

Budget 2017

April 6, 2017

Our Plan

- ✓ Exceeded Deficit Reduction Target for 2016/17
- ✓ On Track to Achieve Deficit Reduction Target for 2017/18
- ✓ On Pace to Return to Surplus in 2022/23
- ✓ Reduced Spending by \$283 million
- ✓ Reduced Borrowing by \$2B in 2017/18

Summary 2016/17

- Revenues improved by \$544M, primarily due to oil royalties
- Expenses down \$81M from Budget
- Borrowing down by \$475M

Statement of Operations 2016/17

	Budget	Revised	Variance
Revenue	6,776	7,320	544
Expenses	8,481	8,400	(81)
Revenue Risk Adjustment	(125)	0	125
Deficit	(1,830)	(1,080)	750

Budget 2017

- Deficit forecast to be \$778M
- Expenses \$283M lower than 2016/17:
 - Zero Based Budgeting (\$65.9M)
 - Changes to Management Structure (\$30.8M)
 - Savings from extended Government agencies (\$41.9M)
 - Annualized savings of 2016/17 actions (\$68.1M)
 - Net savings, including actuary calculations / accrual adjustments (\$77M)
- 2017/18 Borrowing down by \$2B to \$400M

Statement of Operations 2017/18

	2016/17 Revised	2017/18 Budget	Variance
Revenue	7,320	7,339	19
Expenses	8,400	8,117	(283)
Deficit	(1,080)	(778)	302

Revenue Summary 2017/18

- No new Taxes or Fees
- No increases to existing Taxes or Fees
- 75% reduction in Temporary Gas Tax in 2017
 - June 1, 2017 - 8.5 cents per litre
 - December 1, 2017 - 4 cents per litre
- NL Income Supplement and Seniors' Benefit continues
 - 155,000 families and individuals benefit
 - \$120M

Revenue Summary 2017/18

- Oil Price assumption - \$56 US per barrel
- Price forecast is comparable to recent federal and provincial budget assumptions
- Oil production lower than 2016/17

Fiscal Year 2017/18	Oil Price \$US
Newfoundland and Labrador (Brent)	56.00
Alberta (WTI)	55.00
Saskatchewan (WTI)	56.25
Quebec (Brent)	58.75
Federal (WTI)	55.25

Leveraging Federal Funding

- Every effort made to maximize Federal funding
 - Positive impact on the economy and people/communities
- \$573M Federal/Provincial \$ in 2017/18
 - \$3B five-year infrastructure plan
 - Equivalent of 4,900 full-time jobs on average each year for the next five years

Investing in Our Province 2017/18

Healthy Living

- Overall commitment of more than \$4 billion for health and wellness
- \$115.2 million for community groups
- \$88.2 million for health care infrastructure
- \$73 million over 10 years for mental health. An initial investment of \$1.4 million in 2017 will support mental health
- \$7.5 million to advance replacement of Waterford Hospital
- \$5 million to start implementation of the recommendations of the All-Party Committee on Mental Health and Addictions
- \$2.5 million to expand primary health care teams
- \$730,000 for the Labrador Travel Subsidy

Investing in Our Province 2017/18

Education and Skills Development

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

Investing in Our Province 2017/18

Industry and Business

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

Investing in Our Province 2017/18

Infrastructure

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

Investing in Our Province 2017/18

Safe and Sustainable Communities

- \$100 million for municipal infrastructure over the next three years
- \$5 million over three years for a new Home Energy Savings Program, and \$4 million over three years for a new Home Energy Efficiency Loan Program, which offers low-interest financing of up to \$10,000 for energy efficiency home upgrades
- Approximately \$7.8 million for transition houses, including over \$780,000 in new funding so that transition houses can provide the necessary services to women and children fleeing violence
- Approximately \$370,000 to strengthen the court system in Labrador
- \$250,000 for Sexual Assault Response Pilot Program

Summary of Plan to Return to Surplus

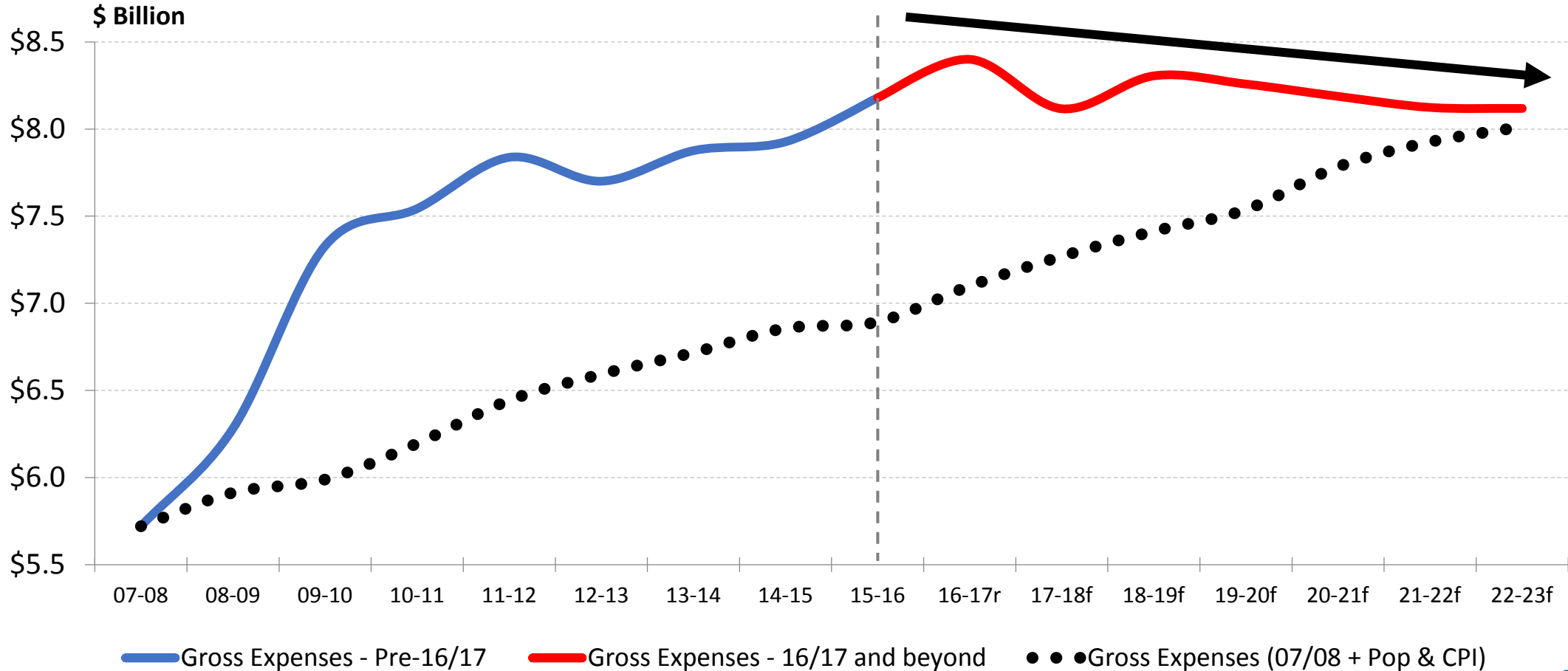
- 2016/17 and 2017/18 exceeding deficit reduction targets
- On pace to return to surplus in 2022/23
- Work continues on spending reductions in government and extended government agencies
 - Expenditure reviews
 - Shifting culture to focus on eliminating waste
 - Efficiency improvements
- Oil Revenue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

BUDGET 2017 FORECAST

	2016-17 Update	2017-18 Budget	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
Total Revenue	7,320	7,339	7,711	7,996	7,959	8,172	8,282
Total Expenses	8,400	8,117	8,305	8,258	8,188	8,124	8,118
Oil Revenue Risk Adjustment	0	0	(50)	(80)	(95)	(120)	(140)
Deficit	(1,080)	(778)	(644)	(342)	(324)	(72)	24
Deficit Targets	(1,830)	(800)	(650)	(500)	(250)	0	100

Controlling spending

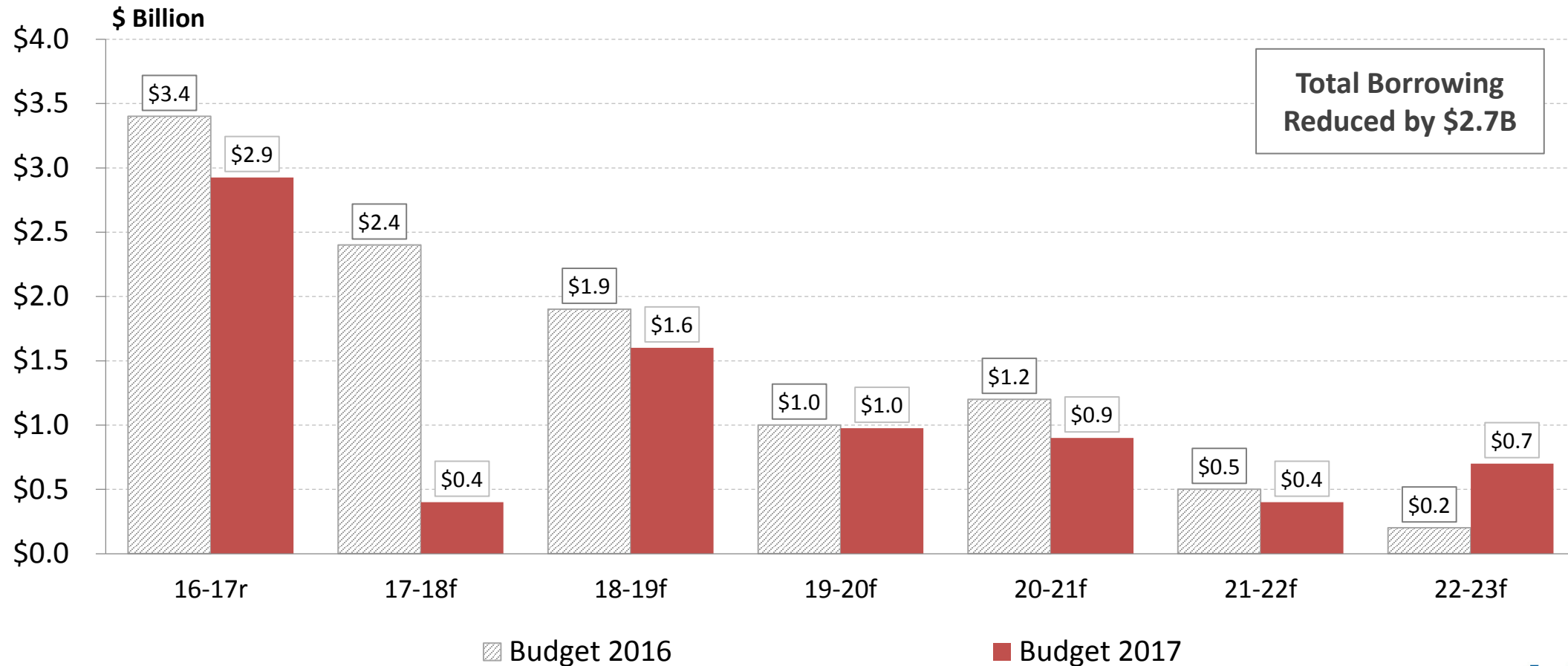
Changing the culture in a new reality



Source: Department of Finance

Borrowing

Significant Progress to Reduce Borrowing



Source: Department of Finance

Executing Borrowing Strategy

- We are no longer borrowing for operations
- \$4.9B in borrowing completed since January 2016
- No longer relying on short term T-Bills to meet long term borrowing requirements
- Borrowing for Commitments
 - Nalcor Equity, Debt Repayment, Pension Promissory Notes, Multi-Year Infrastructure Plan
- Priority now is to reduce the cost of borrowing

Newfoundland and Labrador Economy

- Economy in transition
- Positive economic activity occurring, including offshore exploration, aquaculture, tourism and significant mining activity
- Budget 2017 actions to support the Economy
 - Nearly \$3 billion multi-year Infrastructure, creating equivalent of 4,900 full time jobs on average per year
 - Reducing taxes - Gas Tax reduction
 - Investment in the NL Income Supplement and Seniors Benefit
- Many key economic indicators showing improvement
- Future electricity rate management

Future Electricity Rate Management

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

Rate Management Reserve (\$M)		
2020-21	2021-22	2022-23
Forecast	Forecast	Forecast
210	245	245

Rate Mitigation:

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

Appendix

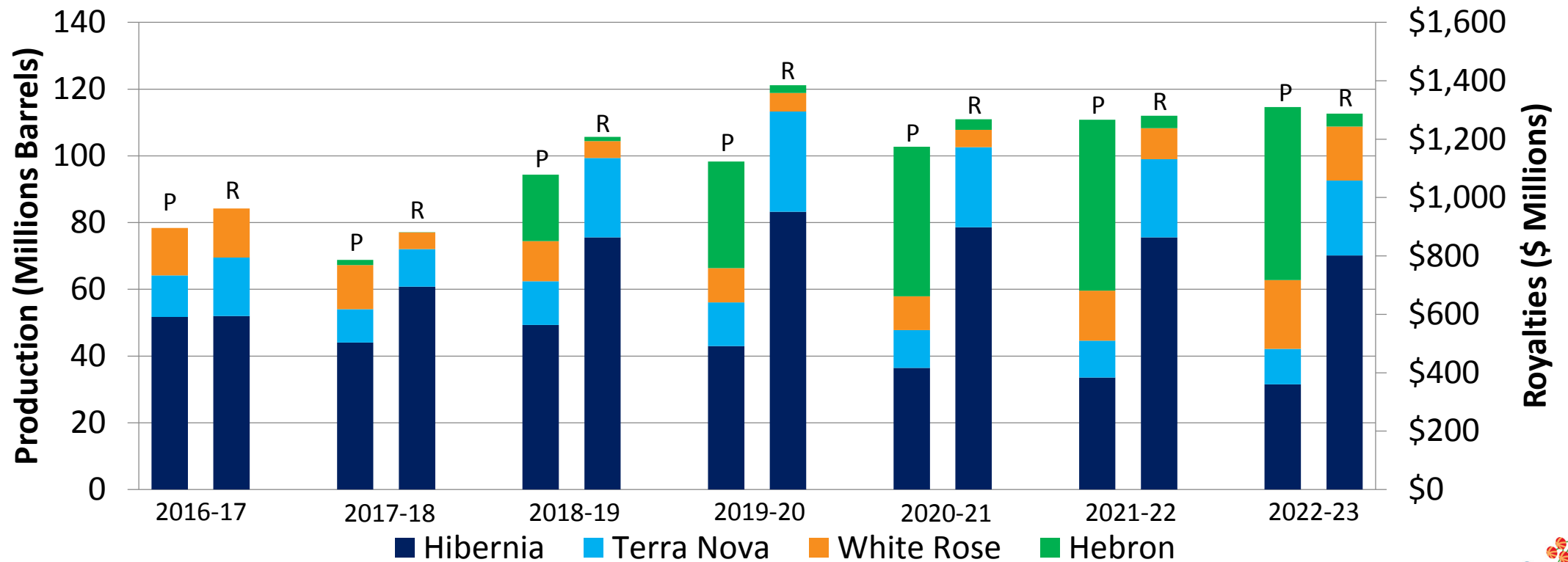
OIL PRICE AND EXCHANGE RATE SENSITIVITIES

	Fiscal Year 2017-18	
	Budget 2016	Budget 2017
Oil Royalties	\$ 949 Million	\$882 Million
Average Oil Price	US\$52	US\$56
Exchange Rate (USD/CAD)	0.77	0.75

Sensitivities	Fiscal Year Change in Royalties (\$ Millions)					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Oil Price Budget Assumption (\$US):	\$56	\$62	\$69	\$71	\$73	\$75
Minus \$1.00 US Impact (\$M):	-21.9	-25.7	-26.7	-24.1	-23.7	-23.1
Plus \$1.00 US Impact (\$M):	23.4	25.7	26.7	24.1	23.7	23.1
Exchange Rate Budget Assumption:	0.75	0.76	0.76	0.78	0.79	0.8
Minus 1 Cent Impact (\$M):	17.8	21.2	24.5	22.2	22.2	22
Plus 1 Cent Impact (\$M):	-16.2	-20.7	-23.9	-21.6	-21.7	-21.4

OIL PRODUCTION AND ROYALTIES

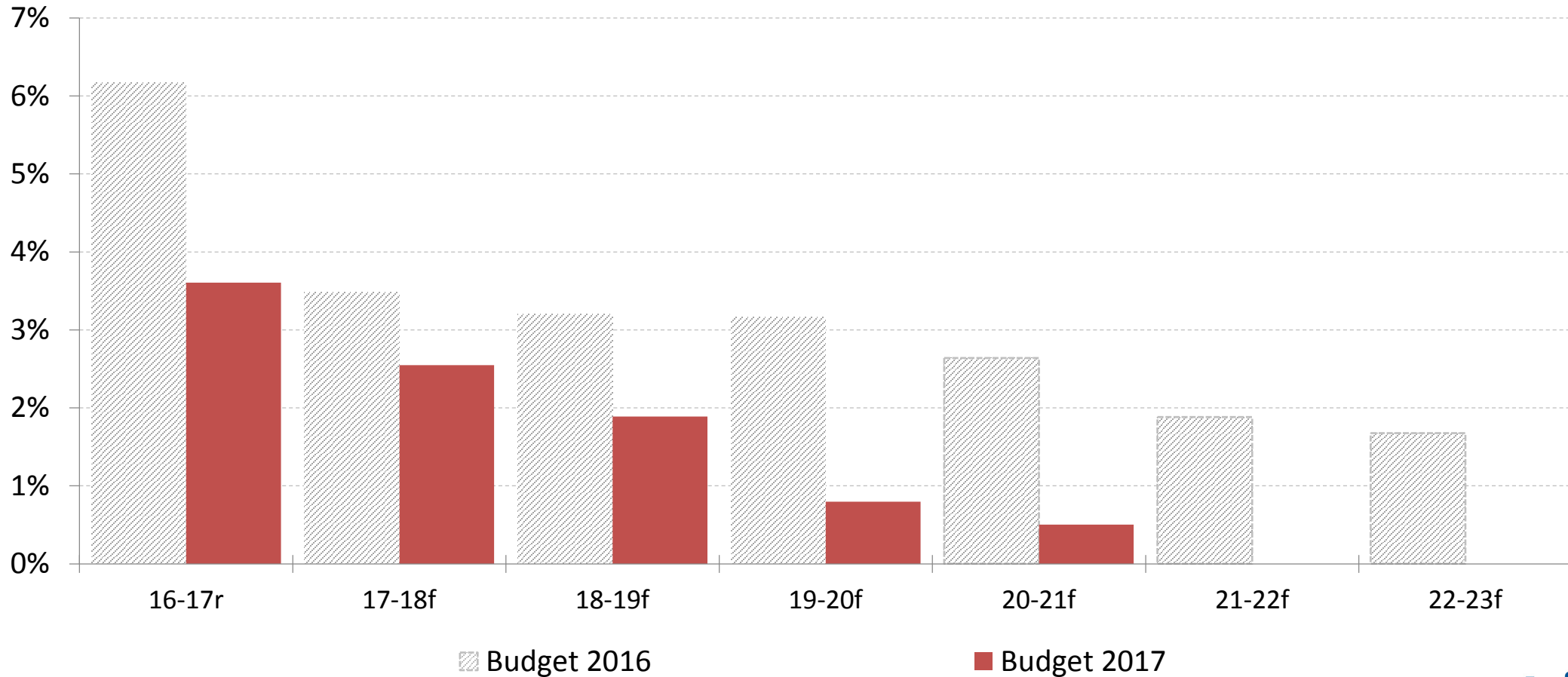
Production (P) left stacked columns; Royalties (R) right stacked columns



Sources: Department of Finance, Department of Natural Resources, C-NLOPB, Nalcor.

Deficit as a % of GDP

Deficit as a % GDP Decreasing



Source: Department of Finance