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Resource Development

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GOVERNMENT FUNDING RELATED TO MAJOR RESOURCE DEVELOPMENT

November 21, 1983

Eric Nielsen

Paul Devitt

The purpose of this paper is to establish a framework under which a funding mechanism can be developed for the Territorial Government's resource development-related expenditures. The creation of this framework should be a shared responsibility between both Federal and Territorial Governments.

In the past, 'the G. N. W.T. has not been allocated sufficient overall funding nor the financial flexibility to provide for a response capability. With a number of mega developments now being distinct possibilities (the Beaufort, Norman Wells, the Arctic Pilot Project, the Arctic Gas Pipeline Project and Slave River Hydro Development)' this inadequacy may impede development. That is, northern interests that are ill-prepared to participate or fulfill associated responsibilities will hinder the progress of development.

The area under study by the Panel, the Beaufort Sea, presents us with an example of a mega development. The proponents have provided a range of scenarios and effects of the Beaufort.

Table 1 below, shows these scenarios and associated population increases. The G.N.W.T.'s Executive Council has indicated a preference for a small diameter pipeline, as shown in scenario 1, as it best suits the aspirations of the northern people:

	Cumulative Population Increment Related to Hydrocarbon Development Inuvik Plus Tuktoyaktuk			
	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>	<u>Scenario 4</u>
	16" Pipeline	Tanker Only	Tanker/ 16" Pipeline	42" Pipeline
1985	550	550	550	550
<b>1990</b>	<b>1,500</b>	<b>1,550</b>	<b>2,200</b>	<b>9,600</b>
1995	2,050	<b>2,100</b>	<b>3,150</b>	<b>15,600</b>
2000	2,000	2,100	3,300	23,250

Each scenario will not be referred to separately in the development of funding mechanism principles. It should, however, be kept in mind that the larger the scale of development, the greater the lead time and amount of impact funding required.

The following aspects of the problems are discussed in arriving at the proposed impact funding principles:

1. Critique of Past Impact Funding Exercises
2. Overall G.N.W.T. Funding
3. Stages of Impact
4. Yukon - Foothills Pipeline Funding Mechanism Example
5. Recommendations - Principles for Establishing a Funding Mechanism

10 Critique of past Impact Funding Exercises

In recent years this government has been involved in **two Federally-sponsored impact** funding exercises -- the Norman Wells Pipeline Project and the Northern Oil and Gas Activities Program (**N.O.G.A.P.**). **Despite positive intentions on the part** of both Federal and Territorial Governments, neither funding program has yielded satisfactory results.

Both exercises were conducted in a similar fashion, with the Federal Government taking the lead role and the **G.N.W.T.** participating through **D.I.A.N.D.** Itemized histories of the Norman Wells and **N.O.G.A.P.** exercises are included in appendices A and B. **In** these funding programs:

1. For the Norman Wells project, the final **G.N.W.T.** funding allocation was grossly inadequate and bore little resemblance to the needs identified by the **G.N.W.T.** The amount provided to the **G.N.W.T.** was also a disproportionately small percentage of the total impact funding allocation. Negotiations for **N.O.G.A.P.** funding have yet to be finalized.
2. Consultation between governments at a ministerial level was inadequate.
3. The programs were designed to reflect only federal priorities.
4. The complete rationale of federal decisions was not communicated to the **G.N.W.T.**
5. In the case of Norman Wells, the **G.N.W.T.** has been forced to bear many of the operation and maintenance (**O & M**) impact costs at the expense of other programs. As the

Federal funding allocation made no provision for capital all infrastructure costs have had to be absorbed by the **GNWT**.

6. Approved Federal funding was not provided on a timely basis.

By presenting these problems, we do not wish to take issue with the results, but rather to use these experiences for improving future funding methods.

2\* Overall **G.N.W.T.** Funding

Currently the Territorial Government negotiates its total funding (fiscal framework) with Federal officials at inter-governmental meetings (**IGC**). The negotiations are between Territorial, DIAND, Treasury Board, MSSD and Finance-Canada representatives, all being officials **withno** direct political input. The objective of the meetings is to recommend a total fiscal framework. The grant levels are determined by offsetting all internally-generated Territorial revenues against the total Territorial funding requirements. Any new **G.N.W.T.** revenues are used to reduce grant levels, leaving the Territorial government with no continuing benefits. Thus, under the current financial arrangement, the **G.N.W.T.** has no ability to support increased expenditure levels.

Even under a proposed new financial arrangement, which will **allow** the **G.N.W.T.** to retain additional revenues generated by new taxes or increased tax rates, the ability of the Territorial Government to raise significant revenues is

**limited.** Internally-generated revenues comprise only 19% of the total Territories' income. Seventy-two percent of the **G.N.W.T.'s** 1983-84 income of \$478 million comes from Federal **operating** and capital grants. The remaining 9% is funded **through Federal transfer payments.**

### **3. Stages of Impact**

Resource development occurs in six stages -- announcement, preliminary exploration, development **drilling and construction, production and abandonment.** **Financial impacts are not always easily identified. This is especially true during the initial stages of development. Still, costs associated with public relations, planning and preparing are incurred by government from the beginning, even if projects never proceed further than the preliminary stages.**

An example of this type of "false start" **is the Mackenzie Valley Pipeline proposal** when, in anticipation of development, impacted communities obtained funding in the form of debentures through the Territorial Government and the Federal Government. Three communities (**Inuvik, Hay River, and Yellowknife**) have defaulted on those debenture payments because of delays in development. Even though the **G.N.W.T.** has picked up these costs, the Federal Government has not agreed to delays in loan repayments by this Government.

Beaufort development is already in its early stages and although the **G.N.W.T.** has not received any special funding, it is already experiencing associated impact costs. It has been necessary to **redirect** capital funding from other projects into impacted communities (i.e. Tuktoyaktuk).

Although no specific O & M funding has been redirected for **this purpose it is likely that some** of the volume government **growth can** be directly attributed to these developmental areas.

4. Yukon - Foothills Pipelines Funding Mechanism Example

We have chosen the Yukon as an example of an impact funding mechanism since the Yukon Government's financial circumstances most closely resemble those of our own government. Although this example should be studied in determining an appropriate funding mechanism, it does not represent the position of this government. Outlined below are the recommendations made in the Alaska Highway Pipeline Inquiry and the funding approach finally approved by Cabinet.

a) **Alaska** Highway Pipeline Enquiry

The concept of the "Heritage Fund" was proposed as part of the Alaska Highway Pipeline (**Lysyk**) Report.

The stated purpose of the fund was "to be used to preserve the historical legacy, to foster the richness of cultural diversity, to protect the natural assets, and to create new opportunities for the residents of the Yukon".

Recognizing that the fund would require generous initial capitalization, the report recommended that an initial amount of \$200 million be paid by Foothills in installments of \$25 million over eight years. "The



Heritage Fund should also receive 50 percent of the annual property tax revenues derived from the pipeline, beginning **in** the year that gas first flows through the line".

b) Federal Cabinet Approved Financing

**D.I.A.N.D.** was authorized by Cabinet to negotiate an agreement with the Yukon which was substantially different from that recommended in the Lysyk Report. The highlights of the **D.I.A.N.D.** proposal are:

- The Yukon be **authorized to borrow up to \$200 million from any** source to meet pipeline-related expenditures recommended by the Inter-governmental Committee on Finance (I. G. C.). The payment of these loans would be financed from real property taxes levied against the pipeline.
- A Yukon "Heritage Fund" be established, not to exceed \$50 million (1983 dollars), for specific economic, cultural, and historical purposes. The criteria for expenditures from the fund to be established by the Inter-governmental Committee on Finance.
- This fund was to be financed from real property tax levied against the pipeline, such revenues to be, at maximum, 20% per annum of gross tax. The Government was also given the option of applying revenues from other new sources of revenues not presently taxed or, according to provincial standards, insufficiently taxed. The Yukon Government was asked to consider legislating an ordinance authorizing recoveries from Foothills Ltd.

for the direct costs incurred by the Territory in relation to the construction or the regulation of the pipeline.

## 5. Recommendations - Principles for Establishing a Funding Mechanism

The stated objective of this paper is to establish a framework for the development of an impact funding mechanism. From the critique of past impact funding exercises it has become clear that a change in approach is necessary. The development scenarios indicate that even the most modest of developments will have major impacts on the economy and people of the Northwest Territories. The description of the G.N.W.T. overall funding arrangement shows that, as in the case of the Yukon, an outside funding source is necessary to provide for even a limited impact response capability.

From our study we have concluded that an appropriate funding mechanism should consider the following:

1. It is imperative that impact funding for mega developments be received in advance of federal development approval - associated impact costs are incurred prior to formal project approval.
2. Funding must provide the G.N.W.T. with independent O & M and capital impact response capabilities with provision for co-ordination with Federal programs. Thus, when allocating impact funding, the Territorial Government can reflect its priorities.
3. A portion of the funding must be non-specific to any one resource development project. This flexibility will allow

the G.N.W.T. to respond to the many existing and future northern development proposals.

- 40 Funding should be allocated in such a way that it does not compete for the same funding sources as current programs.
5. A mechanism is required to provide for an ongoing source of revenues to replenish or adjust the amount of funding, this adjustment being directly related to the size of development.
6. Funding in advance of actual development must not be tied to volatile or contentious resource-related revenues (i.e. property tax on the pipeline). Alternatively a fail-safe provision could be made available to the G.N.W.T. in the case that these revenues never materialize.

In 1982 the Minister of D.I.A.N.D. expressed his department's intent to proceed with a program to provide the G.N.W.T. with discretionary funding related to resource development. The G.N.W.T. understands that D.I.A.N.D. is currently preparing a Cabinet submission outlining this program. The G.N.W.T. supports the Minister's initiative and recommends that the above principles, including those related to capital infrastructure and cashflow, be incorporated into this positive action.

APPENDIX "A"

HISTORY OF NORMAN WELLS PROJECT

**July, 1981**

Cabinet announces decision to proceed with Norman Wells Pipeline Project.

October, 1981

Letter from G.N.W.T. to D. I.A.N.D. outlines \$9 million impact funding requirement. However, D. I.A.N.D. letter indicates that only \$3 million of a total \$21 million impact funding is available for G.N.W.T. programs. This amount is to be allocated over a 5 year period.

February, 1982

Treasury Board approves \$142,000 of \$3 million applicable to 1982/83 too late in fiscal year for G.N.W.T. to spend. As a result funds are lost to G.N.W.T.

October, 1982

Financial Management Board has difficulty accepting arbitrary \$3 million spending limit, but allocates funding to the programs in greatest need. In addition, original 1982 Federal Norman Wells funding agreement is too restrictive and requires extensive revision.

January, 1983

G.N.W.T. submits \$3 million funding proposal and revised agreement to D. I.A.N.D. D.I.A.N.D. official indicates that it is in time for 1982/83 Treasury Board approval.

March, 1983

D. I.A.N.D. informs G.N.W.T. that Treasury Board was unable to approve funding in time for 1982/83 fiscal year.

July, 1983

G.N.W.T. is unofficially advised of Treasury Board approval of \$3.5 million in Norman Wells Impact Funding. Construction of the pipeline is into its second year.

HISTORY OF NOGAP**August 1981**

D.I.A.N.D. began development of Hydrocarbon Strategy Paper. Paper to include a research and planning program (N.O.G.A.P. ) involving Territorial and Federal departments.

December 18, 1981

Completed package of research and planning project requirements for five years beginning in 1982-83 forwarded by G.N.W.T. to D. I.A.N.D. for inclusion in Paper. G.N.W.T. identified approximately \$5 million annually. Planning scenario was for Beaufort development generally. Beaufort & High Arctic (Islands).

October, 1982

Cabinet approved the Northern Hydrocarbon Strategy Paper along with the following funding allocations: (Table 1 below) . An expenditure ceiling of \$375,000 was identified for G.N.W.T. for Priority 1 projects (those that provided critical information for decision-making to meet Federal responsibilities) which could be completed in 1982-83. Funding was subject to Treasury Board approval .

December, 1982

Projects identified by D. I.A.N.D. Co-ordinator were submitted in required format together with G.N.W.T. research and planning requirements from 1983-84 to 1986-\$37.

January 12, 1983

**G.N.W.T.** informed that Federal central agencies could not support five year funding proposals of Territorial Government and Federal departments because of lack of direction of the program from senior levels and lack of mechanism to ensure sensitivity to the changing world hydrocarbon conditions.

January 20, 1983

Treasury Board approved funding for 1982-83 projects for \$320,000. No carry over for future year commitment provisions were permitted in agreement between Federal and Territorial Governments.

February 2, 1983

Meeting of Senior Policy Committee (S. P. C.) consisting of **ADM's** of Federal departments involved in Beaufort and senior Territorial Government representation. The **S.P.C.** was to provide the top down direction recommended by central agencies. The **S.P.C.** delegated to the **co-ordinator's** group the task of identifying appropriate planning scenarios, defining the scope of the program and recommending a management model. The **S.P.C.** would review the group's recommendations.

March 2, 1983

The **Co-ordinators** met following a month of telephone and written communications. Consensus on the right scenarios was very difficult. Finally, the group decided to recommend planning scenarios in keeping with the Federal policy of

phased development. The scenarios were a small diameter oil pipeline from the Delta to Norman Wells and a demonstration tanker route from the Beaufort Sea east through the Northwest Passage. Project proposals were adjusted to focus on these scenarios with funding to begin September 1983. Funding estimates across government were reduced to 56% of previous estimate. Management model proposed by D. I. A. N. D. Co-ordinator. G. N. W. T. made representation to incorporate in management model mechanism which would enable G. N. W. T. priorities to be recognized.

April 7, 1983

Senior Policy Committee approved planning scenarios. Management model was revised to enable project review by co-ordinator's group chaired by the D. I. A. N. D. Co-ordinator with subsequent review by the S. P. C. and Treasury Board approval. G. N. W. T. and Y. T. G. obtained a clear statement from S. P. C. that the program was to prepare all three governments for hydrocarbon development - not merely the federal government through the territorial governments, and that approved projects should reflect territorial priorities as well as federal priorities.

D. I. A. N. D. Co-ordinator was instructed to develop a Cabinet document for approval of the program.

June 7, 1983

Senior Policy Committee meeting to approve Cabinet discussion paper for approval of program. Target date of government preparedness of 1990 approved for recommendation to



Cabinet. Central agencies stated they were broke. No auctions to obtain funding until fall at earliest. Central **agencies stated still not convinced that** projects had been or would be adequately vetted to support **annual** expenditure ceilings for the program.

Committee recognized that they could not expect the program to be funded in 1983-84.

June 15, 1983

**G.N.W.T.** unable to continue to fund a **co-ordinator's** position in 83/84 without federal funding.

	<u>\$000' s</u>	TABLE 1
<b>D.I.A.N.D.</b>	685	
G. N.W. T.	375	
Yukon	210	
D. O.E.	835	
Employment & Immigration	60	
National Museums	90	
Fisheries & Oceans	4,080	
Energy, Mines & Resources	80	
Transport	- 350	
	6,765	

\* Note: Progress made since June is described in **G.N.W.T. B.S.E.A.P.** submission entitled "**G.N.W.T. Participation in N.O.G.A.P.**".

PERSONAL RESUME

ERIC L. NIELSEN

PERSONAL PROFILE:

Address: 4910 Matonabee Street  
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EDUCATION:

1951-54 Crescent Heights Collegiate, Calgary - Matriculation  
1961-65 University of Alberta, Calgary and Edmonton  
Degree: Bachelor of Commerce; Major: Accounting  
1967 Chartered Accountant  
1975 Banff School of Advanced Management

EXPERIENCE:

1976 to present Government of the Northwest Territories,  
Yellowknife, NWT  
April, 1978 - Deputy Minister of Finance  
and Secretary to the Financial Management Board  
November, 1976 to March, 1978 - Director of  
Finance

1974-76 The City of Calgary, Calgary, Alberta  
Director of Finance and City Treasurer,  
Comptroller, Manager, Management Audit Division

1970-74 Government of Canada, Department of Regional  
Economic Expansion, Ottawa, Ontario.  
Acting Manager, Industrial Incentives Division  
Assistant Manager  
Incentives Officer

1968-70 Price, Waterhouse, Peat & Company,  
Santiago, Chile  
Audit Manager  
Supervisor  
Senior Auditor

1965-68 Deloitte, Haskins & Sells, Edmonton, Alberta  
Audit Senior  
Articling Student

CURRICULUM VITAE

PAUL GORDON DEVITT

**PERSONAL PROFILE:**

Address: BOX 2128  
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Birthdate: April 26, 1955

Birthplace: Fort Smith, N.W.T.

EDUCATION:

1970-1973 Sir John Franklin High School -  
Matriculation

1973-1977 University of Calgary, Bachelor of  
Commerce, Major: Organizational  
Management

1981 Advanced Professional Training Institute,  
Evaluation for Planning and Budgeting

EXPERIENCE:

1983 Manager, Financial Planning and Analysis,  
Financial Management Secretariat, GNWT

1981-1983 Financial Planning Analyst, Financial  
Management Secretariat, GNWT

1979-1981 Program Analyst, Financial Management  
Secretariat, GNWT

1977-1979 Management Trainee, Great West Life  
Insurance Corn., Winnipeg, Manitoba

1976 Research Assistant, Mackenzie Valley  
Pipeline Study, Department of Economic  
Development and Tourism, GNWT