

# **Budget Address**

## **2014 - 2015**

***NORTHWEST TERRITORIES***

### **BUDGET PAPERS**

**B ♦ Fiscal Review**

**February 6, 2014**

## FISCAL REVIEW

The GNWT has achieved its plan of restoring fiscal balance and responsibly funding infrastructure investment. Budget 2014-15 continues on the path set by the first two budgets of the 17<sup>th</sup> Assembly to sustainably fund the Assembly's vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories.

The 2014-15 Budget invests in actions coming out of several collaborative efforts to tackle poverty, mental health and addictions, early childhood development, as well as opportunities to grow the economy. This budget is also the beginning of the GNWT's assumption of new responsibilities for managing public lands, waters and resources from Canada.

Going forward, the GNWT continues to closely watch operating expenditures to ensure they are adequately financed by revenues, and ensure flexibility remains to manage revenue uncertainty. In the absence of a change in the direction of own-source revenue growth, the GNWT is poised to take actions on spending to ensure fiscal sustainability.

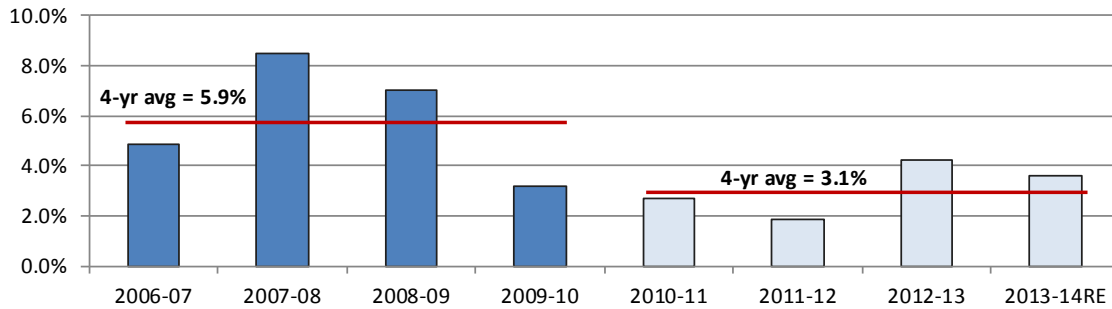
## Fiscal Situation

In 2011-12 the GNWT adjusted its fiscal plan to restore fiscal balance after years of stimulus spending and deficits in order to generate more funds to address the NWT's \$3 billion infrastructure deficit. The plan consisted of three main actions:

- Maintaining expenditure growth below revenue growth while protecting programs and services;
- Using operating surpluses to pay down short-term borrowing; and,
- Lowering capital investment in the first two years to increase investment in future years.

The GNWT has limited revenue-raising capacity because of its small tax base while facing high expenditure needs due to small dispersed communities, harsh climate and limited infrastructure. The GNWT has focussed on ensuring expenditure growth is affordable, so that resources are available for capital investment within the parameters of the GNWT's *Fiscal Responsibility Policy*.

### Historical GNWT Operating Expenditure Growth (%)



Note: For comparison purposes, tax credit expenditures are not included as expenses (before 2012-13, tax credits were accounted for by reducing tax revenues and were not included in expenditures). 2014-15 Budget is excluded as it includes new program responsibilities associated with devolution.

Efforts to reduce the growth in spending below revenue growth have been successful, contributing to the first surplus in four years in 2011-12 of \$1.3 million and a \$163 million surplus in 2012-13. The GNWT has maintained fiscal prudence in its operating budget with growth in program spending averaging nearly half of what it was four years ago, and generating the surpluses that are a cornerstone of the 17<sup>th</sup> Assembly's fiscal plan to invest more in infrastructure.

Following two years of reduced capital investment, capital investment will increase by \$50 million in each of 2014-15 and 2015-16, as provided for by the fiscal plan. At the end of March 2014, GNWT borrowing is expected to be \$176 million below the federally-imposed borrowing limit of \$800 million.

Going forward, the GNWT is expecting continued slow revenue growth as the absence of population growth impacts both transfers from Canada as well as tax revenues. Growth in the Territorial Formula Financing Grant is expected to average 2.3 per cent over the next half-decade, in comparison with 5.7 per cent growth in the preceding five years. As well, personal income tax revenues appear to be declining because of a decrease in tax filers.

## Fiscal Strategy

The GNWT remains committed to its *Fiscal Responsibility Policy*, including generating operating surpluses that fund at least half of planned capital investment and maintaining debt service payments below five per cent of total revenues.

To meet this commitment, the fiscal strategy focuses on constraining expenditure growth below revenue growth to generate the operating surpluses needed to fund capital investment. The fiscal strategy going forward consists of capping forced growth in existing programs and services, funding priority initiatives from a combination of savings and new funds, and limiting growth in the public service. By focusing on growth in expenditures, the fiscal strategy will provide a stable tax system and continued investment in infrastructure to grow the economy and population.

The fiscal strategy also ensures at least \$100 million in available borrowing authority at the end of the 17<sup>th</sup> Legislative Assembly.

### ***New in this Budget – Devolution of Lands, Waters and Resource Management***

Beginning April 1, 2014, the GNWT is taking on responsibilities for the management of lands, waters, and resources in the NWT. The 2014-15 Budget includes a \$67 million adjustment to the Gross Expenditure Base in the Territorial Formula Financing Grant to administer the programs and services transferred from the federal government, and the amount will grow annually at the same rate as the Grant. In total, the 2014-15 Budget estimates \$59 million in spending to assume the responsibilities and duties under the Devolution Agreement on April 1, 2014. Fiscal flexibility remains to fund any additional, as yet unanticipated, activities necessary to deliver new resource management program responsibilities.

Nearly half of the \$59 million for the new program responsibilities is for the creation of a new Lands Department. The Department will support, manage and administer the sustainable use of public land in the NWT, with a budget of \$27 million. An additional \$14 million is allocated to the Department of Environment and Natural Resources to manage new responsibilities associated with water resources, contaminated sites and remediation, conservation planning and cumulative impact monitoring. Responsibilities associated with petroleum and mineral resource exploration, development and rights, administration of the royalty regime, related Aboriginal consultation, and NWT regulatory system guidance will rest with the Department of Industry, Tourism and Investment, with an associated \$13 million in additional funding. The remaining \$5 million is allocated to central agencies. Devolution will increase the GNWT workforce by 242 positions, nearly one-fifth of which will be situated in communities outside Yellowknife in response to the GNWT's continued effort to bring economic opportunities to the regions.

The 2014-15 Budget includes a \$120 million estimate of gross resource revenues associated with devolution. Following offsets to the Territorial Formula Financing Grant, the GNWT will retain a net fiscal benefit of 50 per cent of resource revenues, subject to a cap equivalent to 5 per cent of the Territorial Formula Financing Gross Expenditure Base. The GNWT has committed to sharing up to 25 per cent of the net fiscal benefit with Aboriginal governments. Based on the \$120 million resource revenue estimate for 2014-15, the Budget includes a \$15 million expenditure estimate of the Aboriginal government share of the net fiscal benefit. However, this share will not be distributed until royalties for the 2014 calendar year are actually received in late 2015.

The implementation of devolution does not change the GNWT's fiscal strategy of generating surpluses to ensure that infrastructure is financed responsibly and sustainably. The GNWT's proposed approach to resource revenue management is grounded on the principle of intergenerational equity for non-renewable resources, ensuring they are not used to fund operating expenditures. Revenues from non-renewable resources will be invested in infrastructure, used for debt repayment and saved in the NWT Heritage Fund. Moody's Investors Service described this approach as demonstrating long-term planning and fiscal discipline, and considered it to be credit positive in its 2013 credit opinion.

The GNWT undertook a public dialogue process on the management of resource revenue in the fall of 2013. Results indicate general agreement from participants that resource revenues should be kept out of the operating budget and invested in projects and savings that build a future legacy. Opinions were split on how much resource

revenue should be devoted to infrastructure investment and how much should be saved in the Heritage Fund. The results report was released in January 2014 and will be used to inform discussion in the Legislative Assembly on resource revenue management.

## **2012-13 Final Results**

The operating surplus rose from \$1.3 million in 2011-12 to \$163 million in 2012-13. Year-over-year growth of 6.2 per cent in operating expenditures to \$1.450 billion was more than offset by 17.4 per cent growth in revenues to \$1.645 billion. Revenues were \$121 million higher than 2012-13 Main Estimates largely due to new accounting treatment of capital transfers, higher than forecast corporate income tax, personal income tax, and recoveries of prior years' expenses.

## **2013-14 Revised Estimates**

The operating surplus for 2013-14 is projected to be \$130 million after adjustments, \$17 million higher than projected in the 2013-14 Main Estimates as higher than forecast expenditures were offset by higher revenues.

The revised 2013-14 revenue forecast is \$56 million higher than the 2013-14 Main Estimates, having increased from \$1.609 billion to \$1.665 billion. The increase is mostly due to additional federal transfers, primarily for the Inuvik to Tuktoyaktuk highway and devolution implementation, offset by decreases in personal and corporate income tax revenue.

Operating expenditures are \$39 million higher than budgeted in the 2013-14 Main Estimates, having increased to \$1.536 billion. Increased expenditures resulted mainly from devolution implementation and a severe fire suppression season in 2013.

Capital investment expenditures in 2013-14 are expected to be \$283 million, more than double what was projected in the 2013-14 Main Estimates. Most of the increase was due to the start of construction of the Inuvik to Tuktoyaktuk highway, as well as capital carry-overs from 2012-13. Total debt at March 31, 2014 is forecast to be \$582 million. Taking into account other borrowing instruments for purposes of the federally-imposed borrowing limit, total GNWT borrowing at March 31, 2014 is projected to be \$624 million, leaving \$176 million in borrowing room.

## **2014-15 Budget**

The 2014-15 Budget proposes operating expenditures of \$1.613 billion and forecasts revenues of \$1.846 billion. After taking into account infrastructure contributions and supplementary reserve requirements, an operating surplus of \$200 million is projected.

Infrastructure investments for 2014-15, approved in November 2013, are budgeted to be \$223 million. The cash generated from operations will not cover the capital investments planned for 2014-15, resulting in an increase in GNWT short-term debt to \$236 million at March 31, 2015.

Direct long-term debt is forecast to be \$180 million, while debt of public agencies such as the NWT Power Corporation, the NWT Housing Corporation, and the Yellowknife Catholic Schools will total \$204 million. After adding the projected \$38 million in other instruments included under the definition of borrowing for the purposes of the borrowing limit, borrowing is expected to be \$658 million at March 31, 2015.

### ***Fiscal Summary***

(\$ thousands)

	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2013-14</b>	<b>2014-15</b>
	<i>Actual</i>	<i>Actual</i>	<i>Main Estimates</i>	<i>Revised Estimates</i>	<i>Main Estimates</i>
Revenues	1,401,411	1,645,349	1,609,354	1,665,312	1,845,501
O&M Expenditures	1,365,586	1,450,199	1,466,824	1,499,274	1,612,922
Infrastructure Contributions & Other Adj.	34,507	32,179	29,931	36,234	32,485
<b>Surplus (+)/Deficit (-)</b>	1,318	162,971	112,599	129,804	200,094
GNWT Debt	344,878	300,411	325,193	369,401	415,487
Public Agency Debt	222,761	213,015	211,325	212,361	204,481
<b>Total Debt</b>	567,639	513,426	536,518	581,762	619,969
Borrowing per Borrowing Regulations	33,538	47,260	44,247	42,725	38,375
<b>Total Territorial Borrowing</b>	601,177	560,686	580,765	624,487	658,344
Territorial Borrowing Limit	800,000	800,000	800,000	800,000	800,000
<b>Borrowing Authority for Fiscal Planning</b>	198,823	239,314	219,235	175,513	141,656

### ***Revenues***

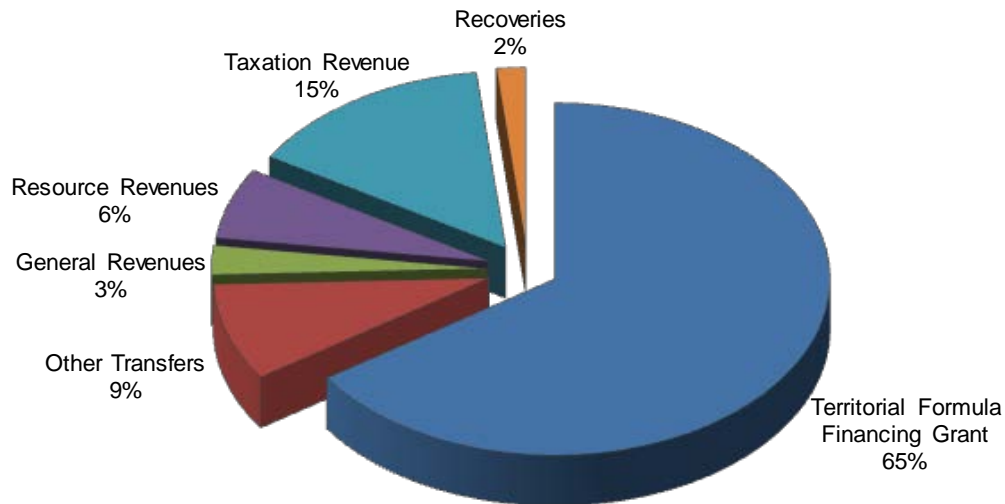
Total revenues are forecast to increase by \$180 million to \$1.846 billion in 2014-15. This represents growth of 10.8 per cent over 2013-14 estimated revenues of \$1.665 billion. The majority of the growth is attributable to an estimated \$120 million in gross resource revenues, as well as a \$67 million adjustment to the Territorial Formula Financing Grant to take over responsibilities associated with lands, water and resource management from Canada. The Territorial Formula Financing Grant continues to make up the majority of GNWT revenues, forecasted to be 65 per cent in 2014-15. Other transfers are forecast to fall by \$20 million primarily because of the completion of federal funding of devolution implementation.

GNWT own-source revenues are expected to account for 26 per cent of total revenues in 2014-15. Tax revenues are expected to decline slightly as a result of the forecasted fall in corporate income tax. The remainder of own-source revenues are expected to remain stable, except for regulatory revenues which reflect the \$120 million resource revenue forecast and other new minor revenues associated with the administration of public lands, waters and resources.

The 2014-15 Budget does not include any new taxes. Effective April 1, 2014, property tax mill rates and a number of fees will be adjusted for inflation. The tax rate on loose tobacco increased from 20.0 cents per gram to 26.6 cents per gram effective February 1,

2014. This is in line with the GNWT's policy of indexing tobacco and property tax rates, liquor mark-ups, and fees, where practicable.

### ***2014-15 GNWT Revenues by Source***

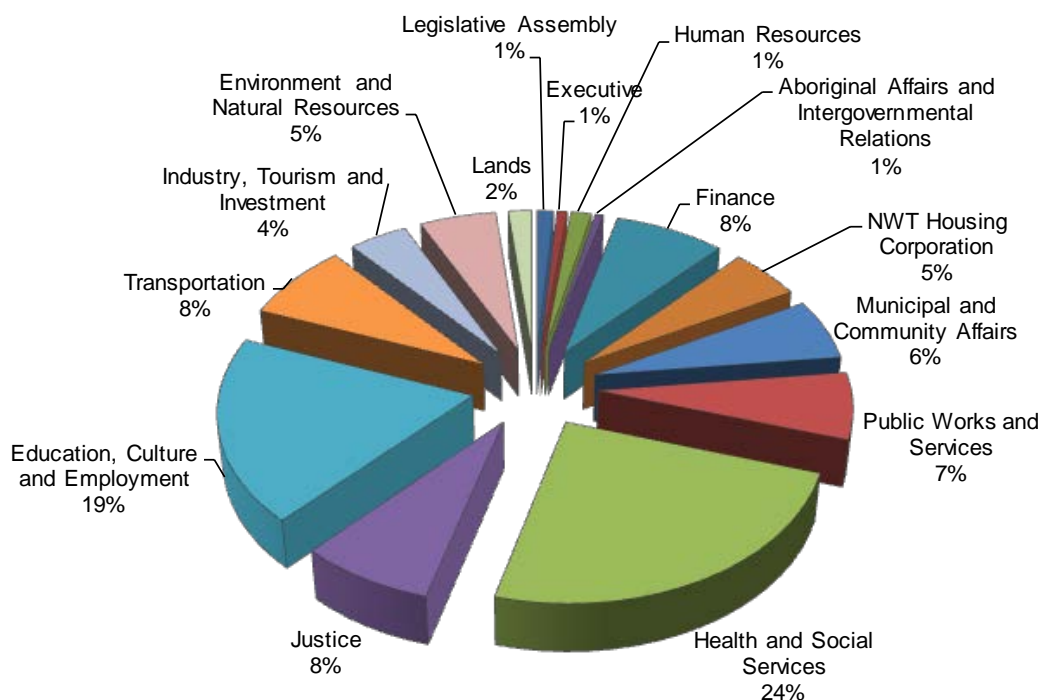


### ***Operating Expenditures***

The 2014-15 Budget proposes \$1.613 billion in operating expenditures, of which \$906 million is budgeted for social programs such as education, health care, social services, housing, policing and corrections.

Operating expenditures are forecast to increase \$146 million from 2013-14 Main Estimates. This primarily consists of increasing costs of existing programs and services, amounting to \$54 million, \$27 million in strategic and corporate initiatives, \$59 million associated with new responsibilities under devolution, and \$15 million for the Aboriginal government share of the net fiscal benefit. Amortization and other adjustments contribute another \$24 million. These increases are partly offset by \$34 million in sunsetted programs.

### 2014-15 Operations Expenditures by Department



### Initiatives

During the first two years of the 17<sup>th</sup> Assembly, the GNWT engaged in a collaborative effort with stakeholders to develop strategies aimed at improving the well-being of, and opportunities for, Northerners. The 2014-15 Budget invests in actions coming out of the completion of those strategies, including efforts to address poverty, early childhood development, mental health and addictions, mineral development, and economic and energy diversification.

### Investments in Prevention and Wellness

One of the 17<sup>th</sup> Assembly's strategic goals is healthy, educated people free from poverty. In support of this goal, several frameworks have been developed in collaboration with stakeholders, including the *NWT Anti-Poverty Strategic Framework*, the *Mental Health and Addictions Action Plan*, and the *Early Childhood Development Framework*. The 2014-15 Budget provides \$7.8 million in funding for actions in support of improving the health, well-being and development of Northerners.

- \$1 million to provide healthy and nutritious food to children and youth through early childhood programs, schools and after-school programs.
- \$500,000 to establish a funding program for non-governmental organizations and Aboriginal governments to advance initiatives in support of the *Anti-Poverty Strategic Framework*.



- \$223,000 for coordination of territorial action plans under the *Anti-Poverty Strategic Framework* and stakeholder meetings to leverage partnerships.
- \$680,000 to create transitional housing units in four non-market communities that will support "hard to house" residents unable to access other housing programs and options.
- \$150,000 for day shelter funding in support of the *Anti-Poverty Strategic Framework*.
- \$1.52 million for initiatives under the Early Childhood Development Action Plan, including providing outreach to expectant mothers, strengthening regional Healthy Family Programs, and raising awareness on the importance of early childhood development.
- \$511,000 to increase the number of qualified early education and care professionals in licensed programs through wage and training incentives.
- \$900,000 to establish on-the-land healing programs that are community-based and rooted in Aboriginal culture and tradition, and to build on best practices for treating addictions.

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#### 2014-15 Investments in Prevention and Wellness (thousands of dollars)

##### ***Anti-Poverty Strategic Framework***

Healthy food for children and youth	\$ 1,000	
NGO and Aboriginal government initiatives	500	
Coordination and stakeholder engagement	223	
Implement "Hard to House" units in non-market communities	680	
Day shelter funding	150	
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		\$ 2,553

##### ***Early Childhood Development Action Plan***

Outreach and Healthy Family Programs	\$ 1,520	
Wage and training incentives for early childhood education and care	511	
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		\$ 2,031

##### ***Mental Health and Addictions***

Territorial On-The-Land Treatment Program	\$ 900	
Children and Youth Resiliency Program	500	
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		\$ 1,400

##### ***Investing in Well-Being***

Expansion of the Midwifery program	\$ 515	
Integrated Case Management pilot program	895	
Specialized Wellness Court	305	
Youth Officer- Behchokò	129	
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		\$ 1,844
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		\$ 7,828

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- \$500,000 to establish a Children and Youth Resiliency Program supporting communities in establishing or expanding programming aimed at mental and physical development through contributions to youth centres, community governments and day cares.
- \$515,000 to continue expansion of midwifery programs, with expansion of services to Hay River including two full-time midwives.
- \$895,000 to establish a collaborative case management pilot program focusing on wellness and breaking down barriers between departments and agencies by integrating case management for common clients with mental health and addictions needs.
- \$305,000 to develop and implement a specialized Wellness Court that would have a broader focus on mental health, offering an innovative approach to wellness and reducing contact with the justice system.
- \$129,000 for a youth officer in Behchokò.

### ***Investments in Economic Growth***

Budget 2014-15 continues investments in key priorities that support the building of a diversified economy that provides all communities and regions with opportunities and choices. In total, \$1.2 million will be spent to advance actions that embrace opportunities for diversification and strengthen regional economies. Another \$1.9 million is targeted for initiatives recommended by the *Mineral Development Strategy* to sustainably unlock the mineral potential of the territory and maximize associated resident employment and business opportunities.

- \$461,000 to support the tourism industry through diversification of tourism products, community tourism infrastructure, tourism training, and the establishment of a Convention Bureau.
- \$150,000 to develop regional economic plans that engage residents in charting the course of community and regional development.
- \$150,000 to develop an agriculture strategy to guide strategic growth, investment, capacity building in agriculture, and to leverage other sources of funding.
- \$200,000 to support the commercial fishing industry in capitalizing on domestic commercial market demand.
- \$100,000 for a pilot rebate program to support the NWT film industry.
- \$100,000 to support small businesses outside regional centres to attract qualified business managers, accountants, and bookkeepers or professional service providers.
- \$400,000 for a new NWT Mining Incentive Program to attract more mineral exploration.
- \$200,000 to market the NWT as an attractive place for mineral exploration and development investment.
- \$655,000 to provide better and more comprehensive geoscience information and research in support of economic development.

- \$200,000 to evaluate options to improve access to the Slave Geologic Province, the area with the greatest mineral potential in the NWT.
- \$162,000 to support mining workforce development through promotion and education and delivery of Geoscience Field Assistant Training.
- \$100,000 to support Aboriginal organizations and communities in their efforts to maximize their engagement and participation in the decision-making processes surrounding mineral development.
- \$152,000 to facilitate and enhance NWT business support in relation to mining by linking NWT businesses with supply opportunities for the mining industry.

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### 2014-15 Investments in Economic Growth (thousands of dollars)

#### *Economic Opportunities Strategy*

Tourism promotion initiatives	\$ 461	
Development of Regional Economic Plans	150	
Development of an agriculture strategy	150	
NWT commercial fishing industry support	200	
Film Industry Pilot Rebate Program	100	
Business Internship Program	100	
		<hr/>
	\$ 1,161	

#### *Mineral Development Strategy*

Creation of NWT Mining Incentive Program	\$ 400	
Promotion of NWT mineral exploration and development	200	
Improved geoscience information and research	655	
Slave Geologic Province Corridor Access Study	200	
Mining workforce development and training	162	
Support for Aboriginal engagement and participation	100	
NWT business supply opportunities	152	
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	\$ 1,869	

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### *Investments in Energy*

Budget 2014-15 continues investments in reducing our reliance on non-renewable energy sources. Nearly \$5.4 million will be devoted to reducing the high cost of energy and the impact of fossil fuel consumption on the environment.

- \$1.4 million to finalize the costing and design of the proposed 65 km transmission line which would connect Whatì to the Snare hydro system.
- \$700,000 for energy efficiency improvements in public housing units.
- \$700,000 to fund NT Energy Corp.'s development of NWT hydroelectric resources and analysis of alternative energy opportunities such as biomass, geothermal and solar.

- \$400,000 to provide Arctic Energy Alliance energy advisors in all regions of the NWT to support energy efficiency and conservation.
- \$100,000 to enhance the Energy Efficiency Incentive Program, which encourages the purchase of energy efficient models of home appliances and other equipment.
- \$200,000 to support small businesses in implementing energy efficiency measures, and address the high cost of energy through the Commercial Energy Conservation and Efficiency Program.
- \$200,000 to fund pre-feasibility work for the Great Bear River Mini-Hydro project.
- \$50,000 for water monitoring on the Kakisa River to increase understanding of the NWT's hydro potential, in support of the *NWT Hydro Strategy*.
- \$150,000 to study the feasibility of a bio-fuel conversion for diesel generators to burn liquid natural gas.
- \$450,000 to support communities, businesses, and residents with the costs of small-scale biomass heating projects, and promotion and outreach in support of the *Biomass Energy Strategy*.
- \$500,000 to install up to 40 kilowatts of photovoltaic solar electricity generation capacity in two diesel communities.
- \$125,000 to establish a remote smart grid pilot project to reduce diesel consumption, in collaboration with Natural Resources Canada.
- \$100,000 to support the development of wind energy projects.

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### 2014-15 Investments in Energy (thousands of dollars)

Whatl connection to hydro: final costing and design	\$ 1,400
Energy efficiency upgrades for public housing	700
NT Energy Corp. core funding	700
Arctic Energy Alliance: core funding for regional advisors	400
Energy Efficiency Incentive Program enhancement	100
Commercial Energy Conservation and Efficiency Program	200
Great Bear River Mini-Hydro project pre-feasibility	200
Water monitoring for hydro potential	50
Liquid natural gas conversion feasibility study	150
Biomass project funding, promotion and evaluation	450
Solar PV electricity generation installation	500
Smart grid pilot project	125
Wind energy project development	100
Alternative Energy Technology Program enhancement	100
Electric vehicle demonstration project	15
<i>Greenhouse Gas Strategy</i>	200
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	\$ 5,390

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- \$100,000 to increase funding for the Alternative Energy Technologies Program, which supports communities, businesses and residents to install small-scale solar and wind energy projects.
- \$15,000 to evaluate electric vehicle potential for NWT communities.
- \$200,000 to support the delivery of the *Greenhouse Gas Strategy*, including maintaining and reporting emission inventories to the Climate Registry.

### ***Investments in Service Delivery***

The GNWT continues to make improvements to existing programs and services to improve efficiency and effectiveness. A total of \$11.5 million will be invested in the 17<sup>th</sup> Assembly's priorities of ensuring a sustainable health care system and to address housing needs.

- \$7.2 million to fund health service shortfalls which would otherwise result from the completion of federal financial support through the Territorial Health System Sustainability Initiative (THSSI).
- \$790,000 to continue the implementation of the new Med-Response service, which will provide community health care practitioners with remote emergency clinical support, and will triage and coordinate NWT air ambulance services.
- \$391,000 to allow Health Authorities to tap into shared information systems expertise at the Technology Service Centre.
- \$1.4 million to staff and operate the Jimmy Erasmus Seniors' Home, which opened in January 2014.
- \$604,000 for personal support worker training for the new long-term care facility in Norman Wells.
- \$350,000 to support community-based ground ambulance and highway rescue services in the Northwest Territories.
- \$783,000 to support private developers or community corporations in the development of market rentals under the Housing for Staff Program.

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### **2014-15 Investments in Service Delivery (thousands of dollars)**

Service shortfall funding resulting from termination of THSSI	\$ 7,204
Med-Response service for medical evacuations and travel	790
HSS Authorities' TSC chargeback costs	391
Jimmy Erasmus Seniors' Home	1,400
Personal support worker training for long-term care facility	604
Ground ambulance and highway rescue services support	350
Increase funding under the existing Housing for Staff program	783
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	\$ 11,522

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## Infrastructure

The 2014-15 capital budget, approved November 7, 2013, provides for investments of \$193 million in infrastructure and \$29 million in infrastructure contributions, including:

- \$86 million for highways and winter roads across the NWT, of which \$70 million is for the Inuvik to Tuktoyaktuk highway, which will be two-thirds funded by the federal government;
- \$59 million for health facility replacements and renovations, including \$19 million for the H.H. Williams Memorial Hospital in Hay River, \$21 million to replace the Norman Wells Health Centre and build a new long-term care centre, and the initial funding required for the planning of the Stanton Territorial Hospital project;
- \$28 million in Formula Funding for community infrastructure;
- \$18 million for small capital projects across all departments;
- \$16 million to complete construction of a new Yellowknife office building;
- \$8 million for information technology projects;
- \$4 million to continue the Capital Asset Retrofit Fund Program for energy efficiency upgrades to existing GNWT buildings; and
- \$3 million for capital improvements to NWT parks.

Additionally, assets to be transferred under devolution total \$7.3 million, bringing the new total to \$230 million. Included in the 2014-15 Main Estimates is \$31 million in housing investments to be delivered through the 2014-15 Capital Plan of the NWT Housing Corporation. Including the proposed NWT Housing Corporation investment, total planned infrastructure investment in 2014-15 is \$261 million.

## Medium-Term Outlook

Through its fiscal plan, the GNWT has protected its core programs and services while making strategic infrastructure investments. The GNWT remains committed to a fiscal strategy of managing expenditure growth in line with revenue growth and adhering to the *Fiscal Responsibility Policy*. This prudent fiscal planning takes into account slowing revenue growth due in part to stagnant population growth.

To address the need for economic growth, the GNWT will continue to make strategic infrastructure investments. As part of that plan, the GNWT will work collaboratively with the federal government to raise the federally-imposed borrowing limit taking into account the self-financing nature of most of the GNWT's current borrowing as well as the critical role infrastructure will play in growing the NWT economy.

The following strategic infrastructure priorities have been identified to expand economic opportunities and address the health facilities deficit:

- A 1,100 km Mackenzie Valley Fibre Link that will bring high speed internet to communities from Fort Simpson to Inuvik. High speed connectivity has the potential to revolutionize service delivery, from the speed with which medical records can get

into the hands of professionals to the delivery of educational programming. The Fibre Link will also position Inuvik to become the premier remote sensing site in the world.

- The creation of a single NWT Grid to stabilize the cost of energy for communities and customers who choose to tie in, and spread costs across all of the potential customers in the NWT, building economies of scale. An NWT Grid will be created by interconnecting the existing Snare Grid and the Taltson Grid and extending the line northeast of Yellowknife to allow new customers to connect.
- An all-weather road from Wrigley to Norman Wells, to strengthen connections among communities and reduce living costs for NWT residents, while making businesses and oil and gas projects more competitive. Following the start of construction of the Inuvik to Tuktoyaktuk highway in 2013, this is the next step in achieving the national vision of an all-weather highway through the Mackenzie Valley to the Arctic Coast.
- The Stanton Territorial Hospital mid-life retrofit will ensure the current and future health care needs of all NWT residents are met. Beginning investment in this critical project now, will allow construction to occur in phases with minimal disruption to the quality care provided by this flagship health care infrastructure.

The GNWT will closely monitor operating expenditures to ensure they are adequately financed by revenues, allowing the financial flexibility to reduce the infrastructure deficit in a fiscally sustainable way.

The following table shows the GNWT's medium-term outlook. At March 31, 2015 the GNWT is forecast to have \$142 million in borrowing room under the borrowing limit.

### **Medium-Term Outlook**

(\$ millions)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	<i>Actual</i>	<i>Revised Estimates</i>	<i>Main Estimates</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Revenues	1,645	1,665	1,845	1,870	1,844	1,862
Expenditures	(1,482)	(1,536)	(1,645)	(1,695)	(1,732)	(1,769)
<b>Surplus (+)/Deficit (-)</b>	163	129	200	175	112	93
<b>Capital Investment Requirements</b>	147	169	194	227	190	161
Accumulated Cash Surplus (Deficit) as of March 31 <sup>st</sup>	(122)	(191)	(235)	(193)	(187)	(156)
Total Guaranteed Debt <sup>1</sup>	(254)	(250)	(239)	(243)	(251)	(240)
Other Debt <sup>2</sup>	(185)	(183)	(184)	(184)	(263)	(260)
<b>Total Debt</b>	(561)	(624)	(658)	(620)	(701)	(656)
Territorial Borrowing Limit	800	800	800	800	800	800
<b>Available Borrowing Authority</b>	239	176	142	180	99	144

<sup>1</sup> Includes debt of the NWT Power Corp., NWT Energy Corp. and NWT Housing Corp.

<sup>2</sup> Includes debt to finance the construction of the Deh Cho Bridge, and debt of the Yellowknife Public Denominational District Educational Authority.

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

## ***Risks to Outlook***

The primary fiscal risks going forward are slowing revenue growth, revenue volatility and unexpected expenditures. Little debt risk exists as debt levels remain very manageable, with debt servicing costs below 1 per cent of revenues.

Transfers continue to make up the majority of revenues, accounting for 74 per cent of all revenues. The overwhelming majority of the transfers the GNWT receives are formula-based, relying heavily on population growth relative to Canada as a whole to determine growth. Despite the year-to-year stability offered by transfers, considerable downside risk exists over the medium term if population continues to be unchanged, or decline, as was the case in 2013. The Territorial Formula Financing Grant also depends upon growth in provincial and local government spending, and recent fiscal austerity measures taken by both levels of government is also slowing growth in the Grant.

Own-source revenues have always been subject to risk, particularly volatile corporate income tax; however, the Territorial Formula Financing Grant is responsive to offsetting some of the impact of those risks. Although the Grant formula does not respond immediately due to a two-year lag in the Grant's calculation, changes in own-source revenues are eventually offset to a large degree.

Changes in resource revenues, on the other hand, will not be offset through the Grant. Resource revenues are outside the Grant calculations, and any sudden increases or falls in resource revenues will be borne directly in the budget. Resource revenues are very sensitive to commodity price swings, exchange rate fluctuations, and operational decisions made by the owners of the resource. As such, their forecasting is challenging, and fiscal nimbleness needs to be maintained to allow for absorbing any large unexpected changes. The GNWT is mitigating part of the associated volatility risk by committing to not spend resource revenues on the operating budget.

Operating expenditure risks continue to be associated with unexpected events such as extraordinary fire suppression needs or natural disasters. With the undertaking of large capital projects such as the Inuvik to Tuktoyaktuk highway, capital cost over-runs may have an impact on the fiscal framework.



### Summary of Operations

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012/2013 Actuals
<b>REVENUES</b>	<b>1,845,501</b>	<b>1,665,312</b>	<b>1,609,354</b>	<b>1,645,349</b>
<b>OPERATIONS EXPENSE</b>				
Compensation and Benefits	351,554	314,428	306,573	301,880
Grants and Contributions	751,199	696,813	696,810	682,068
Other Expenses	424,936	408,709	381,916	393,112
Amortization	85,233	79,324	81,525	73,139
<b>TOTAL OPERATIONS EXPENSE TO BE VOTED</b>	<b>1,612,922</b>	<b>1,499,274</b>	<b>1,466,824</b>	<b>1,450,199</b>
<b>OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS</b>	<b>232,579</b>	<b>166,038</b>	<b>142,530</b>	<b>195,150</b>
INFRASTRUCTURE CONTRIBUTIONS	(29,263)	(36,541)	(29,931)	(31,993)
DEFERRED MAINTENANCE	(3,400)	-	-	-
Petroleum Products Stabilization Fund net profit	178	307	-	(186)
SUPPLEMENTARY RESERVE	(30,000)	-	(20,000)	-
ESTIMATED APPROPRIATION LAPSES	30,000	-	20,000	-
<b>WORK PERFORMED ON BEHALF OF OTHERS</b>				
Recoveries	50,654	65,536	60,025	62,892
Expenditures	(50,654)	(65,536)	(60,025)	(62,892)
<b>OPERATING SURPLUS FOR THE YEAR</b>	<b>200,094</b>	<b>129,804</b>	<b>112,599</b>	<b>162,971</b>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<b>1,362,231</b>	<b>1,232,427</b>	<b>877,342</b>	<b>1,069,456</b>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<b>1,562,324</b>	<b>1,362,231</b>	<b>989,941</b>	<b>1,232,427</b>

**Summary of Revenues**

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012/2013 Actuals
<b>GRANT FROM CANADA</b>	<b>1,208,840</b>	<b>1,121,244</b>	<b>1,121,244</b>	<b>1,070,023</b>
<b>TRANSFER PAYMENTS</b>	<b>164,902</b>	<b>184,455</b>	<b>116,659</b>	<b>145,723</b>
<b>TAXATION REVENUE</b>				
Personal Income Tax	104,862	87,152	98,107	105,360
Corporate Income Tax	53,119	78,995	88,034	108,422
Tobacco Tax	15,826	15,437	16,591	15,587
Fuel Tax	18,890	18,651	18,456	18,608
Payroll Tax	45,206	43,283	43,180	41,619
Property Tax and School Levies	27,885	27,572	25,953	27,058
Insurance Taxes	4,960	4,850	4,445	4,763
	<b>270,748</b>	<b>275,940</b>	<b>294,766</b>	<b>321,417</b>
<b>GENERAL REVENUES</b>				
Revolving Funds Net Revenue	25,372	24,980	24,980	25,136
Regulatory Revenues	143,046	20,539	20,786	19,407
Investment Income	1,130	8,363	1,123	3,951
Lease	5,368	3,749	3,754	4,197
Program	21,790	21,686	21,686	25,652
Grants in kind	593	593	593	635
Service and miscellaneous	712	763	763	1,520
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	27,688
	<b>201,011</b>	<b>83,673</b>	<b>76,685</b>	<b>108,186</b>
<b>TOTAL REVENUES</b>	<b>1,845,501</b>	<b>1,665,312</b>	<b>1,609,354</b>	<b>1,645,349</b>

**Summary of Operations Expenditures by Department**

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012/2013 Actuals
Legislative Assembly	18,989	18,241	18,239	18,096
Executive	11,563	27,002	17,243	14,079
Human Resources	23,636	22,465	23,391	21,295
Aboriginal Affairs and Intergovernmental Relations	9,195	8,755	8,755	7,622
Finance	210,630	177,784	177,186	161,764
Municipal and Community Affairs	99,451	98,729	98,786	94,342
Public Works and Services	108,915	106,983	104,505	98,165
Health and Social Services	391,929	365,479	363,856	373,956
Justice	124,955	116,383	116,441	114,671
Education, Culture and Employment	305,599	300,195	299,611	292,096
Transportation	126,161	120,199	117,011	123,029
Industry, Tourism and Investment	67,541	51,000	50,235	49,051
Environment and Natural Resources	87,528	86,059	71,565	82,033
Lands	26,830	-	-	-
<b>TOTAL OPERATIONS EXPENDITURES</b>	<b>1,612,922</b>	<b>1,499,274</b>	<b>1,466,824</b>	<b>1,450,199</b>

### *Summary of Infrastructure Investment by Department*

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012/2013 Actuals
<b>Tangible Capital Assets</b>				
Legislative Assembly	329	-	-	725
Human Resources	441	417	300	183
Finance	450	600	-	1,073
Municipal and Community Affairs	-	-	-	-
Public Works and Services	27,900	29,248	24,536	9,878
Health and Social Services	60,488	66,731	36,381	30,000
Justice	4,088	1,646	799	880
Education, Culture and Employment	2,479	7,456	1,276	18,388
Transportation	90,400	134,433	26,250	83,654
Industry, Tourism and Investment	5,313	2,929	2,060	610
Environment and Natural Resources	5,091	3,008	1,861	2,140
Lands	461	-	-	-
<b>Total Tangible Capital Assets<sup>1</sup></b>	<b>197,440</b>	<b>246,468</b>	<b>93,463</b>	<b>147,531</b>
<b>Infrastructure Contributions</b>				
Municipal and Community Affairs	28,002	34,454	28,002	31,415
Education, Culture and Employment	1,261	2,087	1,929	578
<b>Infrastructure Contributions</b>	<b>29,263</b>	<b>36,541</b>	<b>29,931</b>	<b>31,993</b>
<b>Deferred Maintenance</b>				
Public Works and Services	2,000	-	-	-
Health and Social Services	1,400	-	-	-
<b>Deferred Maintenance</b>	<b>3,400</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL INFRASTRUCTURE INVESTMENT</b>	<b>230,103</b>	<b>283,009</b>	<b>123,394</b>	<b>179,524</b>

1. Includes \$7.3 million of assets gifted under devolution which were not included in the 2014-15 Capital Estimates.

### Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2014/2015 Main Estimates	2013/2014 Revised Estimates	2013/2014 Main Estimates	2012-2013 Actuals
<b>SHORT TERM DEBT</b>				
GNWT short-term loans	235,509	191,169	142,791	121,617
Other public agencies	-	-	-	-
NWT Hydro Corporation	5,000	9,000	8,000	5,979
	<b>240,509</b>	<b>200,169</b>	<b>150,791</b>	<b>127,596</b>
<b>GNWT LONG TERM DEBT</b>				
Deh Cho Bridge - Real Return Bonds	179,241	177,428	181,600	177,927
Canada Mortgage and Housing Corporation	737	804	802	867
<b>PUBLIC AGENCY DEBT</b>				
NWT Hydro Corporation	186,306	188,749	188,821	191,068
NWT Housing Corporation	10,862	11,633	11,525	12,359
Yellowknife Catholic Schools	2,313	2,979	2,979	3,609
<b>TOTAL DEBT</b>	<b>619,968</b>	<b>581,762</b>	<b>536,518</b>	<b>513,426</b>
<b>OBLIGATIONS UNDER CAPITAL LEASES</b>				
GNWT	1,637	1,971	1,915	2,268
NWT Housing Corporation	602	1,216	2,755	2,063
NWT Hydro Corporation	18,821	19,226	19,226	19,631
<b>LOAN GUARANTEES</b>				
NWT Housing Corporation	24,734	26,858	27,550	28,974
<b>TOTAL GROSS BORROWING PER BORROWING REGULATIONS</b>	<b>665,762</b>	<b>631,033</b>	<b>587,964</b>	<b>566,362</b>
<b>LESS:</b>				
<b>EXTERNALLY RESTRICTED SINKING FUNDS</b>				
NWT Power Corporation	(7,419)	(6,546)	(7,199)	(5,676)
<b>TERRITORIAL BORROWING</b>	<b>658,343</b>	<b>624,487</b>	<b>580,765</b>	<b>560,686</b>
<b>TERRITORIAL BORROWING LIMIT</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>	<b>800,000</b>
<b>AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES</b>	<b>141,657</b>	<b>175,513</b>	<b>219,235</b>	<b>239,314</b>

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**PROVINCIAL/TERRITORIAL TAX RATES AS AT JANUARY 31, 2014**


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	Combined Top Marginal Personal Income Tax Rate <sup>(a)</sup> (%)	Retail Sales Tax (%)	Fuel tax <sup>(b)</sup>		Tobacco Tax <sup>(c)</sup> (\$/carton)	Payroll Tax <sup>(d)</sup> (%)	Corporate Income Tax		Capital Tax on Financial Institutions (%)
			Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)	
Northwest Territories	43.05	-	10.70	9.10	57.20	2.00	4.0	11.5	-
Nunavut	40.50	-	6.40	9.10	50.00	2.00	4.0	12.0	-
Yukon	42.40	-	6.20	7.20	42.00	-	4.0	15.0	-
British Columbia	45.80	7.0	21.17	22.67	44.60	-	2.5	11.0	-
Alberta	39.00	-	9.00	9.00	40.00	-	3.0	10.0	-
Saskatchewan	44.00	5.0	15.00	15.00	50.00	-	2.0	12.0	3.25
Manitoba	46.40	8.0	14.00	14.00	58.00	2.15	0.0	12.0	3.0
Ontario	49.53	8.0	14.70	14.30	24.70	1.95	4.5	11.5	-
Quebec	49.97	9.975	19.20	20.20	25.80	4.26	8.0	11.9	-
New Brunswick	46.84	8.0	13.60	19.20	38.00	-	4.5	12.0	4.0
Nova Scotia	50.00	10.0	15.50	15.40	47.04	-	3.0	16.0	4.0
Prince Edward Island	47.37	9.0	13.10	20.20	45.00	-	4.5	16.0	5.0
Newfoundland & Labrador	42.30	8.0	16.50	16.50	41.00	2.00	4.0	14.0	4.0
Weighted average <sup>(e)</sup>	47.47	7.3	15.91	16.34	32.59	1.85	4.6	11.6	0.5

## Notes:

(a) Combined federal-provincial/ territorial highest 2014 personal income tax rates and surtax.

(b) The NWT's off-highway gasoline tax rate is 6.4 cents/litre. British Columbia fuel tax rates include carbon tax, and are applicable in regions outside Victoria and the Lower Mainland. In British Columbia, carbon tax rates are uniform across the province; however, there are different fuel tax rates for different regions. Quebec fuel tax rates also vary regionally.

(c) British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Saskatchewan apply sales tax to sales of tobacco.

(d) NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or rates vary depending on payroll size.

(e) Average weighted by provincial/territorial populations at July 1, 2013.