

Budget Address

2008 - 2009

NORTHWEST TERRITORIES

BUDGET PAPERS

B♦Fiscal Review

May 22, 2008

The vision of the 16th Legislative Assembly of the Northwest Territories (NWT) is one where strong individuals, families and communities share the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories.

Achieving this vision requires strategic investments that will produce benefits in the long-term. At the same time, the Government of the Northwest Territories (GNWT) must continue to provide programs and services for today's needs.

The GNWT's fiscal situation, however, requires an evaluation of spending priorities to ensure that both these goals can be achieved.

Fiscal Situation

At the start of the 16th Legislative Assembly, the GNWT faced several certainties: certainty in the Territorial Formula Financing arrangements for the next five years; certainty that a resource devolution agreement will not produce revenues for NWT governments in the immediate term; and most important, certainty that without action now to bring spending growth in line with forecast revenue growth, the GNWT will face even harder choices in the future.

In 2005, the GNWT laid out an approach to fiscal planning that would ensure long-term fiscal sustainability, while allowing for a responsible level of debt to finance capital investment. The *Fiscal Responsibility Policy* stipulates that the GNWT will not borrow to fund operating deficits. No more than 50 per cent of infrastructure investment may be funded through debt. At least 50 per cent must be financed through cash generated from operating surpluses.

The rising cost of delivering current program and service levels has meant there is less and less money available for investment in badly needed infrastructure and in new strategic priorities.

Projected Revenues and Expenditures without Action

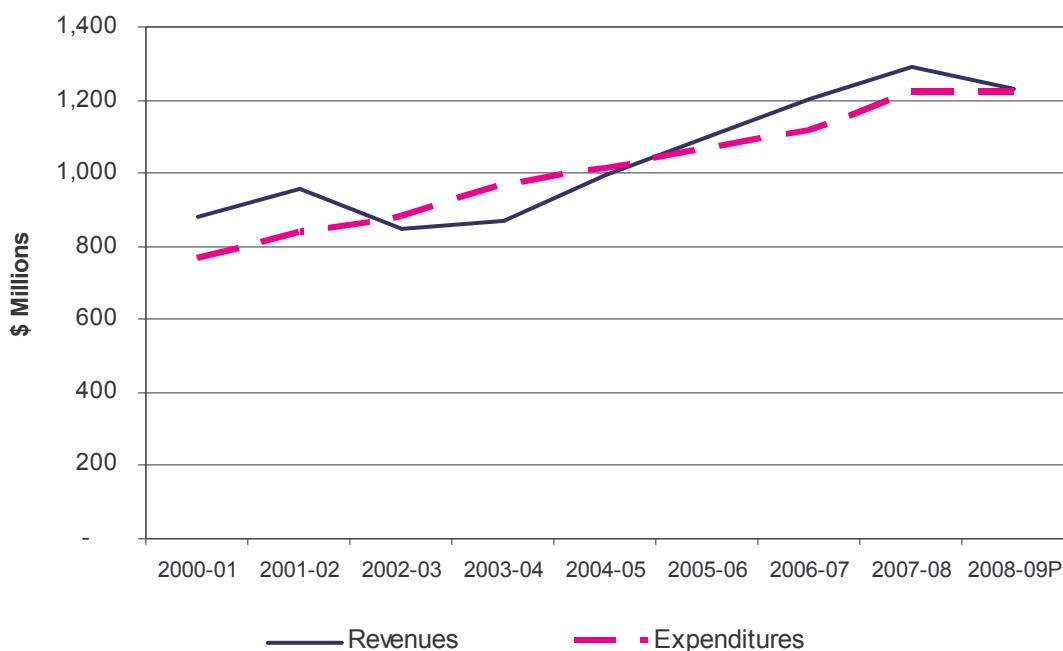
The GNWT's operating balance is currently positive. The operating surplus in 2006-07 was \$87 million, and based on current information, an operating surplus of \$69 million is expected in 2007-08. However, both surpluses were augmented by one-time revenues from Canada: \$50 million from the Northern Housing Trust in 2006-07 and \$54 million in supplementary Territorial Formula Financing funding in 2007-08.

Since 2000-01, GNWT revenues have been more volatile than operating expenditures. Between 2000-01 and 2007-08, the GNWT experienced five years of operating

surpluses and three years of operating deficits. Revenues grew, on average, by 5.5 per cent and expenditures by 6.8 per cent. In addition, the GNWT made capital investments of \$703 million over this period.

Effective April 1, 2007, Territorial Formula Financing returned to longer term, predictable arrangements, following three years of interim arrangements. Total GNWT revenues are projected to increase by 1.8 per cent per year between 2007-08 and 2011-12, or 3.0 per cent after accounting for one-time revenues. The Territorial Formula Financing Grant is projected to increase an average 4.0 per cent per year and own-source revenues are projected to increase an average 3.1 per cent per year over the planning period. Other transfers are projected to decrease.

Revenue and Expenditure Growth



Fiscal Strategy

Given revenue projections, allowing expenditures to grow by the projected 5 per cent per year in the four-year period from 2008-09 to 2011-12 would lead to operating deficits and put the GNWT in an unsustainable fiscal position.

Under this scenario, the GNWT would be over the \$500 million federally-imposed borrowing limit by the end of 2011-12. Furthermore, the capacity to address aging infrastructure and the need for more infrastructure requires significant capital investment. Finally, expenditure growth projections were conservative and did not provide for additional funding for new spending on strategic priorities.

For the GNWT to adhere to the *Fiscal Responsibility Policy*, the projected growth rates in revenues and expenditures must be brought into balance, either by quickening the pace of growth of revenues – through tax increases or the introduction of new taxes – or by reducing the rate of growth in expenditures, either through reductions to current

spending or by postponing or eliminating proposed new initiatives, or a combination of both.

In order to bring expenditures into line with revenues, the GNWT intends to realign \$135 million in expenditures, with \$75 million to be reallocated to spending priorities. Forced growth will be capped at 3 per cent, excluding Collective Agreement adjustments, starting 2009-10 and \$10 million in new revenues annually will be identified beginning 2009-10.

The expectation is that a balance between limiting expenditure growth and increasing own-source revenues can be achieved so that expenditure growth does not exceed revenue growth over the long-term.

The following graph projects GNWT debt under two scenarios:

1. if no action is taken, and
2. if the fiscal strategy targets are achieved.

If no action were taken, the GNWT would be in a deficit position in 2008-09 and by 2011-12 total debt (including debt of the NWT Power Corporation, NWT Energy Corporation and the NWT Housing Corporation) would be \$477 million, only \$23 million lower than the authorized borrowing limit of \$500 million. If the fiscal strategy targets are achieved, total GNWT debt will remain stable over the planning period with only \$17 million in new direct debt incurred by the end of 2011-12.

Comparison of GNWT Debt – Fiscal Strategy and if No Action Taken



2008-09 Budget

The 2008-09 Budget sets the stage to restore longer-term fiscal sustainability for the GNWT.

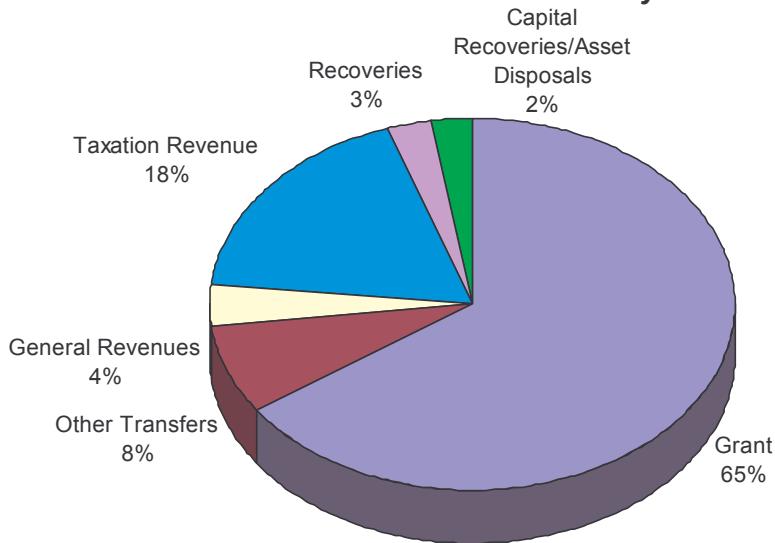
A \$13 million operating surplus is projected for 2008-09. No direct GNWT debt is forecast for the end of 2008-09, although a small \$1.5 million cash deficit is expected due to a repayment of corporate income tax at year end. This cash deficit is forecast to disappear April 1, 2009 when new revenues are received. Total GNWT debt will be comprised of the \$158 million in guaranteed debt of the NWT Power Corporation, the NWT Energy Corporation and the NWT Housing Corporation. The federal government limits total debt of the GNWT and its corporations and agencies to \$500 million. The available borrowing authority at the end of 2008-09 will be \$342 million.

Total 2008-09 revenues are estimated to decrease 4.5 per cent, from a projected \$1.288 billion in 2007-08 to \$1.23 billion in 2008-09. The Territorial Formula Financing Grant will decrease \$37 million due to a one-time adjustment in 2007-08. Taxation revenues are forecast to decrease \$26 million in 2008-09, primarily due to a projected decrease in Corporate Income Tax revenues.

Other transfers from Canada, at \$93 million, are forecast to be slightly lower than the 2007-08 Revised Estimates, as a number of one-time trusts were recorded in 2007-08.

Revenues

Total 2008-09 GNWT Revenues by Source



Taxation revenues are forecast to decrease 11 per cent, or \$26 million, from the 2007-08 Revised Estimates. The main reasons for the expected decrease are:

- ◆ Corporate Income Tax revenue forecast to be \$41 million lower due to the payment of a large refund and lower forecast growth in corporate taxable income,
- ◆ Personal Income Tax revenues are forecast to be \$15 million higher as a result of growth in incomes earned in the NWT,
- ◆ Payroll Tax revenues are forecast to be almost \$1 million higher due to forecast higher employment and employment income, and

- Other taxation revenues (tobacco, fuel, property, and insurance taxes) are forecast to decrease almost \$2 million in total, mainly due to lower expected fuel consumption in the mining sector.

Other own source revenues are projected to decrease 4.3 per cent to \$82 million in 2008-09, largely due to a \$3 million decrease in investment income.

Expenditures

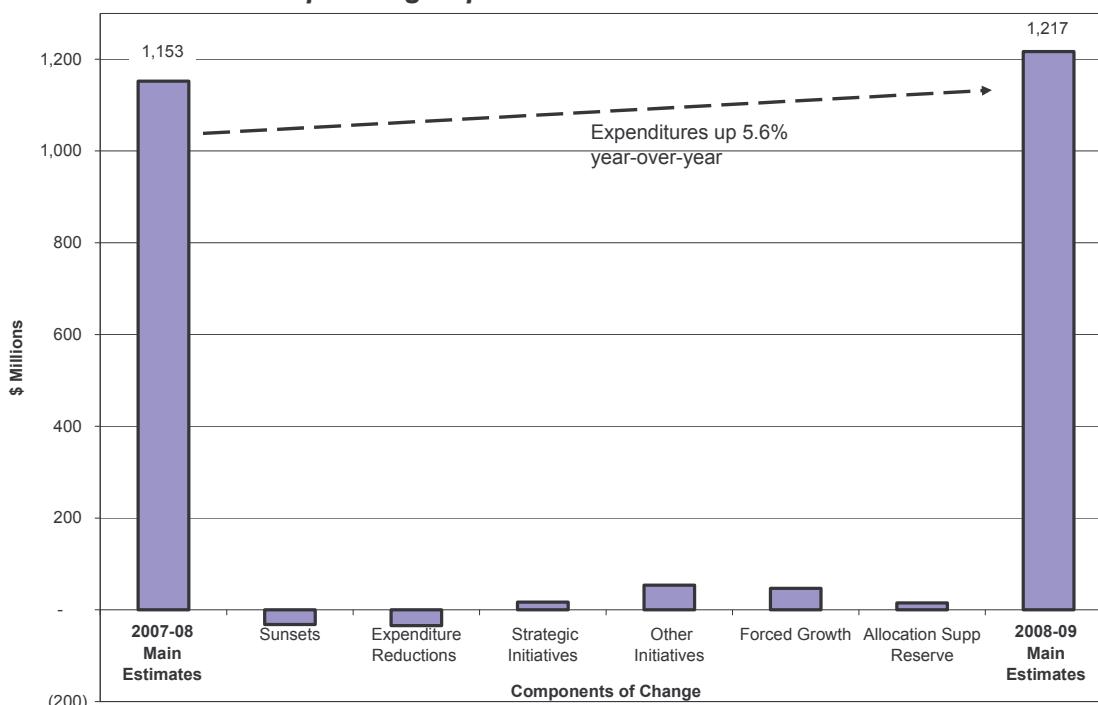
The 2008-09 Budget includes \$1.217 billion in operating expenditures and \$180 million in capital expenditures, including infrastructure contributions.

2008-09 operating expenditures include \$45 million to address higher costs for social programs and fuel cost increases, and to meet compensation obligations under collective agreements. The Budget also includes \$72 million to fund new initiatives. These increases are offset by \$32 million in sunsetted programs and \$33 million in expenditure reductions in 2008-09. Finally, the GNWT traditionally includes a “supplementary appropriation reserve” of \$25 million, to account for unplanned expenditures which may arise during the year. Starting in 2008-09, \$15 million of this reserve has been allocated to departments, to allow them to address rising program costs internally.

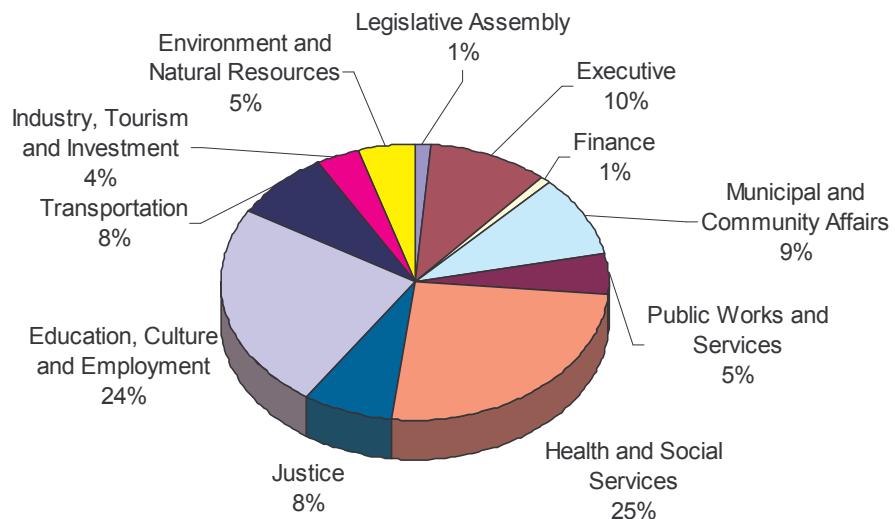
Total expenditures have increased \$64 million from the 2007-08 Main Estimates to the 2008-09 Main Estimates but have declined \$19 million from the 2007-08 Revised Estimates.

The following chart shows the changes between the 2007-08 Main Estimates and the 2008-09 proposed operating expenditures. Expenditure reductions represent 2.8 per cent of 2008-09 operating expenditures, forced growth represents 3.5 per cent, and new initiatives 5.8 per cent.

Derivation of 2008-09 Operating Expenditures



2008-09 Operations Expenditures by Department



Initiatives

The GNWT has identified five strategic initiatives on which the GNWT's investments are focussed. Over the long term, expenditures under these initiatives will improve the lives of NWT residents, encourage economic development, better prepare the GNWT to protect NWT lands and waters and improve the efficiency of the GNWT to deliver programs and services.

Building Our Future – will fund actions that focus on children and youth, promote healthy choices, address addictions, support families and seniors, and increase the safety and security of individuals and communities. A total of \$18.6 million in new initiatives will be provided under 2008-09 funding including:

- ◆ \$460,000 to increase support and outreach services available to women and children experiencing family violence;
- ◆ \$340,000 to enhance programs at existing shelters for victims of family violence;
- ◆ \$5.74 million to continue supplementary funding of priority health initiatives using the Territorial Health Access Fund – Long-term Reform;
- ◆ \$3.1 million for long-term health reform with federal funding to enhance nursing resources in small communities and expand nurse practitioner training;
- ◆ \$1.8 million for the on-the-job community health nurse development program to help reduce patient wait times;
- ◆ \$100,000 to continue Healthy Choices Framework programs geared to improving the health of NWT residents and reducing long-term health and social service costs;
- ◆ \$1.6 million to support minority language instruction in partnership with the Government of Canada.

Building Our Future***Implement Phase II of the Framework for Action on Family Violence***

| | |
|-----------------------------|---------|
| Enhance Community Services | 460,000 |
| Stabilize Existing Shelters | 340,000 |
| | <hr/> |
| | 800,000 |

Encourage healthy choices and address addictions

| | |
|---|------------|
| Territorial Health Access Fund - Long-Term Reform | 5,743,000 |
| Federal Health Care Funding - Various | 3,132,000 |
| Community Health Nurse Development Program | 1,793,000 |
| Healthy Choices Framework | 100,000 |
| | <hr/> |
| | 10,768,000 |

Expand programming for children and youth

| | |
|---|-----------|
| Minority-Language Education and Second-Language Instruction | 1,617,000 |
| Language/Cultural Instructor Program | 120,000 |
| Expansion of Early Childhood Development Programs | 1,000,000 |
| Community Based Teacher Education Program | 300,000 |
| Foster Care Review and Standardization | 1,011,000 |
| In House Respite Services for Families of Special Needs | 224,000 |
| Take a Kid Trapping Program | 125,000 |
| Youth Centres Initiative | 250,000 |
| | <hr/> |
| | 4,647,000 |

Increase safety and security

| | |
|------------------------------|-----------|
| Enhancing Policing Services | 1,490,000 |
| Enhancing Emergency Services | 350,000 |
| | <hr/> |
| | 1,840,000 |

Strengthen continuum of care for Seniors

| | |
|--|---------------|
| Supported and Assisted Living in Smaller Communities | 571,000 |
| | <hr/> |
| | \$ 18,626,000 |

- ◆ \$120,000 to fund a full-time Language and Cultural instructor at Aurora College to help train qualified instructors to deliver Aboriginal language and culture programs.
- ◆ \$1 million to improve the quality of early childhood programs through a commitment to further the Language Nest Initiative, increase regional Early Childhood Programming staff to 6 person years and create an Early Childhood coordinator to build linkages between early childhood programs and the formal school system. Over time, this action will improve high school completion rates in the NWT.
- ◆ \$300,000 will be invested to develop a plan to increase the enrolment and completion rates of the Teacher Education Program by providing access to programs and practicum placements in communities and additional personal, professional, cultural and academic learning supports. Ultimately, it is expected that this will increase the number of Aboriginal teachers in the NWT school system.
- ◆ \$1 million to rationalize and standardize foster care rates to produce a foster care program that reflects the higher costs of supporting a foster child in smaller communities and ensures that equitable services are available to children across the entire NWT by 2009-10.

- ◆ \$224,000 to provide planned relief for families that care for children with disabilities. The relief will decrease stress and help primary caregivers develop the necessary skills to meet these children's social, emotional and educational needs. The initiative is to help children with disabilities develop to their full potential.
- ◆ \$125,000 to fund a permanent school-based Take a Kid Trapping program as part of the GNWT contribution to the cost of youth activities.
- ◆ \$250,000 to continue support to community governments or other organizations that operate youth centre programs in NWT communities.
- ◆ \$1.5 million to open additional RCMP detachments and support increased coverage in smaller detachments.
- ◆ \$350,000 to support communities providing ground ambulance, and/or highway rescue services and to complete the development of a new policy and funding framework for integrated territorial delivery of these services.
- ◆ \$571,000 in additional operating funds for the Territorial Supported Living Campus, which includes three adult group homes and a day program that will improve the quality of life for adults with moderate to severe cognitive and behavioural challenges.

Managing This Land - a total of \$6.2 million in new initiatives will be provided in 2008-09 to ensure that NWT land and water resources are used in a sustainable way that protects these resources for future generations. Funding includes:

- ◆ \$200,000 to develop a business case and choose a site for an operating wind energy turbine,
- ◆ \$450,000 for a program to establish alternative energy projects in communities,
- ◆ \$2.2 million for alternative energy projects eligible for federal Ecotrust funding,
- ◆ \$650,000 to continue funding for devolution and resource revenue sharing negotiations,
- ◆ \$100,000 in one-time funding to develop a land use framework that ensures all GNWT land use decisions are guided by a common corporate approach that supports the political development of the NWT,
- ◆ \$1.4 million to continue work for the *Barren-ground Caribou Management Strategy*, to implement an *NWT Wood Bison Strategy* and to develop a better understanding of the cumulative effects habitat change from exploration and development activities on species at risk,
- ◆ \$250,000 for the Western NWT Biophysical Study,
- ◆ \$350,000 to update the classification and mapping framework for the Southern and Northern Arctic ecozones,
- ◆ \$130,000 to develop and implement water management initiatives, especially a trans-boundary water agreement with Alberta, and
- ◆ \$425,000 to address the highest priority areas in the *Action Plan for Drinking Water Quality in the NWT* not covered under current funding.

Managing this Land***Work to Mitigate and Adapt to Climate Change Impacts***

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|--|-----------|
| Wind Energy Electricity Supply | 200,000 |
| Alternative Energy Program | 450,000 |
| EcoTrust - mini hydro projects for communities | 900,000 |
| EcoTrust - residual heat project | 190,000 |
| EcoTrust - housing energy audits and solar water preheat | 130,000 |
| EcoTrust - wood pellets, hydro and other projects | 970,000 |
| | <hr/> |
| | 2,840,000 |

Continuing to develop governance

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|--------------------------------|---------|
| Advance Devolution Discussions | 650,000 |
| Develop a Land Use Framework | 100,000 |
| | <hr/> |
| | 750,000 |

Environmental stewardship

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|---|-----------|
| NWT Wood Bison Strategy and Caribou Studies | 880,000 |
| NWT Barren-ground Caribou Management Strategy | 560,000 |
| | <hr/> |
| | 1,440,000 |

Improve Environment Monitoring

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|-------------------------------|---------|
| Western NWT Biophysical Study | 250,000 |
| Ecoregion Mapping | 350,000 |
| | <hr/> |
| | 600,000 |

Protect Territorial Water

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|---|---------|
| Participate in Management of Transboundary Waters | 130,000 |
| Water Quality & Waterborne Diseases - increase public awareness | 15,000 |
| Water Supply System Upgrades, Training and Support | 380,000 |
| Pilot Studies for Remote Monitoring and Testing Water Supplies | 30,000 |
| | <hr/> |
| | 555,000 |

\$ 6,185,000

Maximizing Opportunities – investments in key priorities that maximize the opportunities from economic development will be made with the expectation that this support for trades and apprentices and economic diversification will produce, in the long run, a balanced, diversified and sustainable NWT economy. The 2008-09 Budget includes \$11.7 million for the following investments:

- ◆ \$2.8 million to lower the pupil teacher ratio in the trades training as a way of emphasizing the trades, technical and work-related skills in NWT classrooms to help students get a better understanding of the career opportunities in the trades and develop better work-related skills and attitudes,
- ◆ \$100,000 to develop supports and plans to increase enrolments in apprenticeship programs, especially for women and Aboriginal people,
- ◆ \$200,000 to support the operation and maintenance of the Aurora College Mobile Trades Training Unit so that trades training can be expanded to include the College's Inuvik campus and outlying communities,
- ◆ \$1.2 million to support hiring apprentices in designated trades and occupations,

Maximizing Opportunities

Improve skills for living and working

| | |
|---|-----------|
| Pupil Teacher Ratio (PTR) - Trades | 2,810,000 |
| Additional Support for Apprentices | 100,000 |
| Mobile Trades Training | 200,000 |
| Hiring New Apprentices in Designated Trades and Occupations | 1,198,000 |
| Marine Services Training Program | 100,000 |
| | <hr/> |
| | 4,408,000 |

Maximize benefits from the MGP and related initiatives

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|-----------------------------|-----------|
| MGP Strategic Investment | 610,000 |
| Energy Investment - Taltson | 3,000,000 |
| | <hr/> |
| | 3,610,000 |

Promote NWT as a place to visit and live

| | |
|----------------------------------|---------|
| Increased Support for the Arts | 500,000 |
| Promote the NWT at 2010 Olympics | 67,000 |
| | <hr/> |
| | 567,000 |

Support diversification

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|--|---------------|
| Tourism Product Diversification and Marketing Fund | 1,560,000 |
| Acho Dene Koe First Nation Western Harvesters Assistance Program | 132,000 |
| New SEED Policy and Enhanced Funding | 1,000,000 |
| Parks renewal - Operations and Maintenance | 140,000 |
| Cultural Interpretations at Parks | 250,000 |
| | <hr/> |
| | 3,082,000 |
| | <hr/> |
| | \$ 11,667,000 |

- ◆ \$100,000 for a marine services training program to help train employees to fill marine engineering positions,
- ◆ \$610,000 to various departments to address pressures on government programs and services associated with the proposed Mackenzie Valley Project and to prepare and implement strategies to maximize benefits and minimize negative impacts,
- ◆ \$3 million in contribution funding to the NWT Energy Corporation for the proposed Taltson Hydro Expansion Project, including development of a Project Development Agreement with the Deze Energy Corporation and Power Purchasing Agreements with the diamond mines,
- ◆ \$500,000 in increased support to NWT arts and culture, including hiring a coordinator to help groups apply for funding,
- ◆ \$67,000 in one-time funding to undertake various activities aimed at promoting the NWT at the 2010 Olympic Winter Games in Vancouver,
- ◆ \$1.6 million in a Tourism Product Diversification and Marketing Fund to provide assistance for research to identify market needs and wants, provide funding to individual operators for product development and provide assistance to Northwest Territories Tourism to promote new opportunities and markets,
- ◆ \$1 million for the new *Support to Entrepreneur and Economic Development (SEED) Policy* that will replace the Business Development Fund and grants to small business policies,

- ◆ \$140,000 for parks operations, including a \$50,000 increase in the territorial parks' operations and maintenance budget and \$90,000 for the general parks operating budget, and
- ◆ \$250,000 in additional funds for seasonal contracts for the delivery of regional, cultural and interpretive park programs.

Reducing the Cost of Living - implementing strategies that will ensure effective use of resources that subsidize the cost of living and address factors impacting the cost of living such as transportation infrastructure and energy. The 2008-09 Budget includes \$24.7 million in funding initiatives aimed directly at reducing the cost of living including:

- ◆ \$800,000 for energy awareness programs,
- ◆ \$100,000 to develop options to reduce the cost of electricity rates and regulations,
- ◆ \$400,000 to develop an *NWT Hydro Strategy*,
- ◆ \$17.1 million from the *Northern Housing Trust* to build affordable homes,
- ◆ \$200,000 to speed up Dempster Highway ice crossing construction so the highway is open to commercial vehicle traffic sooner in the winter months,
- ◆ \$155,000 in additional funding for the senior citizens supplementary benefit, and
- ◆ \$6 million to fund the change in focus of the income security program from a program of last resort to one that provides adequate financial assistance for basic needs and supports people to achieve self-reliance.

Reducing the Cost of Living

Address factors that impact the cost of goods

| | | |
|---|---------|---------|
| EnerGuide for Houses | 150,000 | |
| Energy Efficiency Incentive Program | 400,000 | |
| Energy Information and Awareness | 100,000 | |
| Support for Arctic Energy Alliance | 150,000 | |
| Overall Review of Rates and Regulations | 100,000 | <hr/> |
| | | 900,000 |

Improve quality and cost of shelter

| | | |
|------------------------|------------|------------|
| NWT Hydro Strategy | 400,000 | |
| Northern Housing Trust | 17,100,000 | <hr/> |
| | | 17,500,000 |

Improve transportation access to communities

| | | |
|---|---------|---------|
| Dempster Highway Ice Bridge Construction Acceleration | 200,000 | <hr/> |
| | | 200,000 |

Support families and individuals

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|--|---------------|-----------|
| Income Support - Senior Citizens Supplementary Benefit | 155,000 | |
| Income Security Redesign | 5,950,000 | <hr/> |
| | | 6,105,000 |
| | | <hr/> |
| | \$ 24,705,000 | |

Refocusing Government***Change the GNWT's approach to infrastructure***

Focus on Deferred Maintenance

| | |
|-----------|-------|
| 2,650,000 | <hr/> |
| 2,650,000 | |

Conduct Program Review

| | |
|---------|-------|
| 424,000 | <hr/> |
| 424,000 | |

Managing the cost of governmentCapital Asset Retrofit Fund
Energy Management Specialist

| | |
|---------|-------|
| 50,000 | <hr/> |
| 125,000 | <hr/> |
| 175,000 | |

Strengthen service deliverySupport Official Languages
Legislative Assembly Territorial Broadcasting Solution

| | |
|---------|-------|
| 150,000 | <hr/> |
| 301,000 | <hr/> |
| 451,000 | |

| | |
|--------------|--|
| \$ 3,700,000 | |
|--------------|--|

Refocusing Government - refocuses government on what is most important to the long-term viability of the NWT and delivering programs and services in the most efficient way. This includes changes in services and service delivery.

Actions and investments during the 16th Legislative Assembly will focus on undertaking a review of government programs to ensure the effective use of resources, changing the way the Government plans and delivers infrastructure, improving human resource management, implementing changes to GNWT boards and agencies, ensuring effective service delivery in smaller NWT communities and stabilizing the GNWT relationship with non-government organizations.

A total of \$3.8 million in new initiatives will be provided in 2008-09 including:

- ◆ \$2.65 million to address the need for maintenance to maximize the useful life of government buildings,
- ◆ \$424,000 to establish a program review office,
- ◆ \$175,000 to reduce government energy costs through a capital asset retrofit fund and hiring of an Energy Management Specialist,
- ◆ \$150,000 to improve GNWT services in official languages by piloting single window service centres for French with a planned extension to one or more Aboriginal languages, and
- ◆ \$301,000 to provide satellite time, annual maintenance and translation services for a Legislative Assembly Broadcasting system.

Infrastructure

In total, \$180 million will be invested in infrastructure and infrastructure contributions in 2008-09 including:

- ◆ \$25 million for school replacements, renovations and additions;
- ◆ \$7 million in electronic health records management and imaging archive technology upgrades and replacements to improve the health service delivery;
- ◆ \$25 million in health infrastructure investments, including \$13 million for the long-term care territorial dementia facility, \$3.4 million for the Adult Supportive Living in Hay River, \$4.3 million for the Consolidated Primary Care Clinic in Yellowknife, and \$2.5 million for the Northern Lights Special Care Home in Fort Smith;
- ◆ \$11.2 million for technology information system upgrades and replacements including \$7.5 million to replace the Financial Information System;
- ◆ \$5 million to address the need for maintenance to maximize the useful life of government buildings;
- ◆ \$6 million for upgrades and renovations to GNWT buildings;
- ◆ \$34 million for highways and roads across the NWT, including \$9.4 million for the Kakisa River bridge replacement, \$20 million for highway work as a part of the Canada Strategic Infrastructure Funds and the 2007 Framework Agreement with Canada, and \$4.8 million for other road work;
- ◆ \$6 million for winter roads;
- ◆ \$15 million for airport infrastructure improvements;
- ◆ \$28 million in Formula Funding for community infrastructure;
- ◆ \$4.3 million for other community infrastructure;
- ◆ \$1.7 million for water and sewage treatment upgrades in various communities;
- ◆ \$1.4 million for a gymnasium in Nahanni Butte;
- ◆ \$3.8 million in parks infrastructure in 2008-09 as part of a four year plan to replace the 60th Parallel Visitor Centre, to address the increasing demand for RV sites in campgrounds, to address the deterioration of heritage buildings, and to establish a new Territorial Park under the *NWT Protected Areas Strategy*; and
- ◆ \$5 million for tank farm upgrades and capacity increases.

Revenue Measures

There are no changes to NWT tax rates in 2008-09.

The fiscal strategy calls for \$10 million in new revenue measures starting in 2009-10. A paper describing revenue options will be released in the summer 2008 for public comment. Decisions on revenue changes will be announced following consultations.

Looking Ahead

As long as the medium term outlook is fiscally sustainable, the fiscal strategy will be to manage the growth in operating expenditures to ensure that it does not exceed the growth in revenues, thus eroding the ability of the GNWT to invest in infrastructure. This will also provide the GNWT with the flexibility to invest strategically in support of the GNWT's priorities. Limiting expenditure growth will be supported through the work of a new Program Review Office. The Office will work closely with departments to identify approaches to managing expenditure pressures, including procurement, travel practices, and growth in program spending. Over the longer term, the Office will work with departments to help make programs and services more effective.

The GNWT will continue to pursue devolution and resource revenue sharing with the Government of Canada and NWT Aboriginal governments. However, a resource devolution agreement will likely not produce additional revenues for a number of years and resource revenues alone would be insufficient to overcome the historical higher expenditure growth rate.

The GNWT's fiscal strategy includes tax options, but the NWT's tax bases are inadequate to maintain the balance between revenue and expenditure growth without actions on the expenditure side to reduce growth rates. Further, sound tax policy must consider the effect of higher taxes on the NWT residents and businesses, particularly given that the costs of living are increasing.

Over the medium term, the fiscal strategy requires that the GNWT take a balanced approach that involves some expenditure reallocation for new investments on priorities, that brings the expenditure growth rates in line with the forecast revenue growth rate, and that ensures sufficient operating surpluses to permit investments in infrastructure.

Risks to the Medium Term Outlook

Limiting expenditure growth to align with revenue growth is also necessary to ensure the GNWT has the flexibility to contend with fiscal, especially revenue, shocks. Consideration of revenue risks to the GNWT medium term revenue forecast focuses on the Territorial Formula Financing Grant because this transfer payment forms the majority of GNWT revenues and on Corporate Income Tax revenues due to their volatility.

The new Territorial Formula Financing arrangements retain the same gap-filling principle as previous arrangements. The main difference is that each year's Grant is based on a single estimate using three-year moving averages of actual data that is lagged by two years. This is a significant change from previous Territorial Formula Financing arrangements. In the past, changes in own source revenues would be partially offset in the same year that they occurred through adjustments to current or prior year Grant entitlements. Although the new arrangements make the Grant more stable in any given fiscal year, it also makes the Grant less responsive to changes in other revenues in the short term. Over time, however, Grant entitlements do respond to changes in the GNWT's own-source revenues.

For example, the single estimate for the 2008-09 Grant determined in December 2007 will not change for payment purposes during the course of the year. Any changes in own-source revenues from the forecast amounts during 2008-09 will be reflected in the Grant in 2010-11 and then by only one-third of the amount in each year for three years.

Therefore, a large drop in own-source revenues will not be offset under Territorial Formula Financing until the second, third and fourth years after the initial revenue shock.

As GNWT own-source revenues increase as a share of total revenues, the government's overall revenues will become more variable. Since the Territorial Formula Financing Grant does not respond as quickly to changes in own-source revenues, volatility in these revenues becomes a more important consideration in projecting revenues and cash for planning purposes.

Summary of Operations

| | (thousands of dollars) | | | |
|---|--------------------------------|-----------------------------------|--------------------------------|----------------------|
| | 2008/2009 Main Estimates | 2007/2008 Revised Estimates | 2007/2008 Main Estimates | 2006/2007 Actuals |
| | | | | |
| REVENUES | 1,230,396 | 1,288,511 | 1,231,136 | 1,203,778 |
| OPERATIONS EXPENSE | | | | |
| Compensation and Benefits | 241,290 | 236,937 | 230,508 | 226,263 |
| Grants and Contributions | 599,048 | 618,720 | 570,061 | 544,495 |
| Other Expenses | 319,864 | 328,375 | 297,931 | 295,332 |
| Amortization | 56,770 | 51,552 | 54,050 | 50,324 |
| TOTAL OPERATIONS EXPENSE TO BE VOTED | 1,216,972 | 1,235,584 | 1,152,550 | 1,116,414 |
| OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS | 13,424 | 52,927 | 78,586 | 87,364 |
| PETROLEUM PRODUCTS REVOLVING FUND - NET REVENUE | - | - | - | 423 |
| ESTIMATED SUPPLEMENTARY REQUIREMENTS | | | | |
| Operations Expenditures - Regular | (10,000) | - | (50,000) | - |
| ESTIMATED APPROPRIATION Lapses | | | | |
| Infrastructure Contributions | 5,000 | 8,000 | 8,000 | - |
| Regular Operating Activities | 5,000 | 8,000 | 8,000 | - |
| WORK PERFORMED ON BEHALF OF OTHERS | | | | |
| Recoveries | 46,892 | 58,358 | 40,332 | 49,138 |
| Expenditures | (46,892) | (58,358) | (40,332) | (49,138) |
| OPERATING SURPLUS (DEFICIT) FOR THE YEAR | 13,424 | 68,927 | 44,586 | 87,787 |
| ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR | 860,712 | 791,785 | 762,296 | 703,998 |
| ACCUMULATED SURPLUS AT THE END OF THE YEAR | 874,136 | 860,712 | 806,882 | 791,785 |

Summary of Revenues

| | (thousands of dollars) | | | |
|---------------------------------------|--------------------------------|-----------------------------------|--------------------------------|----------------------|
| | 2008/2009 Main Estimates | 2007/2008 Revised Estimates | 2007/2008 Main Estimates | 2006/2007 Actuals |
| GRANT FROM CANADA | 804,858 | 842,750 | 763,522 | 753,388 |
| TRANSFER PAYMENTS | 93,534 | 95,271 | 93,101 | 125,930 |
| TAXATION REVENUE | | | | |
| Personal Income Tax | 65,154 | 50,019 | 72,395 | 81,600 |
| Corporate Income Tax | 64,287 | 104,890 | 119,141 | 49,536 |
| Tobacco Tax | 14,090 | 14,624 | 14,295 | 14,044 |
| Fuel Tax | 18,799 | 20,305 | 19,092 | 22,578 |
| Payroll Tax | 37,694 | 36,740 | 31,171 | 33,073 |
| Property Tax and School Levies | 19,734 | 19,489 | 17,864 | 17,729 |
| Insurance Taxes | 3,500 | 3,558 | 3,300 | 3,430 |
| | 223,258 | 249,625 | 277,258 | 221,990 |
| GENERAL REVENUES | | | | |
| Revolving Funds Net Revenue | 22,431 | 22,684 | 21,561 | 21,754 |
| Regulatory Revenues | 15,475 | 14,815 | 12,411 | 14,126 |
| Investment Income | 5,956 | 8,949 | 6,848 | 21,213 |
| Other General Revenues | 1,204 | 1,299 | 3,339 | 2,261 |
| | 45,066 | 47,747 | 44,159 | 59,354 |
| OTHER RECOVERIES | | | | |
| Lease and Accommodations | 914 | 1,117 | 238 | 1,054 |
| Service | 1,733 | 2,280 | 1,847 | 1,136 |
| Program | 26,971 | 27,205 | 28,552 | 15,135 |
| Commodity Sales | 66 | 123 | 88 | 366 |
| Insurance Proceeds | 60 | 33 | 60 | 1,473 |
| Other Miscellaneous Recoveries | 195 | 99 | 144 | 75 |
| Recovery of Prior Years' Expenditures | 3,000 | 3,000 | 3,000 | 8,704 |
| | 32,939 | 33,857 | 33,929 | 27,943 |
| GRANTS IN KIND | 762 | 533 | 533 | 598 |
| CAPITAL | | | | |
| Other | 3,976 | 5,555 | 5,459 | 84 |
| Building Canada | 12,587 | - | - | - |
| Deferred Capital Contributions | 13,416 | 13,173 | 13,175 | 14,491 |
| | 29,979 | 18,728 | 18,634 | 14,575 |
| TOTAL REVENUES | 1,230,396 | 1,288,511 | 1,231,136 | 1,203,778 |

Summary of Operations Expenditures by Department

| | (thousands of dollars) | | | |
|--------------------------------------|--------------------------------|-----------------------------------|--------------------------------|----------------------|
| | 2008/2009 Main Estimates | 2007/2008 Revised Estimates | 2007/2008 Main Estimates | 2006/2007 Actuals |
| Legislative Assembly | 15,364 | 16,379 | 16,294 | 13,820 |
| Executive | 123,873 | 130,805 | 122,038 | 122,986 |
| Finance | 10,959 | 11,437 | 11,461 | 7,141 |
| Municipal and Community Affairs | 114,782 | 137,370 | 114,656 | 106,409 |
| Public Works and Services | 57,800 | 53,090 | 51,800 | 50,496 |
| Health and Social Services | 309,822 | 298,842 | 277,395 | 281,371 |
| Justice | 91,976 | 92,091 | 88,441 | 86,342 |
| Education, Culture and Employment | 293,914 | 296,150 | 286,150 | 267,858 |
| Transportation | 95,947 | 92,296 | 88,302 | 85,073 |
| Industry, Tourism and Investment | 45,593 | 44,201 | 38,869 | 37,418 |
| Environment and Natural Resources | 56,942 | 62,923 | 57,144 | 55,619 |
| TOTAL OPERATIONS EXPENDITURES | 1,216,972 | 1,235,584 | 1,152,550 | 1,114,533 |

Summary of Capital Investment Expenditures by Department

| | (thousands of dollars) | | | |
|--|--------------------------------|-----------------------------------|--------------------------------|----------------------|
| | 2008/2009 Main Estimates | 2007/2008 Revised Estimates | 2007/2008 Main Estimates | 2006/2007 Actuals |
| Legislative Assembly | 540 | 539 | - | 50 |
| Executive | 7,500 | 7,871 | 7,717 | 2,347 |
| Finance | - | - | - | - |
| Municipal and Community Affairs | 1,421 | 1,712 | (394) | 3,255 |
| Public Works and Services | 12,159 | 18,152 | 8,389 | 8,629 |
| Health and Social Services | 32,414 | 24,439 | 10,109 | 20,878 |
| Justice | 1,690 | 4,946 | 618 | 1,402 |
| Education, Culture and Employment | 24,508 | 55,888 | 30,565 | 20,759 |
| Transportation | 56,437 | 71,514 | 47,043 | 30,334 |
| Industry, Tourism and Investment | 3,828 | 3,170 | 1,810 | 1,631 |
| Environment and Natural Resources | 1,765 | 4,612 | 2,378 | 1,293 |
| TOTAL CAPITAL INVESTMENT EXPENDITURES | 142,262 | 192,843 | 108,235 | 90,578 |

Summary of Changes in Capital Assets and Amortization

| | (thousands of dollars) | | | |
|---|--------------------------------|-----------------------------------|--------------------------------|----------------------|
| | 2008/2009 Main Estimates | 2007/2008 Revised Estimates | 2007/2008 Main Estimates | 2006/2007 Actuals |
| BEGINNING OF THE YEAR | | | | |
| Cost of Capital Assets in Service | 1,699,373 | 1,607,600 | 1,620,590 | 1,522,630 |
| Accumulated Depreciation | <u>(677,270)</u> | <u>(625,718)</u> | <u>(630,373)</u> | <u>(575,394)</u> |
| Net Book Value | 1,022,103 | 981,882 | 990,217 | 947,236 |
| CHANGES DURING THE YEAR | | | | |
| Capital Assets Put into Service | 202,262 | 91,773 | 104,393 | 86,762 |
| Disposals | - | - | - | (1,792) |
| Amortization | <u>(56,770)</u> | <u>(51,552)</u> | <u>(54,050)</u> | <u>(50,324)</u> |
| NET BOOK VALUE OF CAPITAL ASSETS IN SERVICE AT THE END OF THE YEAR | 1,167,595 | 1,022,103 | 1,040,560 | 981,882 |
| Work in Progress on Multi-year Projects | 134,000 | 136,000 | 154,289 | 109,630 |
| TOTAL NET BOOK VALUE AND WORK IN PROGRESS | 1,301,595 | 1,158,103 | 1,194,849 | 1,091,512 |
| CALCULATION OF CAPITAL INVESTMENT | | | | |
| Capital Investment per Infrastructure Acquisition Plan | 142,262 | 202,143 | 108,629 | 96,578 |
| Supplementary Reserve | 12,000 | - | 12,000 | - |
| Carry-over of Appropriations from the Previous Year | 80,000 | - | 30,000 | - |
| Estimated Appropriations for Incomplete Projects Continued in Subsequent Year | <u>(30,000)</u> | <u>(80,000)</u> | <u>(30,000)</u> | <u>-</u> |
| Estimated Appropriation Lapses | <u>(4,000)</u> | <u>(4,000)</u> | <u>(4,000)</u> | <u>-</u> |
| Capital Investment Expenditures | 200,262 | 118,143 | 116,629 | 96,578 |
| CALCULATION OF ASSETS PUT INTO SERVICE | | | | |
| Work in progress, beginning of the year | 136,000 | 109,630 | 142,053 | 99,814 |
| Capital Investment Expenditures | 200,262 | 118,143 | 116,629 | 96,578 |
| Less work in progress, end of the year | <u>(134,000)</u> | <u>(136,000)</u> | <u>(154,289)</u> | <u>(109,630)</u> |
| Assets put into service | 202,262 | 91,773 | 104,393 | 86,762 |

Summary of Cash Flows

| | (thousands of dollars) | | | |
|---|--------------------------------|-----------------------------------|--------------------------------|----------------------|
| | 2008/2009 Main Estimates | 2007/2008 Revised Estimates | 2007/2008 Main Estimates | 2006/2007 Actuals |
| OPERATING TRANSACTIONS | | | | |
| Cash Received From: | | | | |
| Canada | 1,008,732 | 1,057,506 | 993,794 | 1,113,776 |
| Other Revenues | 236,206 | 247,246 | 225,530 | 375,420 |
| | 1,244,938 | 1,304,752 | 1,219,324 | 1,489,196 |
| Cash Paid For: | | | | |
| Operations Expenses | (1,159,865) | (1,163,761) | (1,130,631) | (1,129,334) |
| Projects Performed for Others | - | - | - | (249,724) |
| Cash Provided By (Used For) Operating Transactions | 85,073 | 140,991 | 88,693 | 110,138 |
| CAPITAL TRANSACTIONS | | | | |
| Capital Investment (current year) | (191,871) | (113,193) | (111,743) | (97,075) |
| Capital Investment (prior year) | (4,950) | (4,047) | (5,978) | - |
| Proceeds from Disposal of Capital Assets | - | - | - | - |
| Capital Contributions Received and Deferred | 53,100 | 22,241 | 18,785 | 34,490 |
| Cash Provided By (Used For) Capital Transactions | (143,721) | (94,998) | (98,936) | (62,585) |
| INVESTING TRANSACTIONS | | | | |
| Designated Cash and Investments Purchased | - | - | - | 1,818 |
| Loans (Net of Repayments) | (4,450) | (4,375) | (3,800) | (2,833) |
| Cash Provided By (Used For) Investing Transactions | (4,450) | (4,375) | (3,800) | (1,015) |
| FINANCING TRANSACTIONS | | | | |
| Repayment of Capital Lease Obligations | (2,641) | (2,641) | (2,641) | (1,428) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | |
| | (65,739) | 38,977 | (16,684) | 45,110 |
| Repayment of Corporate Income Tax Overpayment | (58,000) | (26,000) | (25,929) | (284,658) |
| Cash and Cash Equivalents at the Beginning of the Year | 122,206 | 109,229 | (7,836) | 348,777 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | (1,534) | 122,206 | (50,449) | 109,229 |

Summary of Total Debt and Estimated Borrowing Capacity

(thousands of dollars)

| | 2008/2009 Main Estimates | 2007/2008 Revised Estimates | 2007/2008 Main Estimates | 2006/2007 Actuals |
|---|--------------------------------|-----------------------------------|--------------------------------|----------------------|
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | (1,534) | 122,206 | (50,449) | 109,229 |
| GUARANTEED DEBT | | | | |
| NWT Power Corporation | (109,580) | (111,351) | (89,728) | (104,797) |
| NWT Energy Corporation | (21,297) | (21,775) | (21,775) | (22,229) |
| NWT Housing Corporation | (26,397) | (27,318) | (27,316) | (28,990) |
| TOTAL GUARANTEED DEBT | (157,274) | (160,444) | (138,819) | (156,016) |
| TOTAL (DEBT) SURPLUS | (158,808) | (160,444) | (189,268) | (156,016) |
| AUTHORIZED BORROWING LIMIT | 500,000 | 500,000 | 300,000 | 300,000 |
| AVAILABLE BORROWING CAPACITY | 341,192 | 339,556 | 110,732 | 143,984 |

Any further guarantees of NWT Power Corporation Debt may require a review of the GNWT's overall borrowing capacity with the Government of Canada.

Provincial and Territorial Tax Rates as of May 13, 2008

| | Combined Top Marginal PIT Rate ^(a) (%) | Retail Sales Tax (%) | Fuel Tax ^(b) | | Tobacco Tax on Cigarettes ^(c) (\$/ carton) | Payroll Tax ^(d) (%) | Corporate Income Tax | | Capital Tax ^(e) (%) |
|---------------------------------|---|-------------------------------|-------------------------|-----------------------|---|--------------------------------------|----------------------|--------------------------|--------------------------------------|
| | | | Gas (\$/ litre) | Diesel (\$/ litre) | | | Small (%) | Large (%) | |
| Northwest Territories | 43.05 | - | 10.7 | 9.1 | 42.00 | 2.00 | 4.0 | 11.5 | - |
| Nunavut | 40.50 | - | 6.4 | 9.1 | 42.00 | 2.00 | 4.0 | 12.0 | - |
| Yukon | 42.40 | - | 6.2 | 7.2 | 26.40 ^(f) | - | 4.0 | 15.0 | - |
| British Columbia | 43.70 | 7.0 | 14.5 | 15.0 | 35.80 | - | 4.5 | 12.0 | 0/3.0 |
| Alberta | 39.00 | - | 9.0 | 9.0 | 37.00 | - | 3.0 | 10.0 | - |
| Saskatchewan | 44.00 | 5.0 | 15.0 | 15.0 | 36.60 | - | 4.5 | 13.0/12.0 ^(g) | 0.15 ^(h) / 3.25 |
| Manitoba | 46.40 | 7.0 | 11.5 | 11.5 | 35.00 | 2.15 | 2.0 | 14.0/13.0 ^(h) | 0.4/3.0 |
| Ontario | 46.41 | 8.0 | 14.7 | 14.3 | 24.70 | 1.95 | 5.5 | 14.0 | 0.285/0.855 |
| Quebec | 48.22 | 7.5 | 15.2 | 16.2 | 20.60 | 4.26 | 8.0 | 11.4 | 0.36/0.72 |
| New Brunswick | 46.95 | 8.0 | 10.7 | 16.9 | 23.50 | - | 5.0 | 13.0 | 0.10/ 3.0 |
| Nova Scotia | 48.25 | 8.0 | 15.5 | 15.4 | 33.04 | - | 5.0 | 16.0 | 0.225 ⁽ⁱ⁾ / 4.0 |
| Prince Edward Island | 47.37 | 10.0 | 15.8 | 20.2 | 34.90 | - | 3.2 | 16.0 | 0/ 5.0 |
| Newfoundland ^(k) | 45.50 | 8.0 | 16.5 | 16.5 | 36.00 | 2.00 | 5.0 | 14.0 | 0/ 4.0 |
| Weighted average ^(l) | 45.66 | 6.8 | 14.1 | 14.3 | 27.71 | 1.86 | 5.5 | 12.7 | |

Notes:

- (a) Combined federal-provincial/ territorial highest personal income tax rates in effect for the 2008 tax year.
- (b) New Brunswick, Newfoundland, Nova Scotia and Quebec apply sales tax to fuel. The NWT's off-highway gasoline tax rate is 6.4 cents/ litre.
- (c) Manitoba, New Brunswick, Newfoundland, Nova Scotia and Saskatchewan apply sales tax to tobacco products.
- (d) The NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/ or the rates vary depending on the payroll size.
- (e) Capital tax rates are for large corporations and for financial institutions in the order shown. The tax bases are different for different types of companies.
- (f) Average weighted by provincial/ territorial populations at July 1, 2007.
- (g) Saskatchewan's general corporate rate will decline to 12.0% on July 1, 2008.
- (h) Manitoba's general corporate rate will decline to 13.0% on July 1, 2008.
- (i) Yukon's cigarette tax will increase to \$42.00 a carton on July 1, 2008.
- (j) Saskatchewan's capital tax applying to corporations other than financial institutions will be eliminated on July 1, 2008.
- (k) Newfoundland's combined top marginal PIT rate will fall to 44.5 per cent on July 1, 2008.
- (l) Nova Scotia's large corporations tax on capital of non-financial institutions will decline from 0.225 per cent to 0.2 per cent on July 1, 2008.