel tax rate includes carbon tax.

(c) Manitoba and Saskatchewan apply provincial sales tax to tobacco product sales. Harmonized sales tax is applied to tobacco product sales in Ontario, New Brunswick, Prince Edward Island, Newfoundland & Labrador, and Nova Scotia. BC's provincial sales tax does not apply to tobacco products. Quebec does not apply the Quebec sales tax to sales of tobacco products.

(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 taxes on life insurance institutions. Saskatchewan and Manitoba also levy capital tax on provincial crown corporations.

(f) Newfoundland & Labrador taxpayers pay a temporary deficit reduction levy of up to \$1,800.

(g) Average weighted by provincial/ territorial populations at July 1, 2017.