Budget 2017

April 6, 2017
Our Plan

✓ Exceeded Deficit Reduction Target for 2016/17

✓ On Track to Achieve Deficit Reduction Target for 2017/18

✓ On Pace to Return to Surplus in 2022/23

✓ Reduced Spending by $283 million

✓ Reduced Borrowing by $2B in 2017/18
Summary 2016/17

• Revenues improved by $544M, primarily due to oil royalties

• Expenses down $81M from Budget

• Borrowing down by $475M
## Statement of Operations 2016/17

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Revised</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6,776</td>
<td>7,320</td>
<td>544</td>
</tr>
<tr>
<td>Expenses</td>
<td>8,481</td>
<td>8,400</td>
<td>(81)</td>
</tr>
<tr>
<td>Revenue Risk Adjustment</td>
<td>(125)</td>
<td>0</td>
<td>125</td>
</tr>
<tr>
<td>Deficit</td>
<td>(1,830)</td>
<td>(1,080)</td>
<td>750</td>
</tr>
</tbody>
</table>
• Deficit forecast to be $778M

• Expenses $283M lower than 2016/17:
  • Zero Based Budgeting ($65.9M)
  • Changes to Management Structure ($30.8M)
  • Savings from extended Government agencies ($41.9M)
  • Annualized savings of 2016/17 actions ($68.1M)
  • Net savings, including actuary calculations / accrual adjustments ($77M)

• 2017/18 Borrowing down by $2B to $400M
## Statement of Operations 2017/18

<table>
<thead>
<tr>
<th></th>
<th>2016/17 Revised</th>
<th>2017/18 Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>7,320</td>
<td>7,339</td>
<td>19</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>8,400</td>
<td>8,117</td>
<td>(283)</td>
</tr>
<tr>
<td><strong>Deficit</strong></td>
<td>(1,080)</td>
<td>(778)</td>
<td>302</td>
</tr>
</tbody>
</table>
Revenue Summary 2017/18

• No new Taxes or Fees

• No increases to existing Taxes or Fees

• 75% reduction in Temporary Gas Tax in 2017
  • June 1, 2017 - 8.5 cents per litre
  • December 1, 2017 - 4 cents per litre

• NL Income Supplement and Seniors’ Benefit continues
  • 155,000 families and individuals benefit
  • $120M
Revenue Summary 2017/18

• Oil Price assumption - $56 US per barrel

• Price forecast is comparable to recent federal and provincial budget assumptions

• Oil production lower than 2016/17

<table>
<thead>
<tr>
<th>Fiscal Year 2017/18</th>
<th>Oil Price $US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newfoundland and Labrador (Brent)</td>
<td>56.00</td>
</tr>
<tr>
<td>Alberta (WTI)</td>
<td>55.00</td>
</tr>
<tr>
<td>Saskatchewan (WTI)</td>
<td>56.25</td>
</tr>
<tr>
<td>Quebec (Brent)</td>
<td>58.75</td>
</tr>
<tr>
<td>Federal (WTI)</td>
<td>55.25</td>
</tr>
</tbody>
</table>
Leveraging Federal Funding

• Every effort made to maximize Federal funding
  • Positive impact on the economy and people/communities

• $573M Federal/Provincial $ in 2017/18
  • $3B five-year infrastructure plan
  • Equivalent of 4,900 full-time jobs on average each year for the next five years
Healthy Living

- Overall commitment of more than $4 billion for health and wellness

- $115.2 million for community groups

- $88.2 million for health care infrastructure

- $73 million over 10 years for mental health. An initial investment of $1.4 million in 2017 will support mental health

- $7.5 million to advance replacement of Waterford Hospital

- $5 million to start implementation of the recommendations of the All-Party Committee on Mental Health and Addictions

- $2.5 million to expand primary health care teams

- $730,000 for the Labrador Travel Subsidy
Education and Skills Development

- Over $316 million for Memorial University
- Over $89 million for College of the North Atlantic
- $68 million to maintain the existing tuition freeze at Memorial University and College of the North Atlantic
- $14.5 million for the Child Care Subsidy Program
- $1.3 million increase annually for the Early Learning and Child Care Supplement
- Increase of $500,000 for additional Student Assistant hours to support inclusive education
Investing in Our Province 2017/18

**Industry and Business**
- $20.2 million to support culture and heritage
- $14.4 million for economic and business development
- $13 million for tourism marketing
- $8 million for Investment Attraction Fund
- Additional $2 million for the Newfoundland and Labrador Film Development Corporation Equity Investment
- Approximately $5 million for wild fishery and aquaculture
- $3.9 million to continue Growing Forward 2, a five-year, $37 million cost-shared project with Federal Government
Investing in Our Province 2017/18

**Infrastructure**
- Nearly $3 billion multi-year infrastructure plan (equivalent of an average of 4,900 full-time jobs per year over next five years)
  - $573.1 million in key areas including roads, schools, health care facilities and municipal infrastructure
  - $142.4 million under municipal infrastructure program
  - $88.2 million to health care infrastructure
  - $53.8 million for new schools, extensions and repairs/maintenance
  - $44.7 million for post-secondary infrastructure projects
Investing in Our Province 2017/18

Safe and Sustainable Communities
• $100 million for municipal infrastructure over the next three years

• $5 million over three years for a new Home Energy Savings Program, and $4 million over three years for a new Home Energy Efficiency Loan Program, which offers low-interest financing of up to $10,000 for energy efficiency home upgrades

• Approximately $7.8 million for transition houses, including over $780,000 in new funding so that transition houses can provide the necessary services to women and children fleeing violence

• Approximately $370,000 to strengthen the court system in Labrador

• $250,000 for Sexual Assault Response Pilot Program
Summary of Plan to Return to Surplus

- 2016/17 and 2017/18 exceeding deficit reduction targets
- On pace to return to surplus in 2022/23
- Work continues on spending reductions in government and extended government agencies
  - Expenditure reviews
  - Shifting culture to focus on eliminating waste
  - Efficiency improvements
- Oil Revenue Risk Adjustment reflects oil price volatility over the medium to long term
- Nalcor is committed to lowering long term electricity rates
### BUDGET 2017 FORECAST

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>7,320</td>
<td>7,339</td>
<td>7,711</td>
<td>7,996</td>
<td>7,959</td>
<td>8,172</td>
<td>8,282</td>
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<tr>
<td><strong>Total Expenses</strong></td>
<td>8,400</td>
<td>8,117</td>
<td>8,305</td>
<td>8,258</td>
<td>8,188</td>
<td>8,124</td>
<td>8,118</td>
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<tr>
<td><strong>Oil Revenue Risk</strong></td>
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<td></td>
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<tr>
<td>Adjustment</td>
<td>0</td>
<td>0</td>
<td>(50)</td>
<td>(80)</td>
<td>(95)</td>
<td>(120)</td>
<td>(140)</td>
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<tr>
<td><strong>Deficit</strong></td>
<td>(1,080)</td>
<td>(778)</td>
<td>(644)</td>
<td>(342)</td>
<td>(324)</td>
<td>(72)</td>
<td>24</td>
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<tr>
<td><strong>Deficit Targets</strong></td>
<td>(1,830)</td>
<td>(800)</td>
<td>(650)</td>
<td>(500)</td>
<td>(250)</td>
<td>0</td>
<td>100</td>
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</table>
Controlling spending

Changing the culture in a new reality

Source: Department of Finance
Borrowing

Significant Progress to Reduce Borrowing

$ Billion

<table>
<thead>
<tr>
<th>$0.0</th>
<th>$0.5</th>
<th>$1.0</th>
<th>$1.5</th>
<th>$2.0</th>
<th>$2.5</th>
<th>$3.0</th>
<th>$3.5</th>
<th>$4.0</th>
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<tbody>
<tr>
<td>16-17r</td>
<td>$3.4</td>
<td>$2.9</td>
<td>$2.4</td>
<td>$1.9</td>
<td>$1.6</td>
<td>$1.0</td>
<td>$1.2</td>
<td>$0.9</td>
</tr>
<tr>
<td>17-18f</td>
<td>$0.4</td>
<td>$1.0</td>
<td>$1.0</td>
<td>$1.2</td>
<td>$0.9</td>
<td>$0.5</td>
<td>$0.4</td>
<td>$0.2</td>
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<td>18-19f</td>
<td>$0.2</td>
<td>$0.7</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Borrowing Reduced by $2.7B

Source: Department of Finance
Executing Borrowing Strategy

• We are no longer borrowing for operations

• $4.9B in borrowing completed since January 2016

• No longer relying on short term T-Bills to meet long term borrowing requirements

• Borrowing for Commitments
  • Nalcor Equity, Debt Repayment, Pension Promissory Notes, Multi-Year Infrastructure Plan

• Priority now is to reduce the cost of borrowing
Newfoundland and Labrador Economy

• Economy in transition

• Positive economic activity occurring, including offshore exploration, aquaculture, tourism and significant mining activity

• Budget 2017 actions to support the Economy
  • Nearly $3 billion multi-year Infrastructure, creating equivalent of 4,900 full time jobs on average per year
  • Reducing taxes - Gas Tax reduction
  • Investment in the NL Income Supplement and Seniors Benefit

• Many key economic indicators showing improvement

• Future electricity rate management
Future Electricity Rate Management

- Consumer Price Index (CPI) forecasted to increase in 2020 by 3.8%
- Reflects projected electricity rates when Muskrat Falls “in service” in 2020
- CPI forecast does not include any rate management efforts

<table>
<thead>
<tr>
<th>Rate Management Reserve ($M)</th>
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</thead>
<tbody>
<tr>
<td>Forecast</td>
</tr>
<tr>
<td>210</td>
</tr>
</tbody>
</table>

Rate Mitigation:
- Nalcor directed to source opportunities to lower rates in the future
- Preliminary Rate Management Reserve identified for this purpose
- Several actions have already been undertaken, including:
  - Enhanced Federal Loan Guarantee which projected to reduce rates by 1 to 1.5 cents per kwh
  - Recall power to displace Holyrood power, creating savings estimated at $160m for rate lowering efforts
# OIL PRICE AND EXCHANGE RATE SENSITIVITIES

## Fiscal Year 2017-18

<table>
<thead>
<tr>
<th></th>
<th>Budget 2016</th>
<th>Budget 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Royalties</td>
<td>$ 949 Million</td>
<td>$882 Million</td>
</tr>
<tr>
<td>Average Oil Price</td>
<td>US$52</td>
<td>US$56</td>
</tr>
<tr>
<td>Exchange Rate (USD/CAD)</td>
<td>0.77</td>
<td>0.75</td>
</tr>
</tbody>
</table>

## Sensitivities

### Fiscal Year Change in Royalties ($ Millions)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Oil Price Budget Assumption ($US):</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minus $1.00 US Impact ($M):</td>
<td>-21.9</td>
<td>-25.7</td>
<td>-26.7</td>
<td>-24.1</td>
<td>-23.7</td>
<td>-23.1</td>
</tr>
<tr>
<td>Plus $1.00 US Impact ($M):</td>
<td>23.4</td>
<td>25.7</td>
<td>26.7</td>
<td>24.1</td>
<td>23.7</td>
<td>23.1</td>
</tr>
<tr>
<td>Exchange Rate Budget Assumption:</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minus 1 Cent Impact ($M):</td>
<td>17.8</td>
<td>21.2</td>
<td>24.5</td>
<td>22.2</td>
<td>22.2</td>
<td>22</td>
</tr>
<tr>
<td>Plus 1 Cent Impact ($M):</td>
<td>-16.2</td>
<td>-20.7</td>
<td>-23.9</td>
<td>-21.6</td>
<td>-21.7</td>
<td>-21.4</td>
</tr>
</tbody>
</table>
OIL PRODUCTION AND ROYALTIES

Production (P) left stacked columns; Royalties (R) right stacked columns

Sources: Department of Finance, Department of Natural Resources, C-NLOPB, Nalcor.
Deficit as a % of GDP

Deficit as a % GDP Decreasing

Source: Department of Finance