

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

**TUESDAY APRIL 29, 2025
DET'ANCHOGH KÚÉ - EAGLE ROOM
1:15PM**

AGENDA

1. Call to Order
2. Prayer or Reflection
3. Review and Adoption of Agenda
4. Declarations of Conflict of Interest
5. Public Matters
 - a) Ministerial Briefing regarding Territorial Formula Financing with Minister Wawzonek and Officials
 - i. Presentation
6. In Camera Matters
 - a) Committee Debrief on Territorial Formula Financing Presentation
 - b) Legislative Proposals
 - i. 2025-04-14 – Government House Leader – Legislative Initiative
 - ii. 2025-04-01 – Government House Leader – Legislative Initiative
 - iii. 2025-03-25 – Government House Leader – Legislative Initiative
 - c) Committee Calendar
7. New Business
 - i. None
8. Date and Time of Next Meeting: May 21, 2025 at 8:45am
9. Adjournment



Description of Territorial Formula Financing

April 2025

NWT Department of Finance
Fiscal Policy Division

Presentation Outline

- Introduction to Territorial Formula Financing (TFF) - history, context and size
- TFF Principles, especially policy neutrality
- TFF Structure
- Gross Expenditure Base and its Escalators:
 - Population Adjusted Gross Expenditure (PAGE);
 - Provincial/Territorial/Local Government Spending (P/T-L); and
 - Population adjustment factor
- Eligible revenues
 - Inclusion, measurement and categorization
- Economic Development Incentive
- Resource revenues
- TFF response to revenue shocks
- Annex: Technical Details on Territorial Formula Financing



Territorial Formula Financing

- TFF is a federal transfer for the three territories to fill the fiscal gap between what the territories can raise in own source revenues and what they need to provide government programs and services at comparable levels to those in the provinces.
- The TFF Grant is unconditional block funding.
- TFF has been in place since 1985-86:
 - Agreements from 1985-86 to 2006-07;
 - TFF was put into the *Federal-Provincial Fiscal Arrangements Act* in 2007-08 and is renewed every five years;
 - Renewal adjustments in 2014-15 (revenue coverage, resource devolution);
 - Renewal adjustments in 2019-20 (technical changes to revenue measurement);
 - Renewal discussions for 2029-30 at preliminary stage.
- Before 1985-86: annually negotiated budgets prepared by territorial officials subject to item-by-item scrutiny and approval by federal officials.





TFF Principles

- Responsibility and accountability
- Adequacy and comparability
- Affordability
- Predictability and certainty
- Neutrality
- Stability
- Flexibility
- Sound Incentives





Principle of Policy Neutrality

- TFF is designed not to change as a result of the GNWT's direct spending and tax policy actions:
 - Higher spending will not increase the Gross Expenditure Base (or increase the TFF entitlement);
 - Higher tax rates, or the imposition of new taxes, will not increase eligible revenues (or decrease the TFF entitlement);
 - Lower spending or taxes will not affect the size of the TFF entitlement.
- The GNWT's actions can exert indirect influence: for example, by making the NWT an attractive place to live, the Gross Expenditure Base is increased.





Basic Structure of TFF

Gross Expenditure Base

(Last year's GEB multiplied by the growth in population adjusted growth in provincial/local government spending (PAGE))

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Eligible Revenues

(Own-source tax bases multiplied by National Average Tax Rates, then subtract the Economic Development Incentive at 30%)

=

TFF Grant





Importance of the Gross Expenditure Base

- The GEB is the proxy measure of the expenditure requirements to deliver government programs and services comparable to the provinces taking into account northern circumstances:
 - Remoteness;
 - Harsh climate;
 - Very small, dispersed populations;
 - Lack of economies of scale; and
 - High cost of living.
- The GEB is larger than Eligible Revenues for all territories; therefore, the growth in the GEB is the main factor in the growth rate of TFF entitlements.





Eligible Revenues

- **Eligible Revenues** are measurement of the GNWT's revenue-raising capacity, not actual revenues.
- **Transfers and recoveries** are excluded from the Grant calculation. Increases in these revenues will increase the GNWT's total revenues.
- **Revenues included in Grant:**
 - Revenues that fund expenditure responsibilities that were included in the original GEB (1982-83); and
 - Revenues that fund expenditure responsibilities transferred to the GNWT and compensated for an adjustment to the GEB.
 - Exception is resource revenues, which are outside the TFF.
 - Taxes, fees and charges are generally included; federal transfers and investment income and cost recoveries are excluded.



Fiscal Capacity and Eligible Revenues

- Eligible Revenues under the Representative Tax System (RTS) is key concept in measuring ability to raise revenues in TFF:
- Actual own source revenue determined by:

$$\text{Actual Tax Revenue} = \text{Own Tax Base} \times \text{Own Tax Rate}$$

vs. Eligible Revenues under the RTS:

$$\text{Fiscal Capacity} = \text{Own Tax Base standardized according to RTS} \\ \times \text{the National Average Tax Rate (NATR)}$$

- Focus of RTS is on *volumes* and *NATR*
- What ***could have been*** raised, not what was ***actually*** raised
- Therefore, Eligible Revenues are independent of actual taxation decisions, such as tax increases or new taxes: “tax effort” is neither rewarded nor penalized.





Economic Development Incentive (EDI)

- The EDI removes 30% of Eligible Revenues from the TFF calculation.
- The EDI improves the incentive to grow **tax bases** through economic growth.
- If the NWT tax rate is equal to the National Average Tax Rate and the tax base is same as the Representative Tax Base, the EDI reduces the rate at which the TFF Eligible Revenue is reduced from 100% to 70% when the tax base expands.
 - The NWT corporate income tax rate is about the national average and the corporate taxable income (tax base) is the same across the country. Therefore, for every dollar increase in corporate taxes, the TFF Eligible Revenues decreases 70 cents.
- This “claw back” rate depends on own tax practices compared to the national average practices: a low tax rate means a high claw back rate (and vice versa).
 - Large tax cuts would not lead to a claw-back issue but could in theory eventually lead to a claw-back problem if future tax bases were to grow significantly. At that point, the TFF reduction, on the margin, could be greater than the own-source revenue increase, leading to a decline in total revenues. (This is a theoretical scenario seldom if ever encountered.)



Implications of Revenue Shocks

- TFF's single annual calculation uses three-year moving averages of data, lagged two years to provide predictability and stability (two principles) but immediate responsiveness is reduced.
- Own-source revenues from *tax base* changes (not the *tax rate*) affect TFF two years later and then by only one-third of the amount per year for three years.
- The EDI reduces the response by 30%.
- The process takes four years to complete after the year of change.

<i>(\$millions)</i>	<u>Shock</u>	<u>Response</u>
Year 1: Own-Source Revenue Change (tax base shock)	-100	
Year 2: No response		
Year 3: TFF Response 1/3		+23.3
Year 4: TFF Response 2/3		+23.3
Year 5: TFF Response 3/3		+23.3
Year 6: Status Quo		
Total	-100	+70



Resource Revenue Sharing

- Starting April 1, 2014, under the *Northwest Territories Lands and Resources Devolution Agreement*, the GNWT collects all resource revenues (after land claim royalty amounts removed) and shares **50 per cent** with the federal government.
- The GNWT's "net fiscal benefit" (remaining 50%) of resource revenues is capped at 5% of the GEB. This cap has never been triggered nor is it expected to be triggered in the foreseeable future.
- Resource revenues in 2025-26 would have to exceed ~\$109 million to trigger the cap (and only revenues beyond that level would be affected).
- Resource revenues are outside TFF, *but* the resource revenue offset is subtracted from the TFF entitlement to be made two years later; i.e. 2023-24's resource revenues were offset against the TFF entitlement for 2025-26.
 - Resource revenues (public accounts), 2023-24: \$559,000
 - Resource revenue offset against TFF, 2025-26: \$279,500





Thanks / Merci
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Annex:

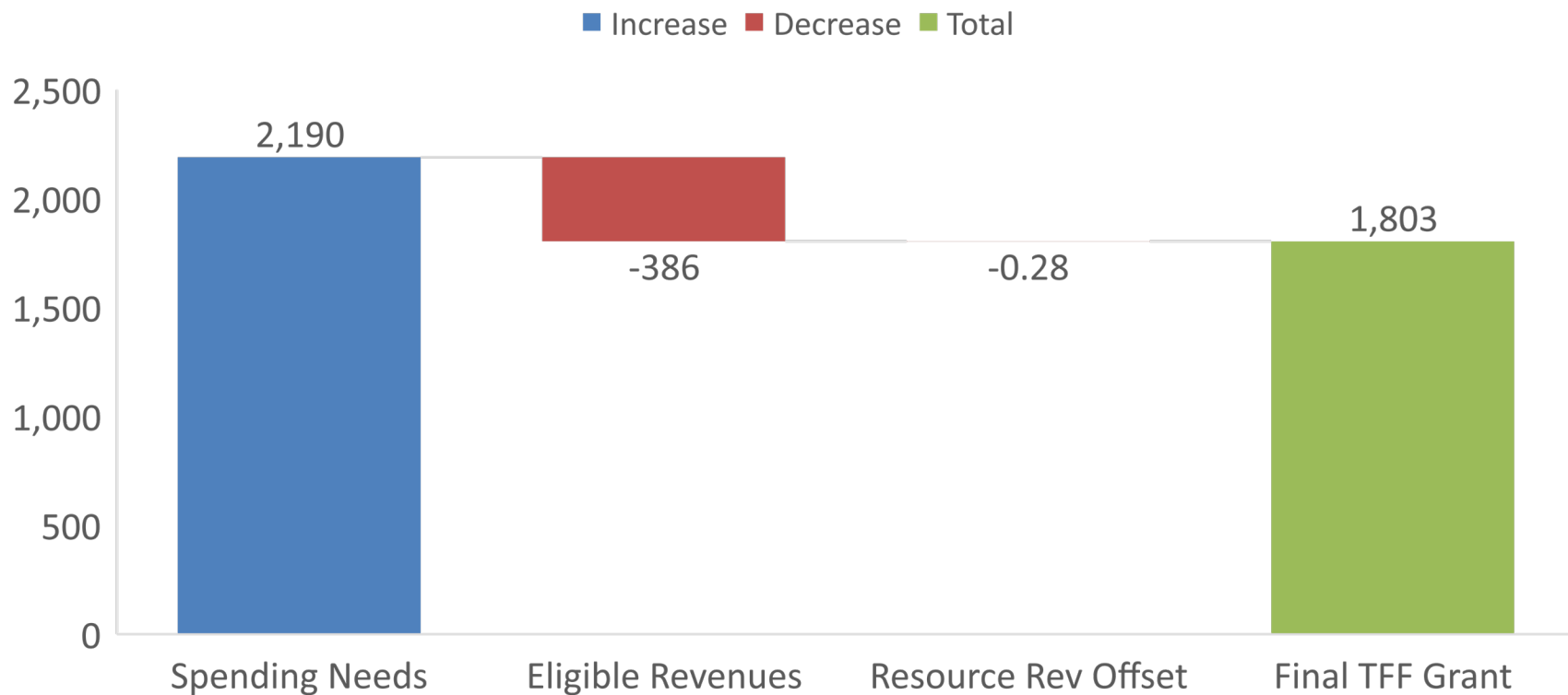
Technical Details on Territorial Formula Financing





Basic Structure of TFF 2025-26

TFF Grant = Spending Needs – Revenue Raising Capacity



Estimate Year 2025-26	December 2024 Estimates		
	2024-2025	2025-2026	Change
<u>ESCALATOR (2-Year Lag)</u>			
Annual P-T/L Expenditure Escalator (PL)	1.06369	1.06669	0.00300
Annual Population Adjustment Factor (POP)	0.99035	0.98387	-0.00648
Annual Pop-Adj. G.E. Escalator (PAGE)	1.05343	1.04948	-0.00395
<u>GROSS EXPENDITURE BASE</u>			
Base	2,086,172,417	2,189,396,228	103,223,811
Superannuation	616,302	555,953	-60,349
Gross Expenditure Base	2,086,788,719	2,189,952,181	103,163,462
<u>ELIGIBLE REVENUES</u>			
Representative Tax System (NATR) Yields (3 Year Average, 2 Year Lag)			
Personal Income Tax Revenues	173,924,667	180,066,333	6,141,667
Business Income Revenues	48,122,000	55,835,000	7,713,000
Consumption Taxes	139,911,333	151,900,333	11,989,000
Tobacco Taxes	10,521,333	9,620,333	(901,000)
Gasoline Taxes	7,716,333	7,447,667	(268,667)
Diesel Fuel Taxes	3,363,667	3,272,333	(91,333)
Revenues from the Sale of Alcoholic Beverages	12,666,000	12,155,333	(510,667)
Payroll Taxes	25,621,333	27,730,333	2,109,000
Property Taxes	104,458,333	103,913,667	(544,667)
Total RTS Revenues	526,305,000	551,941,333	25,636,333
Total RTS Revenues Less 30% EDI	368,413,500	386,358,933	17,945,433
Total Eligible Revenues	368,413,500	386,358,933	17,945,433
GRANT PRIOR TO RESOURCE REVENUES OFFSET	1,718,375,219	1,803,593,248	85,218,029
NWT Resource Revenues Offset	19,018,500	279,500	-18,739,000
FINAL GRANT ENTITLEMENT	1,699,356,719	1,803,313,748	103,957,029



Page Escalator and the Gross Expenditure Base

	2024-25	2025-2026
ESCALATOR (2-Year Lag)		
Annual P-T/L Expenditure Escalator (PL)		1.06669
Annual Population Adjustment Factor (POP)		0.98387
Annual Pop-Adj. G.E. Escalator (PAGE)		1.04948
GROSS EXPENDITURE BASE		
Base	2,086,172,417	2,189,396,228
Superannuation	616,302	555,953
Gross Expenditure Base	2,086,788,719	2,189,952,181

$$\text{PAGE} = \text{PL} \times \text{POP}$$

$$\text{2024-25 Base} \times \text{2025-26 PAGE} = \text{2025-26 Base}$$

2025 PAGE growth = 4.948%



Provincial Local (PL) Government Expenditure Snapshot

FISCAL YEAR	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Statistics Canada									
P-L exp.	616,211	638,280	675,469	725,973	767,055	819,657			
Annual growth rate	1.03779	1.03581	1.05826	1.07477	1.05659	1.06858			
Conference Board									
P-L exp.	615,324	637,386	673,208	725,976	766,458	819,079	867,988	886,694	908,595
Annual growth rate	1.03697	1.03585	1.05620	1.07838	1.05576	1.06865	1.05971	1.02155	1.02470
3yr Moving Average w/ 2yr Lag	1.03930	1.04176	1.04395	1.05628	1.06321	1.06665	1.06163	1.04995	1.03532
	Actual					Forecast			

- The PL escalator is calculated using a three-year moving average lagged two years.
- PL captures the spending of other jurisdictions on programs and services.
- Quarterly data is released for both Stats Canada and Conference board.
- Statistics Canada is preferred is the actual data and Conference Board is used to develop the forecast.



Population Adjustment Factor Screenshot

- Stats Can Q3 (July Estimate) are used to determine the population adjustment factor.
- Three year moving average, lagged two years.

$$\text{NWT 3yr moving average} / \text{Can 3yr moving average} = \text{NWT Population Adjustment}$$

Calendar Year Starting	2020	2021	2022	2023	2024	2025
Canada Population	38,028,638	38,239,864	38,935,934	40,083,484	41,288,599	42,531,662
Increase	410,143	211,226	696,070	1,147,550	1,205,115	1,243,063
% Change	1.090%	0.555%	1.820%	2.947%	3.007%	3.011%
3 year moving average	1.01316	1.01030	1.01155	1.01774	1.02591	1.02988
NWT Population	44,504	44,579	44,634	44,681	44,731	44,781
Increase	62	75	55	47	50	50
% Change	0.140%	0.169%	0.123%	0.105%	0.112%	0.112%
3 year moving average	1.00337	1.00169	1.00144	1.00132	1.00114	1.00110
NWT Population Adjustment	0.99034	0.99148	0.99001	0.98387	0.97586	0.97205



NWT RTS Revenues

Yield of Tax Bases at National Average Tax Rates (\$ thousands)

REVENUE YIELD	2021-22 NWT	2022-23 NWT	2023-24 NWT	3 Year Average
Personal Income Tax Revenues	178,449	179,346	182,404	180,066
Business Income Revenues	41,505	75,257	50,743	55,835
Consumption Taxes	143,442	155,900	156,359	151,900
Tobacco Taxes	10,158	9,416	9,287	9,620
Gasoline Taxes	8,410	7,398	6,535	7,448
Diesel Fuel Taxes	3,812	3,044	2,961	3,272
Revenues from the Sale of Alcoholic Beverages	12,443	12,257	11,766	12,155
Payroll Taxes	26,642	27,518	29,031	27,730
Property Taxes	108,727	103,543	99,471	103,914
Total	533,588	573,679	548,557	551,941



Revenue Categorization

Source	Revenue Source	Tax Base	Inclusion on Revenues to be Equalized
1	Personal Income Tax	Derived using PITAX model	<ul style="list-style-type: none"> • Personal income tax • Hospital & medical insurance premiums
2	Business Income Revenue	Corporate taxable income adj. for small business rates, adj. for SNA profits and profits of non-hydro GBEs	<ul style="list-style-type: none"> • Corporate income tax • Remitted profits from GBEs • Capital taxes • Business fines and penalties
3	Consumption Taxes	Taxable expenditures using an HST framework of taxability	<ul style="list-style-type: none"> • General sales taxes (PST, HST) • Motor vehicle licensing revenues • Race track taxes • Insurance premium taxes • Revenues from ticket lotteries and other games of chance • Preferred share dividends taxes • Carbon and LPG taxes
4	Property Taxes	Market value of residential and non-residential properties, and farm land and buildings, adj. for pop. Distribution	<ul style="list-style-type: none"> • Provincial and local property taxes net of certain credits • Provincial and local taxes and revenues



Categorization of Revenues Continued

5	Payroll Tax	Modelled level of payroll (wages and salaries) adjusted to exclude public sector payroll	• Payroll taxes
6	Gasoline Tax	Gasoline and aviation fuel volumes adj. for farm truck usage	• Gasoline and aviation taxes
7	Diesel Tax	Diesel consumption volumes adj. for farm and railway usage, and other off-highway consumption	• Diesel fuel taxes
8	Tobacco Tax	No. of cigarette-equivalent units	• Revenues from tobacco taxes
9	Revenues from Alcoholic	Weighted volumes of spirits, wine and beer	• Revenues from spirits, wines and beer



Calculation of Fiscal Capacity Example: Consumption Taxes

Consumption Table 3
Calculation of Tax Base and Fiscal Capacity: Consumption Taxes
First Estimate of Fiscal Capacity

VARIABLE	UNITS	INPUT YEAR	Nunavut	NWT	Yukon	CANADA TOTAL
1. Consumer Expenditures - Goods and Services	(\$'000)	2023	36,030	77,770	70,857	60,014,634
2. Business Investment	(\$'000)	2023	7,541	4,379	4,317	2,697,595
3. Housing	(\$'000)	2023	4,615	5,728	11,391	11,639,144
4. Intermediate Inputs - Business	(\$'000)	2023	32,055	30,575	22,988	18,616,994
5. Intermediate Inputs for post-secondary education or non-profit industries	(\$'000)	2023	1,988	1,481	1,450	856,358
6. Investment for public education or non-profit entity categories	(\$'000)	2023	64	244	113	142,133
Calculation of Consumption Tax Base						
7. Consumption Tax base (sum line 1 to line 6)	(\$'000)		82,293	120,177	111,115	93,966,859
8. Provincial Shares of CTB (Line 7 / Sum of Line 7 X 100)	(%)		0.09	0.13	0.12	100
Calculation Of Fiscal Capacity Yield						
9. Revenues to be Equalized from Revenue Table 3 (Line 23)	(\$'000)					122,257,480
10. Fiscal Capacity Yield (Total Line 9 x Line 8 / 100)	(\$'000)		107,069	156,359	144,569	122,257,480

- This is the calculation using the 2023-24 data; the most recent year in the three-year moving average used in the entitlement calculation for 2025-26



Revenue-Specific Claw-Back Estimates

TFF Clawback Rates 2025/26

(70% after EDI)

For every actual dollar earned by GNWT, TFF claws back a share.

Personal Income Tax	69%
Corporate Income Tax	75%
Tobacco Tax	47%
Gasoline Tax	87%
Diesel Fuel Tax	16%
Alcohol Sales	35%
Payroll Tax	40%
Consumption Tax	140%
Property Tax	74%

- These rates apply to tax *base* changes, not tax *rate* changes:
 - Tax rate changes and new or eliminated taxes have no effect on TFF and the full amount of the revenue change will be felt within total revenues (TFF + Own-Source Revenues).
- Each category of eligible revenues has its own claw-back rate.
- *High* claw-back rate signals *low* tax effort (e.g. consumption tax).
- *Low* claw-back rate signals *high* tax effort (e.g. tobacco, alcohol).
- Cutting taxes will increase the claw-back rate, raising taxes will lower it.



History of TFF Entitlements

\$ millions, except ratios and percentages

Year	Gross Expenditure Base	Eligible Revenues	Resource Revenue Offset	2019 Renewal Payment	TFF Grant	Ratio of GEB to ER*	% Change in Grant	Total Revenues**	TFF Grant as a % of Total Revenues
(t)	(A)	(B)	(C)	(D)	(A-B-C+D) = (E)	(A/B+C)	$((E_t/E_{t-1})-1)*100$	(F)	(E/F)
2016-17	1,565	338	32	0	1,196	4.2	-3.0%	1,870	63.9%
2017-18	1,617	356	29	0	1,232	4.2	3.1%	1,802	68.4%
2018-19	1,655	367	32	0	1,256	4.1	1.9%	1,749	71.8%
2019-20	1,708	367	33	2	1,309	4.3	4.2%	1,866	70.2%
2020-21	1,769	347	12	2	1,413	4.9	7.9%	2,186	64.6%
2021-22	1,828	338	12	2	1,480	5.2	4.8%	2,324	63.7%
2022-23	1,887	336	33	2	1,519	5.1	2.6%	2,457	61.8%
2023-24	1,981	350	21	2	1,611	5.3	6.0%	2,636	61.1%
2024-25	2,087	368	19	0	1,699	5.4	5.5%	2,606	65.2%
2025-26	2,190	386	0	0	1,803	5.7	6.1%	2,658	67.8%

Average rate of change	3.9%	65.9%
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*The GEB to ER ratio includes Resource Revenues

** Total Revenues are on a nonconsolidated basis, with the exception of 2024-25 and 2025-26 which use the most recent budgeted amounts

