# Yukon Financial Advisory Panel

# Executive Summary

**For Premier Sandy Silver**

**Yukon**

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# Summary

The Government of Yukon established an independent Yukon Financial Advisory Panel (YFAP) to provide independent and expert advice on how to improve the Yukon government's financial outlook. The mandate of YFAP is to develop options on how the Yukon government can deliver on its priorities while meeting the fundamental needs of Yukoners and returning to a healthy financial position.

Under the panel's terms of reference, the assessment of options for improving the financial position of Yukon is to be guided by broad engagement with citizens, key stakeholder organizations and First Nation and Municipal government-to-government partners. The first phase of the engagement process was launched on June 14, 2017 and closed on July 14, 2017. Yukoners participated via an online discussion forum, an online survey and opportunities for video and written submissions. More than 200 Yukoners provided their input and feedback. In formulating its options and advice the Panel considered, and to the extent possible, was guided by the thoughts and opinions of participants in the initial phase of the public engagement process.

The initial public engagement process enabled participants to provide input and feedback on what it means to successfully achieve the Government of Yukon's stated priorities and provide input on action items, or recommendations that might be implemented to achieve success. The Yukon's stated priorities are:

1. Our people-centered approach to wellness helps Yukoners thrive.
2. Our strategic investments build healthy, vibrant, sustainable communities.
3. Our strong government-to-government relationships with First Nations foster reconciliation.
4. Our diverse, growing economy provides good jobs for Yukoners in an environmentally responsible way.

In addition to providing input on what constitutes success in achieving these priorities, participants were provided background information regarding Yukon's financial planning , current projections of anticipated revenue, spending levels and financial assets and asked to provide from their perspective key considerations, or criteria to guide Yukon's financial planning.

# What We Heard

It is not possible to report all of the input we heard from participants. A summary of the responses the panel heard through the initial engagement as they related to the success of the four priorities are as follows:

1. Success of a people-centered approach to wellness helps Yukoners thrive means:
    - Investments are made into Health Care related systems with constant evaluation of efficiency and effectiveness.

- Programs and services that empower people to make a difference in their own lives rather than needing regular support for critical or acute issues.
- Access to healthcare at all stages of life.
- Mental health and wellness are supported
- Invest substantially in the social determinants of health (poverty, housing, food security, employment and education).
- Easy access to family doctors.
- There are increased rates of high school graduation.
- There are education options to meet a variety of learning programs, some of which are profitable and other that build other benefits.
- Investments are made into early intervention programs to reduce future costs and pressures of long-term care.
- All Yukoners have access to basic needs services and programs, and services and considerations are made for the most vulnerable.
- Wellness goes beyond healthcare and education. It also include how we experience living, working and interacting in our communities. This also needs to be a consideration when developing and maintaining programs and services.

2. Success of strategic investments to build healthy, vibrant, sustainable communities means:
    - Yukoners are able to purchase, rent and/or access housing.
    - Services Yukoners need are available in their chosen community (healthcare, food, transportation).
    - Providing opportunities for communities to access financing and resources to meet their own needs, as they best understand the local context.
    - Continuing to increase internet connectivity around the territory.
    - Investing in a variety of infrastructure including roads, bridges, recreational infrastructure and consideration and planning for how it is to be maintained.

3. Success of strong government-to-government relationships with First Nations that foster reconciliation means:
    - Yukon will continually build relationships with First Nation governments.
    - By building relationships that support collaborative approaches, the Yukon government and First Nations governments will find and define what equitable contribution to programs and services initiatives look like in action.

- Yukoners have a better understanding of the history, past relationships and current situation and issues facing First Nation communities in Yukon.
- Reducing barriers to First Nations people accessing the programs and services needed.

4. Success of a diverse, growing economy that provides good jobs for Yukoners in an environmentally responsible way means:
    - Everyone who works earns a wage they can live on.
    - We build an economy and job opportunities that are beneficial to Yukoners of today and tomorrow both in and outside of Whitehorse.
    - We will have an economy diversified beyond government, tourism and resource extraction. It would actively work with local contractors, technology innovators and First Nation development corporations.
    - We respect and understand the connection between the environment and our economy. We are surrounded by beautiful, pristine wilderness that we want to keep for future generations while also building an economy that provides income to Yukoners.
    - The Yukon government considers the impacts of where government jobs are placed. As a significant driver of the economy, local community positions need to remain outside of Whitehorse.
    - The Yukon government has a better understanding of how its policies, rules and legislations impact local business owners and operators.
    - The Yukon government continually looks for programs and services to support building and growing private businesses while also working collaboratively with other service providers to ensure no duplication of services.

Participants had many recommendations to achieve success in these areas of priority some of them are outlined below:

- A general theme in the feedback was to focus on increased efficiency of program delivery and collaboration between acute care and community health care to reduce costs.
- Access to programs to be based on a means, or income test.
- Creating partnerships with the federal government and/or communities to invest in affordable housing for Yukoners along with policy, regulation, grant, or program options to support more Yukoners to purchasing land and homes.
- Create more opportunities for First Nations to be at the decision-making tables and work together towards a common future for First Nation Citizens and all Yukoners.
- Small business taxes should be favourable to Yukon-based smaller companies rather than larger corporations.
- Continue to use the transfer payments to develop a private sector economy.

- Empowering First Nation development corporations to be more active in exploring and developing potential streams of employment.
- Develop a competitive and sustainable regulatory regime that includes investing in science to increase the knowledge we have of our landscape.

In trying to balance expenditures with revenues participants believed that emphasis should be placed on reducing expenditures by improving efficiency with Yukon Government's programs and services such as streamlining processes and using new tools and ways of doing business. For example, using technology to reduce travel costs and increase productivity of employees. There were comments on a need for an overall review of current expenditures to eliminate wasteful spending including a review of the contracting and procurement processes.

There were suggestions to use existing human resources more effectively by reducing redundancies and duplication of effort and eliminating or scaling back programs that have outlived their usefulness, and establish work processes that provide collaborative, integrated services rather than "working in silos".

Participants provided their perspectives of key considerations, or criteria to guide Yukon's financial planning:

- There was no clear overwhelming preference of participants towards deficit financing of expenditures, or a balanced budget approach. Some participants felt Yukon should not be spending more than is received, especially as it relates to operations and management spending, while other participants saw value in deficit spending in support of long-term goals for a limited time with an active plan to return to non-deficit spending scenarios. Participants also asked the panel to consider what are essential programs and services and what are "nice to haves".
- Participants suggested looking at methods that support analysis of the invested money and the corresponding benefits, and suggested that financial planning requires an eye to return on investment as well as an appreciation and understanding that there are social and environmental benefits beyond the financial or economic benefits.
- There were diverging perspectives related to supporting a "Made in Yukon" approach. Essentially, participants outlined the various perspectives of the benefits of using Yukon-based people and services compared to finding options from outside Yukon. Those that supported using business and services from Yukon people and companies suggested it benefits local economies. In contrast, those who opposed this approach suggested using Yukon-based people and services may affect the potential value for money spent.
- Participants saw value in planning for the future and ensuring that plans for services, programs, policies and infrastructure align with the available financial resources.
- Financial planning is broad and needs to serve the needs of many. It needs to consider the young and the old, the majority and the minority, the urban and the remote. Participants noted these are difficult choices and will need thoughtful consideration.
- In order to evaluate the return on investment and ensure money, resources and time are used wisely, it was suggested by participants to incorporate more concrete evaluation

measures and metrics to determine success of outcomes of various programs and services.

- The need to raise additional revenue was suggested by participants. There were differing views on the best way to do this effectively. Some suggestions for revenue generation were increasing taxes, raising user fees for public services, increasing royalties and exploring the use of new models for raising revenue.
- There were comments on the structure of the civil service from reducing it in size and/or reducing salaries to restructuring so there is a more effective distribution of the workload.
- There was also feedback that suggested an investment and focus on private sector success and minimizing the role of government.

## What We Did

The panel believed an overview of Yukon's finances was needed for Yukoners to understand the current financial situation, the facts behind the decline in the financial health of Yukon and the concern that future projections of revenues and expenditures have raised about the rate of debt accumulation. This overview also informed the panel's discussions around options. Ron Kneebone and Trevor Tombe prepared the section of the report "Yukon's Finances: Past, Present and Future" aimed at detailing the territory's current situation and near- and long-term challenges.

Tim O'Neill outlines the "Priorities and Context" in which the options for sustainable finances need to be considered. Tim also prepared three sections of the report outlining ways to improve government policies with a view to restoring the fiscal balance in the long-term. The section of the report "Mitigating Constraints and Improving Tradeoffs – Policies for Improving Trend Growth" focuses on those policy areas in which the government can apply direct control [business taxes and economic infrastructure] or in which public sector spending dominates resource allocation decisions [education and training]. The section of the report "Mitigating Constraints and Improving Tradeoffs – Improving Public Sector Efficiency" focuses on initiatives that the government can take to improve the efficiency of its own operations and programs. Tim's final section "Back to the Government's Priorities – Policy Change Considerations" offers suggestions for the government to consider regarding improved efficiency and effectiveness of its policies especially as they relate to the four categories of current government priorities.

Ron Kneebone and Trevor Tombe also prepared the section of the report "Options for Sustainable Finances." This section of the report provides specific initiatives and policy changes that reflect four guiding principles: simplicity, sustainability, equity, and efficiency. The options include near-term, medium-term and long-term recommendations for consideration. The options range from spending restraint to tax reform.

Norman McIntyre and Grace Southwick prepared the section of the report "First Nations' Fiscal Relations in Yukon" to provide a background to current First Nation fiscal arrangements and to assess the impact the recommendations and options may have on those arrangements. They also prepared the section “Municipal Finances in Yukon” outlining the necessity of reviewing and possibly mitigating impacts the implementation of the options may have on municipal and community finances.

The members of the panel reached consensus on all of the recommendations and options presented for consideration. Some of the options that follow may be subject to the *Taxpayer Protection Act*. This Act constrains the Yukon government’s ability to unilaterally (1) create or increase an accumulated deficit and (2) introduce new taxes or raise the rate of existing taxes. Tax reform, of the type described in the several of the options below, may first require a referendum or other legislative changes.

# Summary of the Options for Consideration

## Mitigating Constraints and Improving Trade-Offs – General Observations

1. Longer-term structural changes in government policies that open up other prospects for easing the financial and human resource constraints that government will have to deal with.
    - Spending or tax changes - reduction in corporate income taxes, increases in economic infrastructure investments and spending to enhance workers skills.
2. Improvements in the design and delivery of government services and programs
    - Internal operational changes to improve public sector efficiency and effectiveness can include institutional reorganization, skills upgrading of public servants, capital investment and process/delivery and funding innovations.

## The Government’s Priorities and Policy Change Suggestions

3. The Finance Department is in the process of increasing its capacity for program evaluation with a focus on policy outcomes. However, “line” departments also have a responsibility to utilize their experience and expertise in defining the type of data required for assessment of outcomes and, as appropriate, to engage in the collection of relevant information.
4. Consider the potential benefits of either contracting out to or collaborating with other governments on the provision of such things as IT and analytics, standard processing activities and common purchases in order to lower operating costs and some capital expenditures.
5. Consider further reduction in the corporate tax rates after assessing the impact of the proposed drop from 16% to 12%.
6. Consider public-private partnerships [P3] to share the costs and risks associated with public infrastructure projects. The federal government is a potential funding

partner in such joint ventures with the private sector through PPP Canada and/or the new Canada Infrastructure Bank [CIB].

7. Consider comparing the costs of business support programs to the revenues generated from business income taxes. An assessment of whether the Territory is achieving desired outcomes and getting value for the resources spent would assist in redesigning some programs and eliminating others.
8. Consider a comprehensive review of the healthcare sector akin to the one done in 2008 focusing on the factors driving costs and on the quality of the outcomes being delivered to Yukoners.
9. Consider innovations in health care delivery and funding.
    - For example:
        i. Contract out to private firms some diagnostic work to mobile labs or clinics.
        ii. Privately operated but publicly funded surgical facilities.
        iii. Examine the potential for relatively low-impact changes to co-pay arrangements in areas such as pharma care.
    - Recent studies from Canada, the US and internationally show that reallocating tax dollars -- so there is no impact on total spending -- from health spending to social spending has a positive effect on key indicators of health and wellness.
10. Assess the outcomes from current approaches to dealing with adult literacy challenges and consider program design changes to improve those outcomes.
11. It is suggested that the government dedicate a specific percentage of its spending to maintenance and upgrading of economic infrastructure such as roads and bulk power generation. If a sovereign wealth fund is established to “store” budget surpluses as they arise, that could be the source of investment in social infrastructure and would avoid the problem of its competing with the economic infrastructure requirements of the Territory.
12. Assess the educational outcomes for aboriginal students and to craft, with the First Nations communities and federal government, ways to improve those outcomes.
13. Consider joint ventures, including public-private partnerships, with First Nations governments.

## Near-Term Options to Balance

14. Spending restraint -
    - Currently, the government plans for spending growth of approximately 2% per year from now until 2020/21. If this growth rate is maintained beyond 2020, then the territory is on track to balance by 2022/23.
    - Balancing sooner requires further spending restraint. For example, to balance by 2020/21 requires spending growth to not exceed 1% while a nominal spending freeze at 2017/18 levels achieves balance by 2019/20.

15. Raising revenues - if additional revenues are to be raised, we recommend the government use the most cost-effective tool available: a territorial Harmonized Sales Tax (HST).
    - Each 1% HST would raise roughly $7 million, net of expanded low-income rebates. Not only are sales taxes of this kind generally more economically efficient than other forms of taxation, the low-income rebates ensure that an HST is not regressive.
16. Combination of spending restraint and raising revenues – a balanced budget under various combinations of HST rates and spending growth rates is as follows:
    - If spending grows at 2%, a 4% HST would allow balance by 2020/21.
    - If spending grows at 1.5%, a 4% HST would allow for balance by 2019/20.
    - If spending grows at 0.5%, a 2% HST would allow for balance by 2019/20.

## Medium-Term Recommendations

17. We recommend indexing Yukon’s borrowing limit to its nominal gross domestic product. As the Yukon economy grows, so too will its government's borrowing limit. A 15% debt/GDP limit is appropriate for Yukon, even given its near-term fiscal challenges.
18. We recommend the government proceed with a fully revenue-neutral implementation of the Federal carbon tax by proposing a package of policies to recycle carbon revenue that balances equity and efficiency concerns.
    - A universal cost-of-living credit of $300 per year.
    - Lowering personal income taxes by 20-25% across the board; and
    - Lower corporate income taxes by 20-25%.
19. Improve comprehensiveness and transparency of territorial budgeting to include fully consolidated books and projections.
20. As discussed in option 8 above undertake a thorough review of the Yukon health system, with a particular emphasis on ensuring cost efficiencies are fully exploited, and that outcomes reflect such spending.
21. Undertake a review of the Yukon mining royalty and tax regime. In particular, explore the possibility of increasing the royalty rate on placer gold mining operations.
22. In partnership with the federal government, explore changes to the Federal Territorial Formula Financing grant to reflect the disproportionate burden an aging population places on health services in the territories.
23. Insulate infrastructure investments from any spending constraint efforts, in particular on economic infrastructure.

## Long-Term General Tax Reform

24. Visitors now spend over $300 million per year in Yukon. Not all of this is on goods or services subject to the HST (many groceries, for example, are exempt) but if two-thirds is covered, say, then visitors end up paying roughly one-quarter of the total potential HST revenue earned by the government. That money can then be used to lower the tax burden of Yukoners directly. While there are many potential variations, we illustrate a specific reform below that a 5% HST could fund.
    - Raise the personal exemption to $20,000, ensuring 6,500 Yukoners pay no income taxes at all.
    - Reduce the number of income tax brackets from five to three:
        - 6% on incomes between $20,000 and $100,000
        - 8% on incomes between $100,000 and $150,000
        - 10% on incomes between $150,000 and above
    - Lower the general corporate income tax rate to 10%.
    - Phase in a cost-of-living tax credit to enhance the $300 provided by the carbon tax to a maximum of $500 per person. Credits would scale with income, as the NWT credit does, to this maximum.
    - Remaining funds after making the above changes could be allocated to debt repayment, to a savings fund to ensure future territorial finances are sustainable, or to even larger tax reductions or refundable credits. Either way, due to the high contribution to HST revenue from non-Yukoner visitors Yukoners as a whole will see tax liabilities fall by more than the HST paid.
25. We recommend that Yukon consider a clear “fiscal anchor” to ensure a robust financial situation well into the future. The adoption of a fiscal anchor is intended to ensure that short-term shocks do not permanently push the government off the path leading to a long-term goal. A long-term goal might be a targeted debt/GDP ratio or a certain net asset position.
26. The Yukon tax system could be improved by introducing a savings fund. Years where income tax revenues come in above a benchmark set in the prior year (which could evolve with GDP, for example), the excess is deposited into a savings fund. Years where income tax revenues come in below the benchmark, the fund is depleted. The benchmark could be adjusted to ensure no net deposits or withdrawals occur within some set period of time, say five years. Going forward, budgets wouldn’t include PIT/CIT line items as they currently do, but a “personal income taxes for budget purposes” and “corporate income taxes for budget purposes”.

# Yukon’s Finances: Past, Present, and Future

Governments across Canada face difficult budget decisions. Some challenges are common, such as low and volatile commodity prices or an aging population, but other challenges are unique to the territories, such as the responsibility to provide quality public services in many small remote communities. In recent years, the financial health of the Yukon government has materially declined and future projections have raised concern. Absent a strong rebound in mining sector activity, status-quo tax and spending policies will result in a rate of debt accumulation that is not sustainable.

The Yukon government is responding early to these developing fiscal challenges and the Yukon Financial Advisory Panel aims to help frame public debate, detail the territory’s current situation and near- and long-term challenges, and to propose a variety of options to ensure sustainable territorial finances going forward. Early actions to correct the problem mean there are many more options than would be available otherwise.

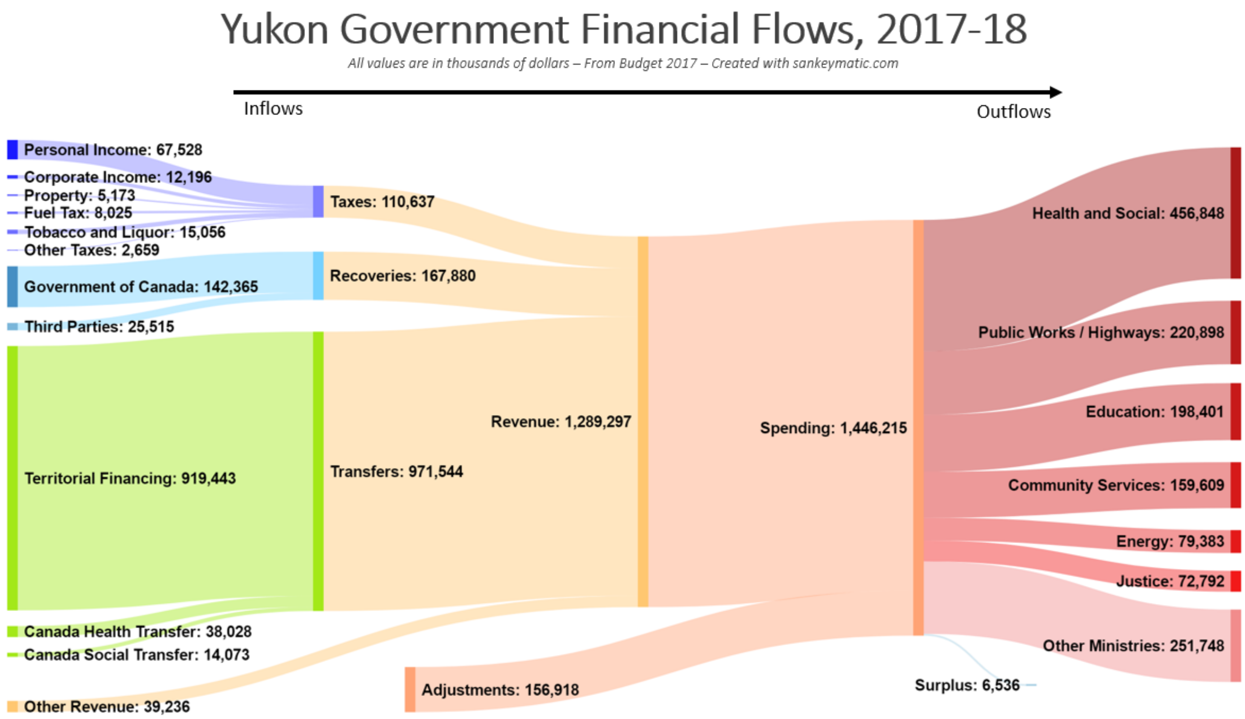
In our full report, we provide a comprehensive primer on government budgeting, and we encourage all Yukoners and stakeholders to explore that. Understanding the constraints within which governments operate, and the various objectives they seek to meet, will be critical in assessing Yukon’s current and future fiscal situation and in weighing the pros and cons of the various options we put forward. Ultimately, the choices are for individual Yukoners and their elected representatives to make. Governments can balance the budget quickly or balance it gradually, raise taxes or lower spending, or accumulate debt now in anticipation of an improved fiscal position in the future when the debt can be repaid. There is no objectively correct path forward, and our goal is to make Yukon’s current fiscal situation, the fundamental constraints it faces, and the unavoidable tradeoffs inherent in the various choices clear.

What follows is a brief, high-level summary of the richer discussion and analysis found within the full report.

## Revenue

Recently, the Yukon government projected large deficits in the coming years, varying between $40-60 million dollars or roughly 1.5% of GDP. With these deficits comes the prospect of rising debt, which is a departure from recent years when on a per capita basis Yukoners enjoyed high levels of financial assets and surpluses were the norm. And while the projected path of future deficits is not unmanageable, the territory’s debt limit of $400 million is likely to be reached within a few years, perhaps even by 2020.

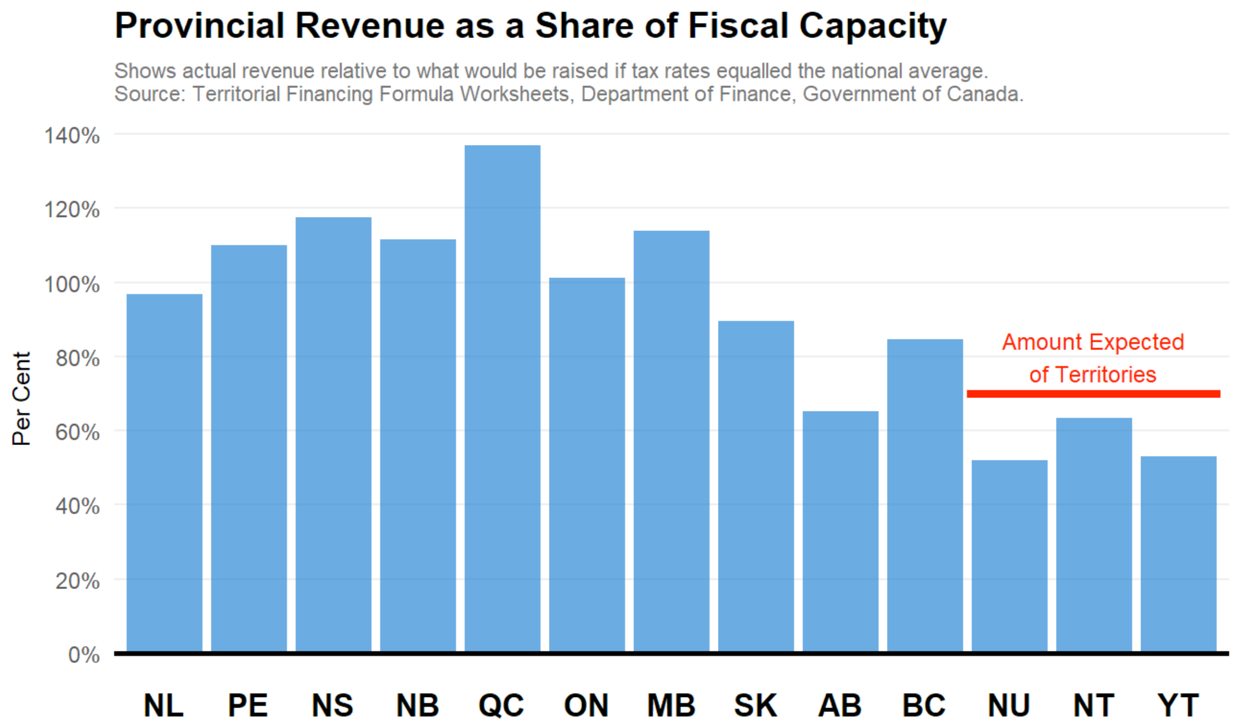
To appreciate what’s behind these recent changes, we start with a brief summary of Yukon’s financial situation and funding structure.




By far, the largest component of territorial government revenue are transfers from the Federal government -- especially the Territorial Formula Financing (TFF), which was nearly $920 million for 2017-18.

Like the equalization program for provinces, the TFF provides for comparable public services at comparable levels of taxation to southern Canada. Also like equalization, the TFF is not a function of revenue ***actually raised*** by the Yukon government. Instead, it tops up a territorial government above what it ***could raise*** relative to what public services cost. In addition, the Federal government provides a subsidy to ensure territories can sustain 30% below average tax rates. This subsidy is called the “Economic Development Incentive”, and is meant to reflect the difficulty of incentivizing economic development and the higher cost of living in northern Canada. The subsidy is currently worth nearly $100 million to the Yukon. To the extent that a territory chooses to have even lower taxes than the 30% allowed for in the formula, the government will either need other sources of non-tax income (such as investment income) or must spend less than jurisdictions elsewhere.

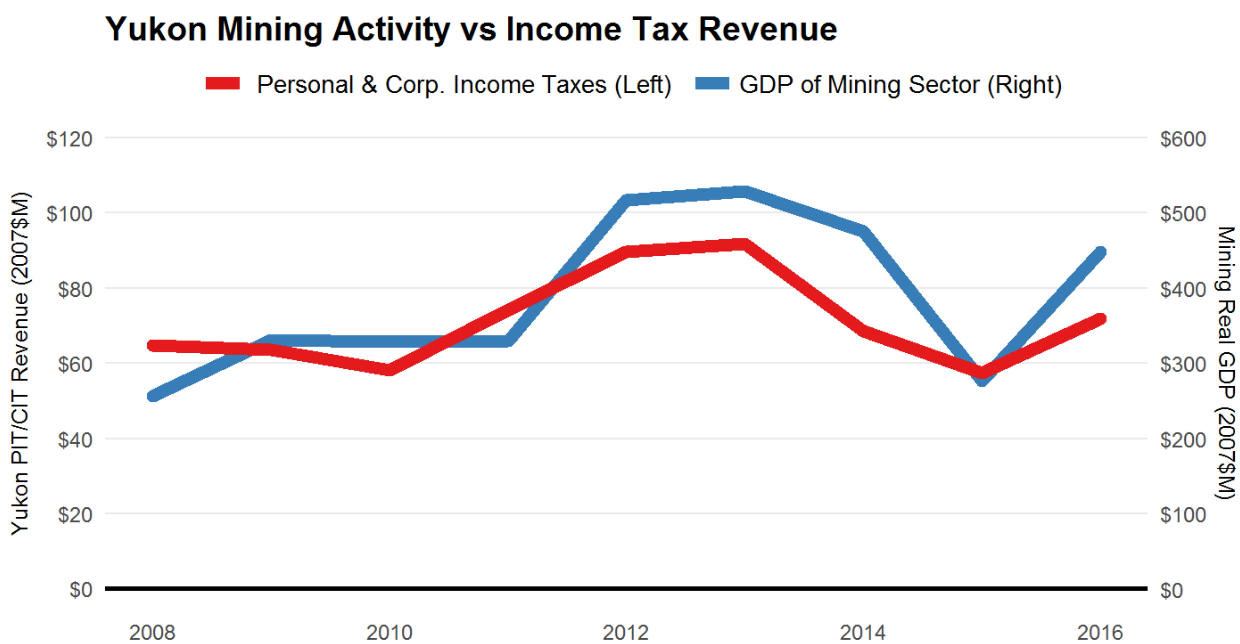
Currently, Yukon chooses to maintain lower tax revenues than provided for by the TFF’s economic development incentive. Specifically, Yukon’s fiscal capacity for 2017-18 (a measure of what the territoriess could raise at national average tax rates) is just over $300 million. Yukon maintains actual own-source revenue at only about half of this, largely due to below average personal income taxes and the absence of a general sales tax.




For perspective, the difference between Yukon's 2015-16 revenue and what is expected of the territory under the TFF is equivalent to a 7% territorial HST. The introduction of a 5% territorial HST would bring Yukon up to the equivalent tax average tax rates as Alberta -- by far the lowest tax province in Canada. Even during times of high mining activity, and correspondingly high income tax revenues, Yukon own-source revenue is consistently below the 70% threshold. The highest recently level approached 66% in 2013-14. This is insufficient to fund comparable levels of public services in the territory.

This is not to say raising personal income taxes should or shouldn't be done, but the fact remains that Yukon's policy choice is for lower than average overall revenues. Unless matched by lower than average spending on public goods and services, a structural budget deficit is unavoidable.

In addition to Yukon's generally low tax levels, it is also highly reliant on volatile sources like personal and business income taxes. The mining sector is a large contributor to the Yukon economy. As recently as 2013 it accounted for nearly one-fifth of Yukon's GDP. But when mining activity contracts, so too do Yukon personal and corporate income tax revenues. We illustrate this below.




Source: CANSIM 385-0034 and 379-0030, and Yukon Public Accounts. Income tax revenue adjusted for inflation and is in 2007 dollars.

Alternative tax instruments, such as sales taxes, are less susceptible to such movements. In the full report we provide a detailed exploration of specific tax instruments. We encourage interested readers of this brief summary to review this information.

## Spending

Revenue is but one side of a government's budget. The level of spending, and its growth rate over time, is an equally important consideration.

The following table shows how key revenue and expenditure categories have changed over the past 10 years, from 2007 to 2016. Three columns of figures are shown. The first measures the average annual rate of change in each revenue and expenditure category when these amounts are measured in nominal dollars. In this column, no adjustment has been made for inflation or for population growth. The second column of figures show annual rates of growth in real dollars; that is, after we have removed the effects of inflation. This adjustment is important because it removes the effects of inflation and so gives a truer picture of the choices being made by the government. Finally, the third column of figures show annual rates of growth in real per capita dollars that adjusts for both inflation and for the fact the government is collecting revenue and providing services to a larger population. Were revenues and spending constant in real per capita terms (a zero annual rate of growth) this would mean the government was neither increasing nor decreasing the amount of revenue it collected from each citizen and the amount of goods and services it was providing to each citizen.

**Average Annual Growth in Key Revenue and Expenditure Categories, 2007-2016**

| | Nominal dollars | Real dollars | Real per capita dollars |
|---|---|---|---|
| **Total Revenue** | **4.9%** | **3.3%** | **1.7%** |
| *Federal Transfers* | *5.3* | *3.7* | *2.1* |
| *Taxes and general revenues* | *4.3* | *2.7* | *1.1* |
| *Income from GBE* | *-0.4* | *-1.9* | *-3.4* |
| *Other* | *-0.1* | *-1.6* | *-3.1* |
| | | | |
| **Total Expenditure** | **5.7%** | **4.1%** | **2.5%** |
| *Health & Social Services* | *6.0* | *4.4* | *2.7* |
| *Community and Transportation* | *6.8* | *5.2* | *3.6* |
| *Education* | *4.2* | *2.6* | *1.0* |
| *General government* | *3.9* | *2.4* | *0.8* |
| *Natural Resources* | *8.7* | *7.1* | *5.4* |
| *Justice* | *6.1* | *4.5* | *2.9* |
| *Business, tourism and culture* | *2.6* | *1.0* | *-0.5* |
| *Interest on loans* | *1.8* | *0.3* | *-1.3* |

These average annual rates of growth are in some way central to identifying the territory's current fiscal problem. In particular, the fact that over the past 10 years total revenues have grown at a slower rate than total spending is a potential reason why the financial position of the territory has deteriorated. But these two values are also important because they show that dramatic changes to revenue and spending choices are not necessary to resolve the problem. Thus, only a modest slowing in the annual rate of spending growth, a modest increase in the annual rate of revenue growth, or some combination of these two adjustments, will enable the government to halt the deterioration of its financial position.

The TFF formula provides a natural benchmark to which Yukon's spending growth may be compared. The federal transfer grows as nation-wide provincial and local government spending grows. Between 2007 and 2016, such spending grew at just under 4.3% and from 2011 to 2016 it was under 2%. Thus, the growth rate of Yukon's spending, at 5.7%, is faster than the rest of Canada, and, importantly, this was not due to an appreciably higher rate of population growth.

Why does this matter? The cost of delivering comparable public services is calculated in a specific way. The TFF formula includes a measure of the cost of delivering public services -- called the Gross Expenditure Base -- and it increases from one year to the next as (1) Yukon's population changes and (2) the average national per-person spending by provincial and local governments changes. If national per-person spending grows by 1% and Yukon's population grows by 0.5%, then the TFF's gross expenditure base increases by 1.5%. There is more nuance to the precise calculation than this, but at bottom the TFF anchors changes in Yukon's per-person spending to the provinces. To the extent that territorial spending grows more slowly, taxes can be lowered below fiscal capacity; the reverse is also true. Thus, on both the revenue side and the spending side, Yukon faces clear and binding constraints.

## Important Future Developments

We end with a brief look to the future. To be clear, projections of future government finances must be interpreted with care as many factors, both positive and negative, cannot be foreseen.

On the positive side, strong real GDP growth beginning in 2019 and onwards, driven mainly from new mining operations (Coffee Gold, Eagle Gold, and Casino), may help improve the territory's budget situation. The Conference Board of Canada expects both the Eagle Gold and Coffee Gold projects to begin by 2020 and together will add over 310,000 ounces of gold production per year -- triple Yukon's 2016 total. This will meaningfully boost Yukon's GDP and employment, which increases personal and corporate tax revenues. They expect the territory's budget to balance in this scenario.

But modest policy changes made today can ensure sustainable territorial finances even if such an optimistic forecast does not pan out.

In the longer-run, the primary challenge for Yukon's government will be growing healthcare spending resulting from an aging population. Since 2000, Yukon's population under the age of 65 has increased 15% while the population over the age of 65 has increased nearly 160%. This creates significant pressure on health spending that is unlikely to diminish in the coming years. By 2030, the share of Yukon's population over the age of 65 will increase to 18% -- up from roughly 11% today -- according to the latest projection from Statistics Canada. While this aging is common to many jurisdictions, the effect it has on territorial government spending is particularly high. The cost of delivering public services is higher for older age groups, and this is particularly pronounced in the territories.

In the full report, we present the latest data from the Canadian Institute for Health Information that shows both higher spending growth in recent years and substantial projected increases. By 2030, an aging population alone may increase health spending by $2,500 per person, adjusting for inflation. Coupled with other pressures to health spending, the increase is set to be even higher. In its latest forecast, the Conference Board of Canada anticipates the increase will exceed $4,000 per person.

Though brief, this summary provided a high-level summary of the current fiscal position of the Yukon government and the future pressures it may face. In Section 1 of the full report, we provide substantially more detail and important context in terms of what economists understand to be good budgetary and financial choices. We encourage all Yukoners and stakeholders to review the document in full.

# Priorities of the Yukon Government – Context and Constraints

## Yukon Government Priorities

In its first Throne Speech [April 20, 2017] the Yukon government committed to four key priorities. In brief, they are:

- Build a strong Yukon by creating good jobs in a sustainable economy with a focus on strengthening and diversifying the economy and protecting the environment

- Establish a people-centred approach to wellness to meet the needs of Yukoners

- Invest in communities with a focus on community-led approaches

- Restore and maintain respectful government-to-government relationships with First Nations governments

This chapter will discuss the constraints that may affect the capacity to achieve the priorities and then provide suggestions to the government on approaches it may wish to consider to mitigate those constraints.

## Priorities and Context/Constraints

There are two key characteristics of the Territory that differ significantly from those faced by most other jurisdictions in Canada.

Like the NWT and Nunavut, Yukon has a small population, low population density and remote location relative to more populous areas/markets. These features tend to limit the scope for scale economies [hence cost reductions] and for diversity in government service and program delivery. It also severely constrains industry structure diversity and economic development.

First Nations constitute a significant proportion [almost 25%] of Yukon's population; although a smaller share than in NWT or Nunavut, it is larger than that of any Canadian province. Even if it were not a stated priority of the government, program choices will have had to be developed to respond to the economic and social concerns of the First Nations' communities.

Demographic and labour market factors can have an influence on long-term economic growth that can affect government revenue patterns. A high-level review of demographic and labour market data for Yukon would suggest that the Territory is experiencing less challenging problems than other parts of Canada.

While Yukon has a younger population than is the case for Canada as a whole, per capita healthcare spending is much higher. With respect to healthcare outcomes, it appears that Yukon tracks well below the Canadian average in some key comparators.

With respect to education, the educational attainment outcomes for the workforce overall is about as strong as occurs in the country as a whole. However, at the public school level of education, there are significant disparities in specific outcomes such as literacy and numeracy between First Nations and non-First Nations students as well as between urban and rural students. These material differences in educational outcomes represent a significant social and economic cost to society.

## Mitigating Constraints and Improving Trade-Offs – General Observations

The Yukon government has established fiscal commitments in healthcare, social services, infrastructure maintenance and education that significantly limit the scope for new or enhanced initiatives with respect to the government's stated priorities. The creation of new revenue sources -- a carbon tax and/or a consumption tax -- could substantially change the fiscal "pie" to be allocated and, hence, the fiscal constraints the government will face.

In addition, there are longer-term structural changes in government policies that open up other prospects for easing the financial and human resource constraints that government will have to deal with. Two types of policy changes can be considered.

First, there are specific spending or tax changes that could increase potential economic growth and, thereby, increase fiscal resources while also improving job and income opportunities for Yukoners. These include reductions in corporate income taxes, increases in economic infrastructure investments and spending to enhance workers' skills.

Second, improvements in the design and delivery of government services and programs can generate improved outcomes at the same or lower costs thus freeing resources for other uses. These internal operational changes to improve public sector efficiency and effectiveness can include institutional reorganization, skills upgrading of public servants, capital investment and process/delivery and funding innovations. The last-named change is likely to provide the most significant opportunities for improvements.

## The Government's Priorities and Policy Change Suggestions

Before proceeding to the suggestions tied to the government's priorities, there are two proposals of a more general nature.

The Yukon government's Department of Finance is in the process of **increasing its capacity for program evaluation and that the focus is on policy outcomes**. However, "line" departments also have a responsibility to utilize their experience and expertise in defining the type of data required for assessment of outcomes and, as appropriate, to engage in the collection of relevant information.

A second general suggestion is that the Territory consider the potential benefits of either **contracting out to or collaborating with other governments** on the provision of such things as IT and analytics, standard processing activities and common purchases in order to lower operating costs and some capital expenditures.

With regard to the priority of ***promoting sustainable growth and good jobs***, the following are suggestions for policy initiatives worth considering.

The **reduction in business taxes** announced in the recent Budget is supported by the Panel. In fact, the government may wish to consider further reduction in the corporate tax rates after assessing the impact of the proposed drop from 15% to 12%.

Economic infrastructure [e.g., transportation networks, bulk power generation] can have a positive impact on private sector productivity primarily by reducing firms' operating costs. It is worth the government's considering **public-private partnerships [P3]** to share the costs and risks associated with public infrastructure projects. The federal government is a potential funding partner in such joint ventures with the private sector through **PPP Canada** and/or the new **Canada Infrastructure Bank [CIB**].

In the budget, the government announced a doubling of the amount allocated to the Regional Economic Development Fund. The Fund is one of 13 **economic development programs** that are financed by the Yukon government. At a minimum, the government should consider **comparing the costs of business support programs to the revenues generated from business income taxes**. Although a comprehensive analysis and evaluation of all 13 economic development programs is impractical, the government should further consider **a cost-benefit analysis of a subset of the business support and economic development activities**. An assessment of whether the Territory is achieving desired outcomes and getting value for the resources spent would assist in redesigning some programs and eliminating others.

With respect to the ***establishment of a people-centred approach to wellness***, the government has focused in its budget on healthcare and education and skills/training. Here are some suggestions for new policy initiatives.

It has been noted elsewhere in the Report that there are problematic trends in healthcare spending that, if unchanged, would put increasing stress on the Territory's fiscal position as its population ages. The first suggestion for the government to consider is a **comprehensive review of the healthcare sector** akin to the one done in 2008 focusing on the factors driving costs and on the quality of the outcomes being delivered to Yukoners.

However, the government does not need to wait for the completion of a healthcare review to consider **innovations in health care delivery and funding.** The following are some illustrative examples of innovations – contemplated or instituted -- in several jurisdictions in Canada.

There was a proposal about a decade ago in Ontario to **contract out to private firms some diagnostic work to mobile labs or clinics**. Although the proposal was not accepted in Ontario, it is one that could be feasible for a jurisdiction in which the population is dispersed over a large area.

In Nova Scotia, the Conservative government in 2008 established Scotia Surgery, a **privately operated but publicly funded surgical facility** that carries out outpatient orthopaedic surgeries on knees and hips [that is, not hip and knee replacements]. Its smaller size, flexible staffing arrangements and cheaper real estate have been acknowledged to result in lower costs for the surgeries performed compared to the hospitals.

On the **funding side of health care** it may well be worth the effort to examine the potential for relatively low-impact changes to co-pay arrangements in areas such as pharmacare. Given that drug costs tend to rise markedly for older individuals, this will be an increasingly important issue to address.

There is a link between social spending and health outcomes that bears consideration regarding innovation in healthcare. Recent studies from Canada, the US and internationally show that **reallocating tax dollars --** so there is no impact on total spending **-- from health spending to social spending** has a positive effect on key indicators of health and wellness.

The government's wellness priority also includes education and skills development. One area of education that typically does not get structured and consistent attention in any jurisdiction is **adult functional literacy challenges**. The Department could assess the outcomes from current approaches to dealing with adult literacy challenges and consider program design changes to improve those outcomes.

With respect to the third priority, ***investing in communities,*** here are two suggestions to be considered.

In the chapter on Yukon Finances, it is suggested that the government dedicate a specific percentage of its spending to maintenance and upgrading of [economic] infrastructure. If a **sovereign wealth fund** is established to "store" budget surpluses as they arise, that could be the **source of investment in social infrastructure** and would avoid the problem of its competing with the economic infrastructure requirements of the Territory.

The fourth and final priority of the Yukon government is ***to restore and maintain respectful government-to-government relationships with First Nations.*** In this area, there are two suggestions offered for consideration.

As in other regions of Canada, the educational outcomes for First Nations students are well below those for non-First Nation students. For economic and social reasons, as well for the advancement of reconciliation, it is critical to **assess the educational outcomes for First Nation students and to craft, with the First Nations communities and the federal government, ways to improve those outcomes.**

In the PPP Canada list of its P3 projects, there are two that involve First Nations communities, one in BC and the other in the Northwest territories.

For future infrastructure projects the Government of the Yukon could **consider joint ventures, including public-private partnerships, with First Nations governments.** With potential funding from the federal government's PPP Canada Fund, the cost to the Yukon taxpayers can be lowered for desirable projects.

# Options for Sustainable Finances

The options and policy recommendations we put forward reflect four guiding principles: simplicity, sustainability, equity, and efficiency. And while much analysis has gone into these options, there is no objectively right or wrong way forward; there are only trade-offs. Our goal is therefore to provide a range of options to help inform a productive public debate. With full knowledge of the current situation and the pros and cons of the various routes forward, Yukoners and their elected representatives can make fully informed choices.

Importantly, some of the options that follow may be subject to the *Taxpayer Protection Act*. Broadly speaking, this Act constrains the Yukon government's ability to unilaterally (1) create or increase an accumulated deficit and (2) introduce new taxes or raise the rate of existing taxes. The current accumulated surplus is nearly $1.4 billion, so there is no reasonable prospect of the Act being triggered due to the creation of an accumulated deficit. But broader tax reform, of the type described below, may first require a referendum or other legislative changes. With this in mind, we take care to fully explore the implications of each option, both the positives and the negatives.

We broadly categorize our recommendations according to their time horizons. Our short-term recommendations address options for improving the currently forecasted budget deficits. Our medium-term recommendations address clearly identifiable challenges or opportunities facing Yukon in the coming years, such as changing the territory's borrowing limit or options to recycle carbon tax revenue. And finally, our long-term recommendations promote sustainable, efficient, and equitable fiscal and economic policies going forward.

## Near-Term Options to Balance

In the short-term, there are various potential routes to balance. The first option is spending restraint. Currently, the government plans for spending growth of approximately 2% per year from now until 2020/21. If this growth rate is maintained beyond 2020, then the territory is on track to balance by 2022/23. Balancing sooner requires new revenue measures, or further spending restraint. For example, to balance by 2020/21 requires spending growth not exceed 1% while a nominal spending freeze at 2017/18 levels achieves balance by 2019/20.

If Yukoners wish to avoid the spending restraint, then raising revenues is another option. And if additional revenues are to be raised, we recommend the government use the most cost-effective tool available: a territorial HST. Each 1% HST would raise roughly $7 million, net of expanded low-income rebates. Not only are sales taxes of this kind generally more economically efficient than other forms of taxation, the low-income rebates ensure that an HST is not regressive. We provide detail in the full report.

If both new revenue measures and spending restraint are undertaken in concert, then balance can be achieved earlier with more equitably distributed costs. For a sense of the magnitudes, the time to a balanced budget under various combinations of HST rates and spending growth rates are as follows:

- If spending grows at 2%, a 4% HST would allow balance by 2020/21.
- If spending grows at 1.5%, a 4% HST would allow for balance by 2019/20.
- If spending grows at 0.5%, a 2% HST would allow for balance by 2019/20.

A combination approach may be prudent, especially given the unpredictable nature of Yukon income tax revenue and mining sector activity. If future fiscal years evolve as expected, then income tax reductions funded by the HST can be introduced.

But, while it is prudent to take action now to ensure sustainable finances in the future, it is not a foregone conclusion that Yukon's fiscal outlook is grim. The Conference Board of Canada, in its latest Territorial Outlook Economic Forecast (Summer 2017), expects mining activity to grow, and large-scale construction activity to begin as early as 2018. They anticipate personal and corporate income tax revenue to enjoy double digit growth from 2018 through to 2021. This is a more optimistic scenario than both the government's projection and our own. If their outlook pans out, Yukon will remain in surplus and its balance sheet will gradually strengthen. But if these revenue projections do not materialize, Yukon's fiscal situation will become more difficult to solve later. Modest action now can ensure Yukon's financial situation is sustainable, regardless of either mining sector activity or other changes in the territory's fiscal situation beyond the government's immediate control.

## Medium-Term Recommendations

Regardless of which short-term option to balance is selected, there are a number of advisable policy changes we recommend the government and Yukoners consider. These will help ensure the territory's finances remain sustainable, ensure policy changes already in the works are implemented in the most efficient manner possible, and ensure Yukoners have the best information available to deal with future challenges.

First, we recommend indexing Yukon's borrowing limit to its nominal gross domestic product. As the Yukon economy grows, so too will its government's borrowing limit. In the event GDP shrinks, we further recommend the borrowing limit remain fixed in nominal terms until the level of GDP returns. The DBRS -- a credit rating agency -- for example, uses a 15% debt/GDP ratio as one of their threshold metrics separating AAA from AA rated government debt. A 15% debt/GDP limit is also appropriate for Yukon, even given its near-term fiscal challenges. If spending growth doesn't appreciably exceed 2% per year then a debt limit indexed to a modest share of GDP should not be reached in the foreseeable future.

Second, we recommend the government proceed with a fully revenue-neutral implementation of the Federal carbon tax. The government has already indicated this is a priority for it, but we further recommend the government conduct a comprehensive review of pre-existing regulations regarding greenhouse gas emissions and eliminate those regulations in areas that will be covered by carbon pricing.

This recommendation reflects two critical design principles for cost-effective carbon pricing. First, carbon pricing should not add to less efficient policy, such as regulations, but instead replace them. Second, and of greater immediate concern, is that carbon pricing not be principally a means of raising government revenue. Enacting a carbon price need not actually increase the overall size of government or the tax burden on households or businesses if other taxes are lowered by an equal offsetting amount. Ideally, carbon pricing presents an opportunity to shift the burden of taxes towards things we want less of -- such as emissions -- and away from things we want more of -- like income. But economic efficiency is not the only consideration. Low income households are disproportionately burdened by carbon pricing as energy intensive goods become more expensive. Governments can help offset this additional burden by providing direct cash transfers.

Given these considerations, we propose a package of policies to recycle carbon revenue that balances equity and efficiency concerns. Namely,

1. A universal cost-of-living credit of $300 per year.
2. Lowering personal income taxes by 20-25% across the board; and,
3. Lower corporate income taxes by 20-25%.

Further analysis will refine these estimates, but they add to roughly $25 million by 2022 when fully phased-in or roughly equivalent to a $50/t carbon tax. In the full report, we show these recommendations are largely distributionally neutral, in the sense of lowering net taxes paid by a similar share of income for individuals across the income distribution.

There may also be specific considerations for certain sectors or geographic regions that will be disproportionately burdened by carbon pricing. Allowing for lower income tax reductions to fund larger cost-of-living credits to these remote locations or less advantaged communities may be a sensible option. For example, BC provides supplementary credit of $200 per year to individuals living outside of its major urban centres. Yukon may consider a similar credit to residents outside of Whitehorse, at an overall cost of just over half a million dollars per year per $100.

Finally, to ensure the territory is on its strongest possible fiscal and economic footing, we put forward a number of additional recommendations. The full report provides details, but a brief summary of these recommendations is as follows:

- Improve comprehensiveness and transparency of territorial budgeting to include fully consolidated books and projections.
- Undertake a thorough review of the Yukon health system, with a particular emphasis on ensuring cost efficiencies are fully exploited, and that outcomes reflect such spending.
- Undertake a review of the Yukon mining royalty and tax regime. In particular, explore the possibility of increasing the royalty rate on placer gold mining operations.

- In partnership with the federal government, explore changes to the Federal TFF grant to reflect the disproportionate burden an aging population places on health services in the territories.

- Insulate infrastructure investments from any spending constraint efforts. In particular, and building on the discussion in Section 2 of this report, we place particular emphasis here on economic infrastructure.

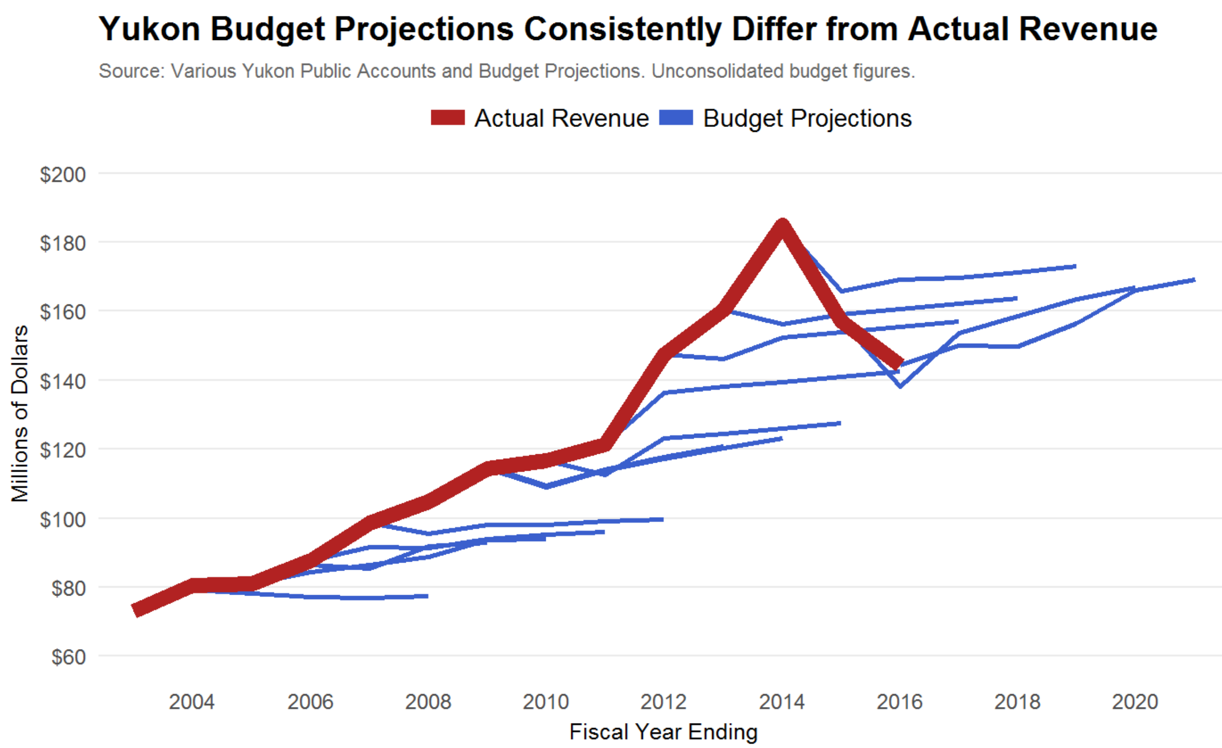
## Long-Term General Tax Reform

Moving beyond the territory's near term challenges, broader reform can create sustainable long-run benefits for Yukon in general, and for its government, its economy, and its citizens in particular. Specifically, we recommend Yukoners consider a broad reform that shifts taxes away from income and productivity and towards consumption. This will improve the efficiency of Yukon's economy, provide funds to enlarge the cost-of-living credit recommended under the carbon tax plan, dampen the volatility of government revenue, lower its reliance on mining sector activity, enhance the incentive to work, to save, and to invest, and better extract value from visitors to the Yukon.

Before discussing the details behind such a shift, some background discussion is in order. Including our recommendation that Yukon consider a clear "fiscal anchor" to ensure a robust financial situation well into the future.

The adoption of a fiscal anchor is intended to ensure that short-term shocks do not permanently push the government off the path leading to a long-term goal. A long term goal might be a targeted debt/GDP ratio or a certain net asset position. But, ultimately, it is important to not allow volatility in the private sector to cause volatility in public policies. This sometimes occurs when a private sector expansion (contraction) provides higher (lower) than usual revenues and so encourages changes to tax rates and spending plans that are not sustainable over the long term. Insulating the budget from private sector volatility can be accomplished with the imposition of a fiscal anchor that defines a well-specified fiscal target to be achieved over the long-term.

In Yukon, government revenue and spending are indeed volatile because income tax revenue linked to activity in the mining sector, which is itself both large and volatile. Indeed, over the past decade and a half, total own-source revenue for the Yukon did not meet prior expectations. And recently, the unexpected changes in own-source revenue were on the downside -- as depressed commodity prices have led to a severe contraction in mining sector activity.




This matters. Unexpected increases in revenue tend to manifest themselves as unplanned increases in spending. In almost every budget for well over a decade, total expenditures exceed what was projected and planned for in prior budgets.

A well-specified fiscal target for the government can take many forms. A target for the debt/GDP ratio is one example. Another is to target the size of financial assets with the goal of creating a sovereign wealth fund capable of earning the government a relatively stable stream of investment income. A successful fiscal anchor is also easily understood, easily measured, and easily observed. These characteristics are desirable as it limits the potential for adjustments being made to the long-term goal to satisfy short-term problems.

But regardless of the fiscal anchor one has in mind, raising revenues requires taxes. And not all taxes are created equal. Understanding the pros and cons of each instrument is critical to making smart budget decisions. In the main report, we discuss the evidence in more detail but here note that the evidence is clear and overwhelming: taxes on consumption (like an HST) are less costly to the economy than taxes on income (like personal and corporate income taxes). In addition, as visitors to Yukon will pay a substantial share of sales tax revenue, a shift in taxes away from income and towards consumption will be a net tax cut for Yukoners but leave government revenue unchanged.

Visitors now spend over $300 million per year in Yukon. Not all of this is on goods or services subject to the HST (many groceries, for example, are exempt) but if two-thirds is covered, say, then visitors end up paying roughly one-quarter of the total potential HST revenue earned by the government. That money can then be used to lower the tax burden of Yukoners directly.

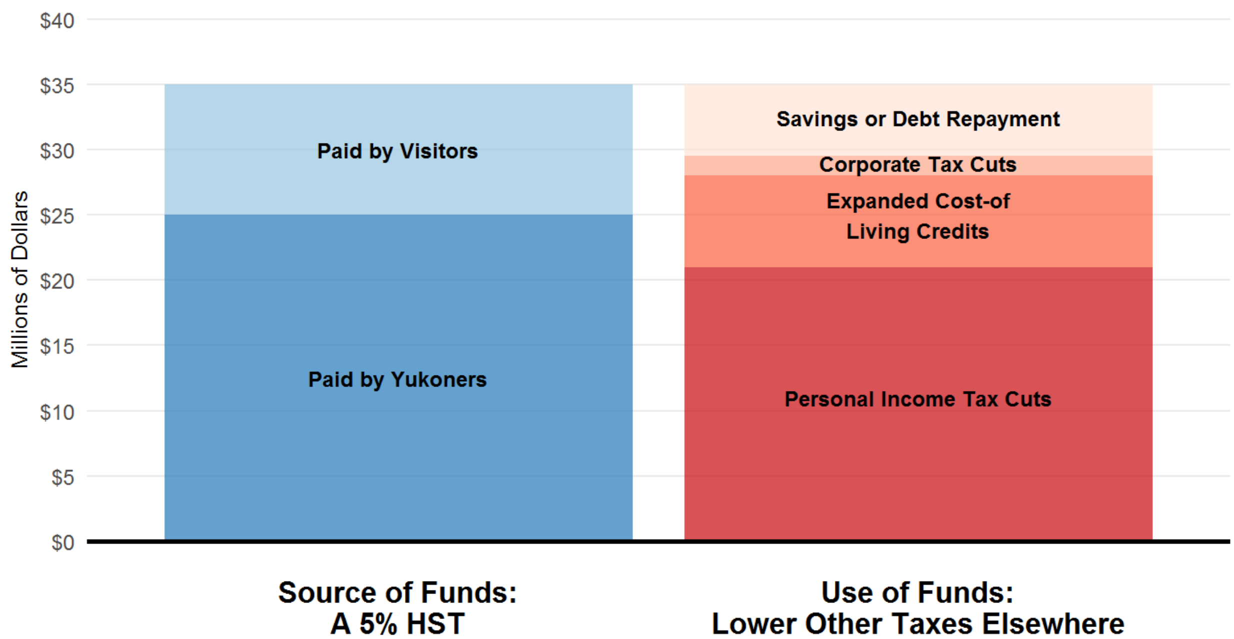
While there are many potential variations, we illustrate a specific reform below that a 5% HST could fund.

- Raise the personal exemption to $20,000, ensuring 6,500 Yukoners pay no income taxes at all.
- Reduce the number of income tax brackets from five to three:
    i. 6% on incomes between $20,000 and $100,000
    ii. 8% on incomes between $100,000 and $150,000
    iii. 10% on incomes between $150,000 and above
- Lower the general corporate income tax rate to 10%.[1]
- Phase in a cost-of-living tax credit to enhance the $300 provided by the carbon tax to a maximum of $500 per person. Credits would scale with income, as the NWT credit does, to this maximum.

Remaining funds after making the above changes could be allocated to debt repayment, to a savings fund to ensure future territorial finances are sustainable, or to even larger tax reductions or refundable credits. Either way, due to the high contribution to HST revenue from non-Yukoner visitors Yukoners as a whole will see tax liabilities fall by more than the HST paid.

[1] Harmonizing the top personal and the general corporate tax rate may be desirable, as many sole proprietor businesses are subject to the PIT and not the CIT.

### Illustrating a Potential Yukon Tax Shift




Note: Visitor share inferred by presuming two-thirds of the $300 million in visitor spending is subject to an HST

But even without a switch to consumption taxes like an HST, stability and predictability of the Yukon tax system could be improved by introducing a savings fund. Years where income tax revenues come in above a benchmark set in the prior year (which could evolve with GDP, for example), the excess is deposited into a savings fund. Years where income tax revenues come in below the benchmark, the fund is depleted. The benchmark could be adjusted to ensure no net deposits or withdrawals occur within some set period of time, say five years. Going forward, budgets wouldn't include PIT/CIT line items as they currently do, but a "personal income taxes for budget purposes" and "corporate income taxes for budget purposes". This mirrors Alberta's Budget 2015 (March) that, though not formally adopted given the change in government, proposed to include only a portion of resource revenues for budget purposes. Given the tight link between personal and corporate income taxes and Yukon mining activity, the savings fund would help dampen the effect of international commodity price movements on the Yukon government's budget.

Though this was an extended summary of our main recommendations many important details are left to the full report. We encourage all interested Yukoners and stakeholders to review the main report at length. A full understanding of the pros and cons of the various options we put forward is key to making fully informed decisions.

# First Nations' Fiscal Relations in Yukon

As part of Yukon government's priorities, there has been a commitment to restore and maintain respectful government-to-government relationships with First Nation Governments.

Constitutionally protected comprehensive land claim agreements define First Nation rights within traditional territories and how federal, Yukon and First Nation governments interact with one another. The Final Agreements also provide for Self-Government Agreements. Self-Government Agreements establish the First Nation as a Government with law-making powers on Settlement Land and for its Citizens.

A key fiscal component of the Self-Government Agreements are the provisions that provide First Nations with the power to enact laws in relation to direct taxation on citizens resident on Settlement Land.

Self-Governing First Nations have enacted laws in relation to Personal Income Tax and Goods and Services Tax. As the power to enact these laws is concurrent with Canada's and Yukon's powers they are coordinated to prevent double taxation and provide for harmonized taxation regimes.

## First Nation Personal Income Tax

Self-Governing First Nations have enacted laws in relation to Personal Income Tax. Currently, Yukon and Canada have both provided 95% of their personal income tax room to Self-Governing First Nations in respect of individuals resident on a particular First Nations Settlement Land.

Options to reduce personal income taxes or implement new or increased personal tax credits will have an impact on Yukon First Nation personal income tax revenues. In the event that Yukon increases or decreases its personal income tax rates the Yukon Self Governing First Nations Personal Income Tax Revenues will increase or decrease by 95% of the impact of the rate change. The potential reduction in own source revenues to the Self-Governing First Nation Governments may be significant depending on the extent of any change in rates and the value of any new or enhanced personal income tax credits.

## First Nation Goods and Services Tax

Self-Governing First Nations have enacted laws in relation to Goods and Services Tax. Canada has provided 100% of its Goods and Services tax room to Yukon First Nations in respect of individuals resident on a particular First Nations Settlement Land.

Options to implement a Yukon HST may not have an impact on First Nation own source revenue if there is no change to personal income taxes. However, if the implementation of an HST is considered in coordination with a reduction in personal income taxes rates, or changes to personal income tax credits, then the impact on Self-Governing First Nations own source revenues should be considered.

## Royalty Sharing

Chapter 23 of the Final Agreements provides for resource royalty sharing with Yukon First Nations. Consequently, any increase in royalties levied by Yukon on mines and minerals may result in an increase in the allocation under Chapter 23 paid to Yukon First Nations.

Some Self Governing First Nations are concerned that certain royalties levied by Yukon are at too low of a rate and should be increased.

In its options for sustainable finances the Panel recommends a review of the Yukon mining royalty and tax regime to determine if resource rents are being efficiently extracted. Such a review may address some of the First Nations' concerns that certain royalties are levied at too low of a rate.

## Other Taxes

Self-Governing First Nations have proposed revenue sharing agreements in respect of corporation income tax, tobacco tax, fuel oil tax, liquor tax and property tax. These proposals have not been agreed to by Yukon.

Addressing proposals to increase the amount of sharing in respect of other taxes is outside of the scope of the panel's report.

## First Nation Governments as Taxpayers

Yukon First Nation Governments are taxpayers in respect of direct taxes other than income tax and are able, subject to certain conditions, to receive a 100% rebate of Federal Goods and Services Tax paid.

In the event that Yukon imposes new taxes, or changes tax rates, Yukon First Nation Governments may be affected and consideration could be given to policies that would mitigate the impacts. For example, the implementation of an HST or a carbon tax would result in higher taxes paid by First Nation Governments. Specific credits similar to the 100% rebate of Federal Goods and Services Tax targeted to First Nation Governments may potentially mitigate some of the increased costs.

## Infrastructure Spending

Yukon First Nation Governments do not currently receive a direct transfer of targeted infrastructure funds from Canada other than Gas Tax Funds. As a result, infrastructure funds for First Nation Governments are typically accessed either through an annual allocation of Gas Tax Funds, or through proposals submitted to and vetted through the Yukon Government capital planning process for targeted infrastructure funds such as Build Canada Funding.

The First Nation Governments are of the view that there should be certainty as to the allocation of federal infrastructure funds to First Nation Governments similar to the Gas Tax Funding allocations.

In some cases, neighboring municipalities and First Nation Governments duplicate infrastructure on a stand-alone basis. It may be effective to have joint priority setting with Yukon, municipalities and First Nation Governments so that opportunities to cooperate on joint projects may occur, resulting in savings for both parties in respect of capital expenditures and operations and maintenance costs.

Consideration should be given to a more coordinated approach to infrastructure planning with First Nation Governments.

## Government-to-government fiscal relationships with First Nation Governments

There is no specific forum for Yukon to discuss a broad range of fiscal matters with Self-Governing First Nations. Individual First Nations currently approach Yukon to discuss fiscal matters bi-laterally or in some cases as a smaller subset of Self-Governing First Nations working collaboratively.

Yukon in reviewing the options for sustainable finances should consider along with First Nation Governments what forum(s) best enables discussion of the potential impact these options may have on First Nation Government finances and what the policy options might be to address those potential impacts. The appropriate forum may provide a mechanism for ongoing collaboration on fiscal matters of mutual concern.

# Municipal Finances in Yukon

As part of the Yukon government's priorities, there has been a commitment to invest in communities with a focus on community-led approaches.

The Yukon government provides base funding to municipalities through the operation of the Municipal Finance and Communities Grant Act.

Municipalities largely rely on the Yukon and federal governments to provide funding for new infrastructure, or to replace ageing infrastructure. Municipalities receive an allocation of Gas Tax Funds that can be used to build infrastructure. Other funding sources such as Build Canada Funding are accessed on a proposal driven basis and subject to prioritization with competing projects Yukon wide.

It may be effective to have a formalized joint priority setting with Yukon, municipalities and First Nation Governments so that opportunities to cooperate on joint infrastructure projects may occur resulting in savings for both parties in respect of capital expenditures and operations and maintenance costs.

If the option for spending constraint is considered, the impact on the operation of the Municipal Finance and Communities Grant Act should be reviewed in the context of the fiscal pressures facing Municipalities and potential options for mitigation considered.

## Municipalities as Taxpayers

Municipalities are taxpayers in respect of direct taxes other than income tax and are able to receive a 100% rebate of Federal Goods and Services Tax paid.

In the event that Yukon imposes new taxes, or changes tax rates, municipalities may be affected and consideration could be given to policies that would mitigate the impacts. For example, the implementation of a HST or a carbon tax would result in higher taxes paid by municipalities. Specific credits similar to the 100% rebate of Federal Goods and Services Tax targeted to municipal governments may potentially mitigate some of the increased costs.