

Budget Address

2015 – 2016

NORTHWEST TERRITORIES

BUDGET PAPERS

B ♦ Fiscal Review

February 5, 2015

FISCAL REVIEW

The 2015-16 Budget continues the fiscal plan started at the beginning of the 17th Legislative Assembly to carefully manage expenditure growth to ensure operating surpluses are available to make the strategic infrastructure investments necessary to support the Assembly's vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories.

Fiscal Strategy

The GNWT uses four major fiscal goals to frame its budgetary decisions:

- To protect programs and services while managing expenditure growth;
- To maintain a stable tax environment to support the economy;
- To achieve operating surpluses each year to be able to invest in infrastructure and make debt payments in adherence to the guidelines specified in the *Fiscal Responsibility Policy*; and
- To keep a \$100 million cushion between total borrowing and the federally-imposed \$800 million borrowing limit.

The fiscal strategy 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 managing expenditure growth, the fiscal strategy provides for a sustainable fiscal framework that permits continued investment in infrastructure to grow the economy and population.

Fiscal Situation

The GNWT has followed the same fiscal strategy since the 2010-11 Budget, which is to manage expenditure growth below revenue growth in order to gradually increase the operating surpluses available to invest in infrastructure. Efforts to manage the growth in spending have been successful, contributing to three years of consecutive surpluses and a projected surplus in 2014-15. 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 operating surpluses has allowed for an additional \$100 million in capital investment in 2014-15 and 2015-16.

2013-14 Final Results

Total revenues in 2013-14 were \$1.63 billion, down 0.8 per cent from 2012-13 because of the effect of smaller recoveries of prior years' expenditures; if these were not included, revenues would have increased 0.4 per cent. Increased revenues from Territorial Formula Financing and investment income were offset by declines in other transfer payments and personal and corporate income taxes.

Total expenditures in 2013-14 increased 3.7 per cent, or \$55.4 million, to \$1.54 billion from 2012-13. The operating surplus in 2013-14 was \$94 million, which was \$69 million less than the 2012-13 surplus of \$163 million. The reduction in the operating surplus was caused by expenditure growth outpacing revenue growth during 2013-14.

2014-15 Revised Estimates

The 2014-15 operating surplus is projected to be \$109 million after adjustments, \$91 million lower than projected in the 2014-15 Main Estimates, due mainly to \$75 million in expenditure shocks fighting forest fires during the worst fire season in decades and offsetting diesel electrical generation costs made necessary by the lowest water levels in 64 years on the Snare River.

The revised 2014-15 revenue forecast is \$7.8 million lower than the 2014-15 Main Estimates, having decreased to \$1.84 billion. The \$63 million decrease in forecasted own-source revenues, due mainly to decreased corporate income tax and resource royalties forecasts, was mostly offset by a \$55 million increase in federal transfers, primarily for the Inuvik to Tuktoyaktuk Highway and devolution implementation.

Capital investment expenditures for 2014-15 are expected to be \$323 million, \$100 million more than projected in the 2014-15 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 2013-14. Total debt at March 31, 2015 is forecast to be \$690 million. Taking into account other borrowing instruments for purposes of the federally-imposed \$800 million borrowing limit, total GNWT borrowing at March 31, 2015 is projected to be \$730 million, leaving \$70 million in borrowing room.

2015-16 Budget

The 2015-16 Budget proposes operating expenditures of \$1.648 billion and forecasts revenues of \$1.827 billion. After taking into account infrastructure contributions and supplementary reserve requirements, an operating surplus of \$147 million is projected.

Infrastructure investments for 2015-16, approved in November 2014, are budgeted to be \$278 million, including infrastructure contributions. Short-term debt is projected to be \$272 million at March 31, 2016. Direct long-term debt is forecast to be \$181 million, while debt of public agencies such as the NWT Hydro Corporation, the NWT Housing Corporation, and the Yellowknife Catholic Schools will total \$226 million. After adding the projected \$35 million in other instruments included under the definition of borrowing for the purposes of the borrowing limit, borrowing is expected to be \$714 million at March 31, 2016, leaving \$86 million in available borrowing room under the borrowing limit.

Revenues

Revenue Forecast

Total revenues are forecast to decrease \$11 million to \$1.83 billion from the 2014-15 revised Estimates to the 2015-16 Main Estimates, representing a 0.6 per cent decline. The Territorial Formula Financing Grant, which continues to make up the majority of GNWT revenues, will increase 2 per cent, or \$24 million, in 2015-16. Other transfers are forecast to fall by \$51 million primarily because of the completion of federal funding for devolution implementation.

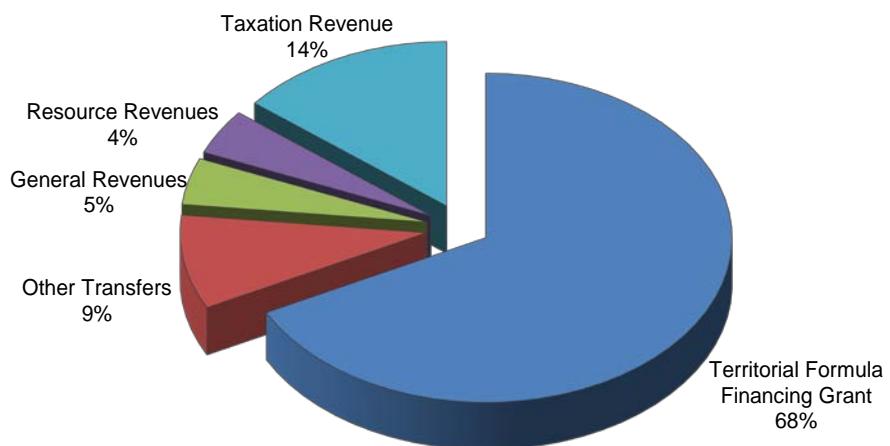
GNWT own-source revenues are expected to account for 23 per cent of total revenues in 2015-16. Tax revenues are expected to increase 5.3 per cent due mainly to a forecasted increase in corporate income tax. The remainder of own-source revenues are expected to remain broadly stable.

Revenue Initiatives

No new taxes are included in the 2015-16 Budget.

In keeping with the existing indexation policy, property tax mill rates and a number of fees will be adjusted for inflation, effective April 1, 2015. This move is in line with the GNWT's policy of indexing tobacco and property tax rates, liquor mark-ups, and fees, where practicable. Tobacco tax rates and liquor mark-ups will remain the same due to concern that these are already among the highest of all provinces and territories, and that further increases at this time could pose challenges to enforcement.

2015-16 Revenues by Source

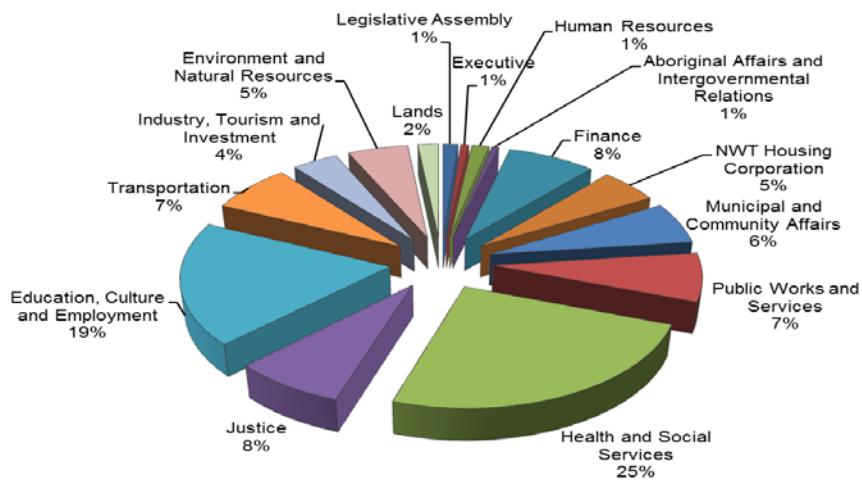


Operating Expenditures

The 2015-16 Budget proposes \$1.648 billion in operating expenditures, of which \$930 million is budgeted for social programs such as education, health care, social services, housing, policing and corrections.

Operating expenditures are forecast to increase \$35 million from 2014-15 Main Estimates. Increased costs within existing programs (forced growth) and other adjustments are budgeted at \$46 million. These costs are partially offset by \$23 million in sunsetted programs and \$12.6 million in reductions to department budgets. Also included is \$24.2 million in new initiatives.

2015-16 Operations Expenditures by Department



Initiatives

During the first three years of the 17th Assembly, the GNWT engaged in a collaborative effort with stakeholders to develop strategies aimed at improving the well-being of NWT residents, reducing the cost of living, and growing the NWT economy. Almost \$123 million was invested in new initiatives over the first three years of this Assembly, including the \$33.8 million multi-year funding to the NWT Power Corporation to allow a phase-in of power rate increases and \$20 million in one-time funding to offset the increase power costs caused by more diesel generation due to low water in the Snare River hydro system.

The 2015-16 Budget provides for \$24.2 million in new initiatives through both new funds and re-profiled funds from existing department budgets. This will bring total new on-going and one-time funding over the life of the 17th Legislative Assembly to \$147 million.

Investing in People

By the end of the 17th Legislative Assembly, \$19.3 million will have been invested in new initiatives to support the strategic goal of healthy, educated people free from poverty, including actions under several frameworks developed in collaboration with stakeholders, such as the *NWT Anti-Poverty Strategic Framework*, the *Mental Health and Addictions Action Plan*, and the *Early Childhood Development Framework*. The 2015-16 Budget provides \$4.9 million in funding for actions in support of improving health and well-being, consisting of the following initiatives:

- \$1.12 million to support the *Early Childhood Development Action Plan*, including \$391,000 to increase wages and training for early childhood program staff in a number of communities, and \$729,000 for six Regional Early Intervention Coordinators to provide a community-based early intervention service delivery to improve the care of youngsters.
- \$1.01 million to support the midwifery program.

- \$618,000 for direct care supports in three facilities: the 29-bed Aven Manor in Yellowknife; the 18-bed Elders Care Home in Fort Simpson; and the 28-bed Northern Lights Special Care Home in Fort Smith.
- \$432,000 for a pilot project in Yellowknife and Inuvik to establish a unit that can integrate cases, especially cases of people with complex needs, across three departments and the NWT Housing Corporation.
- \$646,000 for five regional employment officers to ensure that long-term employable income assistance clients are supported to gain permanent employment.
- \$1.1 million for specialized courts, including funding to hire six new staff positions: a Manager of Specialized Courts, a Program/Research Analyst, two Case Managers, a Psychologist and a Program Assistant and \$236,000 to determine the feasibility and possible implementation of a specialized Wellness Court.
- \$8,000 to promote treatment options and prevention for mental health and addictions.
- \$5,000 for continued treatment options under the renal care program of northern Alberta.

Investing in People (*thousands of dollars*)

	2012-13	2013-14	2014-15	2015-16	TOTAL
Early childhood education and care - wages and training		511	391	902	
Regional Early Intervention Coordinators			729	729	
Expansion of the Midwifery program	449	515	1,006	1,970	
Long-term Care Facility Staffing Increase	1,129		618	1,747	
Integrated Case Management pilot program		895	432	1,327	
Establishment of 5 Regional Employment Service Officers			646	646	
Specialized Wellness Court	305	1,108		1,413	
Mental Health and Addictions Prevention and Promotion	1,145		8	1,153	
Dialysis Services - Northern Alberta Renal Program	229		5	234	
Youth Officer- Behchokò		129		129	
Day shelter funding		150		150	
Coordination and stakeholder engagement		223		223	
NGO and Aboriginal government initiatives		500		500	
Children and Youth Resiliency Program		500		500	
“Hard to House” units in non-market communities		680		680	
Territorial On-The-Land Treatment Program		900		900	
Healthy food for children and youth		1,000		1,000	
Outreach and Healthy Family Programs		1,520		1,520	
Vaccination Program for Children	142			142	
RCMP and Victims Services Program Funding in Tulita	247			247	
New Public Housing Rent Scale	1,000			1,000	
New Rent Supplement Program for Market Rentals	1,173			1,173	
Community Safety Strategy Implementation	148			148	
RCMP Contract for Managing Impacts of Development	128			128	
Family Violence Action Plan - RCMP Coordinator	137			137	
Child and Family Services Committees	500			500	
Office of the Children’s Lawyer	150			150	
	3,236	3,341	7,828	4,943	19,348

Investing in the Economy

Budget 2015-16 continues actions to build a diversified economy that will provide all communities and regions with opportunities for resident employment and business success. These actions will complement the \$11.8 million in new initiatives from previous 17th Assembly budgets to strengthen regional economies and implement actions identified in the *Economic Opportunity Strategy* and the *Mineral Development Strategy*. The \$33.8 million multi-year funding to ease the transition to higher electricity rates and the \$20 million to subsidize rate payers for higher diesel generation costs in 2014 are included as actions to reduce the cost of living, bringing total economic investments over the life of the 17th Legislative Assembly to \$71 million. Budget 2015-16 proposes the following \$5.2 million in new initiatives to grow the economy.

- \$1.0 million in funding to support hosting the 2018 Arctic Winter Games in a community, or group of communities, outside of Yellowknife.

Investing in the Economy (thousands of dollars)

	2012-13	2013-14	2014-15	2015-16	TOTAL
<i>Supporting Economic Diversification & Growth</i>					
Support to Host the 2018 Arctic Winter Games				1,000	1,000
Increased Tourism Industry Marketing Contribution	600			600	
Mackenzie Valley Fibre Optic Link Project (Capital)		7,000			7,000
Hosting of Internal Trade Ministers Meeting	100				100
<i>Initiatives under the Economic Opportunities Strategy</i>					
Film Industry Pilot Rebate Program	100	100	200		
Business Internship Program	100	100	200		
Development of Regional Economic Plans	150	200	350		
Development of an agriculture strategy	150	100	250		
NWT commercial fishing industry support	200	1,500	1,700		
Tourism promotion and training initiatives	461	261	722		
Convention Bureau		100	100		
Community Tourism Infrastructure			100	100	
New Economic Development Strategy	397			397	
<i>Initiatives under the Mineral Development Strategy</i>					
Mineral Development Strategy and Action Plan	643			643	
Geoscience career training		300	300		
Support for Aboriginal engagement and participation	100	100	200		
NWT business supply opportunities	152	149	301		
Promotion of NWT mineral exploration and development	200	140	340		
Improved geoscience information and research	655	650	1,305		
Creation of NWT Mining Incentive Program	400	400	800		
Mining workforce development and training	162		162		
Slave Geologic Province Corridor Access Study		200	200		
Maximizing Northern Residency from Mining	100			100	
<i>Reducing the Cost of Living</i>					
Phase in of NTPC rate increases	17,600	11,400	24,800	-	53,800
	18,840	19,000	27,830	5,200	70,870

- \$2.46 million for initiatives to support the *Economic Opportunities Strategy*, including the establishment of a convention bureau, funding for the agriculture strategy, a film industry pilot project, a business internship, and support for the commercial fishing industry.
- \$1.74 million in support of measures under the *Mineral Development Strategy*, including funding for the Geoscience Field Assistant Training Program and a geoscience career liaison coordinator and the hiring of a geophysicist, a surficial geologist and a northern mining business development officer and support for incentive programs for exploration, scientific resource deficits, and coordination between industrial market segments.

Supporting our Environment

Budget 2015-16 continues support for environmental stewardship to ensure an environment that will sustain present and future generations with \$1.27 million in new initiatives including:

- \$577,000 to take over the operation of the Taiga Environmental Laboratory. These added costs are expected to be partially offset by the revenues that will be received from the facility's operations.
- \$694,000 to establish the Western Arctic Centre for Geomatics in Inuvik - a three staff office that will provide geomatics services such as remote sensing and research support.

Support for Environmental Stewardship (*thousands of dollars*)

	2012-13	2013-14	2014-15	2015-16	TOTAL
Taiga Environmental Laboratory				577	577
Western Arctic Centre for Geomatics				694	694
<i>Water Stewardship Strategy Action Plan</i>	905				905
Water Monitoring	100				100
	1,005	-	-	1,271	2,276

Investing in Energy

The 2015-16 Budget adds \$4 million in continuing initiatives to reduce the territory's reliance on non-renewable energy sources, with objectives to lower the cost of living and reduce NWT greenhouse gas emissions, including:

- \$700,000 to the NWT Housing Corporation to install solar panels on 30 public housing units in six communities to supply energy for the mechanical and electrical systems.
- \$500,000 for a photovoltaic electricity generation project in Colville Lake. The solar panels will be integrated with a new diesel plant, battery system, and wind turbine to diversify the power generation sources and improve overall system reliability.
- \$450,000 to promote community biomass energy projects and project evaluation of biomass projects.
- \$400,000 in additional funding to support the continued presence of Arctic Energy Alliance regional energy advisors in the Beaufort Delta, Sahtu, Tłı̨chǫ, South Slave and Deh Cho regions, bringing the total funding to \$1.13 million per year.

- \$400,000 to convert all existing high pressure sodium streetlights in NTPC thermal communities to more efficient light emitting diode (LED) streetlights.
- \$300,000 to fund the Hot Water Heater Replacement program, which is designed to replace domestic electric hot-water heaters with oil- or propane-fired heaters in non-hydro communities to reduce operating costs and increase overall energy efficiency.
- \$200,000 for energy efficiency programs, including enhancements to current activities and efforts at commercial energy conservation and to provide businesses with capital funding to become more energy efficient.
- \$325,000 for liquefied natural gas (LNG) initiatives, including \$175,000 to fund a feasibility study for a plant in Yellowknife that could potentially supply electricity to mines in the North Slave region while maintaining sufficient redundancy within the existing Snare River hydroelectricity system, and \$150,000 to extend work completed to date in Fort Simpson by studying the feasibility of an LNG facility in one of three candidate communities: Fort Liard, Fort MacPherson and Tuktoyaktuk.
- \$175,000 to test the feasibility of large-scale wind-generated power in either the Storm Hills, 50 km north of Inuvik, or at a location closer to Inuvik where electrical output would be lower but capital costs cheaper. Wind-monitoring stations at Storm Hills have established the existence of world-class winds.
- \$125,000 to advance solar energy smart grid technology in communities by monitoring load profiles to develop a load control system that more efficiently uses diesel fuel and increases the use of renewable energy.
- \$100,000 in additional funds to support the Alternative Energy Technology program, which provides up to one-half of the project cost for biomass and other alternative energy projects.
- \$100,000 for the Energy Efficiency Incentive Program to help address up-front cost barriers faced by consumers to become more energy efficient.
- \$100,000 to study the feasibility of installing an organic Rankine cycle generator in one of the thermal communities to use the residual heat from a power plant for more electrical generation.
- \$50,000 to continue gathering hydrometric data on the Kakisa River to better understand its hydrology and hydro-generation potential. The hydrometric station was installed in 2013 and the continued funding will provide two years of data.
- \$50,000 for the NWT Wind Monitoring Program administered by Aurora Research Institute for projects in Yellowknife, Inuvik, Colville Lake and one other location to be determined.
- \$15,000 for the Electric Vehicle Demonstration project as a follow-up project to the Electric Vehicle Update published by the Arctic Energy Alliance in 2013. This project will determine the demand for electric vehicles and which models of electric vehicles will function properly and efficiently in the NWT.

Improving Energy Conservation and Promoting Alternative Sources of Energy
(thousands of dollars)

	2012-13	2013-14	2014-15	2015-16	TOTAL
Energy efficiency upgrades for public housing	700	700	700	700	2,800
Photovoltaic Electricity Generation in Colville Lake				500	500
Biomass project funding, promotion and evaluation		400	450	450	1,300
Arctic Energy Alliance: core funding for regional advisors	200	125	400	400	1,125
LED Streetlight Conversion Project				400	400
Hot Water Heater Replacement Program				300	300
Commercial Energy Conservation and Efficiency Program	200	200	200	200	800
Liquid natural gas conversion feasibility study			150	175	325
Storm Hills Wind Feasibility				175	175
Natural Gas Conversion Project				150	150
Smart grid pilot project		125	125	125	375
Alternative Energy Technology Program		100	100	100	300
Energy Efficiency Incentive Program	150	100	100	100	450
Electricity from Residual Heat				100	100
Water monitoring for hydro potential		50	50	50	150
Wind energy project development			100	50	150
Electric vehicle demonstration project			15	15	30
<i>Greenhouse Gas Strategy</i>	200	200			400
Great Bear River Mini-Hydro project pre-feasibility			200		200
Solar PV electricity generation installation		250	500		750
NT Energy Corp. core funding	700	700	700		2,100
Whati connection to hydro: costing and design		250	1,400		1,650
Community Scale Wind Demonstration Project		100			100
Liquid Natural Gas Solutions for Inuvik		100			100
<i>Biomass Energy Strategy</i>	100				100
Electric Boiler System (Fort Smith)	400				400
Infrastructure climate change impacts research	142				142
Medium/Long-term Energy Options for Inuvik	100				100
NWT Energy Plan Renewal	150				150
Regional Hydro and Renewable Energy Solutions	100				100
Short-term Biomass Options for Inuvik	100				100
Wood Pellet Boiler (Fort Providence)	450				450
	3,492	3,400	5,390	3,990	16,272

Devolution Implementation

On April 1, 2014 the GNWT took over responsibility for the management of NWT lands, waters, and resources. The 2014-15 Budget included a \$67 million adjustment to the Gross Expenditure Base in the Territorial Formula Financing Grant revenue to administer the programs and services transferred from the federal government and \$59 million in spending to assume the responsibilities and duties under the Devolution Agreement, including creation of a Lands Department and new responsibilities for the departments of Environment and Natural Resources and Industry, Tourism and Investment. A \$10 million reserve was set aside for other devolution expenditures that may arise.

The 2015-16 Budget adds \$3.34 million to complete devolution implementation and to fund activities necessary to deliver new resource management program responsibilities that were not identified in the initial implementation process including:

- \$1.15 million to address the impact of final devolution implementation actions on regular department budgets.
- \$1.0 million to establish a new Liabilities and Financial Assurances Division and coordinate management of financial securities for resource developments to ensure that companies will meet their obligations for the closure and reclamation of disturbed sites.
- \$400,000 in additional funding for diamond valuation services for the collection of diamond royalties in accordance with the *NWT Mining Regulations*.
- \$220,000 for continued funding of the Office of the Oil and Gas Regulator in the Department of Industry, Tourism and Investment.
- \$151,000 to hire a coordinator for the administration of the *Mackenzie Valley Resource Management Act*.
- \$143,000 to establish a lands and resources specialist position within the Department of Industry, Tourism and Investment
- \$133,000 to hire an additional resource management officer in the Lands Department.
- \$139,000 to hire a legislation advisor in the Department of Lands.

Devolution Implementation* (thousands of dollars)

	2012-13	2013-14	2014-15	2015-16	TOTAL
Devolution Negotiations	1,964				1,964
Devolution Implementation Activities	6,071	6,071	1,151	13,293	
Lands and Financial Assurances Division			1,006	1,006	
Diamond Valuation Service Contract			400	400	
Office of the Oil and Gas Regulator			220	220	
Mackenzie Valley Resource Management Act Coordinator			151	151	
Lands and Resources Specialist			143	143	
Resource Management Officer (Lands)			133	133	
Legal Advisor (Lands)			139	139	
Funding for Aboriginal Government Participation	1,266				1,266
	9,301	6,071	-	3,343	18,715

**Does not include funding included in the 2014-15 Budget or through 2014-15 supplemental appropriations.*

Investing to Enhance Service Delivery

By the end of the 17th Legislative Assembly, \$19.6 million will have been directed to improving program efficiency and effectiveness in order to improve the outcomes for residents and businesses in their dealings with the territorial government. The 2015-16 Budget continues these efforts with a total of \$5.6 million in new or continued actions including:

- \$2.47 million to enhance the delivery of French language services and communications.
- \$1.54 million to upgrade regional Health and Social Services Authorities' computer systems and to integrate these systems with an Information Systems Service Centre that will administer and support enterprise-wide health services application systems.
- \$813,000 for decentralization actions including costs associated with moving the Territorial Parks Office from Yellowknife to Hay River and tenant improvements.
- \$268,000 to the Department of Municipal and Community Affairs to hire a Policy Officer and Community Planner.
- \$210,000 for the consolidation of energy functions in the Department of Public Works and Services.
- \$85,000 to build a geological collections storage facility.
- \$83,000 to fund the *Biology Casework Analysis Agreement*.

Enhancing Service Delivery (thousands of dollars)

	2012-13	2013-14	2014-15	2015-16	TOTAL
Improving French Program and Service Delivery	150		2,470	2,620	
IT/ISS Shared Services for Health Authorities		391	1,540	1,931	
Decentralization Initiatives			813	813	
Policy Officer and a Community Planner (MACA)			268	268	
Consolidation of Energy Functions in PWS			210	210	
Geological Collections Storage Facility			85	85	
Biology Casework Analysis Agreement			83	83	
Final Phase of Procurement Shared Services			47	47	
Territorial Support Network for Medical Evacuations and Travel	472		29	501	
Electronic Medical Records Implementation	489		14	503	
Building Clinical Governance Capacity	550		12	562	
Ground ambulance and highway rescue services support		350		350	
Personal support worker training for long-term care facility		604		604	
Increase funding under the existing Housing for Staff program		783		783	
Med-Response service for medical evacuations and travel		790		790	
Jimmy Erasmus Seniors' Home		1,400		1,400	
Service shortfall funding resulting from termination of THSSI		7,204	40	7,244	
Development of Energy Investment Decision Framework	100			100	
Aboriginal Consultation Unit	50			50	
Land Administration Survey Program	185			185	
Regional Operations of Land Administration Program	462			462	
	847	1,611	11,522	5,611	19,591

- \$47,000 to complete implementation of Procurement Shared Services within the GNWT.
- \$40,000 to compensate for lost funding under the federal Territorial Health System Sustainability Initiative (THISSI).
- \$29,000 for a Medevac Triage and Afterhours Pilot Project under the Territorial Support Network (TSN). The TSN provides practitioner-to-practitioner distance support for life-dependent emergency medical evacuation triage and coordination services and remote emergency care support services for healthcare providers on a continuous basis.
- \$14,000 in additional funds for the continued roll-out of electronic medical records.
- \$12,000 for enhanced clinical governance standards and monitoring to ensure health care best practices.

Infrastructure

The 2015-16 capital budget, approved in November 2014, provides for investments of \$249 million in infrastructure and \$28 million in infrastructure contributions to communities. Included in the 2015-16 Main Estimates is \$36 million in housing investments to be delivered through the NWT Housing Corporation (NWT HC). Including the proposed housing investment through NWT HC, the total planned infrastructure investment in 2015-16 will be \$314 million.

This plan represents the second year of a two-year increase to the capital plan of \$50 million per year. Although this short-term increase will help to address some critical infrastructure priorities, the GNWT will continue to have a significant infrastructure deficit.

Major highlights of the 2015-16 infrastructure plan include:

- \$108 million for highways and winter roads. This includes funding for the Inuvik-Tuktoyaktuk Highway that is partially funded by the federal government;
- \$84 million for health facility replacements, renovations and information system upgrades, including funding required for the renovation of the Stanton Territorial Hospital;
- \$28 million in Formula Funding for community infrastructure;
- \$15 million for small capital projects across all departments;
- \$7 million to begin replacing the air tanker fleet that supports forest fire operations;
- \$6 million for information technology projects;
- \$3 million to continue the Capital Asset Retrofit Program for energy efficiency upgrades to GNWT buildings, including the installation of biomass heating systems; and
- \$2.5 million for improvements to NWT parks.

The GNWT has concluded an agreement with the federal government that will provide \$258 million over 10 years under the New Build Canada Agreement in infrastructure. A request for a supplementary appropriation to include the first bundle of New Building Canada Plan projects in the 2015-16 *Infrastructure Acquisition Plan* will be made in the February-March 2015 session.

Medium-Term Outlook

Over the four-year period from 2015-16 to 2019-20, total revenues are projected to grow 0.4 per cent, or about 0.1 per cent annually, while expenditures are forecast to grow 8.4 per cent, or about 2.1 per cent per year. Expenditure growth is based on assuming forced growth (increased costs for existing programs and services) of 1.5 per cent annually, no new initiatives unless found through re-profiling funds from existing department budgets, and an annual capital budget of \$75 million.

Under current fiscal projections and capital investment plans, the GNWT will not be able to sustain the \$100 million cushion below the \$800 million borrowing limit because smaller operating surpluses will result in more short-term borrowing.

Increasing revenues will be challenging. NWT economic activity is only four-fifths of what it was in 2007 because resource production is declining and business capital investment is significantly lower. Lower levels of economic activity are the main reason for the NWT's flat population growth since 2004.

About two-thirds of GNWT revenues come from Territorial Formula Financing Grant, which is outside the ability of the GNWT to influence. The GNWT's Territorial Formula Financing entitlement is projected to increase about 0.3 per cent annually over the next four years, due to assumptions about provincial/local government spending and NWT population growth rates, which are the main variables that determine its growth. Both the provinces' attempts to return to balanced budgets through reduced spending, and a stagnant, or declining, NWT population will slow the growth in Territorial Formula Financing, and therefore in total revenues.

To address the need for economic growth, the GNWT has put in place a number of strategies to help create the environment for a more robust and vibrant economy; setting a target to increase the NWT population by 2,000 people by the year 2019. As well, the GNWT will continue to 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 of infrastructure in growing the NWT economy.

Actions to increase revenues, however, are a long-term strategy. To maintain fiscal sustainability over the medium term will require more actions on the expenditure side. The fiscal strategy has been to keep expenditure growth below revenue growth in order to increase operating surpluses to pay down debt and to make more capital investments. Based on current revenue forecasts, maintaining expenditure growth in line with flat revenue growth will require reductions to existing programs and services in future budgets.

Medium-Term Outlook (\$ millions)

	2013-14 (Actuals)	2014-15 (Forecast)	2015-16 (Forecast)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)	2019-20 (Forecast)
OPERATING SUMMARY							
Total Revenues	1,632	1,837	1,827	1,820	1,885	1,858	1,835
Total Expenditures ¹	(1,538)	(1,727)	(1,680)	(1,699)	(1,733)	(1,760)	(1,822)
Operating Surplus (deficit)	94	109	147	121	152	98	13
CAPITAL INVESTMENT							
	185	234	235	204	155	124	117
TOTAL (DEBT) AT MARCH 31							
Cash Surplus (Deficit) at year end	(158)	(287)	(272)	(281)	(250)	(172)	(121)
Long Term Debt and Guaranteed Debt ²	(444)	(443)	(442)	(520)	(510)	(500)	(638)
Total (Debt) at March 31	(602)	(730)	(714)	(801)	(760)	(672)	(759)
BORROWING LIMIT							
	800	800	800	800	800	800	800
AVAILABLE BORROWING CAPACITY							
	198	70	86	(1)	40	128	41

¹ Includes infrastructure contributions.

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

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

Risks to Fiscal Outlook

Debt risk is currently considered insignificant because debt servicing costs absorbs less than one per cent of total revenues due to a relatively low overall debt burden and low current interest rates.

However, a number of other fiscal risks exist for the GNWT:

- The dependence of the NWT economy on resource industries - although the public sector is the single largest factor in the NWT's economy, the resource industries are also significant. Activity in the resource sector is highly variable and the economic effects and implications for GNWT revenues can vary significantly from year to year. Resource sector activity has implications for long-term economic growth and own-source revenue volatility for the GNWT.
- Revenue volatility - historically, corporate income tax has been the GNWT's most volatile own-source revenue but the Territorial Formula Financing Grant is responsive over time to changes in corporate income tax revenues. As of April 1, 2014, the GNWT collects resource revenues, which also can be volatile and the variability in resource revenues will not be offset through Territorial Formula Financing because resource revenues are outside of the formula. Resource revenues are very sensitive to commodity price swings, exchange rate fluctuations, and operational decisions made by the resource developers, which makes resource revenue forecasting challenging. The risk to the operating budget

of large resource revenue shocks is largely neutralized by the GNWT's commitment not to spend resource revenues on operations, but rather only on contributions to the Heritage Fund, debt repayment and infrastructure.

- Slowing revenue growth - the Territorial Formula Financing Grant is two-thirds of total revenues, affording considerable year-to-year stability to the budget. However, growth in the Grant relies heavily on NWT population growth relative to Canada's and provincial/local government spending. Flat population growth, or declines, as in 2014, and further provincial and local government fiscal austerity measures will cause growth in the Territorial Formula Financing Grant to decrease.
- On-going operating expenditure pressures - constant pressure exists to enhance current programs and to implement new initiatives while not reducing existing program and service expenditures. Although the GNWT has made steady progress in reducing the rate of growth in program spending, continued efforts will be necessary to ensure that the expenditure growth matches revenue growth or the budgetary position could deteriorate.
- Unexpected expenditures and capital project cost overruns - operating expenditure shocks are usually unexpected events such as extraordinary fire suppression needs or other natural disasters. With the undertaking of large capital projects, the risk of capital cost over-runs that may have an impact on the fiscal framework is heightened.

Summary of Operations

	(thousands of dollars)			
	2015-2016 Main Estimates	2014-2015 Revised Estimates	2014-2015 Main Estimates	2013-2014 Actuals
REVENUES	1,826,794	1,837,716	1,845,501	1,631,779
OPERATIONS EXPENSE				
Compensation and Benefits	376,235	360,370	351,872	320,883
Grants, Contributions and Transfers	762,611	770,142	750,665	691,751
Amortization	80,990	80,874	85,233	77,019
Chargebacks	18,070	17,910	17,826	17,070
Computer Hardware and Software	5,905	6,186	6,080	7,436
Contract Services	209,418	249,793	210,418	193,235
Controllable Assets	4,016	3,992	3,971	4,376
Fees and Payments	82,818	82,508	82,501	90,418
Interest	11,604	13,153	13,153	10,570
Loss on Sale of Assets	-	-	-	306
Materials and Supplies	19,702	25,534	19,484	20,659
Purchased Services	14,164	13,907	12,352	12,802
Travel	19,779	27,175	20,062	17,832
Utilities	39,739	40,218	36,836	38,719
Valuation Allowances	2,469	2,469	2,469	2,963
TOTAL OPERATIONS EXPENSE TO BE VOTED	1,647,520	1,694,231	1,612,922	1,506,039
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS				
Infrastructure Contributions	(28,463)	(33,906)	(29,263)	(31,444)
Deferred Maintenance	(4,149)	(3,400)	(3,400)	-
Petroleum Products Stabilization Fund net profit (loss)	64	454	178	(284)
Supplementary Reserve	(30,000)	(18,000)	(30,000)	-
Estimated Appropriation Lapses	30,000	20,000	30,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	76,560	83,913	50,654	60,649
Expenditures	(76,560)	(83,913)	(50,654)	(60,649)
OPERATING SURPLUS FOR THE YEAR	146,726	108,633	200,094	94,012
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,272,101	1,163,468	877,342	1,069,456
ACCUMULATED SURPLUS, END OF YEAR	1,418,827	1,272,101	1,077,436	1,163,468

Summary of Revenues

	(thousands of dollars)			
	2015-2016	2014-2015	2014-2015	2013-2014
	Main Estimates	Revised Estimates	Main Estimates	Actuals
GRANT FROM CANADA	1,232,755	1,208,840	1,208,840	1,121,244
TRANSFER PAYMENTS	168,796	220,088	164,902	131,682
TAXATION REVENUE				
Personal Income Tax	108,379	107,873	104,862	89,451
Corporate Income Tax	40,640	29,020	53,119	81,256
Tobacco Tax	15,811	15,952	15,826	15,683
Fuel Tax	18,817	18,658	18,890	18,514
Payroll Tax	42,743	41,987	45,206	41,245
Property Taxes and School Levies	28,797	28,780	27,885	27,866
Basic Insurance Premium Tax	4,600	4,500	4,500	4,329
Fire Insurance Premium Tax	480	460	460	316
	260,267	247,230	270,748	278,660
Non-renewable Resource Revenue				
Minerals, Oil and Gas Royalties	78,940	78,903	120,000	-
Licences, Rental and Other Fees	2,283	1,385	1,730	-
Quarry Fees	-	-	-	58
	81,223	80,288	121,730	58
GENERAL REVENUES				
Revolving Funds Net Revenue	26,936	24,720	25,372	24,124
Regulatory Revenues	21,816	21,427	21,316	22,255
Investment Income	1,140	1,130	1,130	11,577
Lease	5,203	5,368	5,368	4,766
Program	24,381	24,325	21,790	28,893
Grants in kind	593	593	593	593
Service and miscellaneous	684	707	712	772
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	7,155
	83,753	81,270	79,281	100,135
TOTAL REVENUES	1,826,794	1,837,716	1,845,501	1,631,779

Summary of Operations Expenditures by Department

	(thousands of dollars)			
	2015-2016 Main	2014-2015	2014-2015 Main	2013-2014
	Estimates	Revised Estimates	Estimates	Actuals
Legislative Assembly	21,175	19,013	18,989	18,656
Aboriginal Affairs and Intergovernmental Relations	9,340	9,236	9,230	8,192
Education, Culture and Employment	309,786	305,842	305,599	294,837
Environment and Natural Resources	85,981	133,823	86,093	81,549
Executive	11,335	22,135	11,178	23,825
Finance	211,262	230,499	210,630	175,251
Health and Social Services	406,886	392,509	391,929	390,978
Human Resources	24,324	23,766	23,636	19,474
Industry, Tourism and Investment	65,677	62,585	62,215	44,515
Justice	128,797	125,606	124,955	118,676
Lands	29,268	28,084	26,830	-
Municipal and Community Affairs	103,477	99,829	99,801	98,294
Public Works and Services	120,750	119,153	115,676	111,671
Transportation	119,462	122,151	126,161	120,121
TOTAL OPERATIONS EXPENDITURES	1,647,520	1,694,231	1,612,922	1,506,039

Summary of Infrastructure Investment by Department

	(thousands of dollars)			
	2015-2016 Capital Estimates	2014-2015 Revised Estimates	2014-2015 Capital Estimates	2013-2014 Actuals
Tangible Capital Assets				
Legislative Assembly	150	657	329	46
Education, Culture and Employment	5,796	5,782	2,479	7,416
Environment and Natural Resources	11,343	3,079	2,235	1,972
Finance	210	1,031	450	19
Health and Social Services	83,606	88,599	60,488	37,121
Human Resources	440	441	441	393
Industry, Tourism and Investment	2,575	4,865	2,640	1,594
Justice	17,166	4,839	4,088	508
Public Works and Services	12,525	29,720	26,505	23,161
Transportation	111,489	146,372	90,400	120,942
	245,300	285,385	190,055	193,172
Infrastructure Contributions				
Municipal and Community Affairs	28,002	32,376	28,002	29,529
Education, Culture and Employment	461	1,530	1,261	1,915
	28,463	33,906	29,263	31,444
Deferred Maintenance				
Education, Culture and Employment	300	-	-	-
Health and Social Services	789	1,400	1,400	-
Justice	620	-	-	-
Public Works and Services	2,000	2,000	2,000	-
Transportation	440	-	-	-
	4,149	3,400	3,400	-
Total Capital Estimates	277,912	322,691	222,718	224,616

Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2015-2016 Main Estimates	2014-2015 Revised Estimates	2014-2015 Main Estimates	2013-2014 Actuals
SHORT TERM DEBT				
GNWT short-term loans	272,000	287,000	235,509	158,298
GNWT bank overdraft	-	-	-	-
NWT Hydro Corporation	31,000	24,000	5,000	16,362
	303,000	311,000	240,509	174,660
GNWT LONG TERM DEBT				
Deh Cho Bridge - Real Return Bonds	180,023	179,280	179,241	179,264
Canada Mortgage and Housing Corporation	668	737	737	802
PUBLIC AGENCY DEBT				
NWT Hydro Corporation	183,735	186,305	186,306	188,748
NWT Housing Corporation	10,045	10,862	10,862	11,633
Yellowknife Catholic Schools	1,599	2,302	2,313	2,965
TOTAL DEBT	679,070	690,486	619,968	558,072
OBLIGATIONS UNDER CAPITAL LEASES				
GNWT	1,298	1,637	1,637	1,960
NWT Housing Corporation	52	282	602	1,216
Other public agencies	-	-	-	-
NWT Hydro Corporation	19,719	20,600	18,821	21,464
LOAN GUARANTEES				
GNWT	-	-	-	-
NWT Business Development and Investment Corp.	-	-	-	-
Other public agencies	250	250	-	250
NWT Housing Corporation	21,881	23,997	24,734	25,619
TOTAL GROSS BORROWING PER BORROWING REGULATIONS	722,270	737,252	665,762	608,581
LESS:				
EXTERNALLY RESTRICTED SINKING FUNDS				
NWT Power Corporation	(8,117)	(7,207)	(7,419)	(6,513)
TERRITORIAL BORROWING	714,153	730,045	658,343	602,068
TERRITORIAL BORROWING LIMIT	800,000	800,000	800,000	800,000
AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES	85,847	69,955	141,657	197,932

PROVINCIAL/ TERRITORIAL TAX RATES AS AT JANUARY 21, 2015

	Combined Top Marginal						Corporate Income Tax		Capital Tax on Financial Institutions
	Personal Income Tax ^(a) (%)	Retail Sales Tax (%)	Fuel Tax ^(b)		Tobacco Tax ^(c) (\$/carton)	Payroll Tax ^(d) (%)	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	-	3.0	15.0	-
British Columbia	45.80	7.0	21.17	22.67	47.80	-	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	27.95	1.95	4.5	11.5	-
Quebec	49.97	9.975	19.20	20.20	29.80	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	47.00	2.00	3.0	14.0	4.0
Weighted average ^(e)	47.45	7.3	15.90	16.32	35.29	1.85	4.6	11.6	0.5

Notes:

(a) Combined federal-provincial/ territorial highest 2015 personal income tax rate and surtax.

(b) The NWT's off-highway gasoline tax rate is 6.4 cents/litre. British Columbia fuel tax rates include carbon tax, 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, 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 estimated at July 1, 2014.