

Budget Address

2015 - 2016

NORTHWEST TERRITORIES

The Honourable J. Michael Miltenberger
Minister of Finance

**Fifth Session of the
Seventeenth Legislative Assembly**

February 5, 2015

Introduction

Mr. Speaker, as I rise to present the last Budget of the 17th Legislative Assembly I would first like to thank the Members of this Assembly, who, through various Standing Committees, have worked with the Cabinet towards achieving the priorities of this Assembly within the limits of our fiscal framework. It is a credit to our system of consensus government, as the many successes and accomplishments of the 17th Legislative Assembly and the numerous challenges met and often tough choices made, are because we worked together. This Budget looks to conclude the work of the 17th Assembly and prepare for the fiscal transition to the 18th Assembly.

Our accomplishments are built on three basic principles:

- We will protect programs and services while managing expenditure growth,
- We will maintain a stable tax environment to support the economy, and
- We will achieve this while remaining committed to the *Fiscal Responsibility Policy* to manage our debt.

Taking Stock

Guided by these principles we have achieved some game changing goals during the past 1,197 days. Only 310 days ago we rolled up 5,000 kilometres of red tape when we gained responsibility for the management of our lands, waters and non-renewable resources on April 1 of last year. The smooth transition was a testament to the dedication of our entire public service, from the people who worked directly to make the assumption of the new responsibilities seamless, to the employees who carried on the regular business of government while the focus and resources were elsewhere. Resource management decisions are now made faster while using the same stringent requirements and processes as before. We are finally receiving a share of the resource revenues generated in our territory. As an Assembly, we have chosen, after sharing with Aboriginal governments, to save 25 per cent of the net revenues we receive from our resource revenues in the Heritage Fund to ensure future Northwest Territories residents share in the benefits of the resources we are using now.

We have protected programs and services. Over the life of the 17th Assembly we will have increased social envelope spending by \$112 million. To date in this Assembly we have added \$69 million in new initiatives plus almost \$54 million in multi-year one-time funding to offset a portion of the NWT Power Corporation's electricity rate increase, which helped moderate the transition to higher rates. In 2015-16, the Government proposes to add \$24.2 million to continue support of the priorities of the Legislative Assembly.

We have not raised taxes, except through indexing to inflation.

We have taken measured risk to make strategic capital investments to grow the economy. This includes the Mackenzie Valley Fibre Optic Link, which will provide opportunities for business, more efficient and effective delivery of government programs, and is expected to pay for itself with the anticipated growth of the Inuvik Satellite Station Facility.

During the life of this Assembly, including the 2015-16 capital budget approved last November, we will have delivered, started working on, or committed to, \$1.5 billion in capital projects. This includes major projects like the Inuvik to Tuktoyaktuk Highway and the Stanton Hospital renovation. These infrastructure investments are significant commitments that will benefit our residents for generations.

We have accomplished this while remaining committed to our *Fiscal Responsibility Policy*. In keeping with the Policy's guidelines, we will have generated operating surpluses in every year of our mandate to pay for at least half of our infrastructure and to service debt. Through careful management of expenditures, we were able to keep our commitment to invest an additional \$100 million in capital in the last two years of this Assembly.

While we have borrowed to make capital investments, our debt servicing payments are one per cent of total annual revenues, well below the *Fiscal Responsibility Policy's* maximum debt servicing payment guideline of five per cent of total revenues, and the third lowest in the country.

Economic Outlook

These accomplishments are set against a backdrop of a different reality. We are expecting the economy to have grown 5.2 per cent in 2014 and to grow 3.7 per cent this year. The growth in 2014 reflects increased diamond production, pre-construction work on the Gahcho Kué mine and the Inuvik-Tuktoyaktuk Highway construction. The economic growth should continue this year with the increased investment resulting from the start of construction of the Gahcho Kué diamond mine.

These economic growth estimates cloak the decrease in resident employment, the declining population, the dramatically slowing oil and gas exploration, the business closures in some of our communities, and the fact that our economy is only four-fifths of what it was in 2007. Our economic growth is concentrated in the diamond industries while the rest of the economy is not really growing at all.

Over the medium term, there are encouraging signs that our two largest diamond mines will extend their mine lives. These potential extensions are not overly long-term and we need to be cautious. Forecasts are just forecasts until they become reality. The scope and timing of new resource projects is uncertain and already identified potential new mines, including the Gahcho Kué mine, are smaller than the existing mines that will mature soon under the current mine plans.

We have been through the resource boom and bust many times and we are fortunate that we have the diamond mines to support our economy as they have. Nevertheless, we should not count on being lucky again. Our economic future depends on us being able to make investments to grow and diversify the economy and achieve the objectives set in our economic strategies. We are measuring the success of our efforts by setting an aspirational target to increase the Northwest Territories' population by 2,000 people over the next four years. We are measuring success by boots on the ground because other economic indicators are misleading in a small resource-based economy with a large fly in and out workforce.

While all options are on the table to reach our 2,000 target, we are focussed on strategies to help private business retain and recruit as well as do the same for the GNWT workforce. These strategies look at the quality of life offered by the Northwest Territories. We have some of the highest incomes in Canada, our taxes are competitive, and the lifestyle is second to none, so we are focussing on reducing the cost of living through investments to reduce energy and transportation costs and increase our stock of affordable housing.

Fiscal Situation

We expect to end 2014-15 with a \$109 million surplus despite facing both expenditure and revenue shocks. The most severe fire season in the Northwest Territories' history has cost \$55 million, or 3 per cent of this year's budget. Record 64-year low water levels at the Snare Hydro system required the Government to intervene with a \$20 million contribution to the Northwest Territories Power Corporation to ensure higher electricity costs of 13 per cent are not passed on to residents and businesses. On the revenue side, resource revenues are expected to be \$41 million lower and corporate income tax \$24 million lower than the 2014-15 Budget estimates. This perfect storm of shocks has dropped our capacity to borrow and is projected to reduce the \$100 million cushion of unencumbered room under the federally-imposed \$800 million borrowing limit to \$70 million by the end of this fiscal year.

Based on the economic outlook and the population growth forecasts, we are projecting revenues to remain almost flat over the medium term while expenditure pressures continue to grow. Without continued careful expenditure management, we will have a fiscal problem. If we want a vibrant economy we need to make the infrastructure and other investments that will create the environment for our economic potential to be realized. We do not have the revenue growth necessary to make all these investments possible and we are constrained by the \$800 million borrowing limit to borrow to make strategic investments. We can make some investments but it will mean others will not be able to be made and if we can't find enough savings through efficiency gains then other expenditure management actions will be necessary.

Even a higher limit on our authority to borrow will not mean we can relax on expenditure management. Our borrowing is made up of \$407 million in long term and public agency debt and \$272 million in short term debt. Much of our public agency debt, such as the \$184 million in Northwest Territories Hydro Corporation debt, is self-financing through ratepayers. Our short term debt is created when we borrow for other infrastructure investments and cash shortfalls for programs and services. We use operating surpluses to pay for this debt. Addressing our growing infrastructure deficit and making investments to grow the economy will make large operating surpluses an on-going requirement.

Consequently, for this Budget we asked departments to find savings from within to limit forced growth and reduce the operating base. Our new initiatives, which are mainly completions of actions already started, would not be possible without this restraint.

Budget Highlights

The 2015-16 Budget estimates that total revenues will be \$1.83 billion in 2015-16, a 0.6 per cent drop from the revised 2014-15 revenue estimate. Through careful expenditure management by departments, we have held the growth in operating expenditures to 2.1 per cent in 2015-16 to produce a budget of \$1.68 billion. The projected \$147 million operating surplus will increase our borrowing capacity to \$86 million by the end of 2015-16.

Revenues

This Budget introduces no new taxes. We are holding to the principle of maintaining a stable and competitive tax regime. We need tax revenues to make investments for the well-being of residents and to grow the economy. At the same time, we want to be careful to not increase the cost of living, already one of the highest in the country, on Northwest Territories residents and business.

Expenditures

The budgeted 2015-16 operating expenditures are only \$34.6 million higher than the 2014-15 Budget. Departments held the line on expenditures by keeping forced growth and other adjustments to \$46 million. This natural increase in spending was partially offset by reductions of \$23.1 million for programs that have ended and \$12.6 million in reductions to department budgets.

Without the concentrated effort by departments to find savings or to re-profile funding from within their existing budgets, it would not have been possible to present the \$24.2 million in new initiatives in this Budget to continue the work to advance the priorities of this Assembly over the past four years.

Investing in People

We will be spending over \$930 million on social programs in 2015-16 as investments in the Northwest Territories residents to encourage healthy lifestyles free from poverty. Almost 72 per cent of the increase in our operating budget will go towards our social programs, including an additional \$1.75 million for the food allocation in the income assistance program, allowing our most vulnerable Northerners to better feed their families.

To date in this Assembly we have added over \$14.4 million in new initiatives to improve the well-being of Northwest Territories residents, ranging from actions under the *Anti-Poverty Strategy* and the *Early Childhood Development Action Plan* to prevention programs.

In this Budget we are investing another \$4.9 million in new or re-profiled initiatives that will support Northwest Territories residents in reaching their full potential.

This Budget proposes to add \$440,000 to promote integrated approaches to case management for high needs clients being served by multiple departments and agencies. Most of the funding is directed to improving wellness through pilot projects in Yellowknife and Inuvik that will integrate the services provided by various departments and non-government agencies to people with a variety of needs. The team will work directly with clients to help manage their cases so that multi-agency services are integrated into a single team for each individual. This pilot project will provide better service to individuals and will provide information on what approaches will work to ensure the culture shift necessary to break down the barriers and silos that exist across departments and between the GNWT and other agencies providing services. The final product of this pilot project will be the knowledge to make recommendations on how to support integrated case management as a permanent system-wide approach for the delivery of services to clients in a variety of areas, including mental health and wellness.

Helping people gain permanent employment is an objective that supports wellness in individuals as well as reduces income assistance costs. By re-profiling funds from its income assistance program, the Department of Education, Culture and Employment will be able to direct \$646,000 for a new initiative to establish five Employment Service Officers in each region of the Northwest Territories to help employable income assistance clients to gain permanent employment or enter into training. These Employment Service Officers will work one on one with specific income assistance clients, who typically have a wide range of needs and barriers to employment readiness and also work with employers throughout their region.

Our Early Development Instrument data suggests that a third of all Northwest Territories children are behind in their development by the time they reach five years of age and in the smaller communities as many as 60 per cent of five year olds are not at the level they should be. Many strategies and frameworks work in partnership to address the underlying issues that are holding our children back from reaching their true potential and through the *Early Childhood Development Action Plan* this Budget includes \$1.12 million in direct action to improve childhood outcomes. This funding will increase wages and training of early childhood staff in some communities. It will also support new regional approaches to early intervention for children in families at risk, improving our

ability to provide children and their families with the special supports they need to reduce long-term social, emotional and educational problems.

This Budget includes \$1.1 million to support the Wellness Court Program. The Wellness Court is an alternative to conventional court that focuses on addressing the underlying causes of offending behaviour. The funds will be used to hire staff for the Wellness Court Program, including case managers and a psychologist, and to create an evaluation framework. We fully expect that over time this specialized court will result in a reduction in offending, and will lead to other positive outcomes for clients and their families. In time, the outcomes from this program and specialized court will spill over into savings for the Government and decreased demands upon the justice and correctional systems.

Supports for our seniors will have a positive effect on keeping whole families in the territory and is an important part of our population growth strategy. Over the longer term, we will have to find additional ways to help seniors stay in their own homes and their communities as long as possible. In the short term, however, our priority is to ensure adequate staffing in our existing long-term care facilities and we have added \$618,000 in 2015-16 to provide more hours of direct patient care in Yellowknife's Aven Manor, Fort Simpson's Elders Care Home and Fort Smith's Northern Lights Special Care Home.

In addition to these new initiatives, we are proposing to transfer \$1.6 million from the Department of Education, Culture and Employment to the Northwest Territories Housing Corporation to add 75 new housing spaces for income support recipients in Inuvik, Hay River, and Yellowknife, which will improve the housing support provided to these residents.

Investing in the Economy

We have worked hard to be able to fund strategic investments in infrastructure that will create the environment for economic growth and diversification. We have taken measured risks and are prepared to take more if we can invest in a fiscally sustainable manner.

Investments to grow the economy are more than investments in strategic infrastructure. 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 with \$5.2 million in new initiatives. These actions complement the \$11.9 million in new initiatives spent in previous 17th Assembly Budgets to strengthen regional economies and implement actions identified in the *Mineral Development Strategy* and the *Economic Opportunities Strategy*.

In total, the Budget provides \$2.5 million for initiatives to support the *Economic Opportunities Strategy*, including more funding for the agriculture strategy, the film industry pilot project, regional economic plans, tourism promotion and training, a business internship, and \$1.5 million in support for the commercial fishing industry.

Over \$1.7 million in new funds are proposed for the *Mineral Development Strategy*, including \$300,000 for the Geoscience Field Assistant Training Program and a geoscience career liaison coordinator and over \$1.4 million to hire a geophysicist, a surficial geologist and a northern mining business development officer and provide

support for incentive programs for exploration, scientific resource deficits, and coordination between industrial market segments.

The 2015-16 Budget proposes to make an initial contribution of \$1 million to help fund the 2018 Arctic Winter Games. We expect that a community, or group of communities, outside of Yellowknife will be chosen late this fiscal year to host the 2018 Games. This is a multi-year commitment to provide the host organization with funds to establish an office, hire staff and raise additional resources to conduct the Games and, if necessary, bring existing facilities to the standard expected by the Arctic Winter Games International Committee. Hosting the Games provides community and economic development and lasting sport and health benefits.

Devolution Implementation

We spent \$59 million in last year's Budget to assume the responsibilities and duties under the Devolution Agreement for the management of our lands, waters and non-renewable resources. We set aside almost \$10 million of the \$67.2 million transfer into the base of our Territorial Formula Financing Grant in 2014-15 to fund necessary activities that were not anticipated in the initial implementation process. The 2015-16 Budget adds \$3 million to complete the devolution implementation, including \$1.2 million associated with the impact of final devolution implementation actions on regular department budgets.

Within the Department of Lands, funding in the amount of \$151,000 has been allocated for the next three years for a resource management specialist to coordinate the GNWT input into the federal amendments to the *Mackenzie Valley Resource Management Act* and the federal regulatory improvement initiative and to help ensure the GNWT Surface Rights Board is established and operational by April 1, 2016. Although the *Act* remains federal jurisdiction, the new regulations that are being contemplated under the *Act* will be largely administered by the GNWT through its new delegated authorities. The new regulations represent important additions to the suite of authorities found under the *Act*. The coordinated approach will bring forward the policy thinking from a number of departments to maximize the GNWT's influence in shaping the evolving regulatory regime and minimize its potential exposure to unanticipated administrative costs in new regulations.

An additional \$415,000 is budgeted for new lands and resource specialists and a legal advisor to ensure that we have a coherent and well-planned policy base for building relationships with the new Boards and for the necessary coordination of GNWT decision-making with Canada for environmental assessment, inspection and enforcement of existing operations. As well, to continue the work of the Office of the Oil and Gas Regulator, we are including \$220,000 to fund a resource management position.

This Budget provides \$1 million to establish a new Liabilities and Financial Assurances Division to manage and coordinate financial assurances for resource development projects across several departments by ensuring that companies meet their obligations for environmental liabilities. The legislative framework makes project proponents responsible for the remediation of their project or to respond to an environmental event. However, if the proponent does not respond, the GNWT protects itself and its taxpayers from the potential liability by demanding financial securities from the proponent. The new

Division will improve on the system inherited from the federal government by developing and managing environmental liabilities and financial assurances in collaboration and coordination with GNWT regulatory and central departments. This approach will ensure protection of the environment through whole project assessment of liabilities and financial assurances and provide necessary policy advice. This will ensure that the GNWT identifies the appropriate level of security for a project, which will protect the GNWT from the significant financial liabilities that can arise from the failure of a proponent to address an environmental event or its closure and reclamation obligations.

Supporting the Environment

Information management is a key component in the development of sustainable economic and environmental management frameworks. Post devolution, it has become apparent that there are critical gaps in the Northwest Territories environmental and landscape baseline data, and therefore funding is required to increase the knowledge in this important area. This Budget proposes investing \$694,000 to establish the Western Arctic Centre for Geomatics in Inuvik. This investment will provide resources for three positions that will provide geomatics services such as remote sensing and research support to the GNWT and other Northwest Territories stakeholders.

Following devolution, the GNWT took over the full operation of the Taiga Environmental Laboratory, which provides analytical water sampling to the private sector and other government departments. This Budget includes a \$577,000 increase in the facility's operating budget for costs to assume total control of the operations at the laboratory. These costs are expected to be partially offset by the revenues that will be received from the laboratory's operations.

Assuming responsibility for the Northwest Territories lands and waters on April 1 has transformed the GNWT from a co-lead with the federal government to the leader on the *NWT Water Stewardship Strategy*. The biggest risk to implementing our water stewardship strategy is the potential effects on trans boundary waters from actions of our upstream neighbours. This Budget includes one-time funding of \$1.6 million to conclude protective trans boundary water agreements with upstream jurisdictions. Commitments flowing from these agreements will be addressed in subsequent budgets.

Investing in Energy and Lowering the Cost of Living

The GNWT has a long term commitment to reducing energy costs and our reliance on non-renewable energy sources. We have demonstrated this commitment with \$12.3 million in new initiatives in the last three budgets. The \$4 million in new initiatives in this Budget will bring the total new actions taken in this Assembly in continuing energy initiatives to lower the cost of living and reduce Northwest Territories' greenhouse gas emissions to \$16.3 million.

We are proposing an additional \$1.4 million in this Budget to continue our energy conservation efforts. The \$400,000 in additional funding proposed to keep Arctic Energy Alliance regional energy advisors will bring the total funding for this initiative to \$1.13 million per year. As well, the \$1.4 million includes \$400,000 to convert streetlights in NTPC thermal communities to more efficient LED streetlights, \$300,000 to fund the

Hot Water Heater Replacement program, which is designed to replace domestic electric hot water heaters with more efficient oil- or propane-fired heaters in non-hydro communities, \$200,000 for the Commercial Energy Efficiency Program and \$100,000 for the Energy Efficiency Incentive Program that helps address up-front cost barriers that consumers face in becoming more energy efficient.

We are continuing our efforts to explore alternative energy sources with \$2.6 million for on-going and new initiatives. The Budget includes \$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. We also propose providing the NWT Housing Corporation with \$700,000 to install solar panels on 30 public housing units in six communities to supply energy for the mechanical and electrical systems. We want to make further use of the sun's energy by proposing \$500,000 to integrate solar panels with the new diesel plant in Colville Lake and \$125,000 to support solar energy smart grid technology in communities. We are also looking to take advantage of world-class winds near Storm Hills by proposing \$175,000 to test the feasibility of large-scale wind-generated power in that location and \$50,000 for the NWT Wind Monitoring Program administered by Aurora Research Institute. We propose to continue to promote community biomass energy projects and evaluation of biomass projects with \$450,000 in additional funding. Finally, we propose \$325,000 to complete liquefied natural gas feasibility studies in Yellowknife and in one of three candidate communities: Fort Liard, Fort MacPherson and Tuktoyaktuk.

We know that to meaningfully reduce the cost of living and to enable the Northwest Territories economy to grow and develop, we need to make significant investments in energy infrastructure, specifically our generation capacity in Yellowknife and in the thermal communities. This fact was confirmed by the recent Energy Charrette held in Yellowknife. Pending the successful conclusion of our borrowing limit discussions with the federal government, the GNWT is prepared to make those investments. These investments are critical economic infrastructure that will lower the cost of living, use environmentally friendly alternative energy sources, minimize our reliance on the use of diesel, and help create the conditions for economic growth.

Following discussions with the Standing Committee of Priorities and Planning, we are proposing to bring all of the GNWT's energy functions into the Department of Public Works and Services to better support the long term sustainability of our energy policies, program development and delivery. This department has a proven track record for getting results in energy planning and conservation and is already providing a leading role in the adoption of renewable energy technologies and developing and promoting good building practices for the northern environment. This action will result in a consolidated core of energy project management expertise and will provide a clear focus and accountability in energy project and program spending.

Investing to Improve Program and Service Delivery

The 17th Legislative Assembly is committed to improving program and service delivery for our residents and businesses. Including the \$5.6 million in new or enhanced actions proposed in this Budget, a total of \$19.6 million will have been directed to improving program efficiency and effectiveness during the life of this Assembly.

Included in these initiatives is almost \$2.5 million to enhance the delivery of French language services and communications to residents of the Northwest Territories.

Last year's Budget provided funding to allow Health Authorities to use information systems expertise at the Technology Service Centre. This Budget provides \$1.5 million in additional funding to upgrade regional Health Authorities' computer systems so that they can be integrated into a territory-wide Health and Social Services Information Systems Service Centre. Bringing all authorities into one common platform will support the continued roll-out of e-health programs such as the territorial Electronic Medical Records, which will improve patient outcomes and enhance the quality of care.

This Budget includes the transfer of \$2.3 million in Traditional Economy programs from the Department of Industry, Tourism and Investment to the Department of Environment and Natural Resources. The transferred programs include the Community Harvester Assistance Program, Local Wildlife Committees, WSCC Coverage for Resource Harvesters, Hunters and Trappers Disaster Compensation Program, Take a Kid Trapping/Harvesting Program and the Western Harvester Assistance Program. The two departments will cooperate to deliver the Genuine Mackenzie Valley Fur Program with the Department of Environment and Natural Resources being responsible for the Fur Marketing Service Revolving Fund program and the Department of Industry, Tourism and Investment being responsible for national and international marketing and promotion. This re-alignment of responsibilities will ensure a coordinated approach to our programs to support traditional harvesting activities and products.

The Government continues with its commitment to decentralize positions to the regions where possible. We are solidly into phase three of our decentralization implementation. After 15 positions are decentralized in 2015-16, and including the seven positions approved for decentralization in 2016-17, we will have decentralized 150 positions to communities during this Assembly. We are working hard to make decentralization possible from within our existing operations as demonstrated by the Department of the Executive re-profiling resources in Headquarters to establish two new Service Officers in Trout Lake and Wekweètì. However, not all decentralization efforts can be funded internally and this Budget provides an additional \$813,000 in 2015-16 for further decentralization actions including costs associated with moving the Territorial Parks Office from Yellowknife to Hay River.

We continue to work to remove the barriers to successful completion of our decentralization strategy. Through the NWT Housing Corporation's Market Housing and Housing for Staff programs, we are working with stakeholders to increase market rental housing in the smaller communities. We are using our recruitment initiatives to help address the high public service vacancy rates outside of Yellowknife by linking Northerners with regional vacancies and providing on the job training programs; and, where we can't develop Northerners to certain jobs in the short term, we will recruit from outside the Northwest Territories using various recruitment tools and initiatives. Now that the dust has settled from the organization changes as result of devolution, the Department of Environment and Natural Resources is currently undertaking an exercise to determine what activities are the most appropriate to decentralize and looks forward to discussing its conclusions with Standing Committees in the near future.

Looking Ahead

Mr. Speaker, we are forecasting total revenue growth to be basically flat for the next five years. By 2019-20 revenues are forecast to be only 0.4 per cent higher than in 2015-16. Over the same period, expenditures are forecast to grow 8.4 per cent, or about 2.1 per cent a year, under assumptions of strict expenditure management and the return to a \$75 million capital budget.

Clearly this is not sustainable. The revenue and operating expenditure projections mean that operating surpluses will be substantially reduced by 2019-20 under current assumptions. Smaller operating surpluses drop us deeper into a trap of short-term borrowing for cash to cover operating expenditures and leave little to no resources available for infrastructure investments and debt servicing payments. Even by constraining the capital budget to \$75 million annually, or about 4 per cent of total revenues, total debt at the end of 2019-20 is projected to be \$759 million, only \$40 million below the current borrowing limit of \$800 million.

Actions on the revenue side are limited over the short term. Next year, over \$1.2 billion of our \$1.8 billion forecast for total revenues comes from a single federal transfer, the Territorial Formula Financing Grant, which is projected to increase an average of 0.3 per cent annually over the next five years. Our lack of population growth and the reduction in the forecasts for provincial government spending are compounding the drag on growth in the Formula Financing Grant and are beyond our control. Our \$425 million in own-source revenues are forecast to grow an average of 3.5 per cent annually over the next five years, but when we factor in the slow growth in Territorial Formula Financing, the growth in our total revenue forecast becomes flat. While increasing our own revenues is an option, we will need to carefully consider the balance between the amount of additional revenues that can be raised on our small tax base and the effect this could have on the Northwest Territories economy.

Fiscal sustainability means that the growth in the total operating and maintenance budget, including compensation and benefits paid to employees, must not exceed our revenue growth. Fiscal prudence means we need to keep a cushion of at least \$100 million in borrowing room. Taken together, this means other expenditure management actions, including reductions, need to be considered.

A higher borrowing limit will not solve this problem - even the ability to borrow more without compromising our commitment to the *Fiscal Responsibility Policy* will require careful management of expenditures. What we borrow we must repay. This is why the provisions in the proposed *Financial Administration Act* that will ensure the Legislative Assembly will have the ability to review, debate and vote on all short and long term borrowing annually through a borrowing plan tabled with the Main Estimates will be so important.

We are approaching the edge of a cliff and our challenge is to ensure that we do not go over. We should not be operating this close to the edge. Going forward, our main priority will be to continue to maintain fiscal sustainability while protecting our programs and services, making investments in critical economic infrastructure to grow the economy and investing in capital to reduce our \$3.8 billion infrastructure deficit. There will be difficult choices to make.

Conclusion

Mr. Speaker, I shall conclude with the blunt message that we have been spending everything that we receive. This can work when revenues are growing but with a forecast of flat revenue growth over the medium term we need to make sure our expenditures grow in line with our revenues.

However, as I was reminded by participants during last fall's Budget Dialogues, we have been here before. We have learnt from past mistakes and together we can work to ensure fiscal sustainability to our Budget. In the days leading up to the next Assembly, we must start considering the difficult decisions so that we are not passing our problems to future generations.

We will meet this challenge and turn it into opportunities. By working together to ensure that the actions we take will give us the best value for the dollars we are spending, we will still be able to seize opportunities to invest in actions to grow our economy, increase our population, increase our tax base, lower the cost of living and continue to protect the environment. Our Aa1 credit rating and key indicators reflect that we are collectively continuing to manage our way through these often trying times.

All Members of this Assembly should be proud of the work we have done toward achieving our vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories. We will not shrink from the challenge of making the difficult choices to ensure that the GNWT remains on a fiscally sustainable path; able to implement our vision for the Northwest Territories.

Budget Address

2015 – 2016

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦ Economic Review

B ♦ Fiscal Review

February 5, 2015

ECONOMIC REVIEW

Outlook

The economic outlook for the Northwest Territories (NWT) is mixed. Real GDP increased by an estimated 5.2 per cent in 2014 and is forecast to grow by 3.7 per cent in 2015. However this short term increase is driven by capital investment in the mining industry, which means that although the economic activity is attributed to the NWT, most of the increased activity is experienced in southern Canada where the equipment and supplies originate.

Public sector infrastructure investments and strengthened mining activity are expected to spill over to other sectors of the economy. The construction and wholesale sectors will benefit the most, although increased investment and economic activity will help create jobs as well. Employment is expected to increase by 1.4 per cent in 2015, and this, in turn, should support incomes. Average weekly earnings are projected to rise by 1.7 per cent in 2015. Wage growth, combined with increased economic opportunities, will help the Government of the Northwest Territories (GNWT) achieve its goal of growing the population by 2,000 people by 2019.

Over the medium term, the economic outlook is less certain and the long term, for the most part, is unknown. Operators at the two largest diamond mines are pursuing development of additional kimberlite pipes, which if realized, will extend the life of these mines beyond their currently scheduled closure dates. If these projects are extended, they will maintain current economic activity levels. The NWT's fourth diamond mine, Gahcho Kué mine, has begun construction, and once operational, is expected employ 400 people annually over its 12-year life. No diamond mine plan extends beyond 2028.

As 2015 begins, signs of greater uncertainty in the global financial and currency exchange markets are emerging. Since the economic growth projected for the NWT over the next few years is driven by investment, these uncertainties are a challenge for the NWT economy. A weak global economy will dampen demand for NWT products, and low resource prices will hurt the overall NWT economy. Oil and gas activity in the territory has declined significantly, and new drilling and exploration projects in the Beaufort Sea and Sahtu have been put on hold.

Economic Outlook

Indicator	2009	2010	2011	2012	2013	2014e	2015f
Gross Domestic Product, Chained (2007\$) millions	3,649	3,733	3,432	3,508	3,632	3,822	3,963
<i>Per cent change</i>	-13.0	2.3	-8.1	2.2	3.5	5.2	3.7
Total Investment, Chained (2007\$) millions	1,084	1,158	996	1,161	1,362	1,319	1,537
<i>Per cent change</i>	-31.3	6.8	-14.0	16.6	17.3	-3.2	16.6
Household Expenditure, Chained (2007\$) millions	1,286	1,305	1,323	1,340	1,363	1,378	1,399
<i>Per cent change</i>	-0.7	1.5	1.4	1.3	1.7	1.1	1.5
Government Expenditure, Chained (2007\$) millions	1,656	1,717	1,732	1,729	1,728	1,819	1,787
<i>Per cent change</i>	7.9	3.7	0.9	-0.2	-0.1	5.3	-1.7
Exports, Chained (2007\$) millions	2,466	2,608	2,459	2,406	2,509	2,726	2,755
<i>Per cent change</i>	-10.1	5.8	-5.7	-2.2	4.3	8.7	1.0
Imports, Chained (2007\$) millions	2,854	3,153	3,365	3,297	3,404	3,480	3,571
<i>Per cent change</i>	-3.2	10.5	6.7	-2.0	3.2	2.2	2.6
Employment (resident), number of persons	21,300	21,500	22,700	22,700	22,500	21,700	22,000
<i>Per cent change</i>	-6.2	0.9	5.6	0.0	-0.9	-3.6	1.4
Average Weekly Earnings, Dollars	1,145	1,191	1,244	1,289	1,303	1,365	1,389
<i>Per cent change</i>	5.1	4.0	4.5	3.6	1.1	4.8	1.7
CPI (All Items), Yellowknife, 2002=100	115.9	117.9	121.6	124.3	126.2	128.5	130.1
<i>Per cent change</i>	0.6	1.7	3.1	2.2	1.5	1.8	1.2

e: estimate

f: forecast

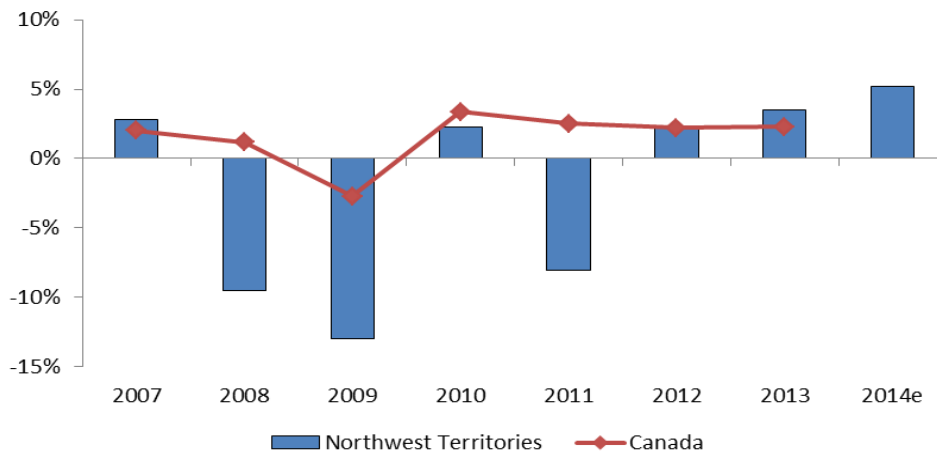
Source: Statistics Canada and the NWT Bureau of Statistics

2013 Economic Performance

Economic Growth

The NWT experienced economic growth in 2013. Real GDP (the inflation-adjusted value of all goods and services produced) increased by 3.5 per cent in 2013 and recent estimates indicate an even stronger rise of 5.7 per cent in 2014. The economic growth in 2013 reflected increased business investment and sustained spending by households and governments, while gains in trade supported growth in 2014.

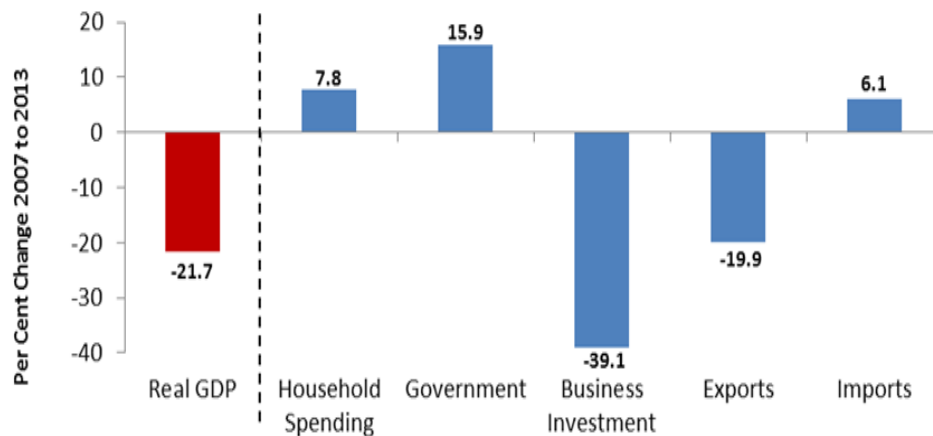
Real Gross Domestic Product, Annual Change, NWT and Canada



e: estimate
 Source: NWT Bureau of Statistics and Statistics Canada

However, despite three consecutive years of economic growth, the NWT economy remains smaller than it was in 2007. Real GDP fell by nearly 22 per cent in 2013 compared to its pre-recession peak in 2007, when diamond mines were producing more quality diamonds and commodity prices were higher.

Real GDP Remains Below Pre-Recession Levels



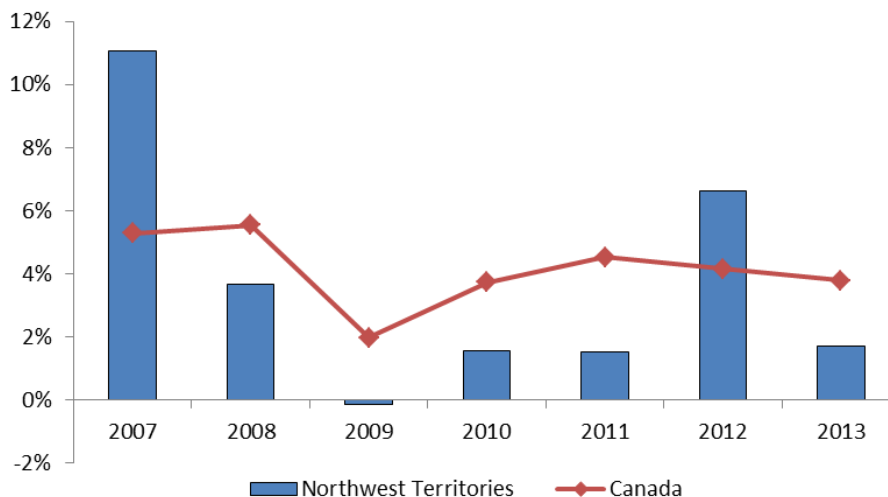
Source: NWT Bureau of Statistics and Statistics Canada

The drop in GDP was largely caused by a 41 per cent decline in diamond carat production over the period, which reflected the move to higher cost underground mine operations and lower grade ore. This affected industries linked to the diamond mines, such as transportation and wholesale industries, which had large growth rate declines between 2007 and 2009 before stabilizing by 2011. Similarly, average annual growth rates for service industries went from 4 per cent before 2007 to less than 1 per cent after 2007.

Personal Income

Personal disposable income is the after-tax income earned by households from all sources. It supports consumer expenditures, which account for about a third of the territory's GDP. NWT disposable income increased 1.7 per cent from 2012 to 2013. Labour income, a large component of personal income, increased 2.4 per cent in the first nine months of 2014 over the same period of 2013, indicating that personal income likely also grew modestly in 2014. At the national level, where consumer expenditures account for about 55 per cent of GDP, personal disposable income increased 3.8 per cent in 2013.

Annual Percentage Change in Household Disposable Income, NWT and Canada



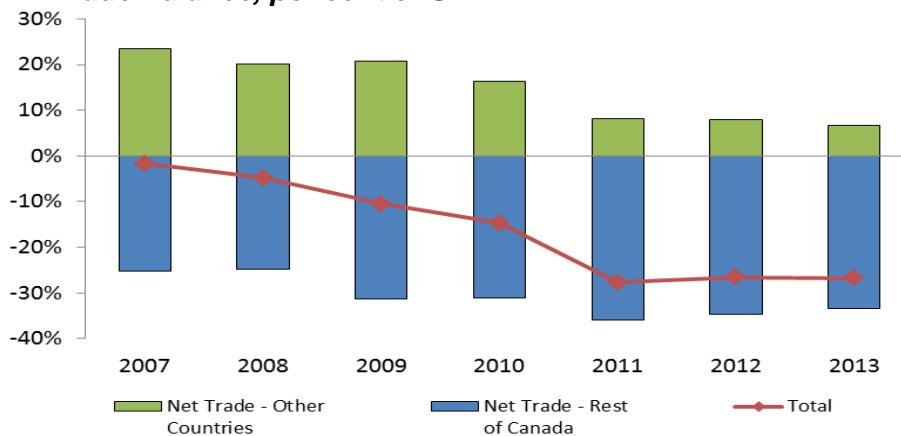
Source: Statistics Canada and NWT Finance

Trade

The NWT is a small, open economy, dependant on trade with other countries and the rest of Canada. The NWT exports diamonds and other natural resources to international 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 been declining since 2007 due to weak commodity and mineral prices and soft global demand. Over the same period, the NWT's trade deficit with the rest of Canada has grown. This caused the overall NWT trade deficit to widen from 1.7 per cent of GDP in 2007 to 26.7 per cent of GDP in 2013.

NWT Trade Balance, per cent of GDP

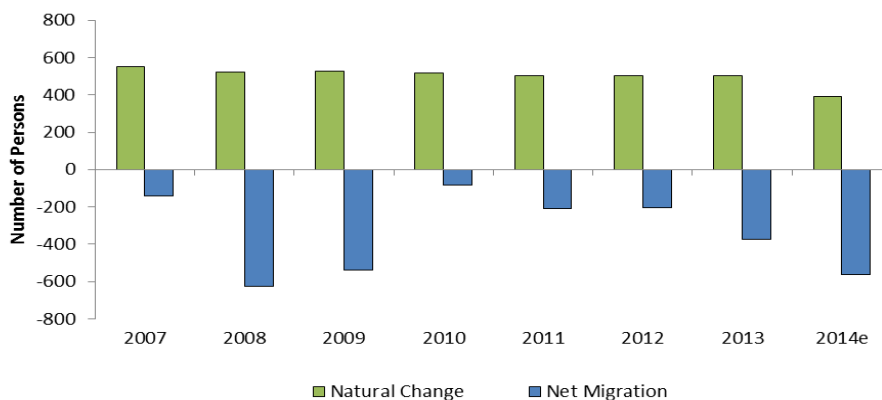


Source: Statistics Canada and NWT Finance

Population

The NWT population has been relatively stable over the past decade. However, weak economic growth and a lack of new mining activity have contributed to people moving out of the territory. As of July 1, 2014, the NWT population was estimated to be 43,623 persons, a decrease of 218 persons, or 0.5 per cent, from July 1, 2013.

Change in the NWT Population



e: 2014 estimate based on January to September 2014 for Natural Change, and January to June 2014 for Net Migration
Source: NWT Bureau of Statistics

Three factors account for population change: natural change (births minus deaths), inter-provincial migration, and international migration. Between July 1, 2013 and July 1, 2014 there was a net natural population increase of 501 persons (due to 698 births and 197 deaths), while inter-provincial migration resulted in a net loss of 781 person (1,974 persons moved into the NWT from the rest of Canada and 2,755 persons moved out). International net in-migration was 62 persons.

Population growth is important for the economic and fiscal health of the NWT. By providing labour to NWT businesses, demand for local goods and services, and personal income and consumption taxes, a rising population helps to promote economic activity and sustainable government revenues. For this reason, the GNWT has set a target to increase the NWT population by 2,000 persons by 2019.

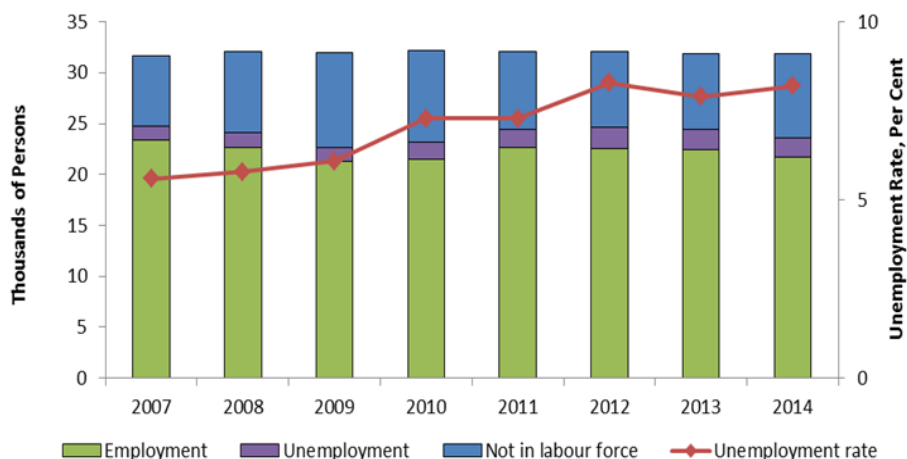
Labour

Despite economic growth over the past three years, the NWT labour market has remained weak.

In 2014, NWT employment was estimated at 21,700 persons, a decrease of 800 persons from 2013, and 1,800 persons below the 2007 pre-recession high. This caused NWT residents to leave the workforce. As a result, the labour force participation rate (the share of the working age population currently employed or actively seeking employment) declined to 74.1 per cent in 2014. This was a decrease from 76.5 per cent in 2013 and well below the 2007 participation rate of 78.4 per cent.

The NWT unemployment rate increased to 8.2 per cent in 2014, up from 7.9 per cent in 2013, and well above the 2007 pre-recession unemployment rate of 5.6 per cent.

NWT Labour Force Characteristics



Source: Statistics Canada

Employment has recovered from its recessionary low. Between 2009 and 2011, over one thousand net new jobs were created for NWT residents, mostly in full-time positions in the private sector. However, these gains have been eroded in recent years, with resident employment declining by 900 persons between 2011 and 2014.

Employment is projected to increase by 1.4 per cent in 2015, mainly because of mine construction activities and the new jobs created by the transfer of program responsibility for lands and resource management from Canada to the GNWT. This will help support incomes and household spending in the territory.

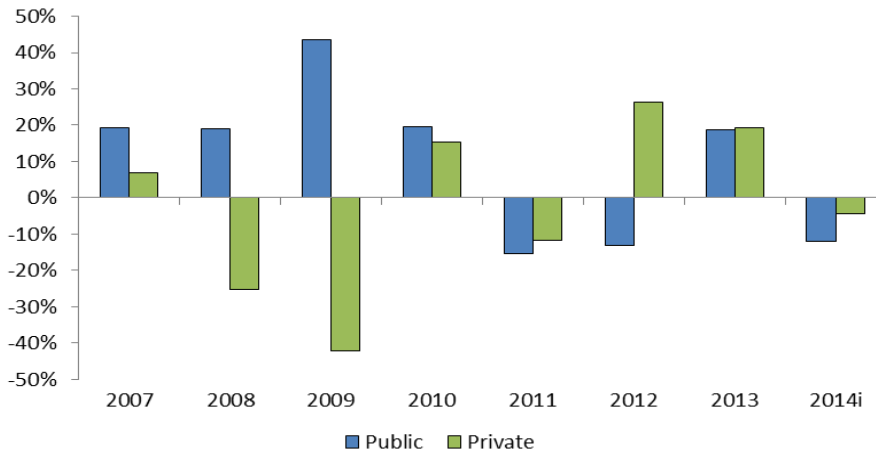
Investment

Total capital spending intentions for 2014 are 5.9 per cent below estimated 2013 capital expenditures.

Private sector capital expenditures are expected to decrease 4.5 per cent from \$1,214 million in 2013 to \$1,159 million in 2014, mainly because of a 6.1 per cent decrease in overall mining and oil and gas extraction industries expenditures from \$905 million in 2013 to \$850 million in 2014.

Capital expenditures by the public sector, after having ramped up during the recession as an element of the GNWT’s economic stimulus program, are estimated to have fallen 12.0 per cent from \$290 million in 2013 to \$255 million in 2014. However, investments in a number of projects, including the Mackenzie Valley Fibre Link and Inuvik-Tuktoyaktuk Highway are expected to contribute to increased investment in the next several years.

Annual Percentage Change in NWT Public and Private Capital Expenditures



i: intentions
Source: NWT Bureau of Statistics and Statistics Canada

International Prices

Exchange Rate

The Canadian dollar averaged US\$0.91 in 2014, a 6.7 per cent decrease from US\$0.97 in 2013 and parity in 2012. This depreciation was due to a combination of softer commodity prices, which caused the Canadian dollar to weaken, as well as a stronger US economy and decreased US monetary stimulus, which caused the US dollar to strengthen.

US/Canada Exchange Rate



Source: Bank of Canada

The value of the Canadian dollar vis-à-vis the US dollar 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. This will help NWT businesses compete globally and boost NWT exports. However, a lower Canadian dollar will make machinery and equipment imported from outside the territory more expensive.

Oil Prices

Oil prices fell sharply in the second half of 2014 due to softer global demand, rising US oil and gas supplies, restricted OPEC production and on-going geopolitical conflicts in Ukraine and the Middle East. In less than six months, global oil prices dropped over 40 per cent and benchmark West Texas Intermediate crude oil is currently trading below \$50 per barrel.

Because the NWT exports oil to international markets, the drop in oil prices will negatively affect NWT trade and economic growth. However, this impact will be offset by lower fuel costs for many businesses, increased consumer spending as consumers save on fuel, and a stronger US economy which, as a net oil importer, will benefit from lower oil prices.

Price of Oil: US Dollars per Barrel



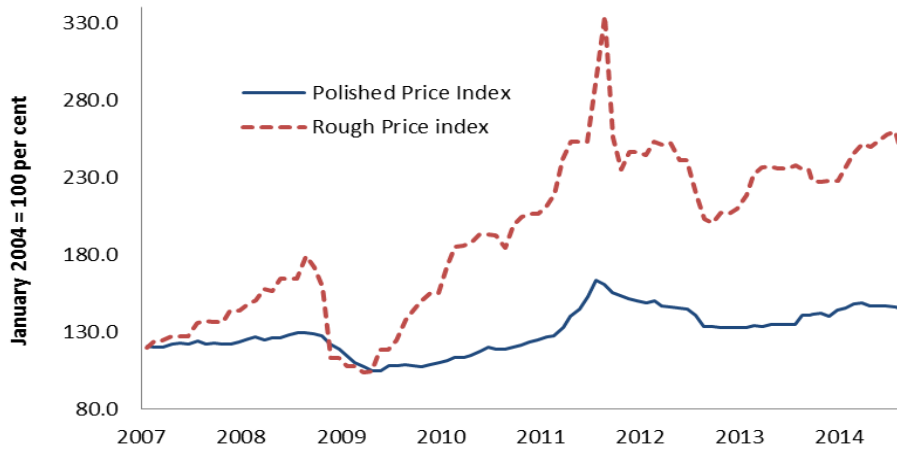
Cushing West Texas Intermediate Spot Price
Source: U.S. Energy Information Administration

Diamond Prices

Index diamond prices for both rough and polished stones rose in 2014, increasing approximately 6 per cent and 8 per cent, respectively. However, prices remain well below peaks reached in 2011.

Global prices for rough and polished diamonds have diverged. The NWT mines and exports rough diamonds and prices for these rough stones have increased at a significantly faster pace than polished diamonds, driven largely by concerns over global supply constraints. Polished diamond prices, which reflect demand from jewellers, have been flat and much less volatile.

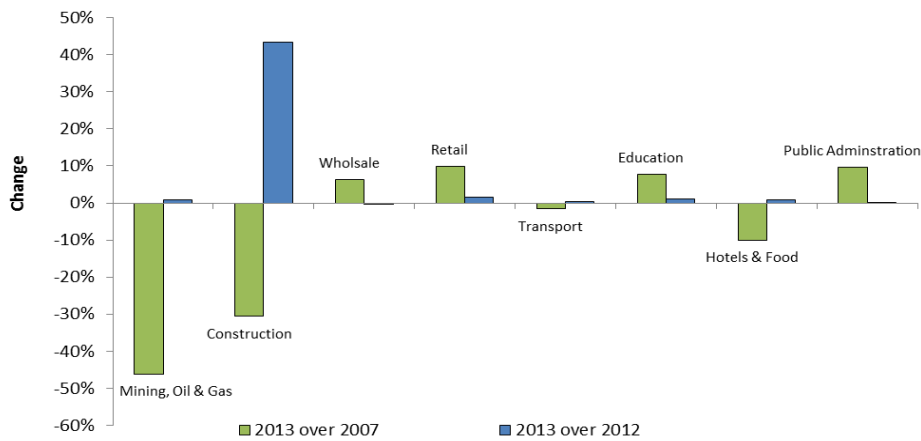
Diamond Prices



Sources: PolishedPrices.com and WWW Overall Rough Diamonds.

Economic Performance by Sector

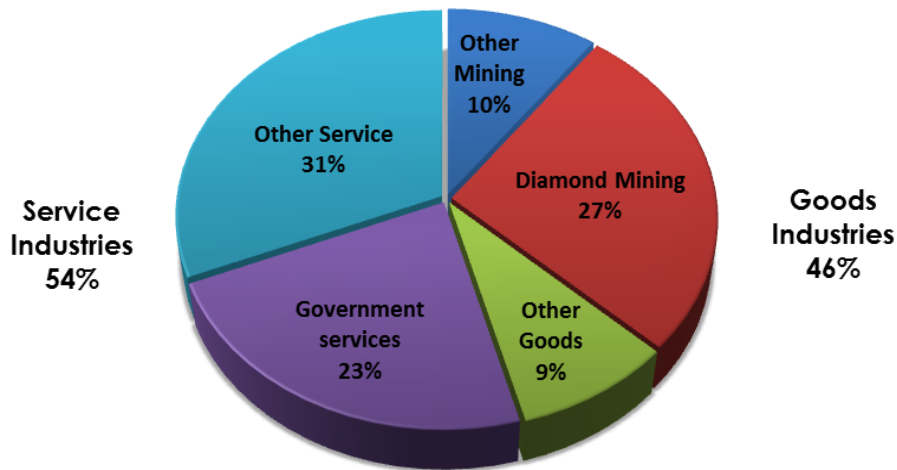
Real Growth Rates of Selected NWT Industries



Source: Statistics Canada and NWT Finance

From 2007 to 2013 the mining, oil and gas industry sector declined 46 per cent, the construction industry declined 31 per cent and the smaller food and accommodation sector decreased 10 per cent. As a result, the structure of the NWT economy changed; in 2007, goods-producing industries accounted for 51 per cent of the NWT economy but by 2009 that share had fallen to 41 per cent before recovering to 46 per cent in 2011. This reflects the business cycle in goods-producing industries that is a result of the global economic downturn.

Structure of the NWT Economy, 2011



Source: Statistics Canada. The latest available data is 2011.

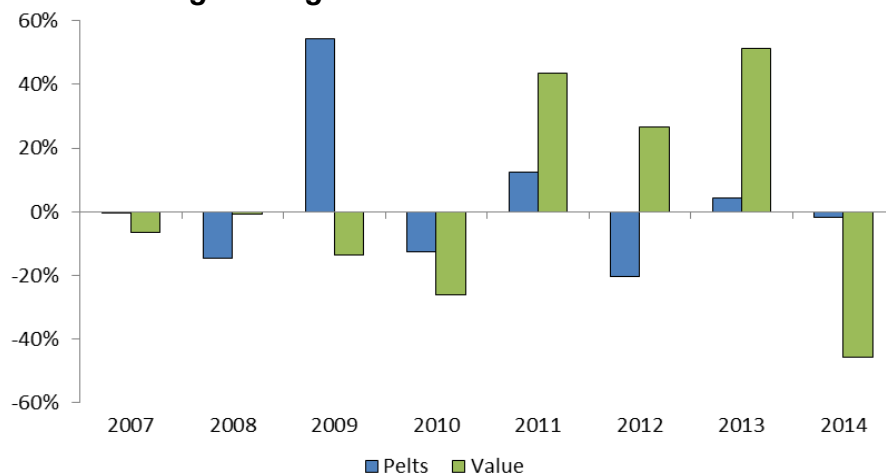
Goods-Producing Industries

The goods-producing sector accounted for 46 per cent of NWT GDP in 2011, compared to 30 per cent of Canada's economy. Resource extraction industries dominate the goods-producing sector in the NWT. Diamond mining was responsible for 27 per cent of 2010 GDP, while other mining, oil and gas accounted for 10 per cent. The remainder is comprised of renewable resources, construction, utilities and manufacturing activities.

Fur Harvest

Trapping remains an important source of income for many people in the NWT, especially in smaller communities. For the year ended June 30, 2013, roughly 25,000 NWT pelts were sold, a decrease of 2 per cent from the previous year; however, lower fur prices reduced the value of fur sales by 46 per cent from the previous year to \$1.2 million.

Annual Percentage Change in the Number and Value of NWT Pelts

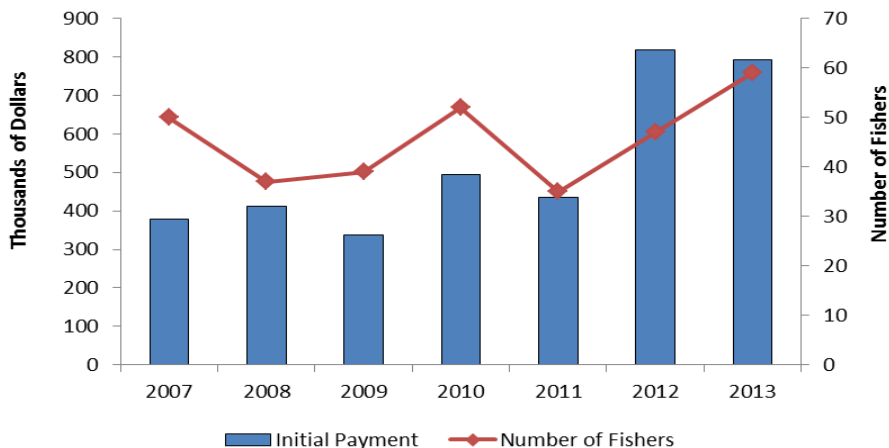


Source: NWT Bureau of Statistics

Commercial Fishing

The commercial fishery in the territory is a small but valued part of the economy. Fish exported from the NWT are marketed through the Freshwater Fish Marketing Corporation, a federal Crown corporation mandated to market fish harvested in Northwestern Ontario, the three Prairie Provinces and the NWT. Initial payments to NWT fishers – on a delivery-point, net-of-freight basis – decreased 3 per cent from \$818,000 in 2012 to \$792,000 in 2013, while the weight delivered decreased 31 per cent from 420,000 kilograms in 2012 to 288,000 kilograms in 2013.

NWT Export Fishery: Sales and Number of Fishers

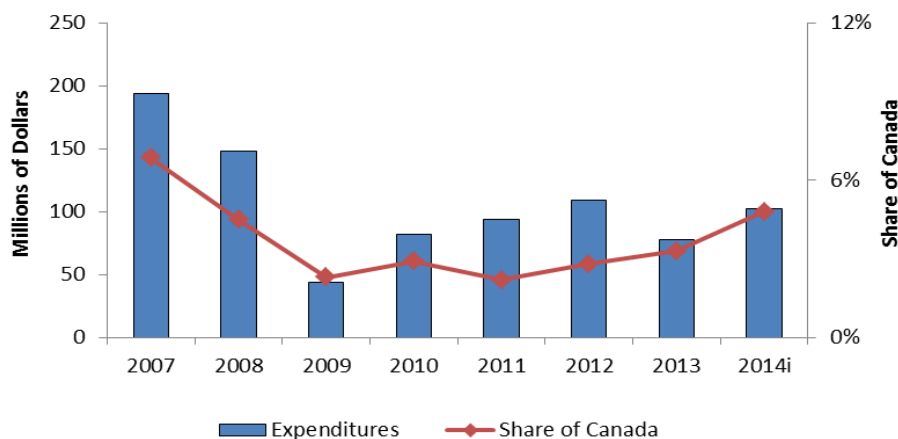


Source: Freshwater Fish Marketing Corporation

Exploration and Deposit Appraisal

NWT mineral exploration and deposit appraisal expenditures have fallen in recent years, and remain well below pre-recession levels. Spending intentions for 2014 indicate that exploration and deposit appraisal expenditures were an estimated \$102.6 million, up 31.7 per cent from 2013.

NWT Mineral Exploration Expenditures



i: intentions

Source: Natural Resources Canada

Over half of these expenditures were spent on deposit appraisal and developing already discovered projects, while a smaller share was spent on a range of mineral exploration activities, including field work, overhead costs, engineering, economic and pre-construction feasibility studies, and environmental and land access costs. NWT exploration and deposit appraisal expenditures shares of the Canadian total are estimated to have increased from 3.3 per cent in 2013 to 4.8 per cent in 2014.

Precious Metals and Rare Earths

Though once a key driver of the NWT economy, there have been no operating gold mines in the NWT since 2004. Gold and silver prices declined this year but remain elevated compared to prices a decade ago, which has led to new exploration activity. Several precious metals mines, including Fortune Mineral's NICO gold, cobalt and bismuth deposit, and Canadian Zinc's Prairie Creek silver, zinc and lead deposit, could become operational mines over the next two years. However, financing issues prevent many projects from moving forward.

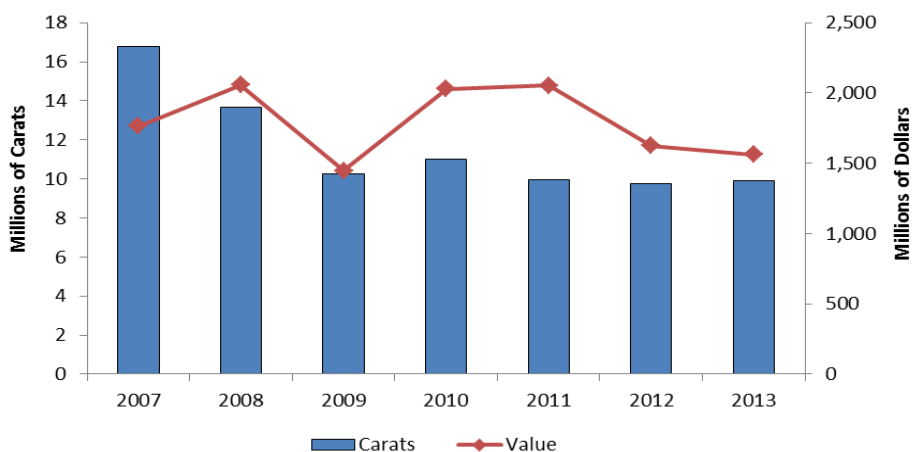
Rare earths are a group of 17 elements used in the high-tech sector for computer hardware. Although prices have declined in recent years, global demand for rare earths is expected to rise and this has resulted in new exploration activity in the NWT, including Avalon Rare Metals' Nechalacho deposit at Thor Lake.

Diamond Mining

The main driver of the NWT economy is the diamond mining industry. There are three producing diamond mines: Ekati, which opened in 1998; Diavik, which opened in 2003; and Snap Lake, which opened in 2008. According to current mine plans, and barring new discoveries, all three mines are slated to close by 2029. The closure of these diamond mines will have a significant and adverse impact on the NWT economy.

Carat production at NWT diamond mines declined by 1.4 per cent from 2012 to 2013 and the value of diamond production decreased 4.0 per cent to \$1.6 billion in 2013.

NWT Diamond Shipments: Weight and Value



Source: NWT Bureau of Statistics and NWT Finance

Construction is currently underway on a fourth diamond mine: Gahcho Kué. The Gahcho Kué mine, a joint venture between De Beers and Mountain Province Diamonds, is scheduled to begin operations in 2016 with an expected mine life of twelve years. In addition, a fourth kimberlite pipe at the Diavik diamond mine has been approved by Rio Tinto and Dominion Diamond Corporation is seeking approval for an extension of the Ekati Diamond Mine to include the Jay kimberlite pipe. The Jay Project has the potential to extend the operating life of the Ekati mine by ten years beyond the currently scheduled closure in 2020.

Oil and Gas

Oil and gas production in the NWT is in decline due to the depletion of active reserves. However, after falling for several consecutive years, expenditures on oil and gas activities in the NWT and Arctic Islands increased 39 per cent from \$188 million in 2012 to \$261 million in 2013.

Net Cash Expenditures by the Petroleum Industry: NWT and the Arctic Islands



Source: Canadian Association of Petroleum Producers

Growth in oil and gas production requires new discoveries and new field development; increased expenditures on oil and gas activities may therefore lead to increased production in the near-term. However, a number of drilling and exploration projects planned for the Beaufort Sea and Sahtu region have been delayed recently. Despite this, the NWT holds potential for future production increases; the Canol shale formation, in the Sahtu region, is estimated to hold more than two billion barrels of oil.

Construction

The construction industry includes residential construction, non-residential construction, and engineering services. The construction sector as a whole accounts for about 7 per cent of the territory's GDP.

Construction activity increased 43 per cent from 2012 to 2013 but remains 31 per cent below 2007 levels, mainly because of the decrease in mine construction. The sharp rise in real construction activity in 2013 was primarily due to non-residential construction (including mines and roads), which increased 133 per cent, as work got underway for the new Gahcho Kué diamond mine and the Inuvik-Tuktoyaktuk Highway. Residential construction and oil and gas engineering construction also increased, growing 33.6 per cent and 43.6 per cent from 2012 to 2013, respectively.

Annual Percentage Change in the Value of Construction Activity, chained (2007) dollars

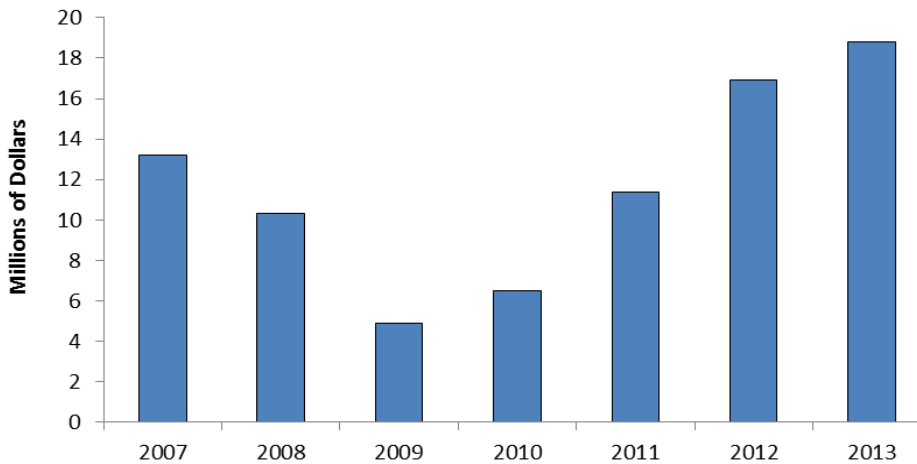


Source: NWT Bureau of Statistics and Statistics Canada

Manufacturing

The NWT manufacturing sector accounts for less than one per cent of the territory's economy. Although small, this sector of the economy has been performing well over the past several years. The real value (adjusted for inflation) of NWT manufacturing sales increased 11.2 per cent from 2012 to 2013.

Value of NWT Shipments by Manufacturers, chained (2007) dollars



Source: NWT Bureau of Statistics

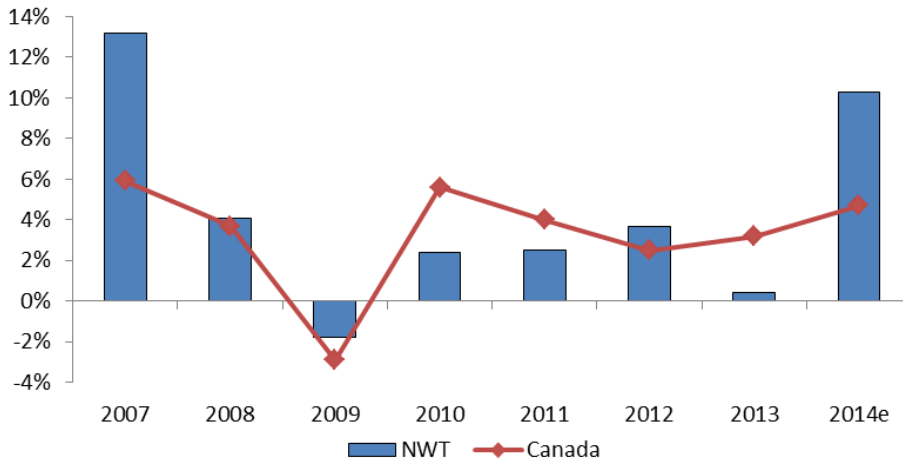
Service Industries

Service industries accounted for 54.2 per cent of NWT GDP in 2011, compared to 69.7 per cent nationally. The service sector includes industries such as wholesalers, banks, retailers, hotels and the public sector (schools, hospitals, police and fire services, federal and territorial governments, and local and Aboriginal governments).

Retail Trade

NWT retail trade sales increased just 0.4 per cent from 2012 to 2013 but are expected to increase 9.5 per cent in 2014, compared to a 3.2 per cent increase in national retail sales.

Annual Percentage Change in the Nominal Value of Retail Trade, NWT and Canada

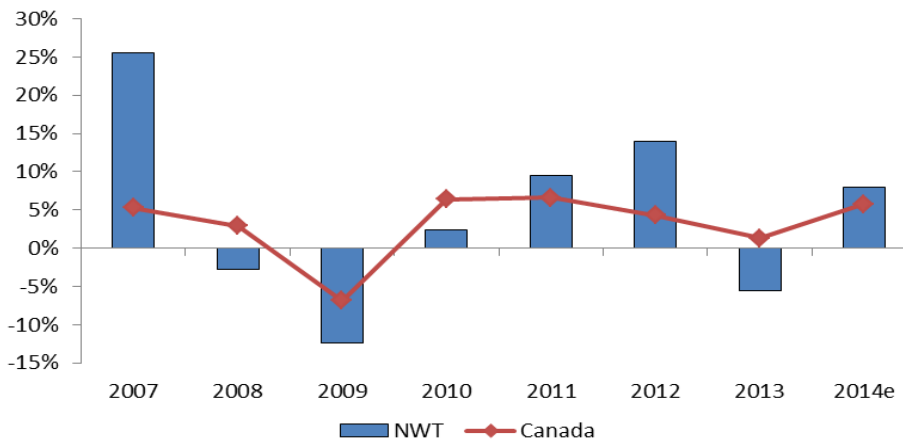


e: 2014 estimate based on January - October 2014
 Source: NWT Bureau of Statistics and Statistics Canada

Wholesale Trade

Wholesalers distribute merchandise to retailers, businesses, and institutional customers, including the supply of equipment and capital goods. The sector is strongly influenced by capital investment and business activity. Wholesale trade in the NWT increased 7.0 per cent from 2013 to 2014, reflecting the rise in construction. By comparison, wholesale trade in Canada increased by 5.6 per cent.

Annual Percentage Change in the Nominal Value of Wholesale Trade, NWT and Canada

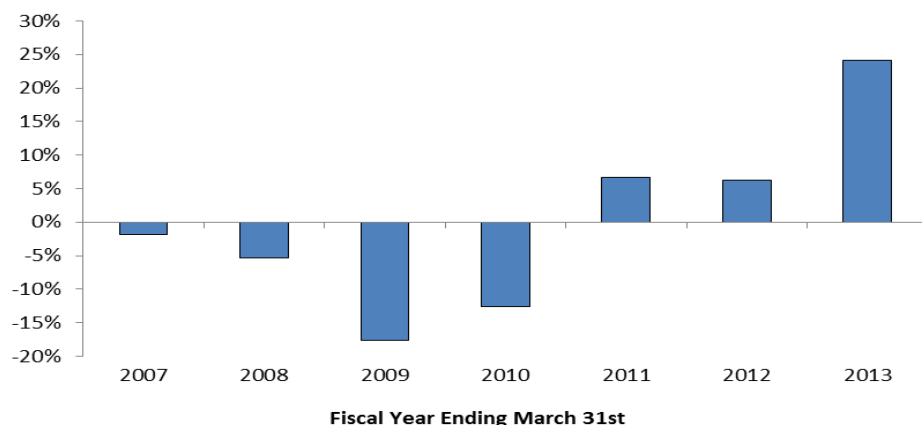


e: 2014 estimate based on January - October 2014
 Source: NWT Bureau of Statistics and Statistics Canada

Tourism

Tourism is an important part of the territory’s economy with large untapped potential. Total spending by visitors reached \$132.5 million during the fiscal year ended March 31, 2014, an increase of 24.2 per cent from the previous year.

Annual Percentage Change in Total Expenditures by All Travellers to the NWT



Source: NWT Industry, Tourism and Investment

Total spending by leisure visitors increased 6 per cent from \$58.6 million in the year ending March 31, 2013 to \$62.0 million in the year ending March 31, 2014. The increase of expenditures by leisure visitors was led by aurora viewing which attracted nearly 40 per cent more visitors over the previous year, increasing from 15,700 for the year ending March 31, 2013 to 21,700 in the year ending March 31, 2014. The aurora viewing increase is partly attributed to solar storms causing better aurora displays. Outdoor adventure and hunting visitors also contributed to increased tourist expenditures.

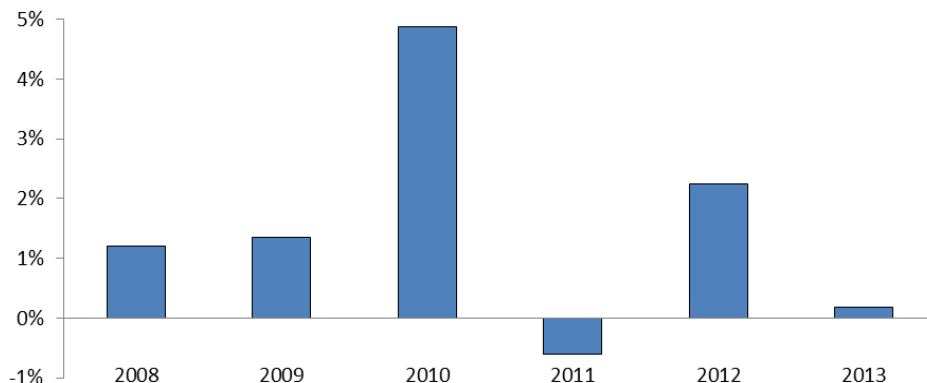
Total spending by business travellers was strong last year, increasing 48.1 per cent in the year ending March 31, 2014, which was attributable to a nearly 50 per cent increase in the number of business travellers, from 24,100 in 2013 to 35,300 in 2014.

Public Administration

Public administration includes all levels of government in the NWT: federal, territorial, local, and Aboriginal. This includes the courts, policing and correction services, fire protection, defence and public administration but excludes the health, social services and education sectors.

Public administration expenditures remained relatively flat, increasing just 0.2 per cent from 2012 to 2013 and 9.6 per cent between 2007 and 2013.

Annual Percentage Change in Public Sector Expenditures, chained (2007) dollars



Source: Statistics Canada

Macroeconomic Performance Indicators

The GNWT's *Macroeconomic Policy Framework*, designed to guide investment and policy decisions, includes performance indicators that monitor the health of the economy over time. These indicators were designed to go beyond typical measurements of economic performance or growth by capturing broader measures of economic well-being such as improvements in the quality of life, the capacity of communities, and the protection of the environment.

The performance indicators are intended to be measured against a baseline value, which is the average value of the indicator from 2005 to 2007. However, due to revisions made to Statistics Canada data, some pre-2007 data is not currently available; therefore, the majority of performance indicators are being measured against 2007 rather than the baseline average for the years 2005 to 2007. These differences are noted.

After the development of the framework, the global economy underwent an intense financial and economic shock. The NWT economy, with its critical linkages to the world trade system, was particularly vulnerable to the global economic downturn. The NWT economic recovery has been unbalanced and sluggish, as measured by the performance indicators.

Indicator 1 – The size and growth of the total economy

Real GDP is the most comprehensive measure of the economy. However, it does not measure the non-money economy and cannot measure social well-being.

In 2013 NWT real GDP was 21.7 per cent below the 2007 level.

Indicator 2 – Productivity

Productivity is a key performance measure related to increased profitability, lower costs and sustained competitiveness. Increasing productivity can promote economic growth. Productivity can be increased through labour force training, technological change and changing the labour/capital mix. Higher levels of productivity can provide higher wages and salaries and higher profits.

In 2013 productivity was 21.3 per cent below the 2007 value.

Indicator 3 – New investment

New investment is a leading indicator of economic growth that measures how well the economy can be expected to do in the future. New investment undertaken by the private sector focuses on direct spending on buildings, equipment and machinery with the expectation of a positive return on the investment. Public sector investment largely focuses on health, education and infrastructure; these investments seek to achieve beneficial social and economic outcomes.

In 2013 new investment was 21.9 per cent below the 2007 value.

Indicator 4 – Income

Income growth provides evidence that people are benefitting from economic growth and is an important element in realizing the vision of self-reliant people in the NWT. Two measures of income are identified for measurement:

Indicator 4a – Employment income

Employment income measures the sum of all income earned through employment by NWT residents.

In 2012 employment income was 12.9 per cent above the 2007 value.

Indicator 4b – Average household income

Average household income provides information about the quality and distribution of jobs among NWT residents. In 2012, average family income was 18.9 per cent above its 2005 to 2007 average value.

Indicator 5 – Employment rate

The employment rate measures the extent to which NWT residents are directly participating and benefitting from economic growth. It measures the share of people 15 years of age and older who are employed.

In 2013 the employment rate of 70.3 per cent was 3.1 percentage points below the 2005 to 2007 average value.

Indicator 6 – Population growth

Population growth measures a response to economic growth and provides a base for further growth through diversification. Population changes reflect the health of the population, the robustness of the medical support system, and the economic or lifestyle incentives for people to immigrate to the NWT or to emigrate from the NWT. A growing population serves as a growing consumer market for local businesses.

The NWT's 2013 population was 1.1 per cent above the 2007 value.

Indicator 7 – Economic Linkages

Developing linkages between different industries contributes to economic growth and diversification. Four measures of strength of economic linkages are considered.

Indicator 7a – Level of imports

Imports of goods and services reflect the size of existing NWT markets for consumer goods and for business equipment and services.

In 2013 the inflation-adjusted value of imports was 7.2 per cent above the 2007 value.

Indicator 7b – Wholesale and retail sales

Wholesale sales are an indicator of linkages at the production level, where producers purchase inputs from NWT suppliers or where they purchase post-production services such as transportation and communication services from NWT companies. Higher retail sales can support linkages to higher construction and transportation activity and create opportunities for more retail businesses.

The estimated value of 2013 wholesale sales, in nominal dollars, was 18.2 per cent above the 2005 to 2007 average value.

The estimated value of 2013 retail sales, in nominal dollars, was 22.7 per cent above the 2005 to 2007 average value.

Indicator 7c – Fly-in/Fly-out labour

Measuring the dependence on fly-in labour highlights the capacity of the NWT resident labour force to meet the demand for workers. The amount of fly-in labour depends on the number of resident workers with the required skills available at the employment location. It also represents a leakage of potential consumer expenditures from the NWT economy.

In 2013 non-resident NWT labour earnings rose from the 2005 to 2007 average of \$358 million to \$367 million, which represents an increased loss to the NWT economy of \$9 million.

Indicator 7d – Growth of resource sector service industries

Specialized service sectors providing support to NWT resource industries are a principal engine of growth and diversification for the economy. Two service industries are measured.

1. Support activities for agriculture and forestry: in 2013 the value of support activities for agriculture and forestry was 115 per cent above the 2007 value.
2. Oil and gas engineering construction: in 2012 the value of oil and gas engineering construction was 52.5 per cent below the 2008 value (2007 data are suppressed by Statistics Canada to comply with confidentiality requirements of the *Statistics Act*).

Indicator 8 – Diversification

Economic diversification is measured by industry GDP, growth by sector and employment by industry. Previously, data to measure NWT economic diversification was available through Census employment data, but this has been discontinued. Work is on-going to find new data sources.

Indicator 9 – Environmental status and trends

See the *NWT State of the Environment Report*.

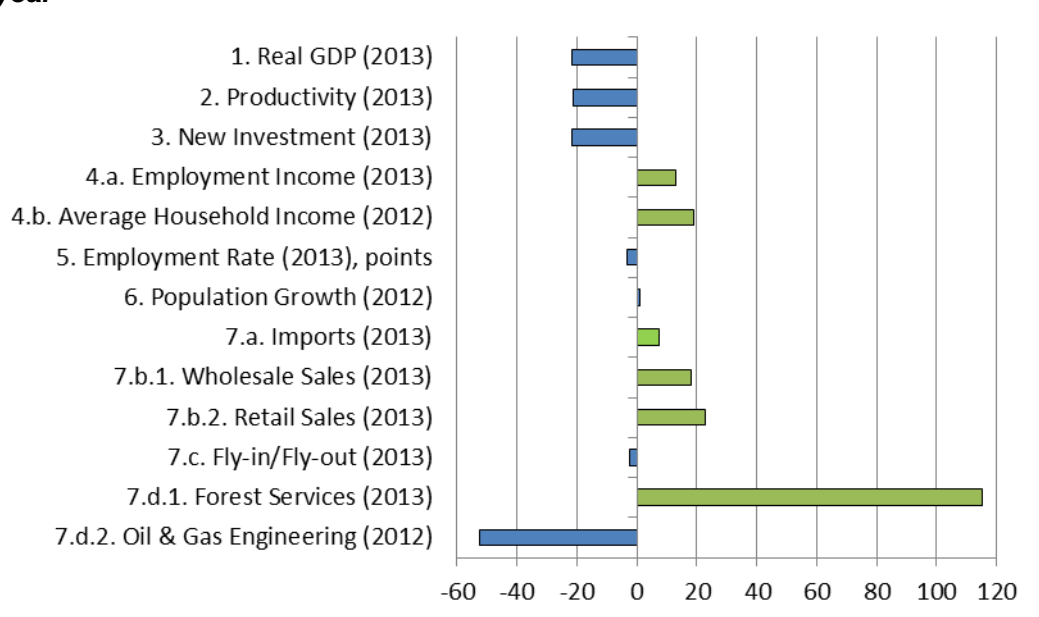
Summary of Findings

Of the thirteen primary and sub-indicators measured currently, five indicators increased in value, while the remaining indicators have decreased. While the declines in indicators can be attributed mainly to the financial crisis and economic downturn in 2008 and 2009, isolating the effects of the 2008 global recession from general trends in the overall NWT economy requires a separate comprehensive analysis. However, the NWT economy has demonstrated a low level of resiliency in responding to the recession given that many indicators have not yet returned to their pre-recession levels and the pace of recovery has been slower than in other provinces and territories.

Two contributing factors to the low level of resiliency are the dependence on the extractive resource industry, and are 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.

Macroeconomic Indicators of Progress, per cent change from the base year to the most recent year



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

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

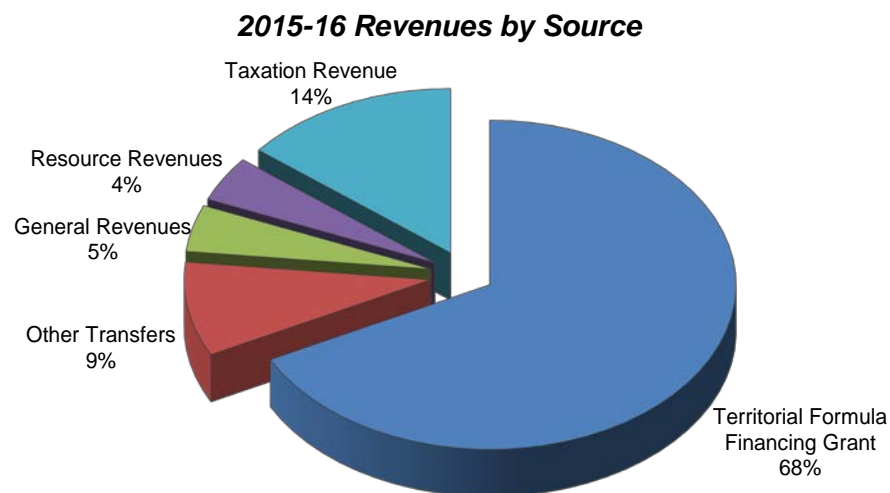
Total revenues are forecast to decrease \$11 million to \$1.83 billion from the 2014-15 revised Estimates to the 2015-16 Main Estimates, representing a 0.6 per cent decline. The Territorial Formula Financing Grant, which continues to make up the majority of GNWT revenues, will increase 2 per cent, or \$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.

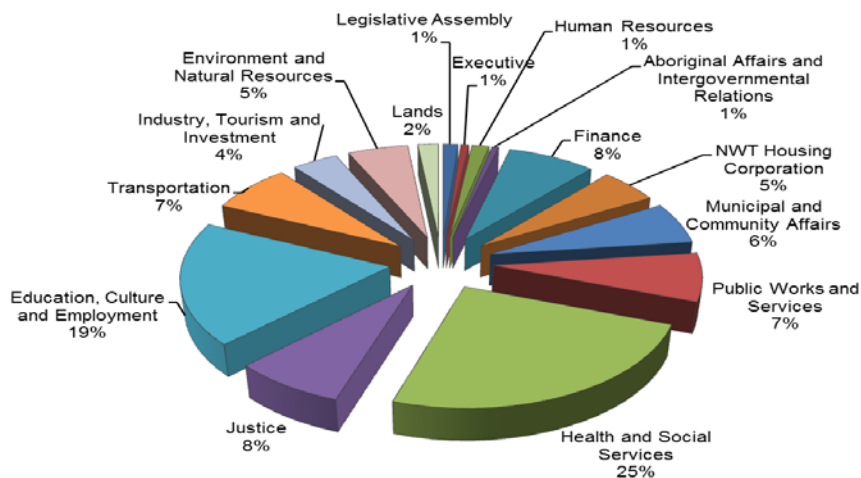


Operating Expenditures

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
Supporting Economic Diversification & Growth					
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
Initiatives under the Economic Opportunities Strategy					
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
<i>New Economic Development Strategy</i>	397				397
Initiatives under the Mineral Development Strategy					
<i>Mineral Development Strategy</i> 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
Reducing the Cost of Living					
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, Tẖcẖo, 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
Whatì 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	179,274	143,485	232,579	125,740
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
	679,070	690,486	619,968	558,072
TOTAL DEBT				
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
	722,270	737,252	665,762	608,581
TOTAL GROSS BORROWING PER BORROWING REGULATIONS				
LESS:				
EXTERNALLY RESTRICTED SINKING FUNDS				
NWT Power Corporation	(8,117)	(7,207)	(7,419)	(6,513)
	714,153	730,045	658,343	602,068
TERRITORIAL BORROWING				
	800,000	800,000	800,000	800,000
TERRITORIAL BORROWING LIMIT				
	85,847	69,955	141,657	197,932
AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES				

PROVINCIAL/ TERRITORIAL TAX RATES AS AT JANUARY 21, 2015

	Combined Top Marginal	Retail Sales Tax (%)	Fuel Tax ^(b)		Tobacco Tax ^(c) (\$/carton)	Payroll Tax ^(d) (%)	Corporate Income Tax		Capital Tax on Financial Institutions (%)
	Personal Income Tax ^(a) (%)		Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)	
Northwest Territories	43.05	-	10.70	9.10	57.20	2.00	4.0	11.5	-
Nunavut	40.50	-	6.40	9.10	50.00	2.00	4.0	12.0	-
Yukon	42.40	-	6.20	7.20	42.00	-	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.
