

# **Budget Address**

## **2017 - 2018**

***NORTHWEST TERRITORIES***

**BUDGET PAPERS**

**B ♦ Fiscal Review**

**February 1, 2017**

## **ECONOMIC REVIEW**

### **Outlook**

The economic outlook for the Northwest Territories (NWT) is mixed. Real GDP was flat in 2016, growing only 0.2 per cent over 2015 but is forecast to increase 13.7 per cent in 2017. This forecast growth is driven largely by the first full year of commercial production at the Gahcho Kué diamond mine as well as increased carat production by the industry. These increases will offset declines in private-sector investments and reduced government spending.

The outlook for the NWT diamond industry is also mixed. All existing NWT diamond mines are set to close by 2034. The Diavik diamond mine is expected to close first with operations scheduled to stop in 2023. The Ekati diamond mine, with its investment in the Jay Pipe, is expected to extend its production life until 2034. Gahcho Kué has a planned mine life to 2030.

While diamond mine production is increasing in the immediate future, mineral exploration investments fell by one half from 2015 to 2016, putting into question the discovery and development of the next generation of NWT mines.

Public sector investments in projects such as Stanton Territorial Hospital and infrastructure linked to the federal Building Canada Funds will increase in the near term, contributing to a more diversified economic base. However, government investments will be dwarfed by a steep decline in mining industry investments, which in turn will have a negative impact on the construction and wholesale sectors.

The NWT economy competes in the global market, whether it is marketing diamonds or attracting tourists. Global financial conditions, currency movements, and global economic stability can directly impact the NWT economic outlook.

## NWT Economic Outlook

Indicator		2013	2014	2015	2016e	2017f
Gross Domestic Product	chained (2007) millions of dollars	3,612	3,803	3,854	3,861	4,389
	<i>per cent change</i>	2.9	5.3	1.3	0.2	13.7
Total Investment	chained (2007) millions of dollars	1,255	1,300	1,523	1,403	1,140
	<i>per cent change</i>	7.1	3.6	17.2	(7.9)	(18.7)
Household Expenditure	chained (2007) millions of dollars	1,372	1,392	1,418	1,431	1,450
	<i>per cent change</i>	1.7	1.5	1.9	0.9	1.3
Government Expenditure	chained (2007) millions of dollars	1,673	1,765	1,826	1,810	1,748
	<i>per cent change</i>	1.3	5.5	3.5	(0.9)	(3.4)
Exports	chained (2007) millions of dollars	2,519	2,672	2,616	2,678	3,345
	<i>per cent change</i>	2.8	6.1	(2.1)	2.4	24.9
Imports	chained (2007) millions of dollars	3,319	3,457	3,635	3,571	3,407
	<i>per cent change</i>	2.8	4.2	5.1	(1.8)	(4.6)
Employment (Resident)	number of persons	23,200	22,100	21,900	22,500	22,800
	<i>per cent change</i>	0.4	(4.7)	(0.9)	2.7	1.3
Average Weekly Earnings	dollars	1,340	1,398	1,421	1,405	1,441
	<i>per cent change</i>	1.6	4.3	1.7	(1.2)	2.6
CPI (All-Items), Yellowknife	2002=100	126.2	128.4	130.4	132.0	134.5
	<i>per cent change</i>	1.5	1.7	1.6	1.2	1.9

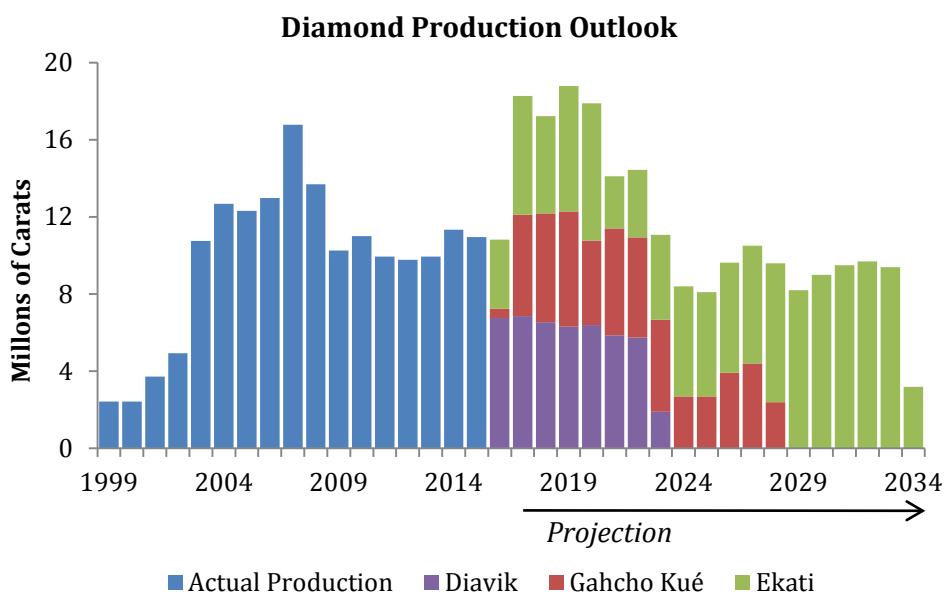
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Source: Statistics Canada and NWT Bureau of Statistics

## Outlook – Risks to the Forecast: Diamonds

The NWT economic outlook is based on future mineral development and the opening of new mines. Diamond mining drives the NWT economy, but mine plans for currently producing mines, and those expected to be submitted for environmental review and permitting, are all set to end production by 2034. Expansion of the mining industry depends on successful exploration programs to identify potential new mine projects, as well as the deposit appraisal and environmental review process to identify which potential new mine projects can be developed.



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

The final decision to construct new mines depends on a range of economic and financial factors, including global capital credit conditions, currencies, and prices. Indexed diamond prices for both rough and polished stones declined by between 5 and 10 percent from 2015 to 2016. Part of the decrease in rough diamond prices is because of the increase in the supply of diamonds as three new mines, Gahcho Kué in the Northwest Territories, Victor in Ontario and one in Lesotho, began production. Rough diamond prices are also declining because of lower polished diamond prices. The businesses selling polished diamonds are making reduced profits because of increased financing costs, currency volatility, and weak demand. As a result, the demand for rough diamonds has decreased, which also reduces the price for rough diamonds. The demand for polished diamonds is expected to increase as the economies of China and India improve, which should improve polished diamond prices.

Responding to the slump in prices, diamond companies took steps to rebalance the supply and demand for rough diamonds. The supply of rough diamonds delivered to the market was reduced through lower mine production and higher rough diamond inventories. Market demand for rough diamonds was stimulated by reducing prices. For example, DeBeers reduced its prices by 17 percent over the last two years.

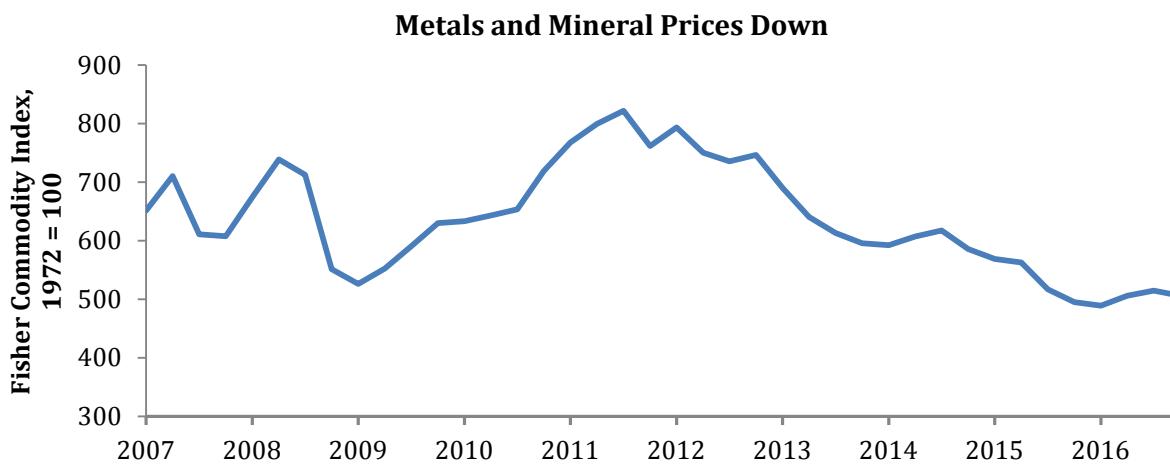
Despite the slide in prices last year, rough diamonds remain expensive relative to polished stones. This is because rough diamond prices have increased significantly faster over than past decade than

polished diamond prices. The spread between rough and polished stones has squeezed the profit margins of manufacturers, and point to potential future price pressures because many manufacturers have closed their businesses. NWT diamond mines produce rough diamonds, exporting them to manufacturers who cut, polish, and clean the stones, making the price spread a key risk to the NWT economic outlook.



### **Outlook – Risks to the Forecast: Mineral and Metal Prices**

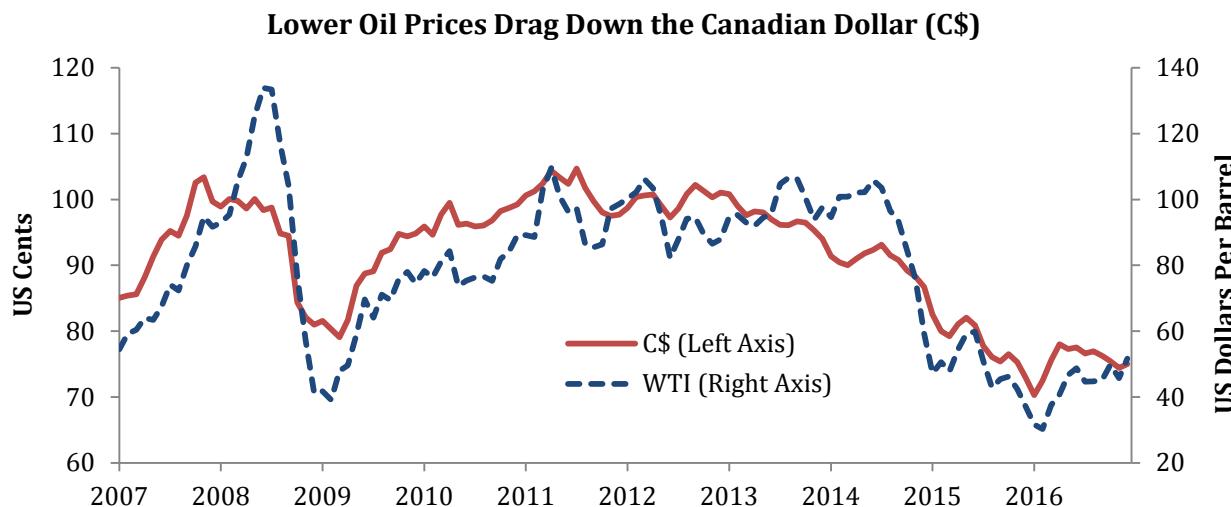
Global prices for other resource commodities, including many metals and minerals found in the NWT, have also declined. Indexed metals and minerals prices fell about 10 per cent from 2014 to 2015. In 2016, prices for some commodities are showing a slight rebound; for example, gold prices fell 8.4 per cent in 2015 but in recent months have strengthened. Despite this, continued overall flat growth in the global economy, and an economic slowdown in many emerging markets, suggest that metals and minerals prices may remain soft over the near term.



Low commodity prices have repercussions for the NWT economy, as exploration and development expenditures by the mining industry are driven by the expected value of future mine developments, which in turn is influenced by the expected price of the mineral or metal to be mined.

## Outlook – Risks to the Forecast: Oil Prices and the Exchange Rate

Oil prices fell sharply in the second half of 2014. The benchmark West Texas Intermediate (WTI) crude oil price fell over 40 per cent in less than six months. This trend reached a bottom of \$26.19US on February 11, 2016, and now appears to be reversing. By the end of 2016 WTI was trading above \$50US per barrel. Because the NWT exports a small amount of oil to international markets, the drop in oil prices will have a slight negative effect on NWT trade but has a serious negative effect on exploration activity in the Sahtu and Beaufort-Delta regions of the NWT. However, this impact will be offset by lower fuel costs for many businesses and households. A rebound in WTI price is not projected as increased global supply and slowing global demand over the near term are expected to continue putting downward pressure on oil prices.



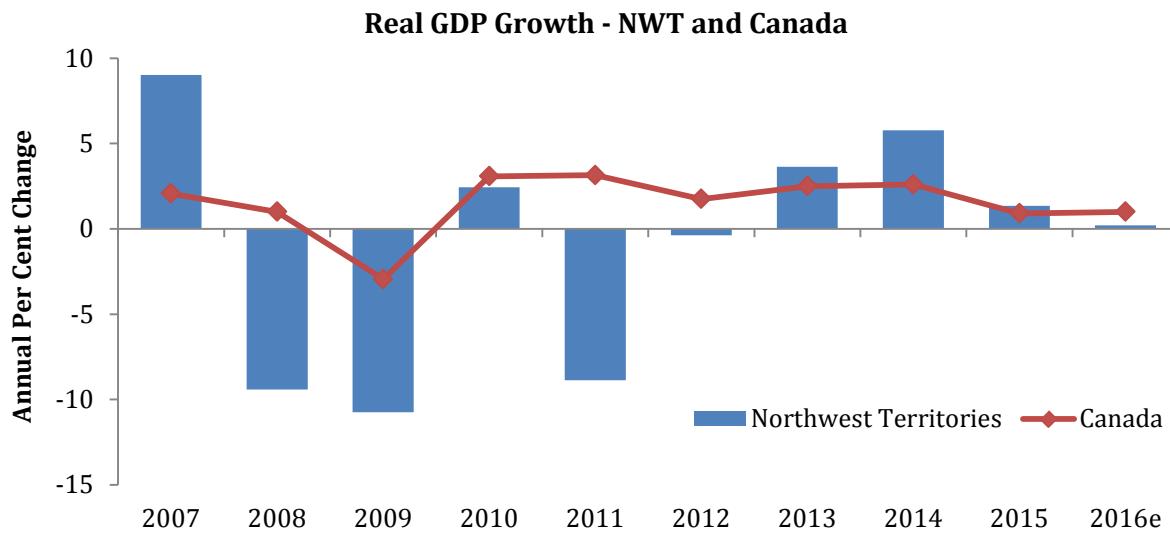
Source: US Energy Information Administration and Bank of Canada

As an oil-exporting country, the drop in global oil prices has lowered the Canadian dollar vis-à-vis the US dollar. The Canadian dollar averaged 75 US cents in 2016, down 4 per cent from 78 US cents in 2015 and down 17 per cent from 91 US cents in 2014. With oil prices expected to remain low, the Canadian dollar is likely to also remain low. At the beginning of 2017 the Canadian currency was trading at 75 US cents.

The value of the Canadian dollar against its US counterpart has a direct effect on the health of the NWT economy. This is because the majority of goods and services bought and sold internationally are paid for in US dollars. The lower Canadian dollar means that NWT businesses that export their production internationally will get paid more for their products after currency conversion, which will help NWT companies compete globally, and boost exports. However, a lower Canadian dollar will also make machinery and equipment imported from outside the territory more expensive, putting a strain on many NWT businesses. In addition, the low Canadian dollar has boosted the cost of imported food and other goods, having a negative impact on many NWT households.

## Recent Economic Performance - *Real GDP*

The NWT economy slowed in 2016. Real GDP increased just 0.2 per cent in 2016 after rising 1.3 per cent in 2015. Flat growth reflected declines in private investment by diamond mines with the completion of major construction activities at Gahcho Kué and reduced government expenditures.



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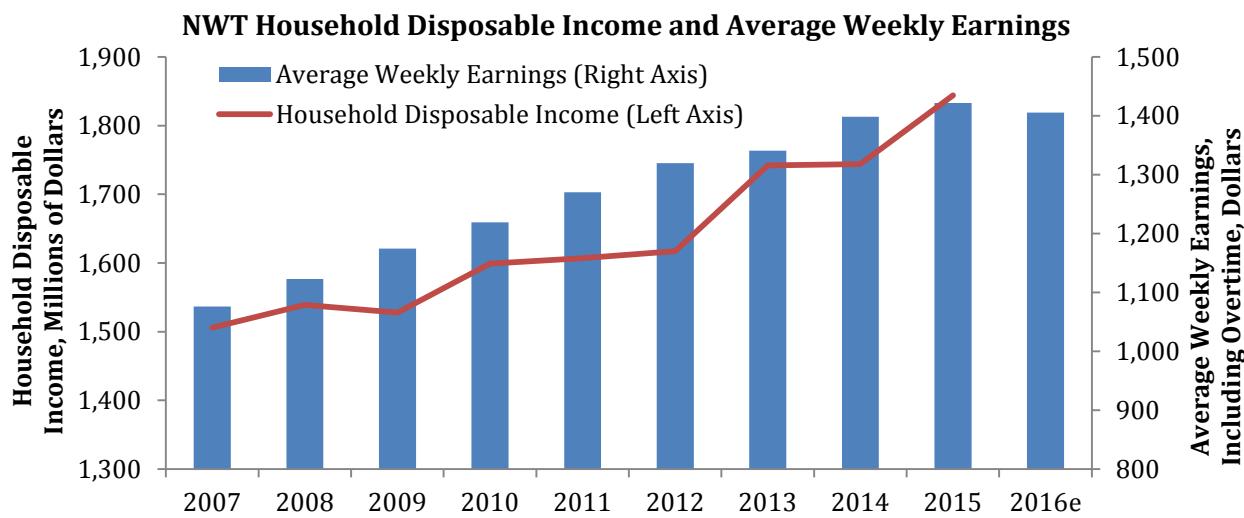
Source: NWT Bureau of Statistics and NWT Finance

The NWT economy remains smaller than it was in 2007 before the global financial crisis occurred and when the diamond mines were investing in mine construction. In 2016 real GDP was 17.3 per cent below what it was in 2007 when diamond mines were producing higher quality diamonds, commodity prices were higher, and mine construction was underway.

## Recent Economic Performance - *Households*

Personal disposable income is the after-tax income earned by households from all income sources. It supports consumer expenditures, which account for over a third of the territory's GDP. NWT disposable income growth grew 5.7 per cent from 2014 to 2015. However, during the first nine months of 2016, labour income, a large component of personal income, decreased by 0.3 per cent compared to the same period in 2015.

Wages and salaries earned by employees in the NWT are well above the national average. In 2015, average weekly earnings, including overtime, declined 1.1 per cent, from \$1,422 in 2015 to \$1,405 in 2016. This weekly rate was the second highest in the country, below only Alberta.



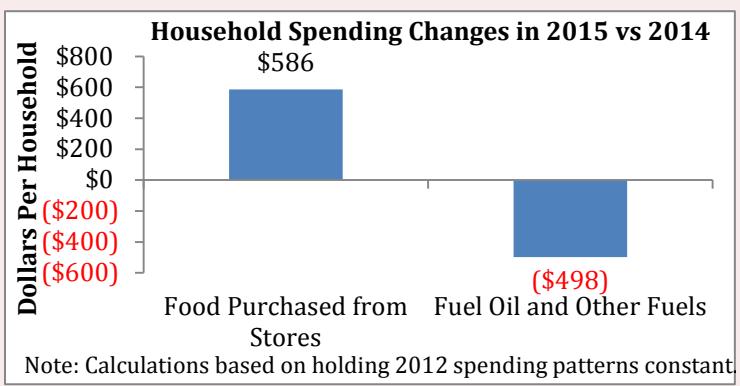
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Source: NWT Bureau of Statistics and Statistics Canada

**Box 1: Significant changes in exchange rates and prices have affected household spending.**

A lower Canadian dollar has led to higher prices for imported food, while falling oil prices have lowered the price of heating fuel.

As a result, in 2015 the average NWT household paid \$586 more for food bought in stores and saved \$498 on heating fuel.



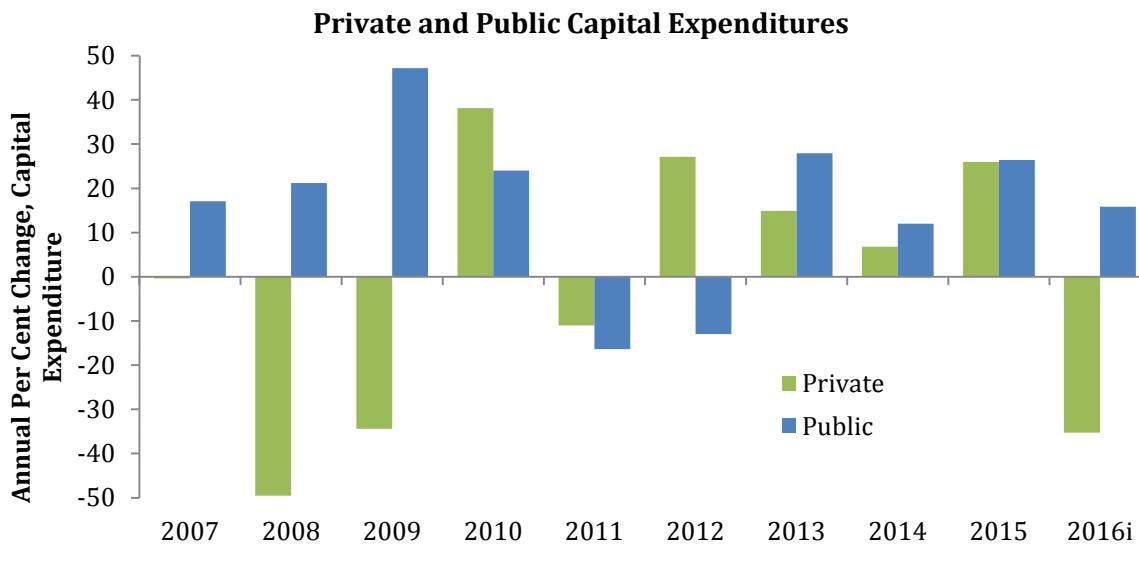
## Recent Economic Performance - *Investment*

Total capital expenditures in 2015 were estimated at \$1,413 million, a 26.0 per cent increase over 2014 capital expenditures. This represents the largest annual increase since 2010. The ramp-up in capital spending seen in 2015 will decline by 20.3 per cent in 2016, as indicated by reduced total capital spending intentions of \$1,126 million.

Public sector capital expenditures grew by 26.4 per cent in 2015, rising from \$328 million in 2014 to \$414 million in 2015. Total public sector capital spending is expected to grow by a further 15.8 per cent this year, rising from \$414 million in 2015 to \$480 million in 2016, while capital expenditures in federal, territorial, and local public administration is expected to rise from \$279 million in 2015 to \$331 million in 2016. Ongoing investments in a number of projects, including the Stanton Territorial Hospital Renewal Project, completion of the Inuvik-Tuktoyaktuk Highway and Mackenzie Valley Fibre Optic Link, and new Building Canada Plan projects are expected to continue to contribute to increased investment over the next couple of years.

Private sector capital expenditures increased by 25.9 per cent per cent from \$793 million in 2014 to \$999 million in 2015, driven largely by a 40 per cent increase in capital spending in the mining, and oil and gas extraction sector. Much of this investment spending in these industries was for the

construction of the Gahcho Kué diamond mine and now that this construction is completed, overall capital expenditure by the private sector is expected to fall 35 per cent in 2016 to \$647 million.



i = intentions

Source: NWT Bureau of Statistics and Statistics Canada

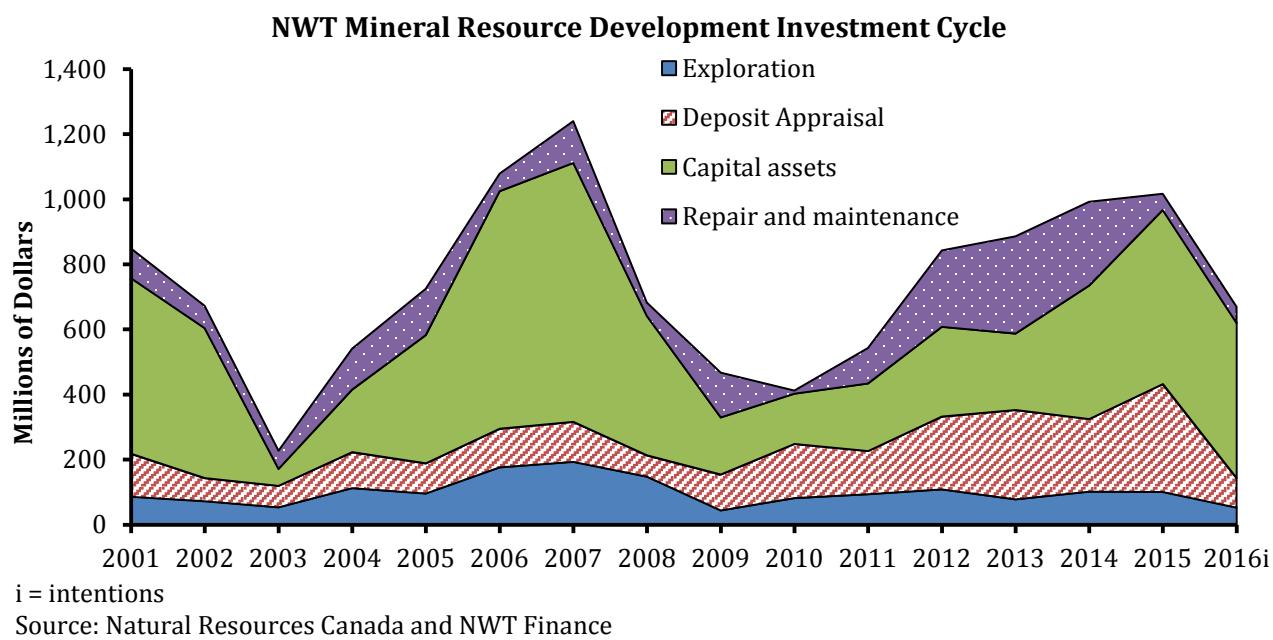
The mining industry has a major impact on the NWT economy. A single diamond mine may involve capital expenditures of over a billion dollars and, in an economy where the GDP hovers between four and five billion dollars, the economy will show a large increase with the start of construction. When the mine construction ends and commercial operation begins, the GDP will drop because of the lower construction investment but will remain higher than the pre-construction GDP level because of the value of the annual production. When a mine stops production, the absolute level of the NWT GDP will be lower. The investment cycle is very pronounced.

Total investment by the mining industry increased from \$993 million in 2014 to \$1,026 in 2015, reflecting major construction expenditures from the Gahcho Kué diamond mine. Spending intentions for 2016 indicate investment spending in this sector will decline by 36 per cent this year to \$657 million.

The NWT mining industry sustains itself through an investment cycle starting with exploration to identify mineral deposits. Exploration expenditures are expected to decline by 47.5 per cent in 2016, falling from \$101 million in 2015 to \$53 million in 2016.

Deposit appraisal expenditures are undertaken to assess the commercial potential of the deposit including the costs of extraction and complying with environmental protection requirements. Deposit appraisal expenditures are expected to decline by almost three quarters, from \$331 million in 2015 to \$90 million in 2016.

Investment in capital assets began to increase in 2014 with the start of construction of the Gahcho Kué diamond mine. In 2015, investment expenditures in capital assets peaked at \$535 million. During 2016 and with the completion of construction of Gahcho Kué, investment expenditures in capital assets is expected to fall to \$477 million, an 11 per cent decrease from 2015. Repair and maintenance expenditures for the industry are expected to remain unchanged at \$50 million.



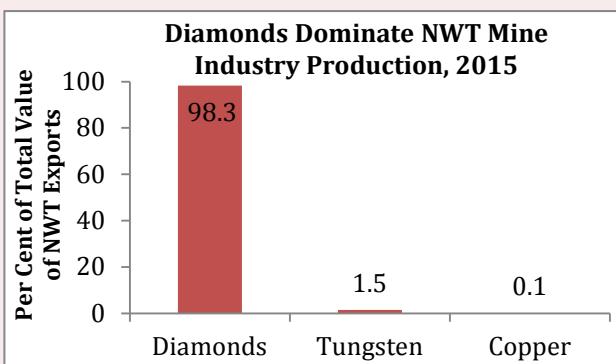
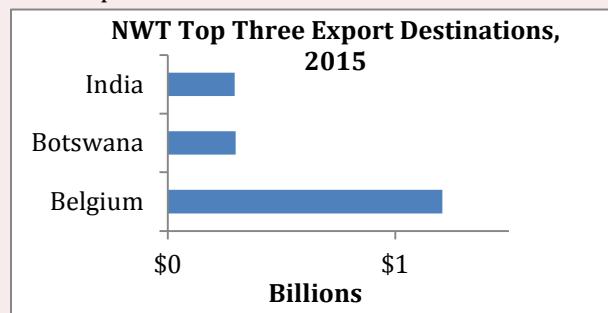
## Recent Economic Performance – *Trade*

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

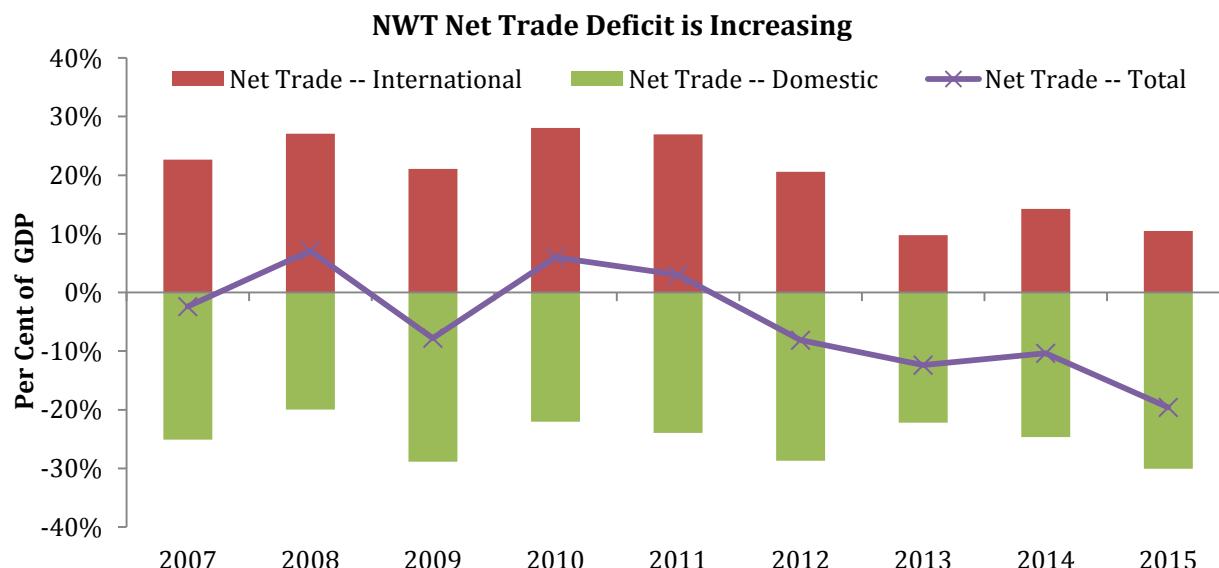
The NWT trade surplus with other countries, relative to real GDP, has declined over the past few years; decreasing from 14.3 per cent of GDP in 2014 to 10.5 per cent in 2015. Imports have increased the overall NWT trade deficit from 10.3 per cent of GDP in 2014 to 19.6 per cent in 2015.

### BOX 2: Diamonds are the NWT's main export.

Diamonds represent 98 per cent of the value of all exports flowing from the NWT to global markets. Because of this, the top three export destinations for NWT exports are: Belgium, the world's largest diamond processing and trade centre; Botswana, where De Beers conducts its sorting and trading operations; and India, where 90 per cent of the world's diamonds are cut and polished.



Source: Industry Canada and NWT Finance

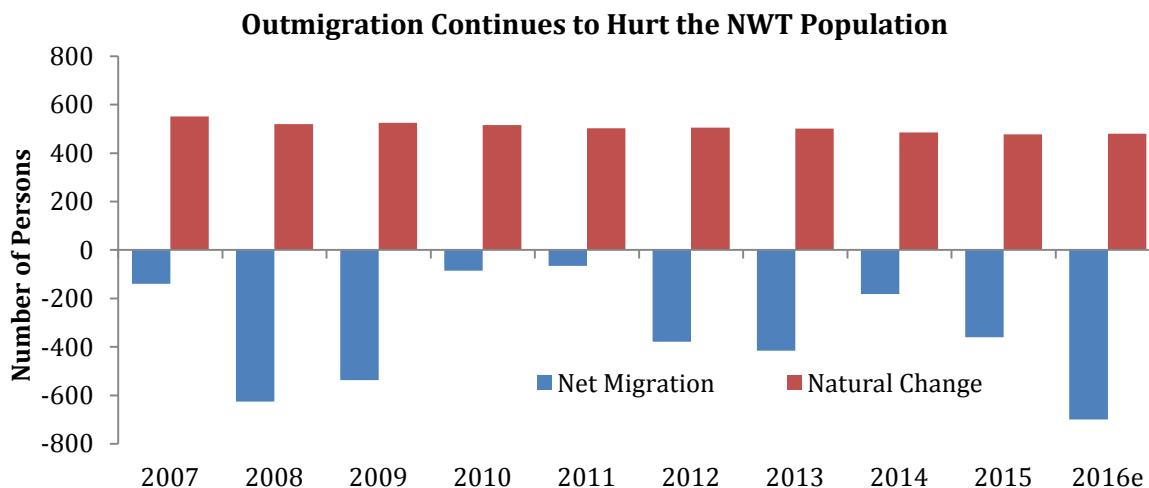


Source: Statistics Canada and NWT Finance

### Recent Economic Performance - *Population*

Population growth is a strong indicator of economic health. By providing labour to NWT businesses, demand for local goods and services, and personal income and consumption taxes, population growth helps support economic activity and sustainable government revenues. The NWT's population has been relatively stable over the past decade. As of July 1, 2016, the NWT population was estimated to be 44,469 people, an increase of 225 persons, or 0.5 per cent, from July 1, 2015.

Three factors account for this population increase of 225: natural change (births minus deaths), interprovincial migration, and international migration. Between July 1, 2015 and July 1, 2016 there was a net natural increase of 452 persons (685 births minus 233 deaths), while interprovincial migration resulted in a net loss of 421 persons (2,323 persons moved into the NWT from the rest of Canada and 2,744 persons moved out). Internationally, there was net in-migration of 194 persons.

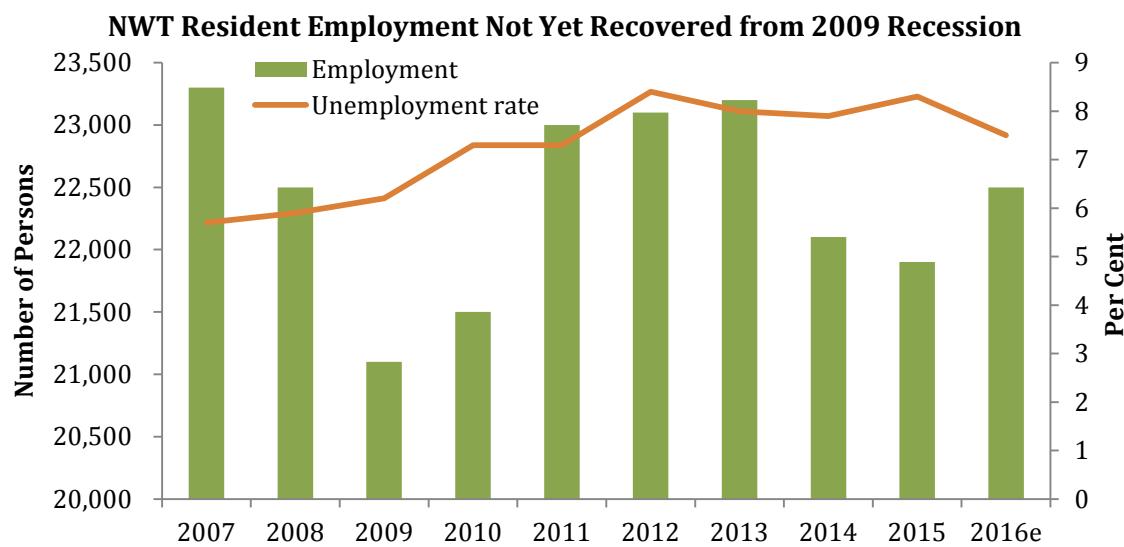


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Source: NWT Bureau of Statistics

## Recent Economic Performance - Labour

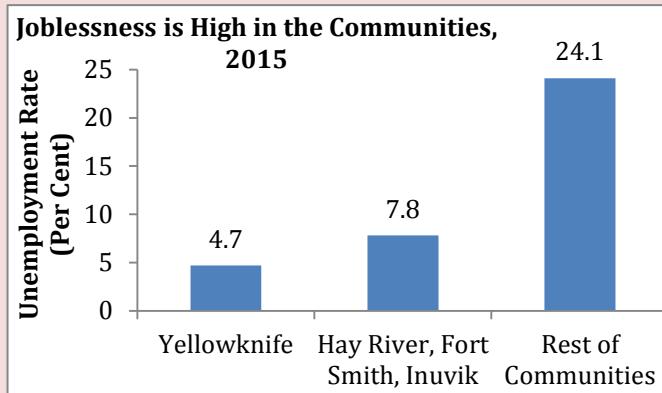
In 2016, NWT resident employment was estimated at 22,700, an increase of 800 persons from 2015 and 600 persons below the 2007 pre-recession high. This increase reflected an increase in the size of the NWT labour force and a reduction of the unemployment rate from 8.3 per cent in 2015 to 7.5 per cent in 2016. In 2016, the NWT employment rate (the share of the labour force that is employed) was 69.8 per cent, up from 68.5 per cent in 2015, but well below the 2007 pre-recession employment rate of 74.0 per cent.



e: estimate

Source: NWT Bureau of Statistics and Statistics Canada

### Box 3: The NWT unemployment rate was 8.3 per cent in 2015.



The NWT-wide unemployment rate hides significant regional variation.

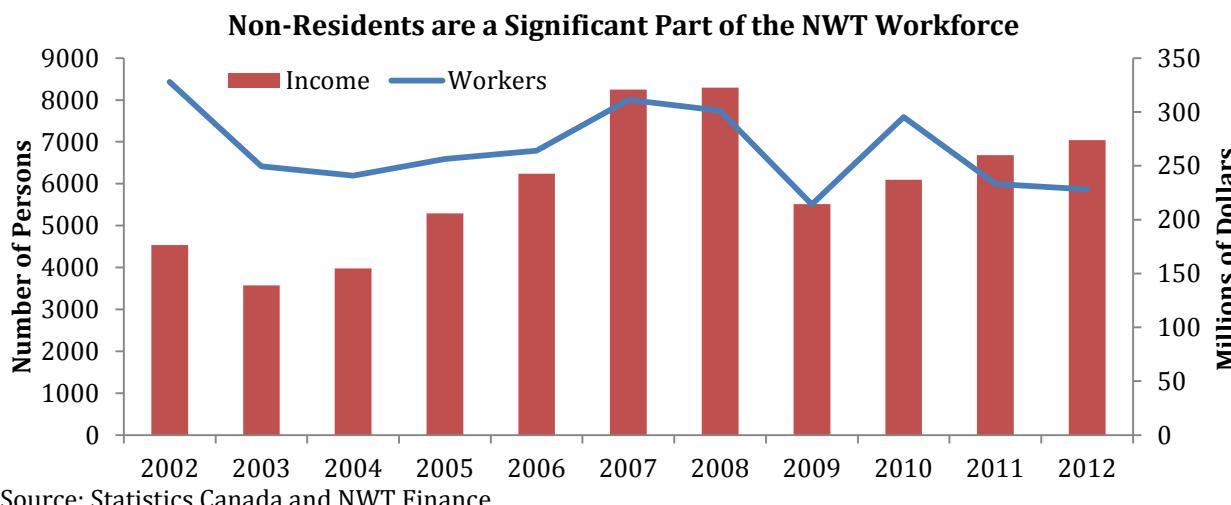
While unemployment is relatively low in the larger centres of Yellowknife, Hay River, Fort Smith and Inuvik, unemployment in the other smaller, more isolated communities is high.

On average, nearly a quarter of the population of smaller communities is unemployed.

Source: NWT Bureau of Statistics

The NWT is characterized by a significant non-resident work force. This is largely due to the small size of the NWT population, and reflects the employment needs of the NWT economy that cannot be met by the domestic workforce, most commonly in the NWT's mining industry.

Between 2002 and 2012, non-resident workers accounted for about one third of the NWT workforce.



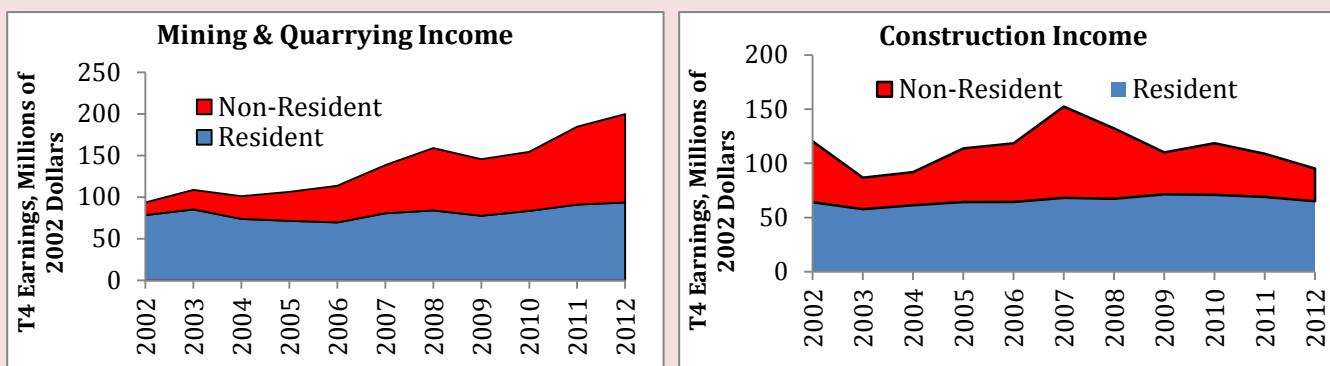
Source: Statistics Canada and NWT Finance

Each year 5,000 to 8,000 non-residents fill jobs in the NWT. These jobs include seasonal, rotational, temporary and special projects that fill gaps that are not met by the resident workforce. Total aggregate earnings paid to non-resident workers from these jobs ranged from \$139 million and \$323 million between 2002 and 2012. This represents approximately 18 per cent of all employment income generated in the NWT.

Non-resident workers who are employed in the NWT provide skills needed by NWT businesses but this reliance on out-of-territory workers means lost NWT business from consumer spending and lost revenue for the GNWT. Policies aimed at addressing this issue must consider the reasons why people move to, and leave, the NWT. The greatest contributor to strong population growth is immigration caused by better job opportunities in the NWT compared to the rest of Canada; or, in other words, when the NWT economy is doing well and provincial economies are not. Because the NWT is competing for skilled labour, NWT population growth strategies will depend on the ability to quickly respond to changing economic conditions in other regions in order to shift recruitment opportunities to where the NWT has a comparative advantage. These strategies include GNWT Recruitment and Retention Strategies, and Socio Economic Agreements, which formalize commitments made by large companies with respect to employment, training and business opportunities for NWT residents. The GNWT is also committed to addressing the other underlying factors contributing to non-resident workers, in particular, the high cost of living.

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

In 2012, 53 per cent of employment income in the NWT mining industry and 32 per cent of employment income in the construction sector was paid to non-resident workers.

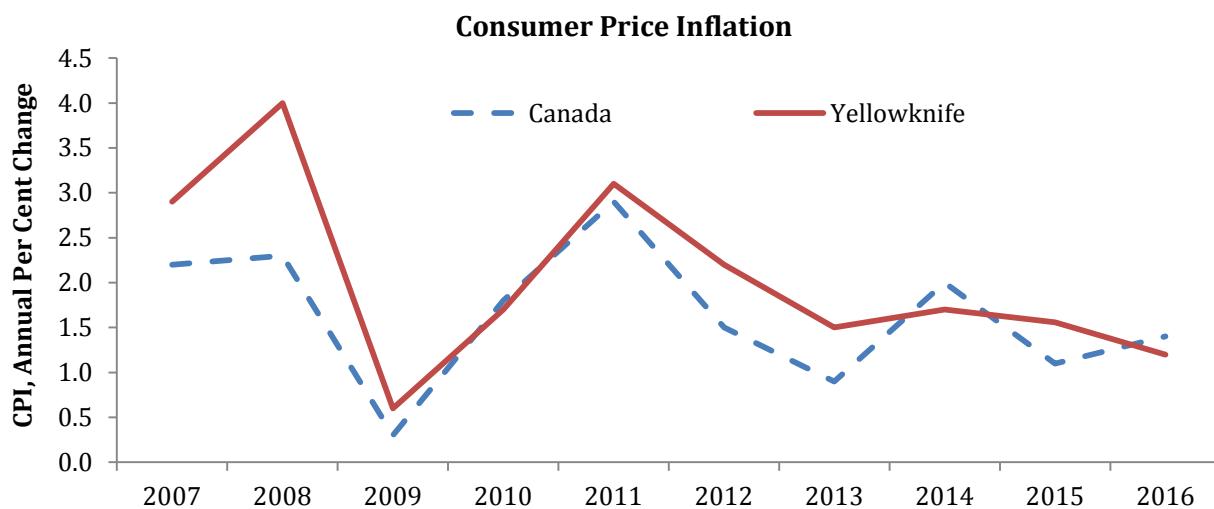


Source: Statistics Canada and NWT Finance

## Recent Economic Performance - *Cost of Living*

The cost of living is high in the NWT relative to other jurisdictions. Issues of remoteness, climate, and a sparsely populated large territory mean that NWT residents and businesses often pay more for goods and services than in neighbouring provinces. For this reason, inflation – an increase in the overall price level, resulting in reduced purchasing power – is of particular concern to NWT residents.

The Yellowknife Consumer Price Index (CPI) increased by 1.2 per cent in 2016, slowing slightly from a 1.6 per cent increase in 2015, largely due to lower energy and shelter costs, reflecting the decline in global oil prices. This fuel price decline was offset by higher import prices for items such as food resulting from the lower Canadian dollar. Because the NWT imports a greater portion of its consumer goods than other Canadian jurisdictions, consumer price inflation in Yellowknife was slightly lower last year than in Canada as a whole.



Source: Statistics Canada

## Key Sectors - *Composition of the Economy*

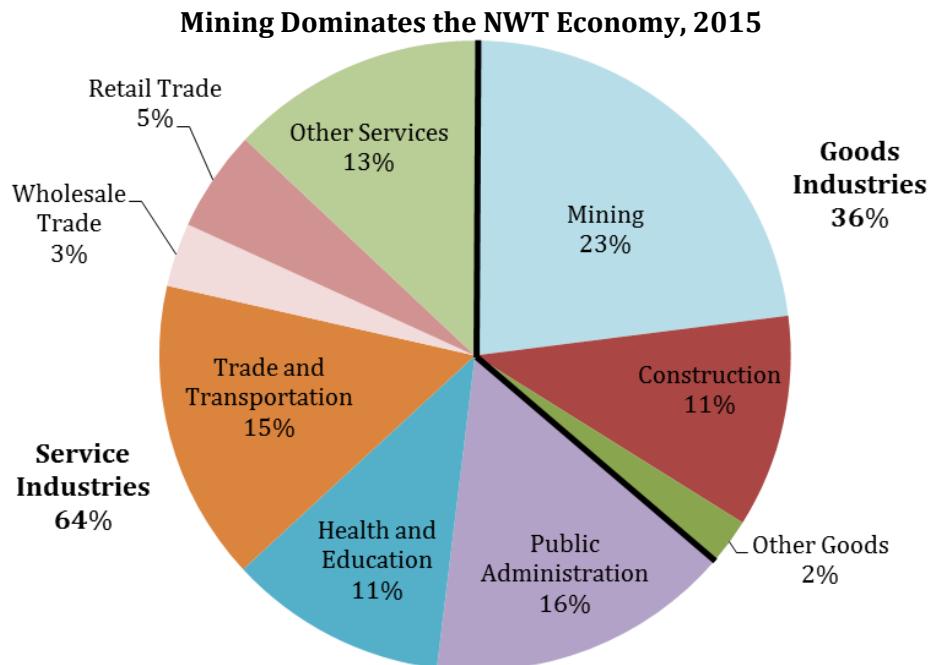
The NWT economy relies heavily on the extractive, non-renewable resource sector, especially the diamond mining industry. In 2015, the mining, oil, and gas extraction sector accounted for over a fifth of NWT GDP if linkages with other sectors are considered. No other single sector dominates the NWT economy in this way. This places the NWT in a precarious position.

Economic diversity provides more stable and balanced growth by spreading risk more evenly across a number of sectors, making the economy more resilient to business cycles and external shocks. Diversification acts as insurance that reduces the sensitivity of the economy to the ups and downs associated with any single industry, market, or region. For example, more diversified economies experience lower unemployment during cyclical economic downturns.

The goods-producing sector accounted for 36 per cent of NWT GDP in 2015. Resource extraction industries dominate this sector in the NWT, although the share has declined over the past several years. Construction is the second biggest industry in the goods-producing sector, accounting for

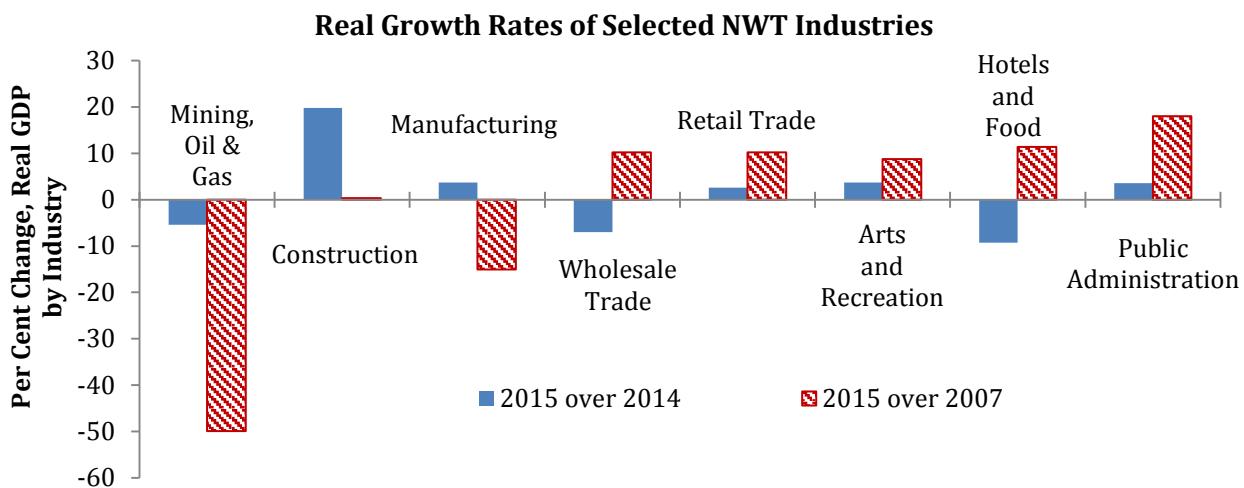
11 per cent of NWT GDP in 2015. The remainder of the goods-producing sector accounted for 2 per cent of GDP and was comprised of renewable resources, utilities, and manufacturing industries.

The combined services-producing industries accounted for 64 per cent of NWT GDP in 2015. Public sector activities dominate this sector, with public administration, education, health and social services accounting for 27 per cent of NWT GDP in 2015. The remainder of this sector is comprised of industries such as wholesalers, retailers, banks, hotels, and tour operators.



Source: Statistics Canada

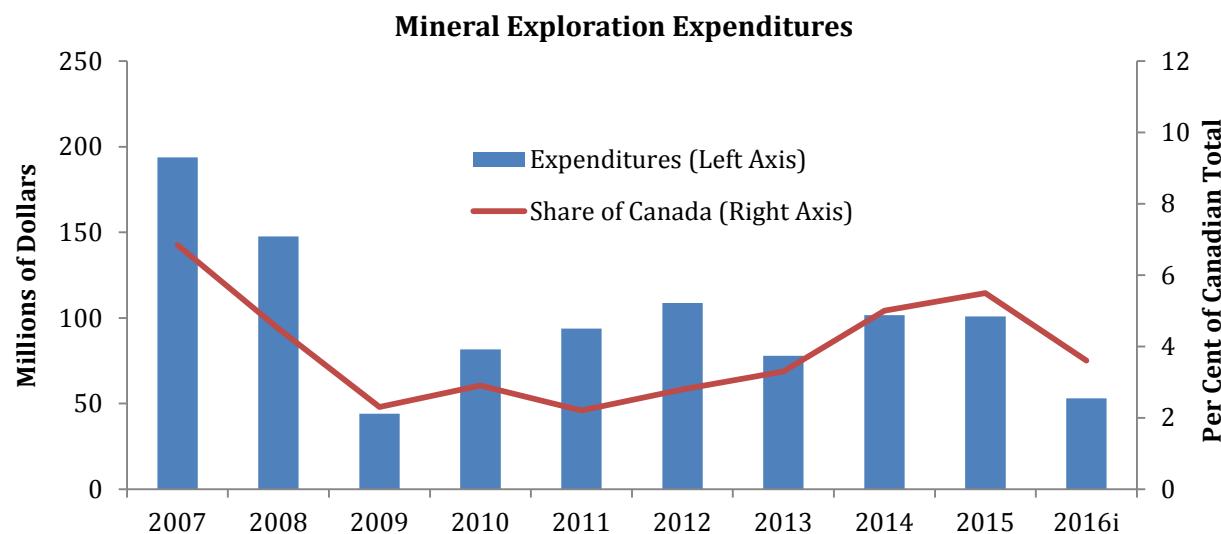
From 2007 to 2015, the mining, oil and gas industries shrunk by 50 per cent, the manufacturing sector declined 15 per cent, but hotels and restaurants grew 11 per cent. This has meant that the structure of the NWT economy has changed: in 2007, the goods-producing sector accounted for 51 per cent of the NWT economy, but by 2015 that share had fallen to 36 per cent. This reflects the business cycle in the goods-producing industries and the global economic recession.



Source: Statistics Canada and NWT Finance

## Key Sectors - Large Industries: Mining, Oil and Gas (23 % of GDP)

The mining, oil and gas sector accounts for 23 per cent of GDP but comprises closer to one-third of the economy if linkages with other sectors are taken into account. NWT mineral exploration and deposit appraisal expenditures were flat last year, decreasing slightly from \$102 million in 2014 to an estimated \$100 million in 2015. However spending intentions for 2016 are expected to fall to \$53 million. Exploration expenditures are increasingly focussing on diamonds, which account for over three-quarters of intended expenditures in 2016 compared to just over one-quarter between 2010 and 2012. As a share of the Canadian total, NWT exploration and appraisal expenditures increased from 5.0 per cent in 2014 to 5.9 per cent in 2015, falling to a 3.6 per cent share in 2016. Low commodity prices continue to impact resource development in Canada.



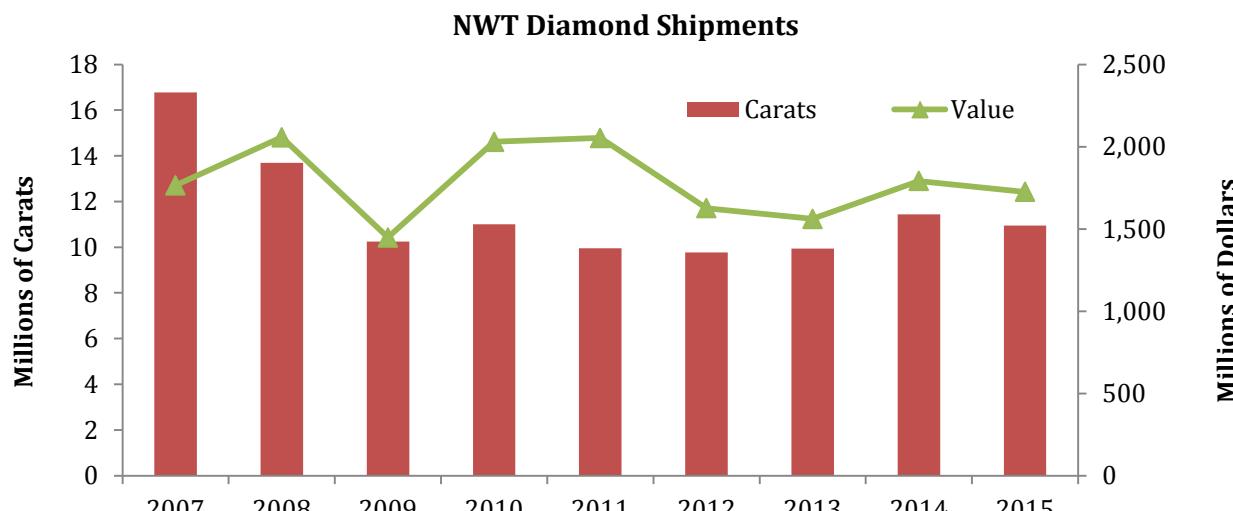
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Source: Natural Resources Canada

Over half of 2015 expenditures were spent on mineral exploration activities related to the discovery and re-evaluation of mineral deposits in the NWT. The remaining expenditures were spent on deposit appraisal and developing already discovered projects. Nearly 86 per cent of these expenditures went towards exploration for, and appraisal of, diamonds.

The NWT has three producing diamond mines: Ekati, Diavik and Gahcho Kué, which started commercial production in early January 2017. The Snap Lake mine was put on care and maintenance in December 2015 and will be flooded in early 2017.

Carat production at NWT diamond mines declined 4.2 per cent from 11.4 million carats in 2014 to 11.0 million carats in 2015, and the value of diamond shipments fell 3.8 per cent from \$1.8 billion in 2014 to \$1.7 billion in 2015.

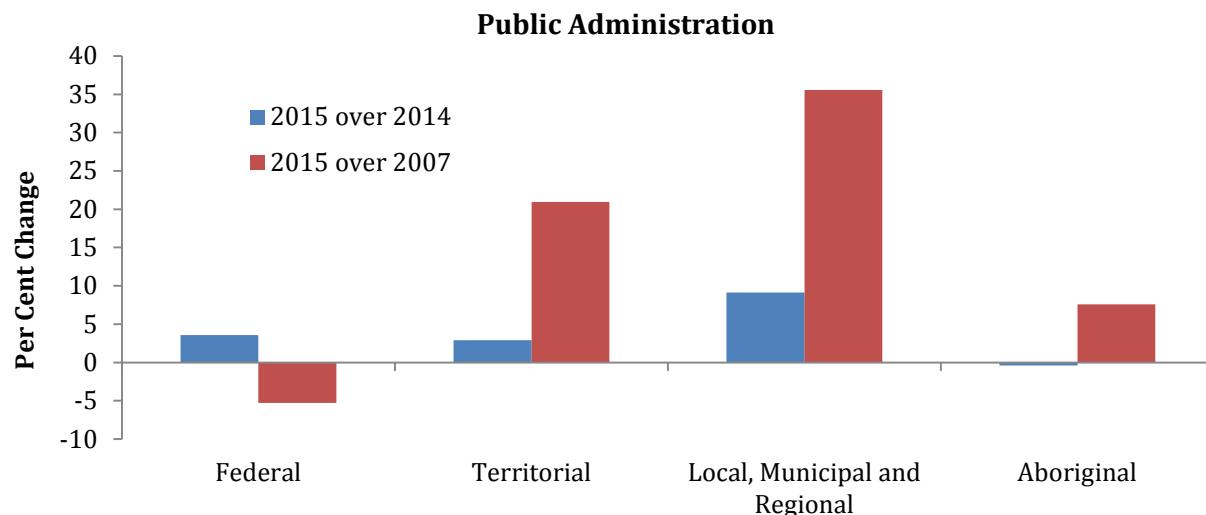


Source: NWT Bureau of Statistics and NWT Finance

### **Key Sectors – Large Industries: *Public Administration (16% of GDP)***

Public administration at all levels of government (federal, territorial, municipal, and Aboriginal) is the second largest industry in the NWT, accounting for 16 per cent of GDP and contributing significantly to jobs and income creation. NWT public administration includes courts, policing, corrections services, firefighting services, defence, and government administrative work but excludes however, the health, social services and education sectors.

Public administration expenditures rose 1.9 per cent in 2015 compared to 2014. Since 2007, all levels of government experienced solid increases in public administration except for the federal government which declined 3.2 per cent between 2007 and 2015, partly due to devolution of the management of lands, waters and non-renewable resources to the GNWT on April 1, 2014.

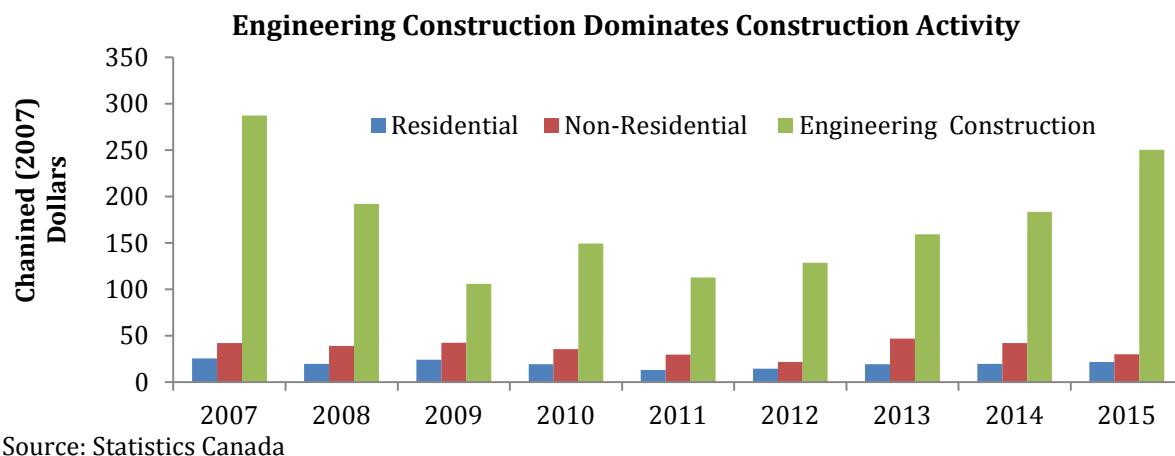


Source: Statistics Canada

## Key Sectors - Large Industries: Construction (11% of GDP)

The construction sector includes residential construction, non-residential construction, and engineering services, as well as repair construction and support activities. Unlike many other jurisdictions, engineering services dominate the value of NWT construction activity, accounting for nearly two-thirds of real construction expenditure in 2015.

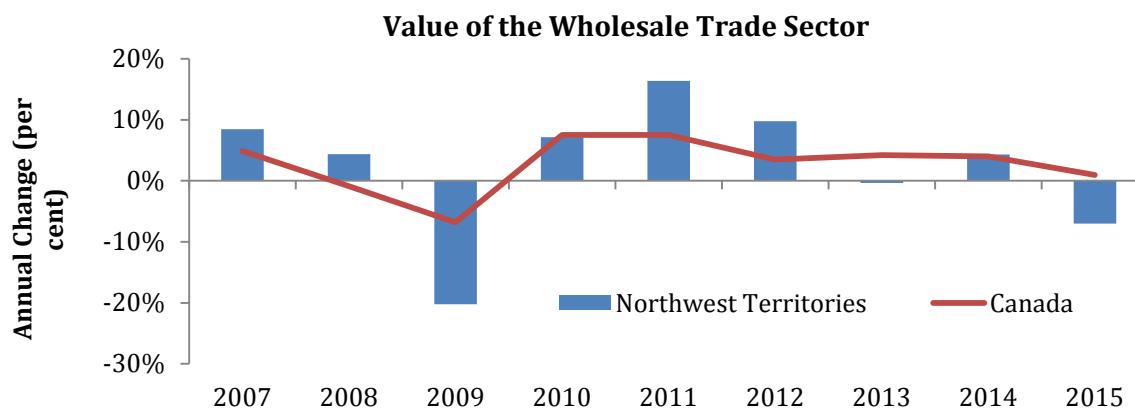
Overall construction activity increased 20 per cent from 2014 to 2015, and is now recovered to its pre-recession level. Work on projects such as constructing the Gahcho Kué diamond mine (cost \$1 billion), the Inuvik-Tuktoyaktuk Highway (cost \$300 million), and Mackenzie Valley Fibre Link (cost \$91 million) support increased engineering construction spending by over one third between 2014 and 2015, while residential construction increased by a more modest 10 per cent, and non-residential construction declined by 29 per cent.



## Other Sectors

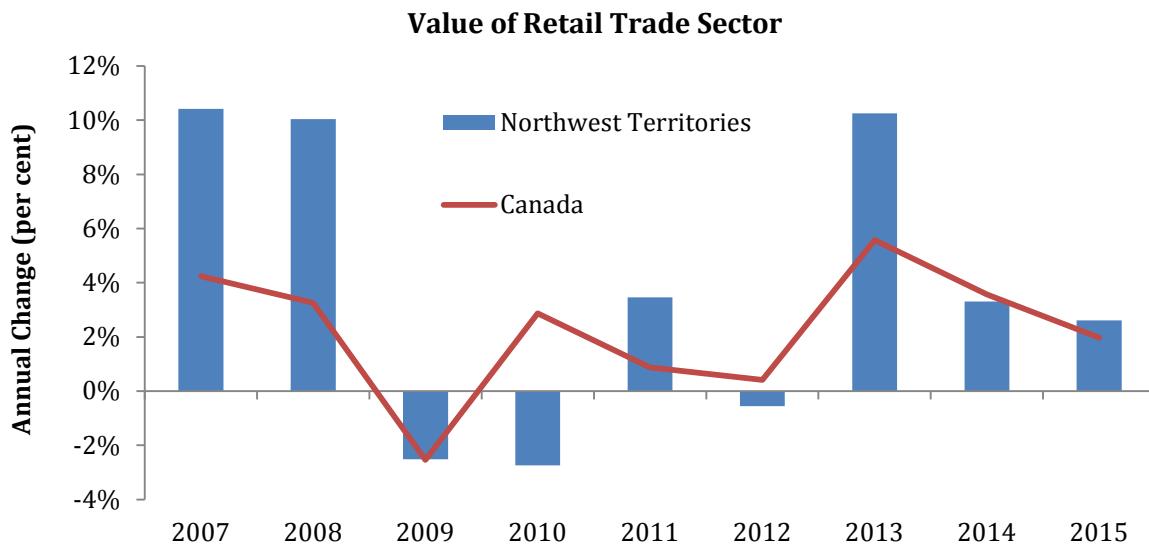
### Wholesale Trade (3% of GDP)

The NWT wholesale trade sector fell from \$141 million in 2014 to \$131 million in 2015, a decline of 7.0 per cent. The national wholesale trade industry recorded a small annual increase of 0.9 per cent over the same period.



## Retail Trade (5% of GDP)

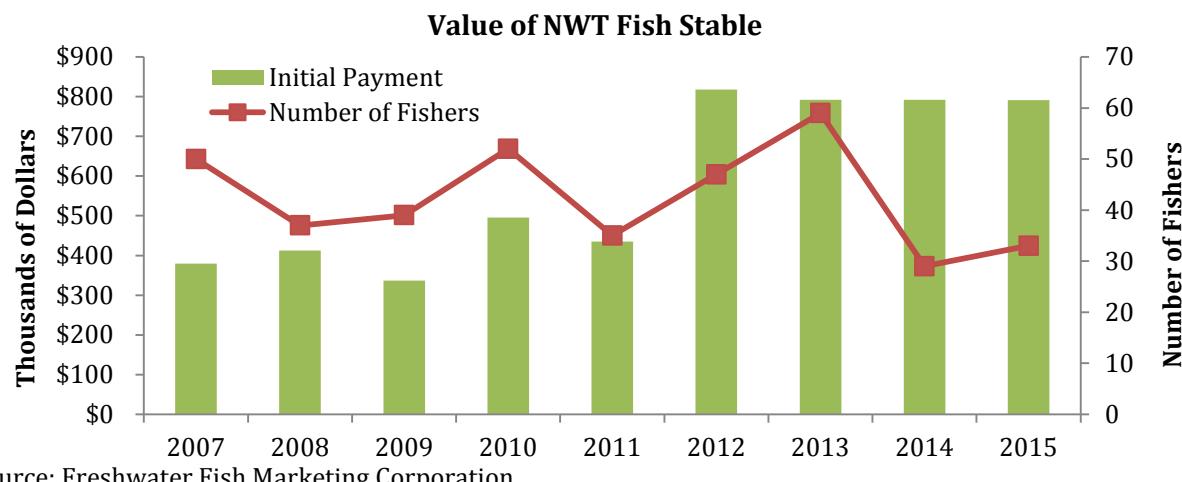
In 2015 the NWT retail trade sector increased from \$203 million in 2014 to \$209 million, an increase of 2.6 per cent. The national retail trade industry recorded increased by 2 per cent over the same period.



Source: Statistics Canada

## Commercial Fisheries

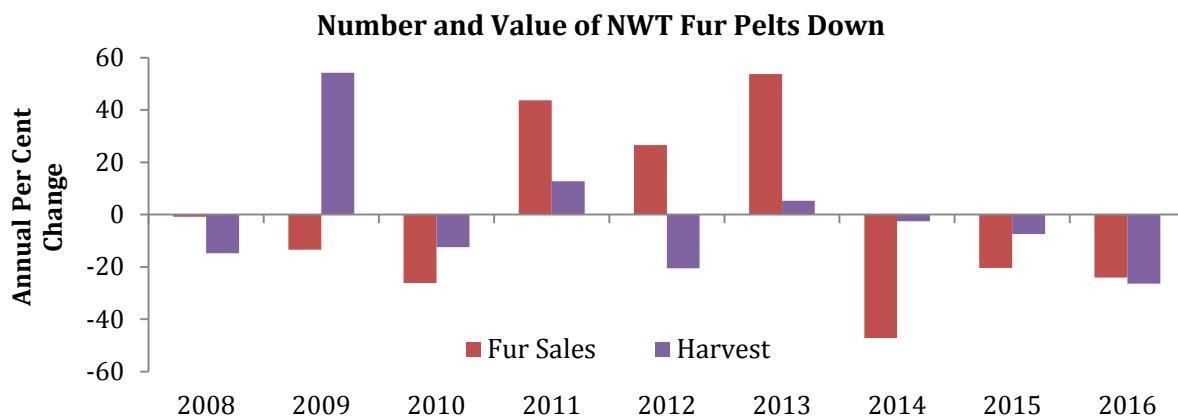
The commercial fishery in the NWT is small with room for growth. Initial payments to NWT fishers – on delivery-point, net-of-freight basis – were unchanged in 2015, decreasing 0.1 per cent from 2014 to \$791,650, while the quantity increased 50 per cent from 288,000 kilograms in 2014 to 432,000 kilograms in 2015.



Source: Freshwater Fish Marketing Corporation

## Trapping and Hunting

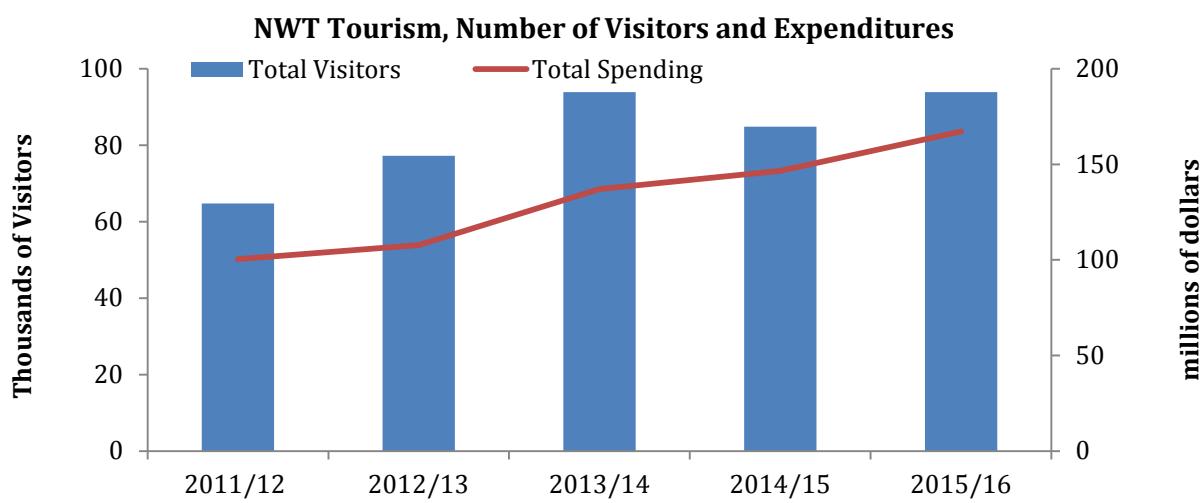
Trapping is a component of the renewable resource sector, and is important to many NWT residents for food, especially in smaller communities. For the year ended June 30, 2016, roughly 17,250 NWT pelts were sold, a decrease of 26 per cent from the previous year, while the value of fur sales decreased 24 per cent to \$742,200. The number of commercial trappers in the NWT increased 3.5 per cent to 677. Although there is a continued decline in total sales which reflects current market conditions, the Genuine Mackenzie Valley Fur program continues to perform as intended by stabilizing the market for NWT trappers, thereby providing financial support.



Source: NWT Industry, Trade and Investment and NWT Finance

## Tourism

Tourism is not formally defined as an industry in the NWT GDP data. However, the tourism industry has direct implications for measured components of GDP such as travel services, accommodations, retail trade industries, and other supporting industries. From 2014-15 to 2015-16, the number of visitors increased 10.7 per cent from 84,800 to 93,900. Over the same period, visitor expenditures rose by 14.0 per cent, increasing from \$147 million to \$167 million.



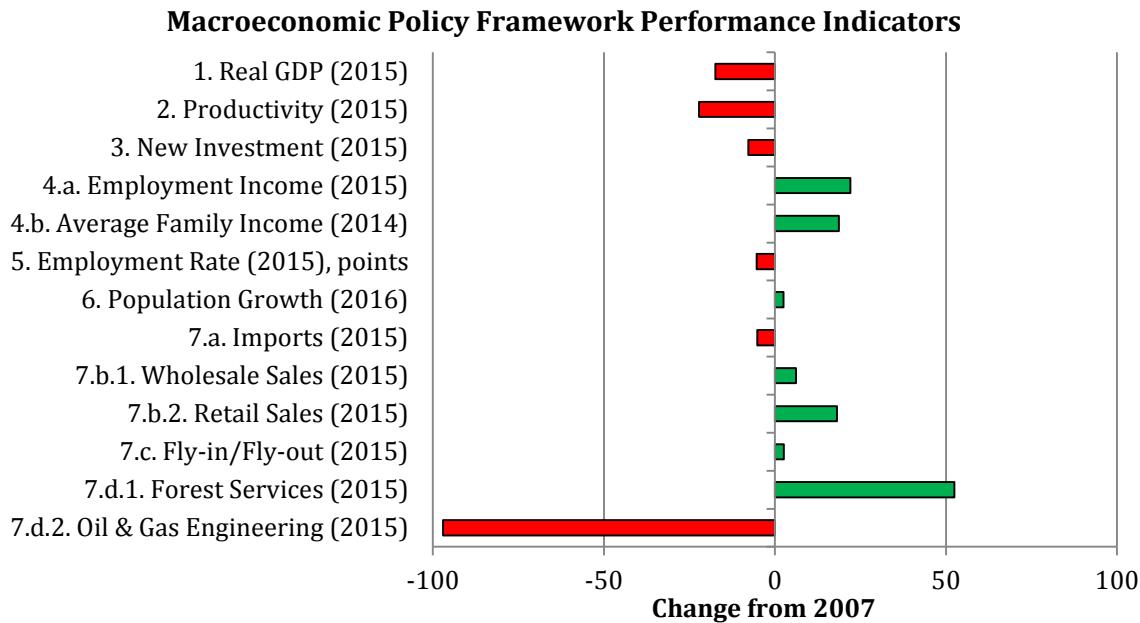
Source: Department of Industry, Trade and Investment

## Economic Performance Indicators - *Macroeconomic Policy Framework*

The GNWT's *Macroeconomic Policy Framework* is used to guide investment and policy decisions. The *Framework* includes 13 performance indicators to measure the change in the performance of the NWT economy over time by comparing indicators to their baseline values in 2007. These indicators were designed to capture broad measures of economic wellbeing and provide an indication of the effectiveness of the GNWT's investments to grow and diversify the economy.

Seven of the 13 indicators have moved in a positive direction, but the key drivers of increased GDP, productivity and new investment, are in negative territory and continue to hold back economic growth. In the following figure, the indicators with red bars show the percentage decrease in their values and the indicators with green bars show the percentage increase in their values since the baseline year.

The NWT economy has demonstrated a low level of resiliency since the 2008 global financial crisis and the subsequent recession that hit the territory in 2009. This is shown by the many indicators that have not yet returned to their pre-recession levels. Two contributing factors to the low level of resiliency is the economic dependence on the extractive (mainly diamonds) resource industry, and the openness of the NWT economy, with people and capital free to move to more favourable provinces when faced with economic challenges at home. The challenge for the GNWT is to identify and advance investment opportunities that will generate sustainable benefits in the context of the global economic environment in which NWT businesses compete.



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

## **FISCAL REVIEW**

Budget 2017-18 continues to follow the course set at the beginning of the 18<sup>th</sup> Legislative Assembly to deliver on the priorities described in the Assembly's Mandate. For this to be possible, the overriding objective of Budgets 2016-17 and 2017-18 is to ensure the Government of the Northwest Territories' (GNWT) fiscal sustainability. Without this long-range fiscal plan, the GNWT risks the ability to provide quality core programs and services, to invest in the infrastructure needed to support these programs, and to invest in the priorities of the 18<sup>th</sup> Assembly.

The GNWT's revenue outlook remains flat over the medium term. This limits the ability of the Government to respond to the priorities in the 18<sup>th</sup> Assembly's Mandate without reducing expenditures in other areas. Operating expenditures continue to be carefully managed so that the cash deficit incurred over previous Assemblies can be reduced over the 18<sup>th</sup> Assembly. This limits the ability of this Assembly to introduce new initiatives or enhance existing programs and services.

Budget 2017-18 advances the fiscal strategy to ensure that operating surpluses achieved since 2011-12 are sustained. Operating surpluses are needed to make strategic infrastructure investments to grow the economy and deliver government programs and services, support its existing infrastructure assets with repairs and maintenance, and provide flexibility to respond to one-time surprise expenses such as forest fire suppression and diesel subsidies due to low water levels in the hydro system.

### **Fiscal Strategy**

The GNWT has two budgets: an operating budget to pay for the delivery of government programs and services, and a capital budget to fund infrastructure. Total revenues must pay for both budgets or the government must borrow and increase its debt. Borrowing is limited by the federally-imposed borrowing limit of \$1.3 billion and the GNWT's own prudent debt management guidelines described in the *Fiscal Responsibility Policy*.

The fiscal strategy must provide for a fiscal plan to have operating surpluses so that the GNWT will continue to be able to fund infrastructure, including housing, health centres, and school renovations, in adherence to the *Fiscal Responsibility Policy*.

The fiscal strategy adopted early in the 18<sup>th</sup> Legislative Assembly has three main objectives:

- establish more sustainable growth in operating expenditures by managing the growth in programs and services spending so that it does not exceed the growth in revenues;
- increase the GNWT's fiscal capacity by reducing operating expenditures and increasing revenues so that it can address the territory's infrastructure deficit and make other strategic investments; and
- return the GNWT towards a small cash surplus position by the end of the life of the 18<sup>th</sup> Assembly.

Following the fiscal strategy requires fiscal discipline; mainly on the expenditure side. Most of the GNWT's budget is funded through federal transfers, which limits the feasibility of producing operating surpluses through increasing taxes or other own-source revenues. However, options provided in a discussion paper on potential revenue options tabled in the Legislative Assembly on March 1, 2016 are being considered based on their revenue-raising potential; the principles of sound tax policy, including predictability, fairness, efficiency, and ease of administration; and, the impact of the potential taxes on the Northwest Territories (NWT) economy.

Revenue actions are a long-term strategy. Because of the relatively small portion of the budget that is funded through own-source revenues, new taxes or increased rates alone would not be sufficient to meet the fiscal challenges and risk serious implications for the cost of living and doing business in the NWT. Slow-growing total revenues are due to slow growth in federal transfers, which not only make up the majority of the GNWT's revenue but are also beyond the control of the GNWT to directly influence. Therefore operating surpluses will be achieved mainly through the prudent management of operating expenditure growth.

## **Fiscal Situation and Outlook**

Since the 2010-11 Budget, the GNWT's efforts have been focused on keeping expenditure growth below revenue growth in order to produce operating surpluses for infrastructure investment. The focus on careful expenditure management has become more important because the five-year revenue outlook forecasts relatively flat growth. Given the weak revenue outlook, expenditure growth will have to be similarly constrained if operating surpluses are to be realized, and it is only through operating surpluses that infrastructure investments can be made in a sustainable manner.

To date, efforts to manage the growth in spending have been successful, contributing to five years of consecutive operating surpluses from 2011-12 through 2015-16 and an operating surplus is projected for 2016-17. Provided the current fiscal plan continues, operating surpluses are projected for the 2017-18 Budget and the remainder of the 18<sup>th</sup> Legislative Assembly. The GNWT has maintained fiscal prudence in its operating budget with growth in program spending having halved from five years ago. The resulting operating surpluses were used to make infrastructure investments that otherwise would not have been possible. However, these investments have increased short-term borrowing that must be paid back in the near future.

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

## **2016-17 Revised Estimates**

The 2016-17 operating surplus is projected to be \$126 million, \$7 million higher than projected in the 2016-17 Main Estimates, due to a \$36 million increase in estimated revenues partially offset by anticipated increases in supplementary expenditures. The revised 2016-17 revenue forecast is \$1.846 billion, a 2.0 per cent increase from the 2016-17 Main Estimates. Transfers are expected to increase \$17 million from the 2016-17 Main Estimates. Own-source revenues are revised upward by \$20 million due mainly to a rebound in corporate income tax and some growth in personal income tax, and property taxes and school levies. These increases were partially offset by decreases in non-renewable resource revenue, down \$7 million compared to the Main Estimates, and other general revenues, down \$3.5 million.

Infrastructure investment expenditures for 2016-17 are expected to be \$489 million, \$169 million more than projected in the *2016-17 Capital Estimates*. Most of the increase was due to carry-overs from 2015-16, while \$26 million of the increase was new funding for transportation infrastructure.

Total debt at March 31, 2017 is forecast to be \$961 million, leaving \$339 million in borrowing room available from the federally-imposed \$1.3 billion borrowing limit.

## **2017-18 Budget**

The 2017-18 Budget proposes operating expenditures of \$1.66 billion and forecasts revenues of \$1.86 billion. After adjusting for infrastructure contributions and supplementary reserve requirements, an operating surplus of \$167 million is projected.

Total revenues are forecast to increase \$13 million from the 2016-17 Revised Estimates to the 2017-18 Main Estimates, which is an essentially flat growth rate. The Territorial Formula Financing Grant, which continues to make up the majority of GNWT revenues, will increase 1.0 per cent, or \$13 million, in 2017-18. Other transfers are forecast to remain steady, with a slight \$1 million decrease, or 0.6 per cent.

GNWT own-source revenues (including recoveries) are expected to account for 24 per cent of total revenues in 2017-18. Tax revenues are expected to remain flat due to a projected rebound in corporate income tax offset by forecast declines in personal income tax and property taxes and school levies. Mineral royalties, which are the majority of resource revenues, are projected to be stable in 2017-18. The remainder of own-source revenues are expected to remain broadly stable.

Infrastructure investments for 2017-18, approved in October 2016, are budgeted to be \$266 million, including infrastructure contributions.

Budget 2017-18 marks the turning point in the battle with increasing short-term borrowing with a projected small cash surplus of \$15 million being derived from operations, decreasing the overall cash deficit to \$305 million at March 31, 2018.

Total debt, which includes the NWT Hydro Corporation and other public agencies, is expected to be \$990 million at March 31, 2018, leaving \$310 million in available borrowing room under the federally-imposed \$1.3 billion borrowing limit.

## Medium-Term Outlook

Measures taken to support the Government's fiscal strategy objectives have improved the medium term outlook. The outlook projects that the cash deficit will be almost eliminated by the first year of the next Assembly, which represents a substantial improvement in the GNWT's fiscal position.

### Medium-Term Outlook (\$ millions)

	2015-16 (Actual)	2016-17 (Revised)	2017-18 (Estimate)	2018-19 (Forecast)	2019-20 (Forecast)	2020-21 (Forecast)
<b>OPERATING SUMMARY</b>						
Total Revenues	1,833	1,846	1,859	1,824	1,876	1,928
Total Expenditures <sup>1</sup>	(1,723)	(1,720)	(1,692)	(1,705)	(1,765)	(1,796)
Operating Surplus (deficit)	<b>109</b>	<b>126</b>	<b>167</b>	<b>119</b>	<b>111</b>	<b>132</b>
<b>CAPITAL INVESTMENT</b>	<b>201</b>	<b>379</b>	<b>253</b>	<b>185</b>	<b>140</b>	<b>121</b>
<b>TOTAL (DEBT) AT MARCH 31</b>						
Cash Surplus (Deficit) at year end	(245)	(320)	(305)	(244)	(137)	(12)
Long Term Debt and Guaranteed Debt <sup>2</sup>	(519)	(641)	(685)	(737)	(756)	(777)
Total (Debt) at March 31	<b>(764)</b>	<b>(961)</b>	<b>(990)</b>	<b>(981)</b>	<b>(893)</b>	<b>(789)</b>
<b>BORROWING LIMIT</b>	<b>1,300</b>	<b>1,300</b>	<b>1,300</b>	<b>1,300</b>	<b>1,300</b>	<b>1,300</b>
<b>AVAILABLE BORROWING CAPACITY</b>	<b>536</b>	<b>339</b>	<b>310</b>	<b>319</b>	<b>407</b>	<b>511</b>

<sup>1</sup> Includes infrastructure contributions.

<sup>2</sup> 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.

Expenditure restraint continues to be necessary throughout the outlook because revenue growth is forecast to be relatively flat, with a forecast increase of 1.1 per cent annually. In keeping with the fiscal strategy, the current outlook aligns expenditure growth with revenue growth at 1.1 per cent annually over the same period. Expenditure growth assumes increased costs for existing programs and services will be restrained.

The GNWT will remain below the federally-imposed \$1.3 billion borrowing limit throughout the forecast period, and total debt-servicing payments will remain below the 5 per cent limit required under the *Fiscal Responsibility Policy*. However, adherence to the *Fiscal Responsibility Policy* also requires annual cash surpluses from the operating budget to fund at least half of the infrastructure investments, which means that under the current medium-term outlook the infrastructure budget is being reduced while the existing cash deficit is lowered as well. Actions taken to date will not eliminate this short term borrowing over the life of the 18<sup>th</sup> Legislative Assembly. Additional

savings or revenues will be necessary to provide more infrastructure investment to protect the existing asset base and address the \$3.4 billion infrastructure deficit.

Strategic investments in transportation and energy infrastructure remain priorities, because they will both support the economy longer term and lower the territory's high energy costs.

Quite apart from economic developments, small tax bases are a serious limitation for increasing own-source revenues. About two-thirds of GNWT revenues come from Territorial Formula Financing (three-quarters from federal transfers generally), which is outside the ability of the GNWT to influence. The Territorial Formula Financing entitlement is projected to increase about 1.7 per cent annually over the next four years, due to assumptions about provincial/local government spending and NWT population growth relative to national growth, which are the main variables that determine the growth in Territorial Formula Financing. Both the provinces' expenditure restraint measures and low growth in the NWT population will slow the growth in Territorial Formula Financing, and therefore total revenues.

The GNWT has put in place a number of strategies to help create the environment for a more robust and vibrant economy. In addition, the GNWT will make strategic infrastructure investments, while adhering to its own *Fiscal Responsibility Policy* and the federally-imposed borrowing limit. These strategies should, in time, help the economy to strengthen and diversify.

### Fiscal Responsibility Policy Outlook (\$ millions)

	2015-16 (Actual)	2016-17 (Revised)	2017-18 (Estimate)	2018-19 (Forecast)	2019-20 (Forecast)	2020-21 (Forecast)
Cash Required for Infrastructure Investment Expenditures -						
Net of Deferred Contributions Received in the Year	201	379	253	185	140	121
<b>Debt Serving Payments:</b>						
Capital Leases	3	3	3	3	3	3
MVFL - Capital Payment	-	-	8	8	8	8
Stanton - Capital Payment	-	-	-	12	18	18
Deh Cho Bridge	9	9	10	11	12	12
Short-term Interest Expense	1	2	2	2	2	2
<b>Total Debt Servicing Payment</b>	<b>13</b>	<b>14</b>	<b>23</b>	<b>36</b>	<b>43</b>	<b>43</b>
<b>Percentage of Revenues</b>	<b>0.8%</b>	<b>0.8%</b>	<b>1.2%</b>	<b>2.0%</b>	<b>2.3%</b>	<b>2.2%</b>
<b>Fiscal Responsibility Policy Impacts:</b>						
1. Maximum Debt Servicing Payment - 5% of revenues	86	92	93	91	94	96
2. Operating Cash Surplus Requirements to:						
Fund Minimum 50% of Capital Acquisitions	101	189	126	92	70	60
Fund Debt Servicing Payment	13	14	23	36	43	43
<b>Total Operating Cash Requirements</b>	<b>114</b>	<b>203</b>	<b>149</b>	<b>128</b>	<b>113</b>	<b>103</b>
3. Operating Cash Available:						
Operating Surplus (Deficit) - Fiscal Planning Purposes	109	126	167	119	111	132
Less Deferred Contributions	-	-	-	(3)	(3)	(3)
Add Amortization Expense and Other Non Cash Items	84	93	98	107	112	115
<b>Total Operating Cash Available</b>	<b>194</b>	<b>219</b>	<b>265</b>	<b>223</b>	<b>219</b>	<b>244</b>
4. Overage (Shortfall) in Cash Generated by Operations	80	15	115	94	106	140

## ***Risks to Fiscal Outlook***

Debt risk is currently considered to be low, because debt servicing costs are expected to absorb only about two per cent of total revenues over the outlook 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 – activity in the resource sector is highly variable, and consequently the NWT has the highest variability in economic growth in Canada. The 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. Resource revenues are volatile and their variability will not be offset through Territorial Formula Financing, because resource revenues are outside of the formula. Resource revenues are sensitive to commodity price swings, exchange rate fluctuations, and operational decisions made by the resource developers, which makes resource revenue forecasting challenging. The risk to the operating budget of large resource revenue shocks is largely neutralized by the GNWT's commitment not to spend resource revenues on operations, but rather only on contributions to the Heritage Fund, debt repayment and infrastructure.
- Slowing revenue growth – Territorial Formula Financing is two-thirds of total revenues, affording considerable year-to-year stability to the budget. However, growth in Territorial Formula Financing relies heavily on NWT population growth relative to Canada's and provincial/local government spending. Flat population growth (or declines) or further provincial and local government fiscal austerity measures would cause growth in the Territorial Formula Financing Grant to be reduced.
- On-going operating expenditure pressures – constant pressure exists to enhance current programs and to implement new initiatives while not reducing existing program and service expenditures. Although the GNWT has made steady progress in reducing the rate of growth in program spending, continued efforts will be necessary to ensure that expenditure growth matches revenue growth, or the budgetary position could deteriorate.
- Unexpected expenditures and capital project cost overruns – operating expenditure shocks are usually unexpected events such as extraordinary fire suppression needs or other natural disasters. With the undertaking of large capital projects, the risk of capital cost overruns that may have an impact on the fiscal framework is heightened.

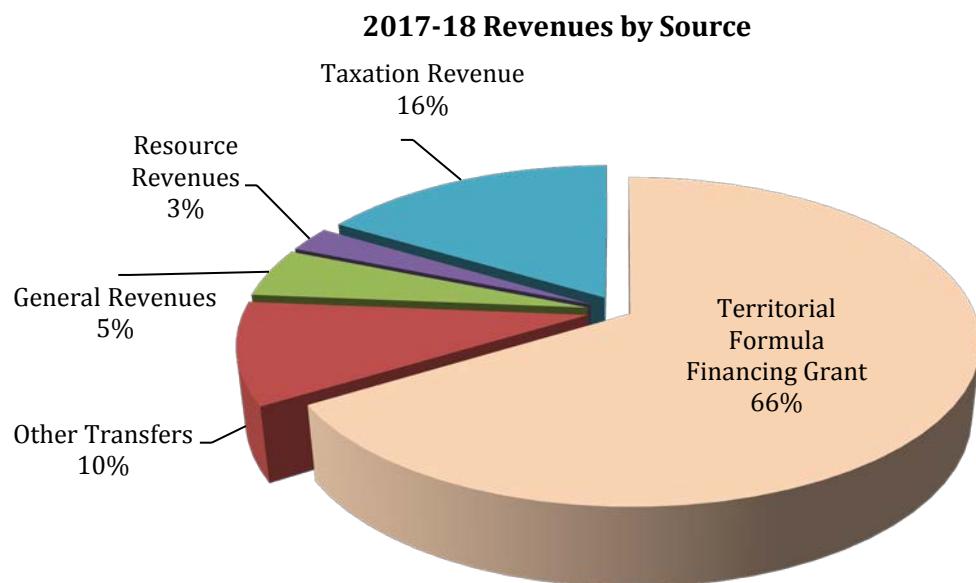
## **BUDGET 2017-18**

### ***Revenue Initiatives***

There are no new taxes announced in Budget 2017-18.

The tobacco tax rates increase effective April 1, 2017 to \$0.304 per cigarette and \$0.272 per gram of loose tobacco. Property tax mill rates and a number of fees will be adjusted for inflation, effective April 1, 2017. These increases result from the GNWT's policy of indexing tobacco and property tax rates, liquor mark-ups, and fees, where practicable.

Budget 2017-18 commits to investigate the introduction of two new taxes: a carbon tax and a sugary drinks tax. The GNWT signed the pan-Canadian Climate Change Framework and committed to investigating the implications of introducing a carbon tax in 2018-19 at \$10 per tonne of greenhouse gas emissions as part of a pan-Canadian national carbon pricing program. This investigation will include examining ways to make the carbon tax revenue-neutral for NWT residents and industry. The sugary drinks tax is being considered as a way to discourage consumption of sugary drinks, in the expectation that reduced sugar consumption will reduce certain health problems in the population including obesity and diabetes.

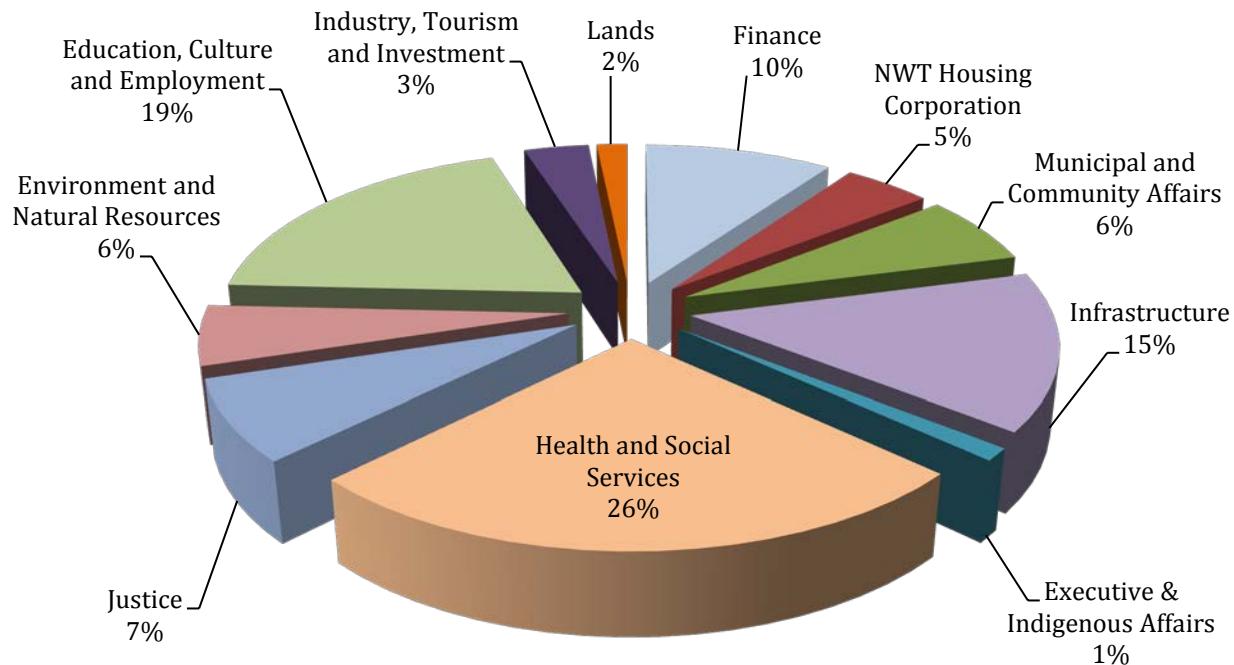


### ***Operating Expenditures***

The 2017-18 Budget proposes \$1.66 billion in operating expenditures, of which \$1 billion, or 63 per cent is budgeted for social programs such as education, health care, social services, housing, policing and corrections.

Operating expenditures are budgeted to decrease \$6 million from the 2016-17 Main Estimates despite \$32 million in new initiatives. Increased costs within existing programs (forced growth) of \$23 million and \$7 million in other adjustments are offset by \$41 million in sunsetted programs and \$27 million in reductions to department budgets.

### 2017-18 Operations Expenditures by Department



## Initiatives

Budget 2017-18 provides \$32 million in new initiatives and adds \$23 million for increased costs or enhancements for existing programs. Due to the difficult fiscal environment, new initiatives are funded out of program sunsets and efficiencies, and reductions found elsewhere. This approach – consistent with last year's Budget – allows the 18<sup>th</sup> Assembly the flexibility to address its priorities, without compromising the GNWT's fiscal health.

The initiatives in the 2017-18 Budget are focused on the five priorities of the Assembly: education and youth; living costs; community wellness and safety; the economy, environment and climate change; and, governance.

### ***Education, Training and Youth Development***

The budget contains \$5 million for three initiatives targeted toward improving the ability of young people to learn, develop and gain worthwhile experience. The initiatives include:

- \$3 million to support employment opportunities for residents of small communities.
- \$1.5 million to partially offset the expected implementation costs of junior kindergarten.
- \$500,000 to support Hay River and Fort Smith's joint bid for the 2018 Arctic Winter Games.

### ***Cost of living***

Propose new cost of living initiatives in 2017-18 total \$2.5 million to support the following measures:

- \$2 million for increased food, clothing and incidental allowances for recipients of income assistance.
- \$500,000 in increased funding to eligible seniors for undertaking repair programs on their residences so that they may remain at home as they get older.

### ***Community Wellness and Safety***

There are initiatives totalling \$2.8 million in the 2017-18 Budget which will be focused on building positive health outcomes for residents of the NWT. The focus will include the mental well-being of residents as well as their physical health.

- \$877,000 as a contribution to the Tłı̨chǫ Community Services Agency for the expansion of the Jimmy Erasmus Seniors Home in Behchokǫ̀.
- \$750,000 in support of actions to address homelessness and addictions:
  - \$520,000 for the establishment of the Yellowknife Sobering Centre; and
  - \$230,000 to increase funding for the Yellowknife Day Shelter.
- \$616,000 for the implementation of 911 emergency phone service.
- \$331,000 to meet needs arising from Devolution and land use management for health and social services programs.
- \$88,000 to meet the incremental costs of leased space to accommodate Wellness Courts.
- \$50,000 to provide for a Consumer Price Index-related adjustment to homeless shelter funding, in reflection of their higher costs resulting from increased prices.
- \$46,000 for the implementation of the new *Mental Health Act*.

### ***Economy, Environment and Climate Change***

Budget 2017-18 proposes \$14.9 million in new initiatives to assist in developing the economy, growing the population, improving energy efficiency and adapting to climate change.

- \$14 million for several aspects of the Mackenzie Valley Fibre Link project:
  - \$10.845 million for the primary service payment to the project's contractor;

- \$2.531 million to establish land access and indisputable right of use for the project's right of way along the construction route, as well as other project costs; and
- \$611,000 to meet the interim service costs of the project.
- \$132,000 to staff an Investment and Immigration Officer position.
- \$130,000 to hire an Unmanned Aircraft Systems Coordinator.
- \$601,000 in additional water and sewer services transfers to communities.

### ***Governance: Improving Accountability, Transparency and Collaboration***

Proposed initiatives to support the 18<sup>th</sup> Legislative Assembly's priority for a more effective government will total \$6.2 million in 2017-18. These initiatives will improve delivery of government programs and services.

- \$5.498 million in one-time funding for the construction of 46 market rental units for leasing to RCMP members under a collaborative effort between the Northwest Territories Housing Corporation (NWTHC), the GNWT Department of Justice and the RCMP. The 46 units will be allocated as follows: Inuvik (18 units), Norman Wells (3 units), Hay River (12 units), Fort Smith (6 units) and Fort Simpson (7 units).
- \$528,000 to support community government operations and maintenance budgets.
- \$95,000 for the creation of a single-window service centre on the Hay River reserve.
- \$87,000 to enhance French language communications and services.

### ***Enhanced Spending for Existing Programs and Services***

New spending is often portrayed as funding for new initiatives but the operating budget also includes funding for existing programs to pay for increased costs due to higher demand for programs or inflation. Budget 2017-18 proposes \$23 million to fund these cost pressures. A significant portion of this funding has been allocated to programs and services for the Departments of Health and Social Services (\$16 million) and Education, Culture and Employment (\$3 million).

- \$220,000 in funding to support school lockdown procedures.
- \$2.22 million for Income Assistance increased client uptake.
- \$53,000 for the Consumer Price Index adjustment for shelter funding.
- \$221,000 for the NWTAA Northern Allowance rate increase.
- \$237,000 to cover increased costs for the provision of forest management personnel services.
- \$250,000 for increases in the Cost of Living Tax Credit.

- \$200,000 for additional interest expenses on Long-Term Debt.
- \$3.246 million for additional costs for residential southern placements for adults.
- \$238,000 for additional health care software and equipment licensing and maintenance costs.
- \$760,000 for additional health care supply costs.
- \$120,000 to cover additional costs for Family Violence Shelters.
- \$200,000 for the Stanton Hospital Security Contract.
- \$105,000 for additional operating costs at the Inuvik Group Home.
- \$189,000 for additional operating costs at the Charlotte Vehus and Billy Moore Community Group Homes.
- \$6.422 million increase in funding to cover shortfall for Medical Travel costs.
- \$2.829 million increased contribution to the Hay River Health and Social Services Authority.
- \$296,000 increased operating cost contribution for the new Norman Wells Health Centre.
- \$51,000 to change a Territorial Parks Maintenance Officer position from seasonal to full time.
- \$132,000 for a Tourism Development Officer for the North Slave region to address higher demand for services.
- \$375,000 for Asset Inventory Adjustments to provide for maintenance costs of new GNWT assets brought into service.
- \$44,000 in additional funding for the Wekweètì Winter Road construction and maintenance.
- \$698,000 for costs related to the Fort Simpson Region Highway and Winter Road contracts.
- \$298,000 to cover additional Inuvik to Tuktoyaktuk Highway operation and maintenance costs.
- \$224,000 to increase the number of additional Sheriff's Officers to cover increased demand for Court Services.
- \$69,000 to address recommendations in the Judicial Remuneration Commission Report.
- \$1.074 million to fund enhancements to services provided by RCMP.
- \$90,000 to address shortfalls in the Property Tax Revenue Grant Program.
- \$2.503 million for increased computer network costs and other miscellaneous adjustments.

## ***Infrastructure***

The GNWT's 2017-18 capital budget was approved in October 2016. The capital budget consists of \$266 million for the GNWT's own infrastructure plans, including \$28 million for community infrastructure investments. If the \$24 million for the NWT Housing Corporation (NWTHC) housing investments included in the 2017-18 Main Estimates is considered, total planned infrastructure investment in 2017-18 will be \$290 million.

Community governments will receive \$15.3 million in Gas Tax funding, and \$28.9 million from the Public Transit Infrastructure Fund and the Clean Water and Waste Water Fund in 2017-18.

Major highlights in the capital estimates include:

- \$93 million for health facility replacements and renovations, including funding required for the construction of the new Stanton Territorial Hospital project;
- \$76 million for highways, winter roads, bridges and culverts across the NWT. This includes funding for the Inuvik-Tuktoyaktuk Highway and for highway projects submitted under the *Building Canada Plan*;
- \$28 million to continue to provide funding to community government for their infrastructure needs;
- \$23 million for new education facilities and renovations to existing facilities; and
- \$15 million to continue work on the new Territorial Female Correctional Centre in Fort Smith.

The GNWT continues to face the difficult challenge of maintaining existing assets, improving housing stock and meeting legislative requirements. By freeing up fiscal resources through reductions in the operating budget, additional funds are being dedicated to infrastructure, investment that would not otherwise be financially feasible. In turn, investments in strategic infrastructure will better position the NWT to maximize economic opportunities in the territory, and to explore options for adapting to the impact of climate change.

## Summary of Operations

(thousands of dollars)

	2017-2018	2016-2017	2016-2017	2015-2016
	Main Estimates	Revised Estimates	Main Estimates	Actuals
<b>REVENUES</b>	<b>1,859,038</b>	1,846,054	1,809,762	1,833,237
<b>OPERATIONS EXPENSE</b>				
Compensation and Benefits	<b>362,436</b>	369,401	369,141	379,866
Grants, Contributions and Transfers	<b>762,211</b>	772,286	773,054	774,445
Amortization	<b>95,931</b>	89,326	89,326	83,870
Chargebacks	<b>18,680</b>	18,362	18,332	19,900
Computer Hardware and Software	<b>11,429</b>	7,872	7,876	7,729
Contract Services	<b>213,892</b>	211,836	210,984	205,636
Controllable Assets	<b>3,019</b>	3,155	3,305	5,857
Fees and Payments	<b>86,373</b>	85,012	84,950	105,131
Interest	<b>11,378</b>	11,202	11,202	9,429
Loss on Sale of Assets	-	-	-	780
Materials and Supplies	<b>19,621</b>	20,697	20,802	25,497
Purchased Services	<b>13,153</b>	13,042	13,045	16,077
Travel	<b>18,376</b>	18,797	18,380	17,285
Utilities	<b>37,606</b>	39,530	39,530	37,873
Valuation Allowances	<b>2,419</b>	2,419	2,419	3,081
<b>TOTAL OPERATIONS EXPENSE TO BE VOTED</b>	<b>1,656,524</b>	1,662,937	1,662,346	1,692,456
<b>OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS</b>	<b>202,514</b>	183,117	147,416	140,781
Infrastructure Contributions	<b>(28,402)</b>	(31,473)	(28,402)	(29,002)
Deferred Maintenance	<b>(2,000)</b>	(2,939)	-	(1,918)
Petroleum Products Stabilization Fund net profit (loss)	<b>(100)</b>	115	94	(182)
Supplementary Reserve	<b>(35,000)</b>	(43,000)	(30,000)	-
Estimated Appropriation Lapses	<b>30,000</b>	20,000	30,000	-
<b>WORK PERFORMED ON BEHALF OF OTHERS</b>				
Recoveries	<b>73,546</b>	101,112	89,526	81,115
Expenditures	<b>(73,546)</b>	(101,112)	(89,526)	(81,115)
<b>OPERATING SURPLUS FOR THE YEAR</b>	<b>167,012</b>	125,820	119,108	109,679
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	<b>1,657,395</b>	1,531,575	1,518,855	1,421,896
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	<b>1,824,407</b>	1,657,395	1,637,963	1,531,575

**Summary of Revenues****(thousands of dollars)**

	<b>2017-2018</b>	<b>2016-2017</b>	<b>2016-2017</b>	
	<b>Main Estimates</b>	<b>Revised Estimates</b>	<b>Main Estimates</b>	<b>2015-2016 Actuals</b>
<b>GRANT FROM CANADA</b>	<b>1,232,439</b>	1,219,888	1,219,888	1,232,755
<b>TRANSFER PAYMENTS</b>	<b>186,329</b>	187,382	170,660	194,153
<b>TAXATION REVENUE</b>				
Personal Income Tax	<b>113,268</b>	119,716	110,603	109,837
Corporate Income Tax	<b>83,723</b>	73,477	60,003	25,010
Tobacco Tax	<b>15,624</b>	15,742	15,760	16,191
Fuel Tax	<b>19,465</b>	19,306	18,877	19,750
Payroll Tax	<b>42,525</b>	41,965	41,448	42,085
Property Taxes and School Levies	<b>25,364</b>	29,463	23,360	28,380
Basic Insurance Premium Tax	<b>4,500</b>	4,500	4,500	4,755
Fire Insurance Premium Tax	<b>350</b>	350	350	406
	<b>304,819</b>	304,519	274,901	246,414
<b>Non-renewable Resource Revenue</b>				
Licences, Rental and Other Fees	<b>2,380</b>	12,441	2,287	2,414
Minerals, Oil and Gas Royalties	<b>43,370</b>	43,060	59,810	55,759
Quarry Fees	<b>250</b>	250	250	173
	<b>46,000</b>	55,751	62,347	58,346
<b>GENERAL REVENUES</b>				
Revolving Funds Net Revenue	<b>23,545</b>	23,281	23,281	23,548
Regulatory Revenues	<b>35,789</b>	24,412	27,542	24,442
Investment Income	<b>805</b>	805	805	4,364
Lease	<b>5,905</b>	5,630	5,630	6,008
Program	<b>17,927</b>	20,022	20,344	21,996
Grants in kind	<b>583</b>	593	593	445
Service and miscellaneous	<b>1,897</b>	771	771	1,622
Recovery of Prior Years' Expenditures	<b>3,000</b>	3,000	3,000	19,144
	<b>89,451</b>	78,514	81,966	101,569
<b>TOTAL REVENUES</b>	<b>1,859,038</b>	1,846,054	1,809,762	1,833,237

### Summary of Operations Expenditures by Department

	(thousands of dollars)			
	2017-2018	2016-2017	2016-2017	2015-2016
	Main Estimates	Revised Estimates	Main Estimates	Actuals
<b>Department</b>				
Legislative Assembly	<b>19,336</b>	19,336	19,336	20,307
Education, Culture and Employment	<b>314,879</b>	315,848	315,848	312,186
Environment and Natural Resources	<b>91,517</b>	90,315	90,315	110,513
Executive and Indigenous Affairs	<b>19,194</b>	19,194	19,194	18,898
Finance	<b>235,743</b>	238,734	238,734	242,515
Health and Social Services	<b>423,457</b>	414,519	414,234	424,773
Industry, Tourism and Investment	<b>55,511</b>	59,870	59,870	62,438
Infrastructure	<b>240,419</b>	245,578	245,270	241,105
Justice	<b>123,417</b>	127,200	127,092	129,512
Lands	<b>26,291</b>	28,143	28,253	27,284
Municipal and Community Affairs	<b>106,760</b>	104,200	104,200	102,925
	<b>1,656,524</b>	1,662,937	1,662,346	1,692,456
<b>Expenditure Category</b>				
Compensation and Benefits	<b>362,436</b>	369,401	369,141	379,866
Grants, Contributions and Transfers	<b>762,211</b>	772,286	773,054	774,445
Amortization	<b>95,931</b>	89,326	89,326	83,870
Chargebacks	<b>18,680</b>	18,362	18,332	19,900
Computer Hardware and Software	<b>11,429</b>	7,872	7,876	7,729
Contract Services	<b>213,892</b>	211,836	210,984	205,636
Controllable Assets	<b>3,019</b>	3,155	3,305	5,857
Fees and Payments	<b>86,373</b>	85,012	84,950	105,131
Interest	<b>11,378</b>	11,202	11,202	9,429
Loss on Sale of Assets	-	-	-	780
Materials and Supplies	<b>19,621</b>	20,697	20,802	25,497
Purchased Services	<b>13,153</b>	13,042	13,045	16,077
Travel	<b>18,376</b>	18,797	18,380	17,285
Utilities	<b>37,606</b>	39,530	39,530	37,873
Valuation Allowances	<b>2,419</b>	2,419	2,419	3,081
	<b>1,656,524</b>	1,662,937	1,662,346	1,692,456

**Summary of Infrastructure Investment by Department**  
**(thousands of dollars)**

	<b>2017-2018</b>	<b>2016-2017</b>	<b>2016-2017</b>	
	<b>Capital Estimates</b>	<b>Revised Estimates</b>	<b>Capital Estimates</b>	<b>2015-2016 Actuals</b>
<b>Tangible Capital Assets</b>				
Legislative Assembly	-	318	200	234
Education, Culture and Employment	<b>23,211</b>	11,896	7,899	5,551
Environment and Natural Resources	<b>3,439</b>	30,514	27,939	11,796
Finance	<b>1,325</b>	1,475	1,325	955
Health and Social Services	<b>13,140</b>	66,000	20,477	28,259
Human Resources	-	-	-	175
Industry, Tourism and Investment	<b>3,773</b>	6,435	3,598	4,295
Infrastructure - Public Works and Services	<b>12,017</b>	26,579	16,977	13,211
Infrastructure - Transportation	<b>79,694</b>	134,998	71,891	112,985
Justice	<b>16,683</b>	26,309	9,078	4,806
Lands	<b>110</b>	1,768	1,350	113
	<b>153,392</b>	306,292	160,734	182,380
<b>Infrastructure Contributions</b>				
Education, Culture and Employment	<b>400</b>	510	400	598
Municipal and Community Affairs	<b>28,002</b>	29,360	28,002	28,402
	<b>28,402</b>	29,870	28,402	29,000
<b>Deferred Maintenance (non-capital)</b>				
Education, Culture and Employment	-	798	-	-
Health and Social Services	-	969	-	344
Infrastructure - Public Works and Services	<b>2,000</b>	922	-	1,513
Infrastructure - Transportation	-	140	-	10
	<b>2,000</b>	2,829	-	1,867
<b>Public Private Partnerships</b>				
Finance	-	91,000	91,000	65,007
Health and Social Services	<b>82,331</b>	58,847	40,000	36,630
	<b>82,331</b>	149,847	131,000	101,637
<b>Total Capital Estimates</b>	<b>266,125</b>	488,838	320,136	314,884

### Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2017-2018	2016-2017	2016-2017	2015-2016
	Main Estimates	Revised Estimates	Main Estimates	Actuals
<b>SHORT TERM DEBT</b>				
Government of the Northwest Territories	<b>305,000</b>	320,000	312,000	244,803
Hay River Health & Social Services Authority	<b>1,000</b>	1,000	1,000	-
NWT Hydro Corporation	<b>30,000</b>	30,000	20,000	32,600
	<b>336,000</b>	351,000	333,000	277,403
<b>LONG TERM DEBT</b>				
Government of the Northwest Territories:				
Deh Cho Bridge - Real Return Bonds	<b>177,562</b>	176,295	178,427	177,801
Mackenzie Valley Fibre Optic Link capital lease	<b>81,000</b>	81,000	-	65,007
Stanton Territorial Hospital Debt	<b>133,500</b>	80,900	-	13,730
Canada Mortgage and Housing Corporation	<b>521</b>	595	597	666
Public Agencies:				
NWT Hydro Corporation	<b>227,226</b>	231,146	230,272	182,547
NWT Housing Corporation	<b>8,256</b>	9,063	9,189	9,911
Yellowknife Catholic Schools	<b>663</b>	1,417	855	2,130
<b>TOTAL DEBT</b>	<b>964,728</b>	931,416	752,340	729,195
<b>OBLIGATIONS UNDER CAPITAL LEASES</b>				
Government of the Northwest Territories	<b>950</b>	1,835	1,816	2,665
NWT Hydro Corporation	<b>17,571</b>	17,976	17,976	18,568
NWT Housing Corporation	-	-	-	53
<b>LOAN GUARANTEES</b>				
Other public agencies	-	-	250	-
NWT Housing Corporation	<b>15,805</b>	19,006	19,149	21,926
<b>TOTAL GROSS BORROWING PER BORROWING REGULATIONS</b>	<b>999,054</b>	970,233	791,531	772,407
<b>LESS:</b>				
<b>EXTERNALLY RESTRICTED SINKING FUNDS</b>				
NWT Hydro Corporation	<b>(9,518)</b>	(8,749)	(8,749)	(8,717)
<b>TERRITORIAL BORROWING</b>	<b>989,536</b>	961,484	782,782	763,690
<b>TERRITORIAL BORROWING LIMIT</b>	<b>1,300,000</b>	1,300,000	1,300,000	1,300,000
<b>AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES</b>	<b>310,464</b>	338,516	517,218	536,310

## Provincial/ Territorial Tax Rates at January 26, 2017

	Combined Top Marginal					Corporate Income Tax			Capital Tax on Financial Institutions <sup>(e)</sup>
	Personal Income Tax <sup>(a)</sup> (%)	Retail Sales Tax (%)	Fuel Tax <sup>(b)</sup>		Tobacco Tax <sup>(c)</sup> (\$/carton)	Payroll Tax <sup>(d)</sup> (%)	Small (%)	Large (%)	
			Gasoline (\$/litre)	Diesel (\$/litre)					(%)
Northwest Territories <sup>(f)</sup>	47.05	-	10.7	9.1	57.20	2.00	4.0	11.5	-
Nunavut	44.50	-	6.4	9.1	50.00	2.00	4.0	12.0	-
Yukon	48.00	-	6.2	7.2	42.00	-	3.0	15.0	-
British Columbia	47.70	7.0	21.17	22.67	47.80	-	2.5	11.0	-
Alberta	48.00	-	17.49	18.35	50.00	-	3.0	12.0	-
Saskatchewan	48.00	5.0	15.0	15.0	50.00	-	2.0	12.0	3.25
Manitoba	50.40	8.0	14.0	14.0	59.00	2.15	0.0	12.0	6.00
Ontario	53.53	8.0	14.3	14.7	30.95	1.95	4.5	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	29.80	4.26	8.0	11.8	1.25
New Brunswick	53.30	10.0	15.5	21.5	44.52	-	3.5	14.0	5.0
Nova Scotia	54.00	10.0	15.5	15.4	55.04	-	3.0	16.0	4.0
Prince Edward Island	51.37	10.0	13.1	20.2	50.00	-	4.5	16.0	5.0
Newfoundland & Labrador <sup>(g)</sup>	51.30	10.0	33.0	21.5	49.00	2.00	3.0	15.0	6.0
Weighted average <sup>(h)</sup>	51.72	7.3	17.2	17.5	38.07	1.84	4.5	11.8	1.41

## Notes:

(a) Combined federal-provincial/ territorial highest 2017 personal income tax rate and surtax.

(b) The NWT's off-highway gasoline tax rate is 6.4 cents/litre. British Columbia fuel tax rates include carbon tax, which are uniform across the province but the BC fuel tax includes surtaxes in Victoria and the Lower Mainland. Quebec fuel tax rates also vary regionally. Alberta's fuel tax includes carbon tax.

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

(f) As of April 1, 2017, NWT will increase the cigarette tax to \$60.8 per carton.

(g) Individuals pay a temporary deficit reduction levy of up to \$900 from July 1, 2016 to December 31, 2019.

(h) Average weighted by provincial/ territorial populations at July 1, 2016.