

Mr. Speaker, at the beginning of the Fourteenth Assembly, Members of this House laid out our vision for the Northwest Territories. We committed to work together toward a vibrant, prosperous and unified territory of which all Northerners can be proud. Since then, we have been building the foundations to make the vision expressed in *Towards a Better Tomorrow* a reality. As the Fourteenth Assembly enters the second half of its term, it is time to ensure that the foundations are level and the framework is appropriate for us to take the next steps in building our vision.

As our Premier, the Honourable Stephen Kakfwi, stressed in his address to the people of the Northwest Territories last month, "We can, and we will, complete the tasks we've set out for ourselves in our vision."

Over the last two years, we have worked hard to ensure that the Northwest Territories benefits from the growing demand for our resources. We are seeing the benefits in economic terms. Our economy is strong and more opportunities are opening up for Northwest Territories' residents and businesses.

It is time to assess our accomplishments and to evaluate our goals and priorities. We have made some critical investments in the development of the Northwest Territories including:

- ◆ developing a strategy to maximize northern employment;
- ◆ creating a Literacy Strategy;
- ◆ initiating the development of a Social Agenda;
- ◆ developing a transportation infrastructure strategy; and
- ◆ developing and implementing a non-renewable resource strategy.

However, the achievements that are bringing the benefits of economic growth are also producing pressures - pressures such as housing shortages, demands on community infrastructure and social and environmental concerns. We need to continue our efforts to promote economic growth and prosperity but unless we do so in a manner that balances economic development and sustainable growth, we risk building our vision on an unstable foundation.

This Budget is about maintaining that balance. We need to balance revenues with spending, to balance economic investments with social investments and to balance resource development with environmental protection.

We must address social issues, the need for community infrastructure, and the northern cost of living. We must also undertake initiatives to protect our environment, to foster our traditional economy and to protect our identity and cultures. We must focus on initiatives that support growth in small communities as well as in the major centres. We must ensure that our healthy economy benefits all Northwest Territories residents.

This Budget lays out our strategy for making crucial investments in strengthening our social fabric and in developing our economy within an environment of revenue uncertainty. This Budget confirms our commitment to our vision.

Mr. Speaker, in developing our Budget plan, we listened to the concerns of Northerners. This Budget responds to the recommendations and proposals put forward by the Members of this Legislative Assembly, by Chiefs, by community leaders, by non-government and business organizations, and by individuals. Because money is limited, choices are involved. This Budget cannot respond to all the needs that have been identified, but must have a balance. We believe that we have achieved this balance.

This Budget is about building on the foundations we have laid down in the first two years of our mandate. It is about building, together, our vision of a better tomorrow.

## **ECONOMIC REVIEW AND OUTLOOK**

Mr. Speaker, I am very pleased to report on our territory's robust economic performance last year. We estimate that real gross domestic product grew by close to 32 per cent in 2001. This dramatic growth demonstrates a remarkable level of economic activity that includes massive increases in investment and substantial contributions from exports and consumer spending.

Exciting things are happening in the diamond and natural gas industries, two of the Northwest Territories' fastest growing economic sectors. Diavik estimates that close to \$700 million of the almost \$1 billion spent on goods and services so far in the construction of the Lac de Gras diamond mine were purchased from northern businesses. Oil and natural gas exploration and related activities were also engines for investment growth, with activity concentrated in the Mackenzie Delta, Fort Liard, Norman Wells, and Cameron Hills regions.

Exports grew by an estimated 19 per cent in 2001. The biggest contributors to the increase came from diamond shipments and natural gas deliveries. Diamond production from the Ekati mine was much higher than the previous year and the most prolific wells in the Fort Liard area provided a full year's production in 2001.

Marketing efforts are paying off for the fur industry. Indications are that the substantial growth experienced by the industry in the 1999-2000 season is continuing.

Tourism makes up an important part of the Northwest Territories' economy. Last year over 39,000 visitors spent approximately \$41 million in the Northwest Territories. Although the number of visitors has dropped following the events of September 11, we expect tourism to start to grow again in 2002.

We estimate that consumer expenditures grew about 9 per cent in 2001, as increased economic activity put more money in people's pockets. This figure is supported by the fact that retail sales grew by over 10 per cent in the first eleven months of 2001.

Unemployment rates in the Northwest Territories have fallen from almost 14 per cent in early 1999 to 9.8 per cent last month. Currently, our employment rate is the highest in Canada. Increased employment opportunities for Northwest Territories residents have lessened dependence on social assistance. Northwest Territories' social assistance payments have fallen consistently since 1999.

Our strong economic performance in 2001 resulted from very large increases in investment. Although we are not expecting the dramatic economic growth of 2001 to be repeated in 2002, we do expect the economy to remain stable. On balance, the Northwest Territories' GDP should grow approximately 2 per cent in 2002.

Mr. Speaker, our economy has impressive potential.

The Northwest Territories' second diamond mine at Diavik's Lac de Gras site should be producing early next year, and a third mine proposal by DeBeers Canada at Snap Lake is entering the regulatory review process. These projects require hundreds of millions of dollars in capital investment and employ hundreds of people.

Recent developments give us additional confidence that the Mackenzie Valley pipeline will be built. Following two years of intensive lobbying by our Government, the Mackenzie Delta Producers Group and the Mackenzie Valley Aboriginal Pipeline Corporation announced last month that they intend to spend between \$200 and \$250 million over the next three years to undertake project definition. This work will include the preparation of a pipeline application, with a submission expected in 2003. Current projections are for natural gas production by 2008. This is a very positive signal and we look forward to working with northern communities and industry to prepare for the project.

The performance of our economy has been impressive in recent years. The developments on the drawing board confirm that the Northwest Territories is on the road to becoming a "have" jurisdiction.

## **FISCAL REVIEW AND OUTLOOK**

Mr. Speaker, I also have good news to report on our fiscal position. Since my last Budget, the Government of the Northwest Territories (GNWT) has benefited from some good financial news, improving our short-term fiscal situation.

Last year at this time I forecast an operating surplus of \$23 million for 2000-2001 and a balanced budget for 2001-2002. Our situation has improved since then.

### **2000-2001 Year End Results**

Our 2000-2001 year-end financial results show a \$118 million operating surplus. A year ago, we knew we were going to benefit from a one-time increase in corporate income tax collections, but since then, we have also resolved an outstanding Formula Financing issue with the federal government, which added almost \$60 million to our 2000-2001 revenues.

### **2001-2002 Update**

I am also pleased to announce that in the current fiscal year, 2001-2002, the GNWT has benefited from an additional large increase in corporate income tax collections. As a result, we should have revenues of \$985 million and close 2001-2002 with an operating surplus of \$160 million.

### **2002-2003 Outlook**

Mr. Speaker, without additional one-time corporate tax collections, we expect our revenues to drop in 2002-2003 to \$856 million, while operating expenses will rise to \$868 million, leaving us with an operating deficit of \$12 million.

Operating expenditures are budgeted to be \$64 million higher than the current year's Main Estimates. This is a substantial increase and reflects both the need to keep pace with higher costs and greater program demands and the need to make critical investments in our economy, in our communities and in our people.

### **Longer-Term Outlook**

Mr. Speaker, I would like to turn to our longer-term fiscal outlook. We have been very fortunate over the past two years in that revenue increases have provided us with significant operating surpluses and made it unnecessary for us to borrow.

These revenue increases have allowed us to make some important investments and meet many needs that we would otherwise have been unable to address without significant federal cost sharing. However, they have not changed the longer-term picture. In the long-term, our revenues will not likely be sufficient to maintain current expenditures and investments unless some fundamental changes occur. Consequently, Mr. Speaker, while we will invest a portion of

these one-time revenue increases in economic and social initiatives, we must set aside a portion to finance projected future deficits.

In fact, without the benefit of one-time revenues or increased federal investment, revenues in 2003-2004 could be \$67 million less than in 2002-2003. This would result in a \$118 million operating deficit in 2003-2004, falling to \$78 million the following year. If this occurs, these deficits will bring government borrowing close to our authorized limit of \$300 million by late 2004-2005.

Fiscal forecasting is challenging and difficult in the best of times. While there is relative optimism, there is some uncertainty about the Canadian economy and how it will affect our revenue forecasts. The GNWT depends on the Formula Financing Grant for much of its income. Future growth in the Grant depends in part on growth in provincial government spending and on the state of the Canadian economy. It also depends on our own economic performance and the growth in the Northwest Territories' population. Finally, we expect that resource development will begin to generate significant revenues in the next few years, which will not accrue to northern governments until devolution occurs. These circumstances make fiscal planning over the medium-term a challenge for this Government.

## **FISCAL STRATEGY**

Our fiscal strategy, Mr. Speaker, must be about balance. Our strategy must allow us to balance revenue capacity with spending needs. It must allow us to continue the necessary investments to lay the groundwork for future economic development while paying for services that Northwest Territories' residents need now.

Our fundamental fiscal strategy has not changed. The strategy I outlined last year was based on some important assumptions:

- ◆ economic development will continue;
- ◆ northern governments will achieve devolution; and
- ◆ Northerners will benefit from resource development.

We were prepared to borrow to finance economic development initiatives and to mitigate any negative social impacts of large scale development. We were prepared to seek an increase in our borrowing authority to make the investments to ensure Northerners benefit from the economic activity that is coming to the Northwest Territories.

Mr. Speaker, in spite of projected deficits in future years, now is not the time to abandon our strategy to build future prosperity. While these projections mean that we must re-examine some investment plans, we must still invest to the

extent that we can. We will be using a portion of our one-time revenues to fund these investments. We remain committed to making the investments today that will provide economic benefits for Northwest Territories residents in the future.

Further, while our focus on economic matters must continue, we also need to take immediate action to address issues such as the high cost of living, the affordability and availability of housing, the adequacy of the social safety net, and the need for more community infrastructure and services. It is important that our decisions benefit small communities as well as the larger ones.

More than ever, we need federal investment. As major pipeline development becomes more certain, the federal government must make the commitments that match their responsibilities for resource development. We are prepared to work with the federal government, Aboriginal leaders and their governments and industry to make the necessary investments and to create the environment that will encourage economic development.

We still need to find a long-term solution to our highway and other transportation needs. The investment strategy to develop our highways will continue despite delaying plans for a highway trip permit fee. However, the rate of investment will be slower until we find new revenue sources.

We are moving forward on other key issues. Formal negotiations on devolution with the federal government and Aboriginal governments will begin soon through the Intergovernmental Forum. We expect significant progress by the end of the term of this Government in 2003. We are working closely with the Aboriginal Summit to ensure that post-devolution arrangements will provide the means for Northwest Territories governments to meet the needs of their citizens.

The ability to generate revenues from natural resources will provide all Northwest Territories governments with greater flexibility to offset government costs associated with resource development and to promote economic growth and development without onerous reliance on user fees. Furthermore, it will reduce our dependence on the federal government. In the meantime, the Formula Financing Grant remains an important source of funding. Preliminary discussions for renewal of the Formula Financing Agreement have started.

Progress continues to be made in negotiating self-government arrangements. An Agreement was signed last year to create the Salt River Reserve. An Agreement in Principle was recently initialled in the Beaufort-Delta self-government negotiations. A final land, resources and self-government agreement with the Dogrib First Nation is close to a reality.

Implementation of self-government will create the need for different funding arrangements, and we are prepared to address this. The federal, territorial and Aboriginal governments need to work together to ensure that long-term financial arrangements create fiscally strong territorial and Aboriginal governments.

In the post-self-government Northwest Territories, government programs and services will be delivered by different governments and in different ways in different regions. The arrangements to finance programs and services must be workable, sustainable and consistent. Fiscal arrangements must provide adequate funding and must include appropriate incentives to encourage economic development.

The GNWT recognizes the need to fully prepare all regions to assume greater responsibilities for making the decisions that affect their lives. To address this, we will concentrate our existing resources in a way that supports the building of capacity throughout the Territories. The GNWT is committed to completing self-government agreements that include plans to build capacity for Northwest Territories residents.

The Intergovernmental Forum has proven to be an excellent means for formalizing the 'government to government to government' relationship between Northwest Territories Aboriginal governments, Canada and ourselves. There is no other process like this throughout the country. Through the Intergovernmental Forum, we are making progress on key issues of concern to all governments in the Northwest Territories including economic development, capacity building, devolution and resource revenue sharing.

Mr. Speaker, our fiscal strategy is a work-in-progress. We will continue to work with other governments to ensure long-term fiscal arrangements are sustainable and we will continue to evaluate our spending and investment decisions to ensure balance with our revenues over time.

## **INITIATIVES**

### **Support for Economic Development**

The responsible development of the Northwest Territories' resources requires that governments strike a clear balance between the economic benefits of development and the longer-term goals of environmental protection and ecosystem health.

We have heard people throughout the Northwest Territories stress the importance of a balance between the environment and the economy. Residents say, "We want jobs. We want business opportunities and growth to continue. We want new revenues for Aboriginal and public governments. But we also want clean water, clean air, unspoiled land, and healthy fish and wildlife." We can have both, but we need the checks and balances in our decision-making that will reconcile these goals.

These checks and balances will come, in part, from how we organize ourselves to manage our resource development and environmental protection

responsibilities. We also continue to be guided by the recommendations of the Economic Strategy Panel in their report, *Common Ground*. The recommendations in *Common Ground* provide a balanced approach to moving the Northwest Territories towards economic self-sufficiency. The investments in this Budget in support of this balance implement a number of the *Common Ground* recommendations.

## **Environment**

All of us understand the need to protect our environment.

In response to growing community concerns about industrial activity and community growth, this Budget provides nearly \$1.4 million to enable our Government and communities to ensure that the environment is protected. Initiatives funded in this Budget include:

- ◆ adding regional response and enforcement capacity;
- ◆ cumulative effects monitoring;
- ◆ gathering baseline biophysical data along the Mackenzie Valley in anticipation of a gas pipeline;
- ◆ environmental contamination clean-up;
- ◆ holding an Elders' Workshop on Climate Change; and
- ◆ continuing implementation of the protected areas strategy.

All of these actions must be taken in co-operation with Aboriginal governments.

Work that began last fall on our Energy Strategy continues. We anticipate having a draft strategy available for public consultation during the summer of 2002. The objective of this Strategy will be to define the Northwest Territories interests in energy and understand energy consumption patterns in our communities and how we can most economically provide environmentally friendly energy. The Strategy should identify new energy management initiatives in addition to the Renewable Energy Incentive Program begun in 2001-2002.

## **Non-Renewable Resource Development**

Mr. Speaker, a cornerstone of the GNWT's vision for a prosperous future is the development of our resources for the maximum benefit of Northwest Territories' residents and businesses. Development will not occur unless Northwest Territories residents fully participate and benefit from that development. Almost two years ago, this Government took stock of the economic potential of the Northwest Territories' mineral and oil and gas resources, and developed a blueprint for promoting, managing and benefiting from the development of these resources. The *Non-Renewable Resource Development Strategy* continues to guide the GNWT in its investment decisions and we continue to urge the federal government to participate in funding the Strategy. This Budget proposes



substantial investments in support of the Strategy - in business development, in training, and in infrastructure.

We developed this strategy in response to a request from the federal government. The development we predicted has occurred. Meaningful federal investment is overdue.

This Government is committed to ensuring that Northwest Territories businesses and workers benefit from the development of our natural gas reserves and the construction of a Mackenzie Valley gas pipeline. This Budget includes \$1 million to support the Mackenzie Valley Development Project. This funding will be directed toward projects such as community-based entrepreneurial training, promotion of secondary value-added oil and gas industries, and natural gas conversion in Fort Liard.

As well, we will allocate over \$1 million to increase capacity in regional offices.

The recent agreement between the Mackenzie Valley Aboriginal Pipeline Corporation and the Mackenzie Delta Producers Group on equity participation in a gas pipeline is an example of meaningful Northwest Territories participation in development. This Agreement is a solid respectful business partnership - a partnership where each partner accepts the risks and rewards associated with investment in the gas pipeline.

The Mackenzie Valley Aboriginal Pipeline Corporation is a new business model for Aboriginal governments. It brings those with settled claims and economic resources together with those who are still striving towards these results. It is a worthy endeavour, whose success will mean prosperity not only for its shareholders, but for the entire Northwest Territories. For these reasons it merits government support and commitment. If the federal and territorial governments can share the vision, the vision can become reality. We will continue to provide support to the Mackenzie Valley Aboriginal Pipeline Corporation and accept a fair share of the financial risk if the Corporation is successful in securing federal government financial commitments to backstop its participation in the Mackenzie Valley Gas Pipeline.

Mr. Speaker, oil, gas and minerals are not the only resources of the Northwest Territories that have the potential to yield major economic benefits and result in large scale developments. For the past year, we have been researching the hydroelectric potential of the Northwest Territories' river systems. Almost every region possesses significant hydroelectric potential that regional Aboriginal governments may someday choose to develop. The Dogrib First Nations have already taken this initiative. The Government is ready to work with and support any region interested in researching their hydro potential and to help address the related economic and environmental questions. Funding to support this research is provided for in this Budget.

## **Roads and Infrastructure**

Mr. Speaker, last year I announced this Government's intention to undertake an ambitious program of investment in the Northwest Territories' highway system. We proposed to invest \$100 million over four years to upgrade territorial roads. Much of the work proposed was needed to cope with the ever-increasing effects of resource development traffic, to improve safety and to stimulate economic growth and expansion.

To finance the strategy, we proposed the introduction of a highway trip permit fee on commercial trucking in the Northwest Territories. The fee was not our first, nor even our second choice for raising the needed funding. Our first choice was to convince the federal government that it should reinvest some of the growing resource revenues they were raising in the Northwest Territories. Our second choice was to find some way to finance these highway investments from general government revenues. However, health, education and other critical social demands on scarce government resources take higher priority.

As Members are aware, Mr. Speaker, while almost everyone agrees that our roads urgently need an investment of this magnitude, many people expressed concern about the impact of the proposed fee on the cost of living in the North. As a result of the many concerns we heard, the Government chose not to proceed with the highway trip permit fee legislation last session. We were prepared to give Northerners time to develop and propose alternatives.

This will not change our goal to improve our highway infrastructure through the use of Northwest Territories businesses and workers. Not only is an upgraded highway system necessary to ensure the safety of the travelling public, it is an essential element for resource development and economic growth in the Northwest Territories.

The current fiscal position of the GNWT enables us to make some one-time capital investments in the existing territorial highway system. I am pleased to announce that a \$33 million highway investment is proposed in this Budget for 2002-2003, including \$2.5 million to upgrade access roads. Not only will this investment provide the needed funds to preserve the existing essential infrastructure and facilities, but it will also be distributed across the highway network to improve highways linking communities and residents of the Northwest Territories.

The Government is pursuing alternatives to pay for needed highway improvements and is actively engaging stakeholders in the process of identifying the best means of funding highway infrastructure. The Department of Transportation is supporting the Northern Business Coalition, which is led by the NWT Chamber of Commerce and includes a number of other territorial stakeholder organizations, in their lobby effort to seek federal investment in Northwest Territories infrastructure.

Mr. Speaker, population, industry and traffic have all increased dramatically in the North Slave region. Interest rates are attractive. We are exploring the possibilities suggested through the Fort Providence Betterment Corporation's proposal to build a bridge over the Mackenzie River at the Fort Providence crossing. The proposal calls for some federal equity contribution, the dedication of GNWT ferry and ice road savings, and an ongoing contribution from the beneficiaries of a bridge - the people and businesses of the North Slave Region. The proposal has the potential to serve as a template for partially financing regional infrastructure investments that would otherwise not be made. If we can find a workable financing model, its application throughout the Northwest Territories may allow substantive protection of, and improvements in, regional transportation infrastructure.

### **Traditional Economy**

Mr. Speaker, we recognize the very important economic benefits of large scale resource development, if balanced with appropriate environmental protection. We have also heard from Chiefs and other leaders, and we recognize the need to find a balance between large economic projects and the community level economy. A key component of this balance is enhancing the traditional economy, which includes fur harvesting, arts and crafts and cultural tourism. Elements of the traditional economy are especially appropriate for smaller communities. This priority was emphasized in *Common Ground*, which recommended support for the traditional economy, a clear regional development strategy and promotion of on-the-land programs for young people. The Honourable Jim Antoine, Minister of Resources, Wildlife and Economic Development, will be implementing a number of initiatives in support of this priority.

The GNWT is providing \$265,000 in new funds to implement the revised Northwest Territories Fur Strategy and to provide youth training programs in trapping. New investment will be made to support traditional tanning skill development, improve pelt quality, train trappers, maintain the fur marketing effort and monitor the furbearer population. We expect our efforts in strengthening and securing our capability for harvesting and marketing furs to meet the high expectations for northern furs already established in the marketplace.

In response to the *Common Ground* recommendations, the GNWT will provide \$150,000 in this Budget to establish a stakeholder committee to develop an Arts Policy and Strategy for the Northwest Territories. This Budget also contains new funding for research into traditional methods of arts and crafts production, and to identify product development and marketing.

## **Support for Business**

To ensure that our businesses can take full advantage of the opportunities generated by economic growth, we need to ensure they have access to adequate levels of investment capital. The GNWT has invited a number of Canadian bankers and representatives from the northern business community to review this issue. The Bankers' Commission will identify gaps in service and provide practical recommendations aimed at improving access to capital for northern businesses.

Healthy local businesses support strong communities. We are providing \$275,000 in new funding for new investment and economic initiatives to complement current government initiatives that support local businesses. This new funding will be focussed on development of the arts and craft industry, promotion of the tourism industry and participation in trade shows.

As well, the NWT Development Corporation will receive \$750,000 in additional funding to meet increased demand for financial support for small businesses. These, and other initiatives, will maximize business opportunities in northern communities. We expect this to provide spin-off benefits for northern communities.

## **Support for Communities**

Mr. Speaker, the initiatives I have outlined so far support economic development for the benefit of Northwest Territories' residents. However, we must recognize the need to balance this support with initiatives that will help residents cope with the pressures that change and economic development bring, particularly in community development, housing, health, education and social issues.

## **Capital Investments in Communities**

Community governments have not been immune to the economic and social impacts of recent resource development activity. Pressures have been felt on community water and sewer infrastructure, community roads, social programs, rental housing and even municipal staff recruitment and retention. The Government has recognized the needs of many of our small communities and is responding.

In 2002-2003, we will be investing \$13.8 million in capital expenditures in the smaller communities of the Northwest Territories; \$4.5 million alone will be invested in water treatment and sewer facilities. The \$13.8 million includes other investments for building and upgrading warehouses, storage facilities, workshops, schools, health centres, offices and housing in various communities.

We are also providing \$3.4 million in funding for small community infrastructure through government contributions.

## **Northern Employers Benefits**

This Budget proposes an ongoing increase of \$1.7 million in contributions to community governments and housing associations to offset benefit costs. This funding will help communities maintain their ability to recruit and retain staff and to cope with the recent increases in the costs for both employers and employees for participation in the pension and insurance programs offered by the Northern Employees Benefits Services Pension Plan.

## **Community Recreation and Sports**

Sport activities promote healthy lifestyles within communities. The Honourable Vince Steen, Minister of Municipal and Community Affairs, will be announcing \$1.4 million in initiatives for improving recreation and sport opportunities for communities. This investment in health and well-being for our communities was made in response to the recommendations of community governments and our Northwest Territories recreation and sport partners.

## **Support for People**

Mr. Speaker, we are making investments in our most valuable resource, our people. We know this investment will yield substantial returns.

## **Social Agenda**

Last year, Aboriginal, territorial and municipal leaders met with service providers and non-governmental organizations to discuss the development of a social agenda that would provide a framework to effect change and improve the quality of life of our citizens, their families and Northwest Territories communities.

A twenty member Social Agenda Working Group, with members from the GNWT, non-government organizations, the federal government, Aboriginal governments, and the NWT Association of Municipalities will be reporting in April on progress made in developing this Agenda. Between April and June, the Group will work on developing indicators to measure the progress of social development over time.

This initiative provides a needed balance to the Government's overall agenda. We have a responsibility to ensure that our people are strong enough to take advantage of the opportunities being created by our growing economy.

Although the lion's share of our budget is allocated in support of social programs, we know that serious challenges still exist. We know we need comprehensive, collaborative and system-wide action that cuts across departments, sectors and specific issues. The issue may not be how much we spend on social programs but whether our expenditures effectively accomplish the desired outcomes. We look forward to receiving the Working Group's specific, focussed recommendations on how we can work together more closely to implement

creative and innovative solutions to problems that are not only this Government's concern but involve all public and Aboriginal governments, communities, families and individuals.

The Social Agenda Working Group is wrestling with these issues. The Working Group has invested considerable energy in thinking through recommendations that will hopefully support departments in implementing their strategies and plans and ultimately lead to more effective and targeted expenditures of public funds. Those recommendations that require new funding will be considered for the 2003-2004 fiscal year. This does not mean, however, that we cannot act in the meantime on those recommendations that can be implemented within existing budgets.

### **Housing Initiatives**

The supply of affordable private rental accommodation is a growing concern in communities where rental housing supply has not kept pace with the growing housing needs of wage earners. Mine workers, oil and gas workers, government workers and employees of new Aboriginal governments and businesses all need affordable housing, and have the means to pay reasonable market rents. The shortage affects the Northwest Territories' potential for economic development and is an issue for GNWT recruitment and retention as well.

The GNWT intends to help the private sector to respond to the demand for affordable rental accommodation in non-tax based communities by introducing a four part program consisting of:

- ◆ ensuring private developer access to affordable financing by accepting contingent liability of mortgages for eligible projects;
- ◆ increasing availability of reasonably priced and financed lots by providing lot development financing from a revolving fund for non-tax based communities;
- ◆ providing developers with business plan development through existing GNWT staff expertise; and
- ◆ providing developers with information about cost effective techniques to encourage innovation and lower cost construction techniques.

Housing is not just an issue for smaller communities. Earlier this month, the Honourable Roger Allen, Minister Responsible for the NWT Housing Corporation, signed an Affordable Housing Agreement with the Government of Canada which will provide \$7.5 million in new federal funding over four years to help address housing issues in the Northwest Territories. The funds will be used for assisted rental housing for low-income seniors and singles and to increase the supply of affordable housing for low-income families. We will work to ensure that the new funds complement our other housing initiatives and do not distort the decisions of private developers. We are looking for long-term solutions to the affordable housing issue.

## **Maximizing Northern Employment**

Mr. Speaker, last year the GNWT implemented a series of government-wide initiatives known as *Maximizing Northern Employment* to address the need for strategic investment in training and employment for Northwest Territories residents. We funded this initiative with a \$6.5 million investment, in addition to our existing training and employment programs. I am pleased to announce that for 2002-2003, all current initiatives will continue with an investment of \$7.3 million.

We want Northwest Territories residents to have the skills, knowledge and opportunity to participate fully in the northern economy. *Maximizing Northern Employment* initiatives are intended to address the real life challenges Northwest Territories residents, business and industry each confront in their efforts to contribute to the growing Northwest Territories economy.

Our efforts have already proven successful. Last summer, the Northern Student Program helped 342 students find summer jobs with the GNWT. These jobs provided students with work experience that can help them obtain full time work after graduation.

The Northern Graduate Program and the Graduate Transition Program provide full time work for recent post-secondary graduates in their field of study. Right now, 53 graduates are working in intern positions with the GNWT and the private sector. In addition, 16 graduate teachers and one social worker have obtained work through the Northern Graduate Program. Five northern teachers have been granted education leave to work toward the completion of their teaching degree as well.

The *Maximizing Northern Employment* Program has allowed us to enhance the Nurse Mentorship program and to develop a Social Work Mentorship program. These support programs are necessary given the demands placed on new graduates, especially those working in more isolated communities. During the past year, 18 graduate nurses accessed this program and the number will be increased in the coming year.

The growth in our economy has created great demand for skilled trades people. We are responding to that demand by significantly increasing opportunities for Northwest Territories residents to acquire new skills or to upgrade existing skills. Almost 300 participants have participated in 14 new training programs. The Drill Rig Training Program alone has put 64 people from across the North through the 18 day on-site training program last summer.

Some of the *Maximizing Northern Employment* programs will be funded through the Aboriginal Government/Private Sector Partnership fund. The fund is designed to encourage GNWT partnerships with Aboriginal economic organizations and the private sector to recruit and develop a northern workforce. This year 31

Northwest Territories businesses are sharing more than \$1.1 million to provide job training to more than 200 people.

Student Success Centres at Aurora College campuses in Yellowknife and Fort Smith are operational and a centre is planned for the Inuvik campus. The centres will help students be successful in their studies by providing a range of supports including tutoring, career mentoring and personal counselling services.

As well, our goal of a northern teaching force is being helped by an expansion of the Teacher Education Program to the three campuses in Inuvik, Fort Smith and Yellowknife and plans to introduce a Bachelor of Education program. This increased investment made it possible for 63 full time and five part time students to enrol in the Teacher Education Program this year.

### **Income Support**

Increased employment opportunities for northern residents have reduced the number of people on social assistance. This has resulted in significant savings in support expenditures. We are proposing that \$1.5 million in income support savings be reinvested to enhance program benefits including the Singles Accommodation Benefit, the food allowances, the Disability Allowance, and the Seniors' Home Heating Subsidy. This investment will help to address the potential negative effects associated with increased economic activity in the Northwest Territories.

### **Health**

Mr. Speaker, we all want to ensure a sustainable health and social services system. However, to achieve this, the system must change.

Last month, the Minister of Health and Social Services, the Honourable Michael Miltenberger, announced an Action Plan that will strengthen programs and services for all Northerners. The Plan listed 45 actions that will be carried out over the next three years. The actions are focused on improving the quality and effectiveness of health and social services. It places a primary focus on close collaboration and co-operation between health care providers, health and social services authorities, and the GNWT.

During 2002-2003 a number of new investments will be made to strengthen the health and social services system. We propose to invest \$250,000 for on-call centres to support clients and front line staff, \$320,000 for expanded action to address tuberculosis, and a \$270,000 pilot project to expand screening for breast cancer. In addition, over \$10 million has been added to the budget of Health and Social Services to meet the increased costs of providing existing services.

Funding for health initiatives also includes enhanced health protection measures. The Department of Public Works and Services, working closely with the



Departments of Municipal and Community Affairs and Health and Social Services, will spend \$300,000 to identify and correct existing or potential deficiencies in drinking water systems and services in Northwest Territories communities.

### **Support for Children and Youth**

Mr. Speaker, providing funds for education today is an investment in tomorrow. It is an investment in people at the same time as it is an investment for the Northwest Territories. For these reasons, this Budget includes an additional \$2.7 million for student support services. Actions taken by this Government continue to fulfil our legislative requirement to establish a pupil/teacher ratio of 16.5 to one for 2002-2003. In addition, we will increase student support funding to 15 per cent of school contributions, one year in advance of the requirement set out in legislation.

Last year, we implemented an Early Childhood Development Action Plan to improve programs and services for our youngest residents through enhanced program spending and better co-ordination of programs and delivery mechanisms. We committed \$10.5 million over three years for this Plan. This Budget includes nearly \$2.9 million in 2002-2003 for initiatives under this Plan. This funding includes initiatives in speech development, literacy rates, screening tools for developmental delay tests, and a public awareness campaign to tackle key issues such as FAS/FAE and nutrition. In addition to these actions, we will be investing a further \$2 million for the implementation of the second year of a three year plan to enhance child protection. Ten additional social workers and expanded professional training for workers and foster parents will be provided using these funds.

All Members of this Assembly have heard strong, clear messages from the Status of Women Council of the NWT, the Native Women's Association of the NWT, and, in fact, all organizations represented on the Social Agenda Working Group, that many families need support in regaining self-sufficiency and pride. We need to provide families with access to quality, reliable childcare that is affordable for parents. Investing in children's early years provides more opportunity for children to reach their full potential in school performance. It also can help reduce future expenditures. The Honourable Jake Ootes, Minister of Education, Culture and Employment, will be implementing measures to increase daycare support funding. This Budget provides an additional \$1 million to fund these increases. This initiative will both increase educational opportunities for children and respond to the needs of low-income northern families by removing barriers to affordable childcare.

Mr. Speaker, our young people are our future. We need to help our youth become healthy, educated people with the experiences and mentoring examples to make responsible personal choices. This Budget includes \$1 million to develop and implement a Youth Corps. The Youth Corps will be designed to improve the

outlook and opportunities for young people by providing support and leadership for an extended time period. Activities in the Youth Corps will include work assignments, volunteer and community contribution assignments and skills improvement. We will also contribute funding to host another Youth Conference this year and will assist with the costs of youth activities delivered by community organizations.

## **Language and Culture**

Our cultural diversity makes the Northwest Territories truly unique. It is one of our most precious resources and the source of our strength. This Government is committed to supporting and celebrating our traditions, our diverse cultures and our languages and people. This Budget includes a significant investment in this resource. First, an increased investment of \$919,000 will be provided to assist in the acquisition, maintenance and revitalization of our Aboriginal languages and culture. Second, \$521,000 has been allocated to facilitate the work of the Special Committee on the Review of the *Official Languages Act*.

Third, I am pleased to announce that, along with numerous sponsors from the public and private sector, our Government will be helping to sponsor the Living History Project with a \$100,000 contribution to the three day symposium the Society is hosting in June of this year. The Living History Project explores the evolving social and political landscape of the Northwest Territories over the last 25 years. The planned symposium will have representatives from communities across the North and will include a visit from the Governor General of Canada, Her Excellency the Right Honourable Adrienne Clarkson.

Finally, Mr. Speaker, as part of the celebration of our heritage, the GNWT has allocated \$500,000 to mark the inauguration of National Aboriginal Day as a statutory holiday in the Northwest Territories. This funding will be used to support the planning of activities throughout the territory and to provide contributions to municipal, community, regional and territorial organizations in support of community celebrations. We encourage all residents to join in the recognition of our Aboriginal heritage on June 21st.

## **Income Tax Initiatives**

Mr. Speaker, one of the ways to help Northwest Territories residents deal with economic conditions in the North is through the tax system. Last year we changed the Northwest Territories personal income tax system from one of "Tax on Tax" to "Tax on Income". This change gave us more flexibility to design a system that meets our needs. In addition, we increased the maximum Cost of Living Tax Credit for Northwest Territories residents from \$645 to \$822, an increase of \$177. This change was effective for the 2001 tax year and residents will be receiving the increased credit after filing their tax returns in the next few months.

Last May, I established the Minister's Advisory Committee on Personal Income Taxation to provide recommendations on how the Tax on Income system could best serve the residents of the Northwest Territories. The Advisory Committee studied other provincial and territorial personal income tax regimes and reviewed public submissions. In October, the Committee provided a report on the options available to the Government of Northwest Territories, including specific recommendations for seniors, persons with disabilities and low-income residents.

Mr. Speaker, I am pleased to announce that I plan to take the necessary steps to implement the specific recommendations made by the Advisory Committee, which would lower taxes for all Northwest Territories taxpayers. I plan to increase effective July 1, 2002, the personal credit from \$550 to \$796, and the married credit from \$467 to \$796. In 2003, this change will save a single taxpayer \$246 and a single income couple \$575. These changes increase the level at which a single taxpayer pays no Northwest Territories income tax from \$14,447 to \$20,650 in 2003. For single earner couples, the income level will increase from \$26,076 to \$37,071.

Last summer, the NWT Seniors' Society recommended measures to ease the tax burden on low-income seniors. Effective July 1, 2002 I am proposing to increase the Age credit from \$268 to \$389 as a measure that will specifically benefit senior residents. In addition, Mr. Speaker, I intend to increase the disability credit from \$445 to \$645, again effective July 1, 2002.

We are all aware of the high cost of living in the North. Last year's change to the Cost of Living Tax Credit will help address this problem. However, as Members pointed out last year during debate on this measure, further action is needed to provide relief for low-income residents of the Northwest Territories. Mr. Speaker, I am very pleased to announce this Government's intention to introduce a minimum Cost of Living Tax Credit for low-income residents. This initiative will ensure a minimum Cost of Living Tax Credit of \$250 for an individual over the age of 18 and \$500 for a couple. This measure will be effective for the 2002 tax year.

These changes to our tax system will not only benefit seniors, disabled persons and low-income taxpayers but will allow the Northwest Territories to remain competitive with most other provincial jurisdictions. Increasing the tax credit amounts and the minimum Cost of Living Tax Credit will put extra money in the pockets of taxpayers, which in turn puts extra dollars into our communities. For example, the tax measures I have announced today will mean an additional \$62,000 on an annual basis in communities the size of Deline and Fort Resolution.

In total, Mr. Speaker, these measures will result in tax savings for Northwest Territories residents of \$4.3 million in 2002 and \$7.5 million in 2003.

These tax reductions respond to Northwest Territories residents' concerns about the cost of living in the North, especially for low-income individuals and families.

These initiatives also respond to the pressure for the Northwest Territories to remain competitive with other Canadian jurisdictions. I will be introducing the legislation necessary to implement these tax changes later during this session.

Other provinces are lowering both personal income and corporate income taxes. We will be monitoring the changes made in other provinces as part of our on-going efforts to keep the Northwest Territories tax structure comparable to the tax structures in the other provinces and territories.

## **CONCLUSION**

Mr. Speaker, at this point we can clearly see our vision of a better tomorrow take shape. Our economy is strong, and the promise of future prosperity is enormous. Our people are working and our businesses are prospering.

But our vision is not yet complete. We know we have more work to do to ensure:

- ◆ that the benefits of development are shared between governments, communities and regions;
- ◆ that we have a diversified economy, and encourage growth in all sectors;
- ◆ that development balances economic benefits, social impacts, and protection of the environment;
- ◆ that our people, our families and our communities are strong, healthy, educated and self-reliant;
- ◆ that our young people are motivated and prepared to take advantage of the opportunities available; and
- ◆ that the diversity of languages and cultures of the Northwest Territories is respected and encouraged.

Our fiscal situation allows us to continue to make investments in building our future that we would otherwise be unable to make. We have responded to the concerns and recommendations made to us. This Budget sets out a balanced approach – a balance between investing in the economy, and in our people and our communities; a balance between developing our resources and protecting our land; and a balance between our current revenue capacity and our future spending needs.

Mr. Speaker, our approach is balanced, our foundations are level. We are ready to finish the job we have set out to do.

## **OVERVIEW OF THE NWT ECONOMY**

2001 was a year of vigorous growth in the NWT economy. Real gross domestic product is estimated to have grown by approximately 32 per cent, largely as a result of an 80 per cent increase in capital expenditures. Most capital expenditures were made in the mining and oil and gas industries.

Other sectors of the economy also grew substantially, but their contribution to overall economic expansion was overshadowed by capital investment. Exports grew by about 19 per cent on a real basis, largely as a result of increased diamond production and the inclusion of a full year's natural gas production from the Fort Liard area. Growth in consumer expenditures is expected to be about 8.7 per cent and government expenditures are estimated to rise 6.3 per cent in 2001.

This robust economic activity has allowed the NWT unemployment rate to fall from 13.7 per cent in the winter of 1999 to 9.8 per cent by January of 2002.

Overall economic growth in 2002 is not expected to be as dramatic as in the previous year but will remain solid. Real economic growth will be approximately 2.1 per cent as the high level of capital expenditures is maintained for an additional year.

Growth in other sectors of the economy will remain constant in 2002 with government expenditures providing the largest increase in real spending of about 3.6 per cent.

## **ECONOMIC PERFORMANCE**

The NWT economy has been performing extremely well in recent years and should perform well in 2002. Economic growth to date has originated in the export sector. It has been responsible for rising capital expenditures and increased shipments of exportable goods.

The high rate of capital expenditures this year and last will help to further increase exports out of the territory in the years to come, as additional diamond mines, natural gas and tungsten production are brought on stream.

The NWT's exports are dominated by non-renewable resources. Since the start of diamond production in 1998, the NWT has enjoyed large increases in the value of its exports. The value of oil and gas shipments have played an important role as well.

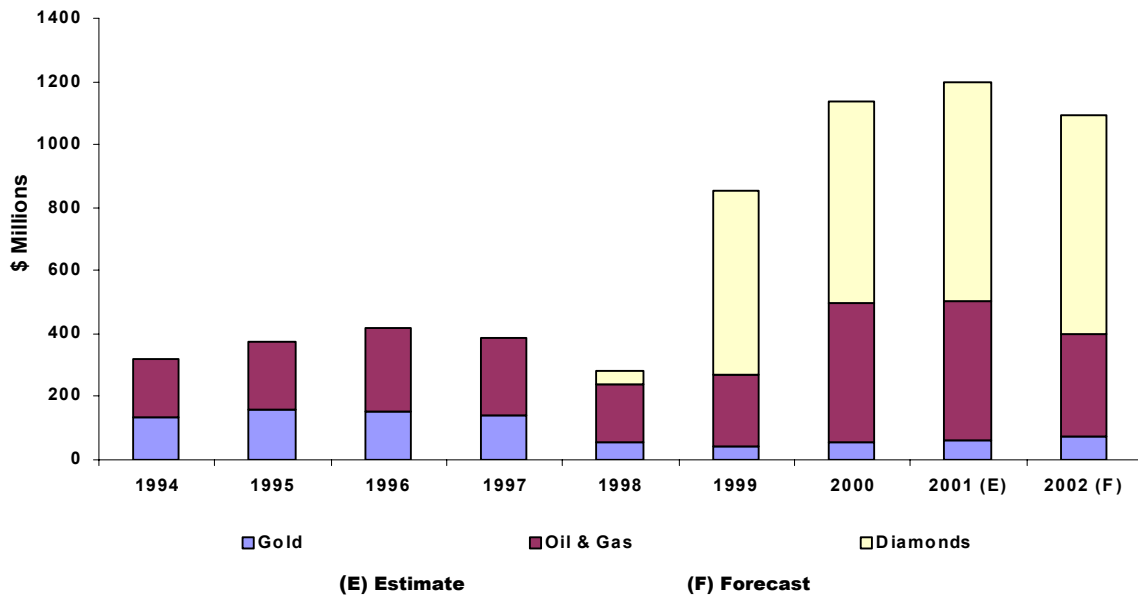
### **Northwest Territories Economic Indicators**

INDICATOR	2000(A)	2001(E)	2002(P)
Gross Domestic Product (Millions of 1997 \$)	2,255	2,967	3,028
(% Change)	8.8	31.6	2.1
Total Investment (Millions of 1997 \$)	822	1,477	1,455
(% Change)	54.5	79.7	-1.5
Consumer Expenditures (Millions of 1997 \$)	887	965	973
(% Change)	3.0	8.7	0.9
Government Expenditures (Millions of 1997 \$)	893	949	983
(% Change)	1.7	6.3	3.6
Exports (Millions of 1997 \$)	1,151	1,375	1,382
(% Change)	0.6	19.4	0.6
Imports (Millions of 1997 \$)	1,498	1,798	1,765
((% Change)	11.6	20.0	-1.8
Employment	19,349	19,420	19,617
(% Change)		0.4	1.0
Avg. Weekly Earnings (\$)	822	860	868
(% Change)	8.1	4.7	0.9
CPI (Yellowknife, 1992 = 100)	111.2	113.0	114.0
(% Change)	1.7	1.6	0.9

Source: Statistics Canada (E) Estimated by NWT Department of Finance  
 NWT Department of Finance (P) Projected by NWT Department of Finance  
 NWT Bureau of Statistics (A) Actual per Statistics Canada

Note: Average weekly earnings in 2000 represent combined data for the Northwest Territories and Nunavut. Data for 2001 is for the NWT only and is based on actual data for the first eleven months of the year.

**Value of Gold, Diamonds, Oil and Gas Shipments  
Northwest Territories**

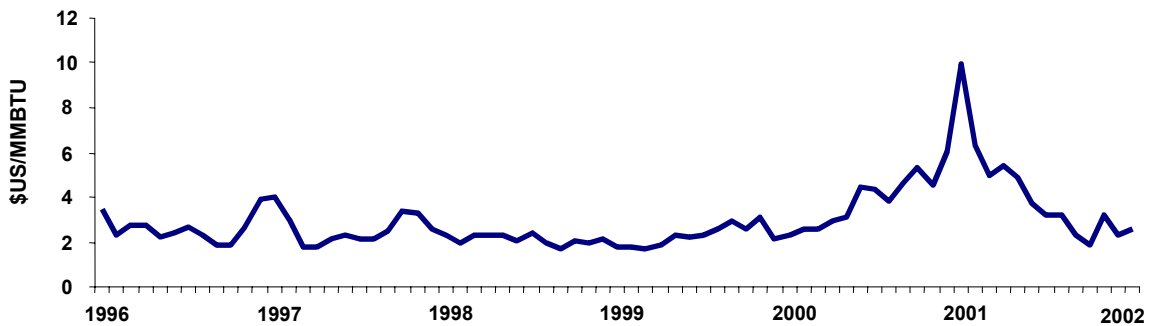


Source: Dia Met Minerals, Miramar Mining Corporation, Natural Resources Canada, NWT Bureau of Statistics, Echo Bay 1998 Annual Report, NWT Finance, National Energy Board, Sproule Associates Limited.

Note: Data excludes Nunavut for all years.

Rising oil and gas production and prices raised the nominal value of oil and gas shipments in 2000 and 2001. However, prices have declined since their peak in early 2001.

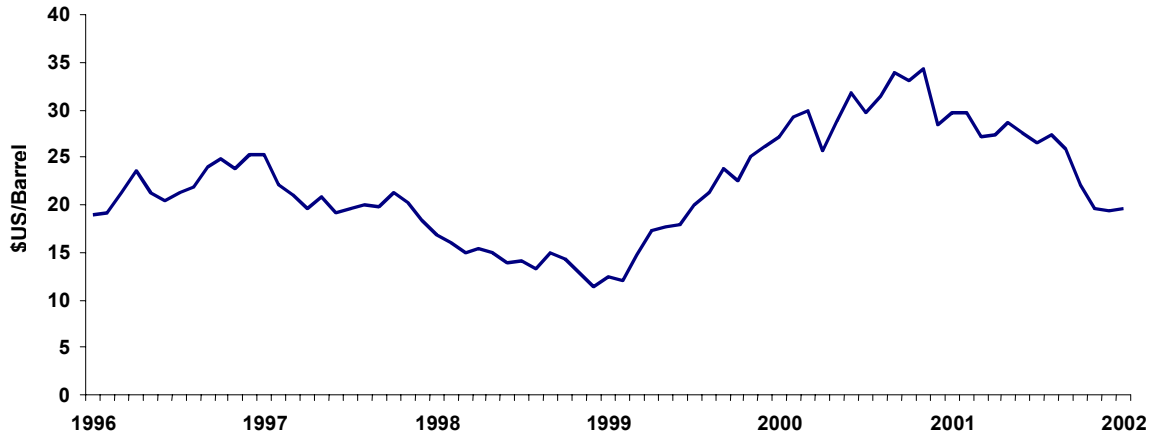
**Natural Gas Prices  
Henry Hub NYMEX**



Source: Sproule Associates Limited

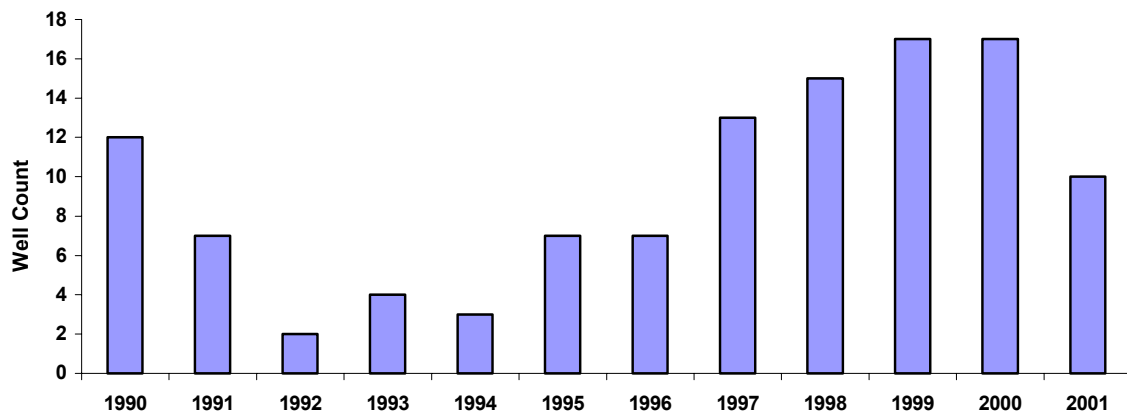
The number of new wells drilled declined in 2001. However, this does not represent a slowdown in overall activity in the sector. Seismic activity in the Mackenzie Delta region, and the testing and workover of several wells helped to offset the decline in drilling.

### **West Texas Intermediate Crude Oil Price**



Source: Sproule Associates Limited

### **Oil and Gas Wells Drilled in the NWT**

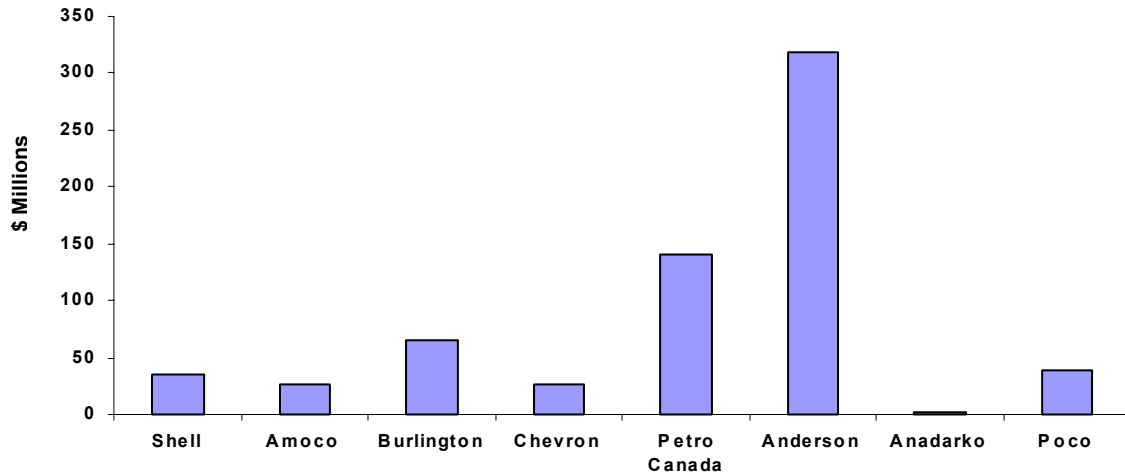


Source: National Energy Board

The level of drilling and other oil and gas field work promises to be robust in the future as several corporations have made commitments to spend approximately \$725 million in the Mackenzie Delta through work expenditure bids and bid bonuses. An additional \$75 million was committed to the Central Mackenzie Valley.

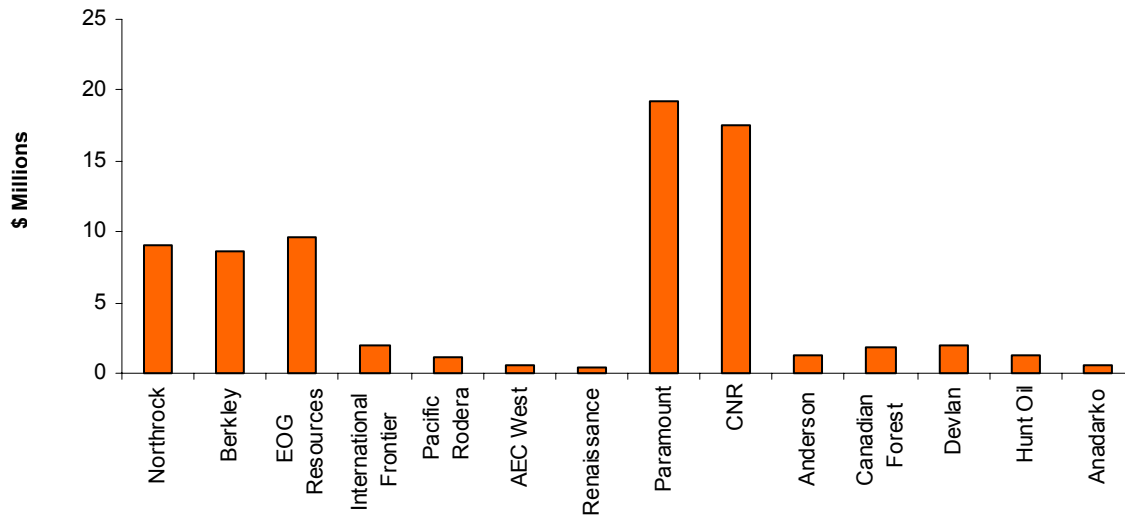


**Work Bids in the Mackenzie Delta and Beaufort Sea 1999 and 2000**



Source: Indian and Northern Affairs Canada

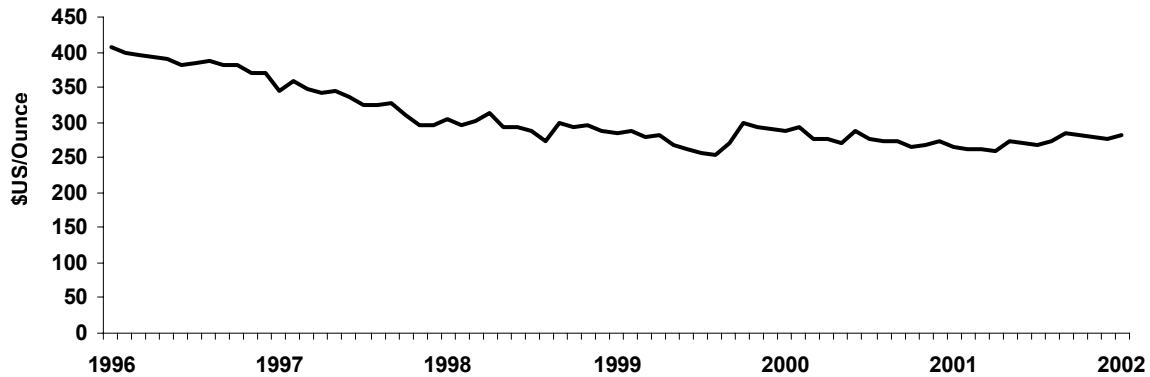
**Work Bids in the Central Mackenzie Valley 2000 and 2001**



Source: Indian and Northern Affairs Canada

The gold mining sector has also contributed to the value of the NWT's exports. However, declining gold prices have reduced their export value. Prices improved slightly in 2001, in part because of uncertainty in financial markets.

### Gold Prices

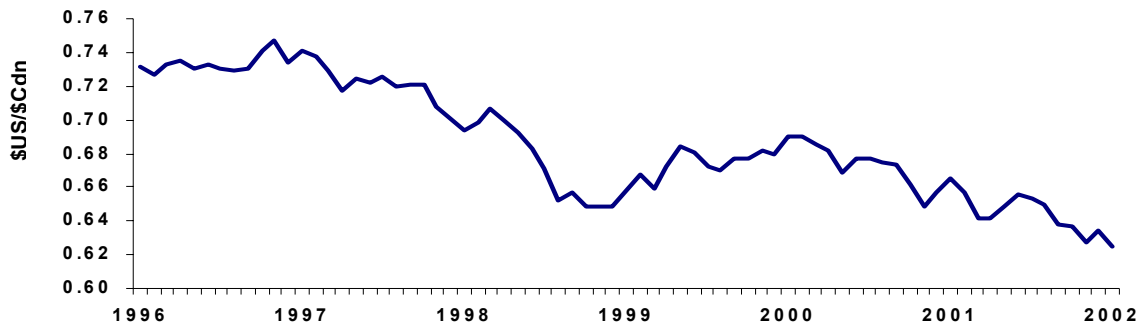


Sources: NWT Bureau of Statistics, Kitco Precious Metals, The Conference Board of Canada, and TD Economics

Note: The last 2002 data point is from February 13, 2002. All other data points are monthly averages.

The falling value of the Canadian dollar relative to the United States dollar has raised the Canadian dollar export value. The Canadian dollar has fallen steadily since early 2000. On January 21, 2002, the dollar traded for only US\$0.618, which was an all time low.

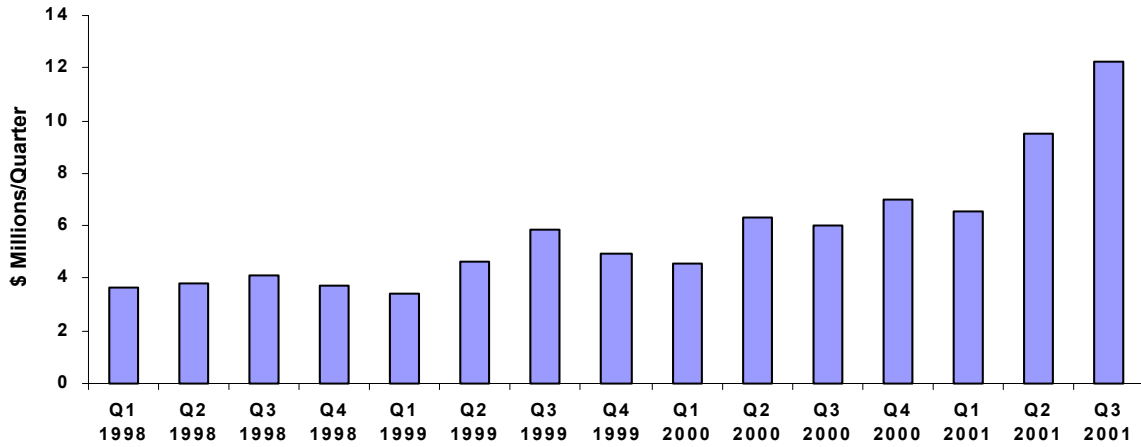
### Canada-U.S. Exchange Rate



Source: Sproule Associates Limited

Manufacturing shipments also contribute to the total value of NWT exports. In 2001 these shipments increased dramatically from a monthly average of \$2.0 million in the first 11 months of 2000 to an average of \$3.1 million over the same period in 2001. In the first three quarters of 2001 shipments were up 67.7 per cent compared to the first three quarters of 2000. The territory's diamond cutting and polishing industry contributed to the increase.

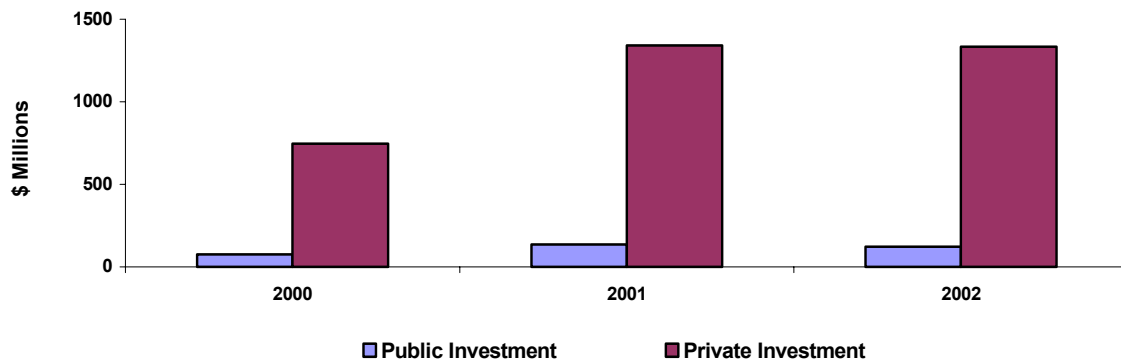
***NWT Manufacturing Shipments***



Source: NWT Bureau of Statistics

Large investments are being made to develop the territory’s diamond mining industry and development is continuing in the oil and gas sector. Private sector investment expenditures are expected to show a dramatic 80 per cent increase in 2001, and are predicted to remain at about that level in 2002. Mining, oil and gas extraction industries should account for about 82 per cent of capital expenditures in 2001.

***Real Public and Private Investment  
Northwest Territories (1997 \$)***

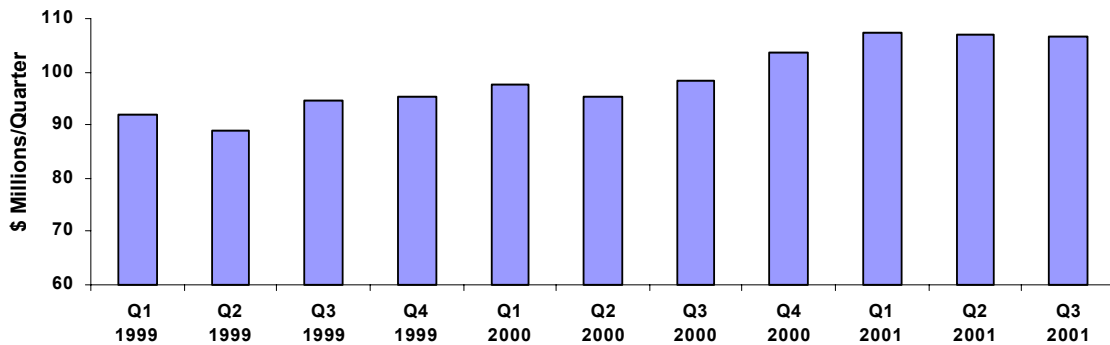


Source: Statistics Canada, NWT Finance

Note: 2000 figures are actuals, 2001 amounts are based on Statistics Canada’s survey of intentions and 2002 is a NWT Finance forecast.

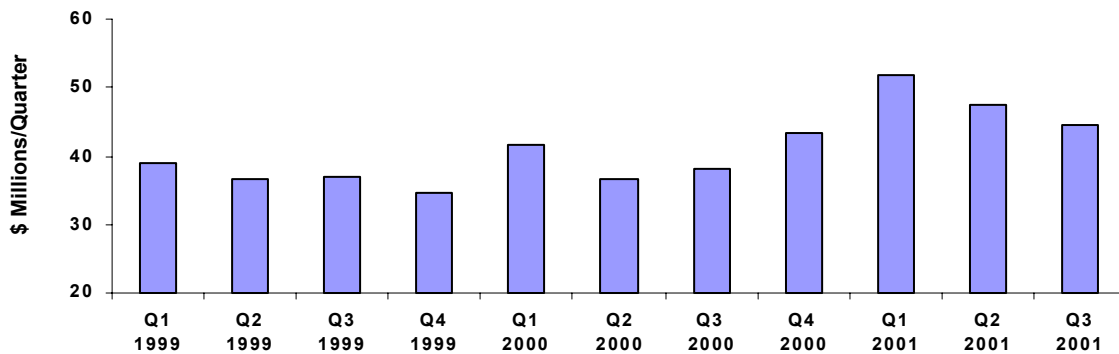
Improvements in capital expenditures, rising exports and modest growth in government spending have provided consumers with additional spending power. As a result, retail and wholesale trade in the territory has risen steadily. In the first three quarters of 2001 retail trade grew 10.4 per cent compared to the same period in the previous year. Wholesale trade was even stronger, growing 23.8 per cent in the first nine months of 2001 compared to the first nine months of 2000.

***NWT Retail Trade  
(Seasonally Adjusted)***



Source: NWT Bureau of Statistics

***NWT Wholesale Trade  
(Seasonally Adjusted)***

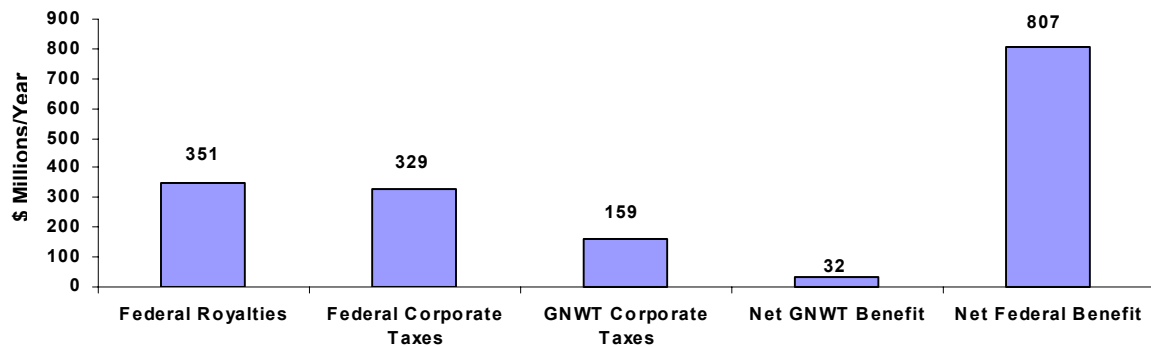


Source: NWT Bureau of Statistics

Fiscal arrangements for the NWT are different from those in Canadian provinces. In the provinces, the royalties generated from onshore resource development are earned by the provincial treasury. In the NWT, these royalties accrue to the federal government. In addition, similar to the Equalization program for the provinces, revenues generated from the resource sector through taxation are offset by reductions in the Grant from Canada. Therefore, the net fiscal benefit of resource development for the NWT is small.

Fiscal benefits for the GNWT are estimated to be only 3.8 per cent of the total royalty and corporate tax revenues generated during the next 25 years from resource development at three diamond mines, the Mackenzie Delta natural gas field, natural gas at Fort Liard, and oil in Norman Wells. The federal, Aboriginal, and territorial governments are discussing devolving natural resource revenues to NWT governments.

**Average Annual Fiscal Impact of Resource Development in the Northwest Territories**



Source: NWT Finance, NWT Resources, Wildlife, and Economic Development

The NWT’s economy has performed extremely well, but that performance does not substantially improve the GNWT’s ability to invest in its people. Government spending in infrastructure, health and education rises dramatically in a growing economy. In cooperation with the federal government, NWT governments will have to earn a greater portion of the revenues generated by economic development if they are going to be able to invest in these priority areas.

## **FISCAL REVIEW**

One-time revenues in 2000-2001 and 2001-2002 substantially improved the Government of the Northwest Territories' (GNWT) fiscal position in these years, allowing the government to anticipate an accumulated cash surplus at the end of 2002-2003. However, as revenues return to historical levels, the GNWT will return to a position where expenditures exceed revenues. Rising costs of current programs and the ongoing need for greater investment in infrastructure and in addressing the costs associated with development mean reexamining fiscal priorities and spending.

### **2001-2002 RESULTS**

Resolution of a dispute with Canada concerning the Formula Financing Grant, increases to the Grant's Gross Expenditure Base and increases in corporate income tax revenues provided the GNWT with \$90 million more in revenues at the end of 2000-2001 than expected in last year's Budget. An expected \$23 million operating surplus for 2000-2001 turned into a surplus of \$118 million.

The GNWT expects to receive \$180 million more in revenues in 2001-2002 than forecast in the 2001-2002 Budget, resulting in a projected operating surplus of \$160 million rather than the balanced budget expected. The main reason for the unexpected surplus is an unanticipated increase in corporate income tax collections.

Operating expenditures were 3 per cent higher (\$22 million) than estimated in the 2001-2002 Budget. Fifty per cent of the supplementary expenditures were for health spending.

Capital investment expenditures are expected to be 34 per cent higher (\$34 million) than projected in the 2001-2002 Budget and \$87 million higher than 2000-2001 actual capital investment expenditures.

### **2002-2003 BUDGET**

#### ***Revenues***

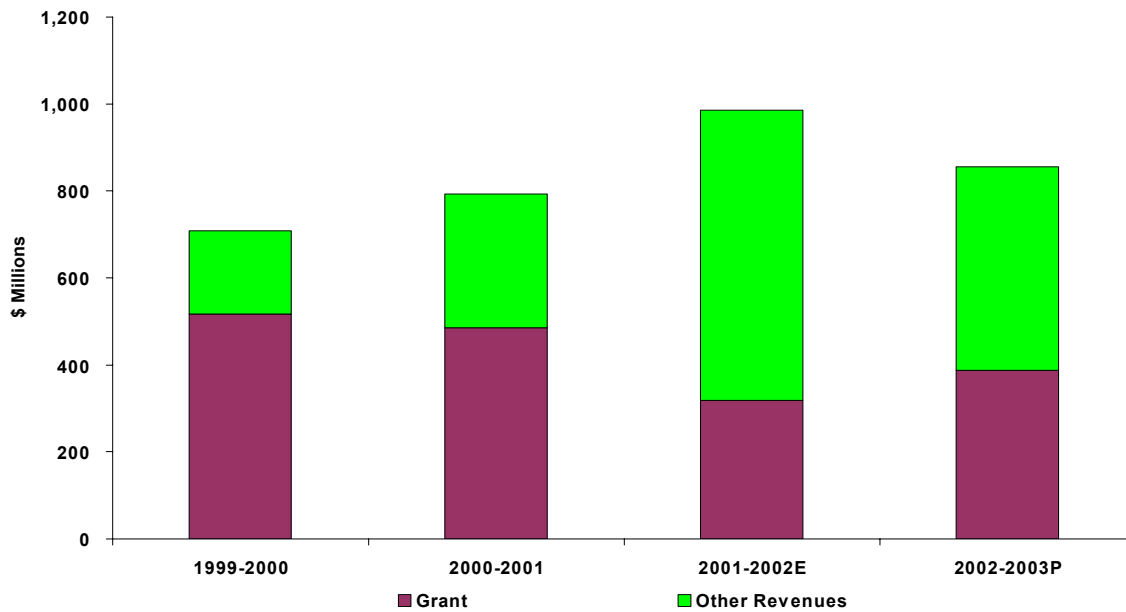
Total 2002-2003 revenues are expected to decrease by \$129 million from the 2001-2002 revised revenue estimate to \$856 million as corporate income tax revenues decline from very high levels in 2001-2002. Total revenues consist of the Formula Financing Grant (46 per cent), other transfers (6 per cent), and own source revenues (48 per cent).

The 2002-2003 Formula Financing Grant is expected to increase \$68 million over 2001-2002. Higher own source revenues, in particular higher corporate income tax revenues, will reduce the Grant's share of total GNWT revenues from its past levels of between 70 and 80 per cent. The Grant will fall by less than the increase in GNWT own source revenues.

The Canada Health and Social Transfer (CHST) is projected to be \$15 million higher in 2002-2003. The CHST is lower in 2001-2002 because of a large repayment of prior year CHST as a result of higher corporate income tax revenues increasing the tax transfer portion of the CHST. Other federal transfers are expected to be \$1 million higher than in 2001-2002.

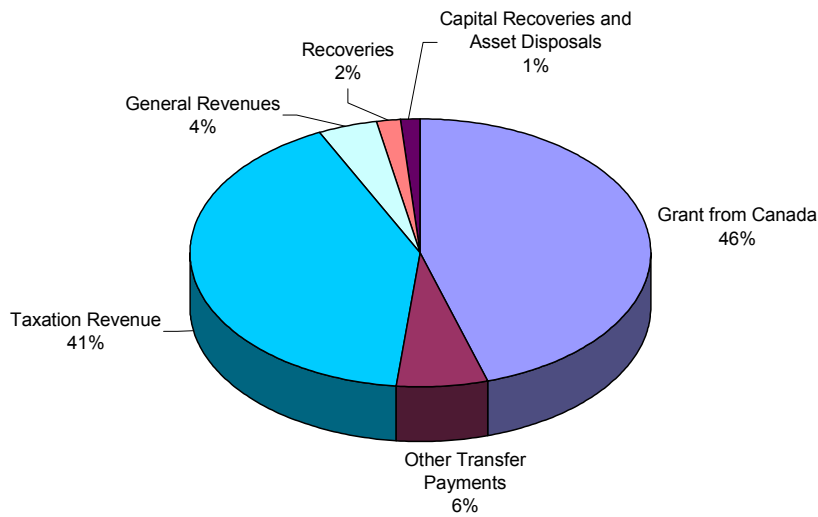
Historically, GNWT own source revenues represent approximately 20 per cent of total revenues. However, higher corporate income tax revenues will raise the share of own source revenues to 48 per cent in 2002-2003. Tax revenues, including liquor profits, will be 43 per cent of total revenues in 2002-2003 and 90 per cent of total own source revenues, up from the historical average of about 70 per cent of total own source revenues.

**Total GNWT Revenues by Source**



E-Estimate  
P-Projected

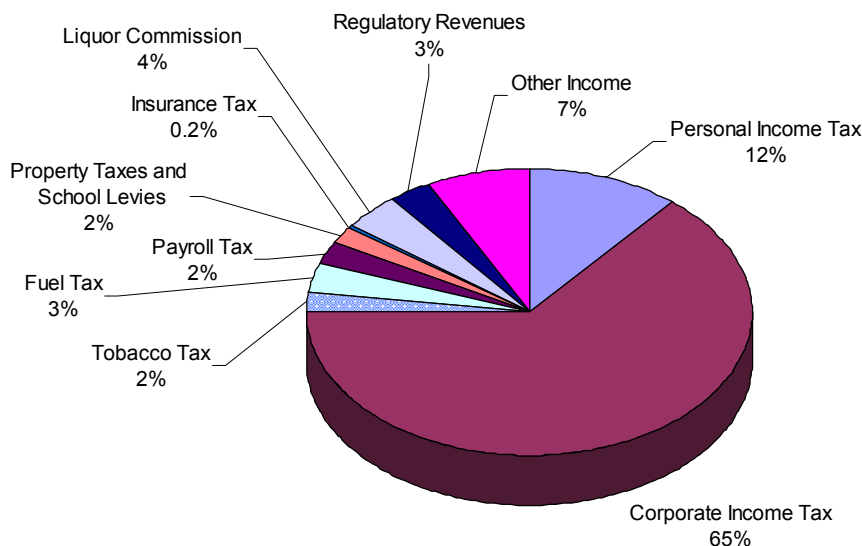
**GNWT Revenues by Source  
2002-2003**



GNWT own source revenues include taxes, liquor profits, regulatory revenues (revenues from fees and licences), rental income, power subsidy recoveries, sales of government assets and sales of goods and services.

A forecast 4 per cent growth in employment income in 2002 will increase the GNWT's personal income tax revenues to \$47 million in 2002-2003. The personal income tax revenue estimate reflects the tax changes announced in this Budget and the higher Cost of Living Tax Credit approved by the Legislative Assembly in 2001. Personal income tax revenue forecasts in both 2001-2002 and 2002-2003 are reduced due to adjustments from prior years.

**GNWT Own Source Revenues  
2002-2003**





Corporate income tax revenues are forecast to decrease by \$219 million, to \$264 million in 2002-2003, from the revised revenue forecast for 2001-2002. These revenues are still higher than historical amounts because the one-time increase in reported corporate taxable income for 2000 is used by the federal government to forecast 2002 corporate income. Much of this revenue will have to be repaid in following years when actual corporate income tax receipts are reported.

2002-2003 tobacco tax revenues are forecast to remain constant as decreasing per capita consumption rates are offset by a larger population.

The fuel tax revenue forecast for 2002-2003 is expected to increase only 1.4 per cent from the 2001-2002 revised estimates because of a slight increase in motor vehicle fuel consumption.

Increases in forecast payroll tax revenues reflect projected increases in employment income.

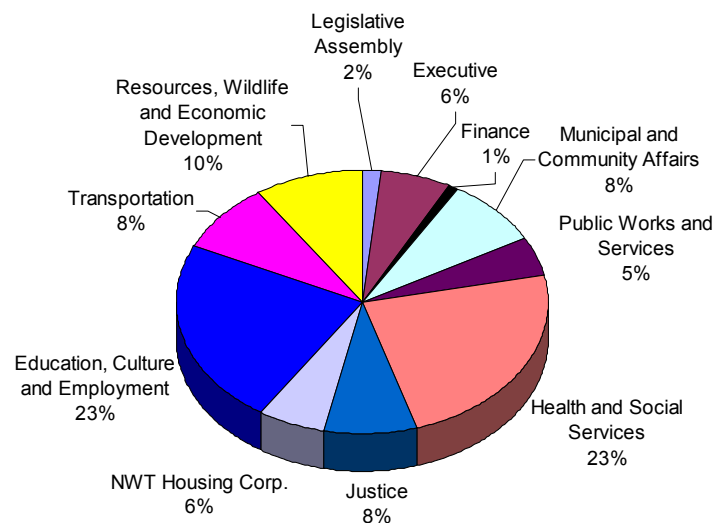
Property tax revenues will be lower than 2001-2002 due to property tax grants in lieu received in 2001-2002 for prior years.

### ***Operating Expenditures***

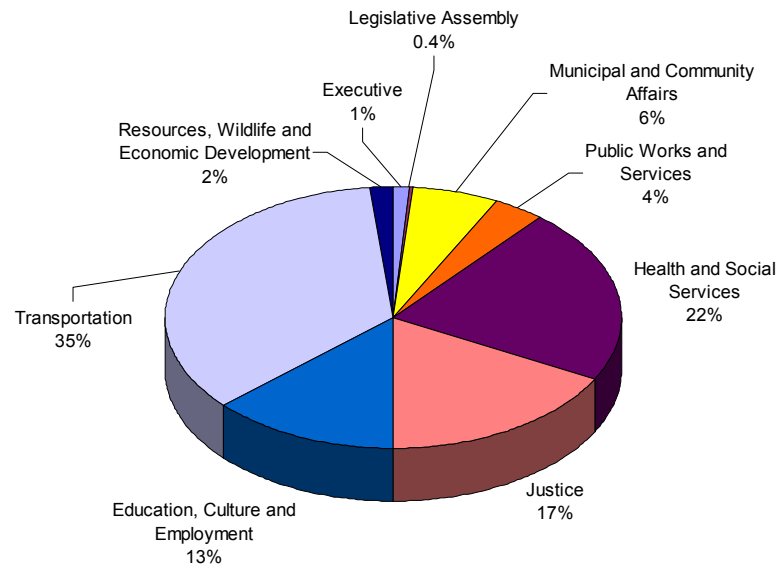
Departmental operating expenditures are projected to be \$64 million higher than budgeted in the 2001-2002 Budget. Over 36 per cent of this increase is due to increased costs of existing programs, particularly in health spending.

Most territorial spending is in the area of social programs: education, health, social services, justice and housing. These programs represent over 60 per cent of the GNWT's annual budget.

### ***Operations Expenditures by Department 2002-2003***



### **Capital Investment Expenditures by Department 2002-2003**



### **Capital Investment Expenditures**

Total capital investment expenditures are expected to decrease 17 per cent from \$132 million in 2001-2002 to \$109 million in 2002-2003. Health, justice, education and transportation make up 88 per cent of 2002-2003 capital investment expenditures.

Total capital investment expenditures for Health and Social Services are projected to be \$24 million, of which \$18 million has been allocated for the Regional Hospital in Inuvik. Justice capital investment expenditures are projected to be \$19 million, of which \$18 million is for the North Slave Correctional Centre. Education, Culture and Employment capital investment expenditures are projected to be \$15 million. These expenditures are distributed among various schools and educational facilities. The two largest capital investment expenditures are for the Aurora College Main Building in Inuvik (\$6.2 million) and the Princess Alexandra School in Hay River (\$2.4 million). Transportation capital investment expenditures are projected to be \$38 million, of which \$33 million is for highway construction, including \$2.5 million to upgrade access roads.

There will be an additional \$13.8 million in capital investment expenditures in the smaller communities of the NWT. Included in this expenditure will be \$4.5 million investment in water treatment and sewage facilities. Other investments include building and upgrading warehouses, storage facilities, workshops, schools, a health centre and housing in various communities.

## MEDIUM TERM OUTLOOK

The GNWT is currently benefiting from several one-time revenue increases resulting from the resolution of a Formula Financing methodology issue and from unanticipated corporate income tax collections. The GNWT has used these one-time revenues to fund new initiatives but also to address the cost pressures of current programs. Consequently, as revenues return to normal, expenditures will exceed revenues, putting the GNWT into a deficit position and increasing the GNWT debt. The surpluses accumulated during the last two fiscal years will be needed to finance these deficits.

Revenues in 2003-2004 are expected to decrease \$67 million from 2002-2003 as the effects of the one-time corporate income tax revenues work through the fiscal system. At the same time, expenditures are projected to increase 4 per cent. The revenue decrease will create a \$118 million operating deficit in 2003-2004, which will fall to \$78 million the following year. These projected deficits will bring GNWT debt close to the authorized borrowing limit of \$300 million by 2004-2005.

### ***Fiscal Framework Operations Summary***

(millions of dollars)

	2000-2001 Actuals	2001-2002 Revised Estimate	2002-2003 Main Estimate	2003-2004 Forecast	2004-2005 Forecast
<b>Total Revenues</b>	883	985	856	789	869
<b>Total Expenditures</b>	(765)	(826)	(868)	(907)	(947)
<b>Operating Surplus (Deficit)</b>	118	159	(12)	(118)	(78)
<b>Opening Accumulated Surplus</b>	556	674	833	821	703
<b>Accumulated Surplus</b>	674	833	821	703	625
<b>Capital Investment Requirements</b>	45	98	109	67	43
<b>Accumulated Cash Surplus (Deficit)</b>	39	363	101	(87)	(167)
<b>Total (Debt)</b>	(138)	223	(39)	(225)	(305)

### ***Revenues***

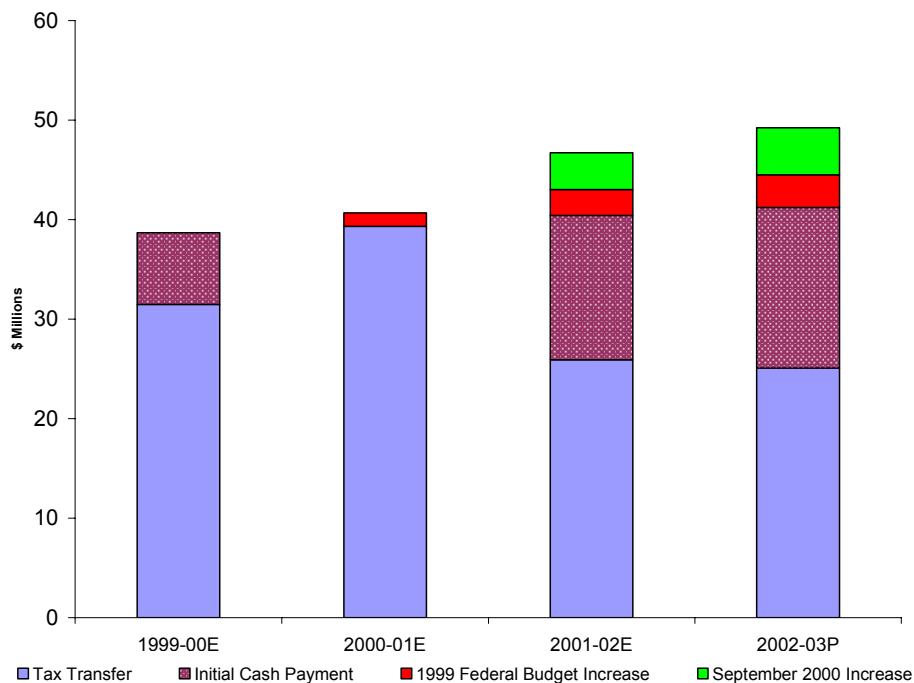
Over the medium term, the major GNWT revenues including personal income tax, tobacco tax, fuel tax, property tax and payroll tax, are expected to grow. Corporate income tax revenue will decrease significantly as the expected over payment in 2002-2003 is paid back in future years. The Grant from Canada will increase dramatically after 2002-2003 because it will not be reduced by the one-time corporate income tax collections. Overall total GNWT revenues are expected to decrease 8 per cent from 2002-2003 to 2003-2004, but return to 2002-2003 levels in 2004-2005.

The one-time 2000 corporate tax revenues received in 2001-2002 will have interesting consequences for the next few years. For example, the one-time increase will be included in the 2000 tax revenue used by Finance Canada to estimate 2002 corporate income tax collections. Much of this revenue will have to be paid back in future years if actual collections for 2002 prove to be lower than the federal estimate. The lower corporate income tax revenue will be partially offset by increased Formula Financing Grant payments in future years.

Corporate income tax also has an effect on the CHST. This transfer is the main federal government funding vehicle to support provincial and territorial health care, post-secondary education and social services. The CHST is delivered in two parts: a cash component and a tax point transfer component.

The unanticipated increase in corporate tax revenues received in 2001-2002 for the 2000 tax year increased the amount of CHST provided as a tax transfer for the prior year's CHST. Therefore, the CHST cash portion for this year was decreased. However, the reduction in CHST results in an increase in the Formula Financing Grant. A decrease or increase in the original CHST cash funding does not change total GNWT revenues, but only changes the funding distribution between the Grant and CHST revenues. Lower CHST cash payments result in a higher Grant and higher CHST cash payments result in a lower Grant. (Additional CHST funding announced in various federal Budgets and agreements is currently excluded from the Grant calculation and actually serves to raise total GNWT revenues.)

**Canada Health and Social Transfer  
NWT Entitlement**



Note: Does not include CHST Trust amounts.  
E-Estimate  
P-Projected

All revenue forecasts involve an element of uncertainty. In a typical year, the Formula Financing Grant from Canada represents 70 to 80 per cent of GNWT revenues. Growth in the Grant depends on a number of variables, including growth in provincial government spending and growth in national GDP. Changes in these variables resulting from stronger or weaker economic growth or changes in provincial fiscal policy will affect NWT Grant forecasts. In addition, the Grant is affected by the NWT population growth

rate relative to the Canadian growth rate. While the NWT population is expected to rebound following the decline experienced in 1998, Statistics Canada estimates still show only modest growth.

Based on current projections, it is expected that ongoing GNWT revenues will not meet the Government's growing expenditure demands.

### ***Expenditure Needs***

In projecting future GNWT expenditure needs, it is necessary to consider the relationship between population, demographics, and inflation. Many factors, including changes in the overall population, changes to the ratio of dependants (those under 18 and over 64) to the working age population, price changes (especially for health care), the government wage bill and capital investment needs have significant effects on projected overall spending levels.

The GNWT faces fiscal challenges that are heightened by the NWT's large land area; small, geographically dispersed population; young and growing population; harsh climate; and underdeveloped infrastructure. These factors are reflected in the GNWT's low revenue raising capability and place stress on its ability to fund public services comparable to the services in other provinces.

The GNWT's goal is to provide public services within its capacity to generate revenues. However, the government is facing a situation where revenue growth will not keep pace with necessary expenditures. The GNWT must find a balance between making expenditures now at the risk of deficits and increasing debt, with the potential for gains in fiscal well-being in the future. Necessary expenditures include those required to meet the needs of NWT residents today and also to invest in the future. For example, investments in training now will allow Northerners to take advantage of future employment opportunities created by resource development. This in turn can mean more tax revenues from NWT residents employed in the higher wage resource sector.

A similar situation exists for capital investment. If the GNWT does not make investments now in such things as highway infrastructure, the NWT is at risk of losing economic development opportunities. A balance must be struck between working towards balanced budgets and investing for the future. The government's fiscal strategy strives to find that balance.

## **INVESTING IN THE FUTURE - GNWT'S FISCAL STRATEGY**

Since the beginning of the Fourteenth Assembly, the GNWT fiscal strategy has not changed. The GNWT has identified a number of priorities in its fiscal strategy.

- ◆ Fiscal Sustainability. The GNWT must withstand expenditure pressures that produce unsustainable spending in comparison to revenue.
- ◆ Reduce dependency on the federal government.
- ◆ Finalize Aboriginal self-government agreements.

- ◆ Achieve transfer of authority over lands and resources to the appropriate territorial and Aboriginal governments.
- ◆ Address social pressures and make appropriate investments in housing, transportation and infrastructure.
- ◆ Achieve balanced investment across regions and in both large and small communities.

Each of these priorities is interconnected and builds the foundation for achieving full economic potential for the NWT. The GNWT's fiscal strategy is based on the assumptions that there will be continued economic development and devolution and resource revenue sharing will occur.

Options available to meet the challenge of matching revenues with expenditures include:

- ◆ reduce program spending through decreased services;
- ◆ reduce program spending through increased program management efficiencies;  
and
- ◆ increase revenues.

The GNWT wants to create an environment that allows NWT residents to take advantage of economic growth and opportunities, to find stable and meaningful employment, to enjoy high quality public services that support healthy lifestyles, and, to enjoy a protected natural environment. Consequently, reducing expenditures through decreased services is not a desirable option. In fact, reducing services can have unknown long-term negative effects for individuals and the NWT community as a whole. Reducing spending on preventative health measures, for example, may mean increased health costs in the future. Reduced early childhood development programs may rob some children of a chance at a proper education, which in turn deprives the NWT of residents contributing to their full potential. However, the GNWT will continue to look for ways to reduce expenditures through increased efficiencies.

It is clear that the GNWT is going to have to find new revenue sources to pay for the investments it wants to make. The difficulty in raising revenues is that there must be a balance between the effects of increased revenue with the burden it places on residents. In addition, tax rates must be considered in relation to tax rates in other provinces in order for the NWT to remain competitive. As other provinces lower taxes, the GNWT faces increased pressure to do the same.

Increased economic activity will generate additional tax revenues as incomes and profits increase. The GNWT intends to continue to make investments that will provide for this economic development. However, the GNWT will balance this investment with the need to maintain its current quality public services as well as with its revenue raising ability.

### Summary of Operations

	(thousands of dollars)			
	2002-2003 Main Estimates	2001-2002 Revised Estimates	2001-2002 Main Estimates	2000-2001 Actuals
<b>REVENUES</b>	<b>856,120</b>	<b>985,367</b>	<b>804,691</b>	<b>883,469</b>
<b>OPERATIONS EXPENSE</b>				
Compensation and Benefits	164,049	161,687	160,062	156,353
Grants and Contributions	417,515	396,460	379,218	360,297
Other Expenses	231,474	225,487	211,744	211,773
Amortization	40,200	38,112	37,801	37,018
<b>TOTAL OPERATIONS EXPENSE TO BE VOTED</b>	<b>853,238</b>	<b>821,746</b>	<b>788,825</b>	<b>765,441</b>
<b>UNADJUSTED OPERATING (DEFICIT) SURPLUS</b>	<b>2,882</b>	<b>163,621</b>	<b>15,866</b>	<b>118,028</b>
Petroleum Products Revolving Fund – Net Expenditure	-	-	-	(268)
<b>ESTIMATED SUPPLEMENTARY REQUIREMENTS</b>				
Regular Operating Requirements	(23,000)	(12,000)	(21,000)	-
Early Childhood Development	-	-	(2,000)	-
<b>ESTIMATED APPROPRIATION LAPSES</b>	8,000	8,000	8,000	-
<b>WORK PERFORMED ON BEHALF OF OTHERS</b>				
Recoveries	45,757	45,782	33,113	40,919
Expenditures	(45,757)	(45,782)	(33,113)	(40,919)
<b>OPERATING SURPLUS (DEFICIT) FOR THE YEAR</b>	<b>(12,118)</b>	<b>159,621</b>	<b>866</b>	<b>117,760</b>
<b>ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR</b>	<b>833,246</b>	<b>673,625</b>	<b>863,761</b>	<b>555,865</b>
<b>ACCUMULATED SURPLUS AT THE END OF THE YEAR</b>	<b>821,128</b>	<b>833,246</b>	<b>864,627</b>	<b>673,625</b>

**Summary of Revenues**

(thousands of dollars)

	2002-2003 Main Estimates	2001-2002 Revised Estimates	2001-2002 Main Estimates	2000-2001 Actuals
<b>GRANT FROM CANADA</b>	<b>386,579</b>	<b>318,246</b>	<b>489,518</b>	<b>570,956</b>
<b>TRANSFER PAYMENTS</b>	<b>54,953</b>	<b>40,855</b>	<b>53,142</b>	<b>44,525</b>
<b>TAXATION REVENUE</b>				
Personal Income Tax	46,501	41,837	54,847	60,351
Corporate Income Tax	263,937	483,253	116,112	102,726
Tobacco Tax	10,229	10,230	10,863	9,954
Fuel Tax	13,809	13,613	15,831	10,834
Payroll Tax	10,107	9,832	10,125	9,409
Property Taxes and School Levies	7,278	7,620	8,552	6,993
Insurance Tax	1,700	1,500	1,500	1,688
	<b>353,561</b>	<b>567,885</b>	<b>217,830</b>	<b>201,955</b>
<b>GENERAL REVENUES</b>				
Liquor Commission Net Revenues	17,691	17,111	15,075	16,613
Regulatory Revenues	12,534	11,816	11,876	8,595
Investment Income	4,575	3,712	3,701	7,905
Other General Revenues	187	187	4	1,397
	<b>34,987</b>	<b>32,826</b>	<b>30,656</b>	<b>34,510</b>
<b>OTHER RECOVERIES</b>				
Lease and Accommodations	1,396	1,875	1,197	1,766
Service Recoveries	1,011	1,196	1,884	1,391
Program Recoveries	7,893	7,355	6,976	8,128
Commodity Sales	95	88	141	58
Insurance Proceeds	60	60	60	1,159
Other Miscellaneous Recoveries	506	446	287	127
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	6,141
	<b>13,961</b>	<b>14,020</b>	<b>13,545</b>	<b>18,770</b>
<b>CAPITAL</b>				
Gain on Disposal of Assets	100	100	-	-
Deferred Capital Contributions	11,979	11,435	-	12,753
	<b>12,079</b>	<b>11,535</b>	<b>-</b>	<b>12,753</b>
<b>TOTAL REVENUES</b>	<b>856,120</b>	<b>985,367</b>	<b>804,691</b>	<b>883,469</b>



### Summary of Operations Expenditures by Department

(thousands of dollars)

	2002-2003 Main Estimates	2001-2002 Revised Estimates	2001-2002 Main Estimates	2000-2001 Actuals
Legislative Assembly	14,047	11,744	11,680	11,867
Executive	52,022	50,595	42,656	41,835
Finance	7,766	9,419	9,419	7,525
Municipal and Community Affairs	70,750	62,122	61,138	59,392
Public Works and Services	41,324	40,414	39,444	39,128
Health and Social Services	199,882	193,936	182,764	181,723
Justice	69,584	68,144	67,122	62,613
NWT Housing Corporation	48,981	46,856	45,556	45,174
Education, Culture and Employment	195,903	187,517	183,354	170,112
Transportation	71,405	71,870	70,140	68,827
Resources, Wildlife and Economic Development	81,574	79,129	75,552	77,245
<b>TOTAL OPERATIONS EXPENDITURES</b>	<b>853,238</b>	<b>821,746</b>	<b>788,825</b>	<b>765,441</b>

### Summary of Capital Investment Expenditures by Department

(thousands of dollars)

	2002-2003 Main Estimates	2001-2002 Revised Estimates	2001-2002 Main Estimates	2000-2001 Actuals
Legislative Assembly	445	-	-	166
Executive	1,105	540	120	789
Finance	-	-	-	-
Municipal and Community Affairs	6,718	8,187	4,169	4,138
Public Works and Services	3,850	6,435	1,935	2,377
Health and Social Services	23,606	33,990	19,912	4,753
Justice	18,846	24,010	20,205	1,397
NWT Housing Corporation	-	-	-	-
Education, Culture and Employment	14,506	12,644	11,484	9,982
Transportation	38,296	44,465	39,139	20,588
Resources, Wildlife and Economic Development	1,925	1,716	1,298	1,052
<b>TOTAL CAPITAL INVESTMENT EXPENDITURES</b>	<b>109,297</b>	<b>131,987</b>	<b>98,262</b>	<b>45,242</b>

### Summary of Changes in Capital Assets and Amortization

(thousands of dollars)

	2002-2003 Main Estimates	2001-2002 Revised Estimates	2001-2002 Main Estimates	2000-2001 Actuals
<b>BEGINNING OF THE YEAR</b>				
Cost of Capital Assets in Service	1,253,406	1,171,088	1,399,522	1,121,966
Accumulated Depreciation	(438,978)	(400,866)	(572,799)	(334,655)
Net Book Value	814,428	770,222	826,723	787,311
<b>CHANGES DURING THE YEAR</b>				
Capital Assets Put into Service	83,944	82,318	55,593	25,182
Disposals	-	-	-	(2,792)
Amortization	(40,200)	(38,112)	(38,144)	(37,017)
<b>NET BOOK VALUE OF CAPITAL ASSETS IN SERVICE AT THE END OF THE YEAR</b>				
	<b>858,172</b>	<b>814,428</b>	<b>844,172</b>	<b>772,684</b>
Work in Progress on Multi-year Projects	118,436	92,722	75,757	48,768
<b>TOTAL NET BOOK VALUE AND WORK IN PROGRESS</b>				
	<b>976,608</b>	<b>907,150</b>	<b>919,929</b>	<b>821,452</b>

Notes: Capital assets in service include assets purchased, constructed or acquired by a capital lease. Assets put into service during the year include multi-year projects commenced in prior years and completed in the current year plus those projects started and completed in the current year. Capital asset values shown are based on historical cost, not current or replacement cost.

### Summary of Total Debt and Estimated Borrowing Capacity

(thousands of dollars)

	2002-2003 Main Estimates	2001-2002 Revised Estimates	2001-2002 Main Estimates	2000-2001 Actuals
<b>CASH SURPLUS (DEFICIT) END OF YEAR</b>	<b>100,971</b>	<b>362,652</b>	<b>(75,157)</b>	<b>39,128</b>
<b>GUARANTEED DEBT</b>				
NWT Power Corporation	(88,000)	(88,000)	(124,458)	(124,000)
NWT Energy Corporation	(24,000)	(24,000)	(24,000)	(24,000)
NWT Housing Corporation	(28,000)	(28,000)	(28,000)	(29,000)
<b>TOTAL GUARANTEED DEBT</b>	<b>(140,000)</b>	<b>(140,000)</b>	<b>(176,458)</b>	<b>(177,000)</b>
<b>TOTAL (DEBT) SURPLUS</b>	<b>(39,029)</b>	<b>222,652</b>	<b>(251,615)</b>	<b>(137,872)</b>
<b>AUTHORIZED BORROWING LIMIT</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>
<b>AVAILABLE BORROWING CAPACITY</b>	<b>160,000</b>	<b>160,000</b>	<b>48,385</b>	<b>123,000</b>

Notes: Total Net Debt does not include long-term debt of \$17 million (00/01-\$18 million) attributed to capital leases and \$24 million (00/01-\$24 million) of loan guarantees approved for the Secondary Diamond Industry. Any further guarantees of NWT Power Corporation debt may require a review of the GNWT's overall borrowing authority with the Government of Canada.

### Summary of Cash Flows

	(thousands of dollars)			
	2002-2003 Main Estimates	2001-2002 Revised Estimates	2001-2002 Main Estimates	2000-2001 Actuals
<b>CASH PROVIDED BY/USED IN:</b>				
<b>Operating Activities:</b>				
Operating Surplus (Deficit ) for the Year	(12,118)	159,621	866	117,760
Items not Affecting Cash:				
Provision for Doubtful Accounts	-	-	-	3,299
Deferred Capital Contributions	(11,979)	(11,435)	-	(12,753)
Amortization of Tangible Capital Assets	40,200	38,112	37,801	37,018
	<b>16,103</b>	<b>186,298</b>	<b>38,667</b>	<b>145,324</b>
<b>Changes in Non-cash Assets and Liabilities:</b>				
Due from Canada	(185,000)	256,000	(18,000)	(22,224)
Other Current Assets	18,000	2,000	2,000	1,666
Due from Nunavut	-	-	-	35,313
Other Current Liabilities	3,000	6,000	6,000	3,509
Payment of Equal Pay Settlements	-	-	-	(1,416)
Petroleum Products Operations - Net	-	(355)	(388)	-
Deferred Capital Contributions	3,000	3,000	3,053	2,049
	<b>(144,897)</b>	<b>452,943</b>	<b>31,332</b>	<b>164,221</b>
<b>Net Cash Generated By (Used In) Operating Activities</b>				
<b>Investing Activities:</b>				
Capital Investment Expenditures	(109,297)	(131,987)	(98,262)	(44,836)
Estimated Supplementary Requirements	(12,000)	-	(9,000)	-
Estimated Appropriation Lapses Due to Incomplete Capital Projects	12,000	12,000	12,000	-
Proceeds from Disposal of Tangible Capital Assets	-	-	-	2,792
Decrease (Increase) to Designated Cash/Investments	-	(1,000)	-	(6,539)
Student Loan Advances - Net of Repayment	(2,987)	(3,932)	(2,910)	(2,146)
Advances to NWT Development Corporation - Net of Repayment	(3,000)	(3,000)	(3,000)	417
Repayment of Municipal Loans	500	500	435	697
	<b>(114,784)</b>	<b>(127,419)</b>	<b>(100,737)</b>	<b>(49,615)</b>
<b>Net Cash Generated By (Used In) Investing Activities</b>				
<b>Financing Activities:</b>				
Repayment of Long-term Capital Lease Obligations	(2,000)	(2,000)	(1,674)	(1,583)
Collections from Highway Trust Fund - Net	-	-	8,000	-
	<b>(2,000)</b>	<b>(2,000)</b>	<b>6,326</b>	<b>(1,583)</b>
<b>Net Cash Generated By (Used In) Financing Activities</b>				
<b>CASH SURPLUS (DEFICIT) FOR THE YEAR</b>	<b>(261,681)</b>	<b>323,524</b>	<b>(63,079)</b>	<b>113,023</b>
<b>OPENING CASH SURPLUS (DEFICIT)</b>	<b>362,652</b>	<b>39,128</b>	<b>(12,078)</b>	<b>(73,895)</b>
<b>CASH SURPLUS (DEFICIT) END OF YEAR</b>	<b>100,971</b>	<b>362,652</b>	<b>(75,157)</b>	<b>39,128</b>

## TAX INITIATIVES

Major changes to personal income tax policy across Canada became effective for the 2001 tax year. The most important change has been the replacement of the tax-on-tax system for calculating provincial and territorial income tax with a tax-on-income (TONI) system. Under the former, provincial and territorial income tax was calculated as a percentage of federal tax. Under the latter, provinces and territories can choose their own tax brackets and tax rates, restricted only by the federal definition of taxable income. All provinces and territories except Quebec, which already used a TONI system, have changed to TONI by the 2001 tax year.

Under TONI, provinces and territories are able to respond to changing priorities in a way that reflects their own values while maintaining a harmonized national tax base. The move to TONI coincided with several provinces instituting substantial personal income tax reductions; in particular, Ontario, Alberta and British Columbia.

The NWT moved to TONI effective for the 2001 tax year. Concurrent with the process of adopting TONI, the Minister of Finance established the Minister's Advisory Committee on Personal Income Taxation to provide recommendations on how a TONI system could best be tailored to address the needs of NWT residents. In October 2001, the Committee proposed the following three options: a graduated tax, a flat tax and a competitive tax.

### GRADUATED TAX OPTION

A graduated tax system requires those with higher incomes to pay proportionally more of their income in tax than those with lower incomes. With the exception of Alberta, all provinces and territories use graduated income tax systems. The Committee suggested a graduated tax option with existing rates and brackets and higher personal credits.

### FLAT TAX OPTION

Under a flat tax system there is no increase in the tax rate as income rises; a flat tax applies a single tax rate across all income brackets. Alberta, the only province using a flat tax system, has a tax rate of 10 per cent. The Committee suggested a flat tax rate of 9.5 per cent and increased personal credits for the NWT.

### COMPETITIVE TAX OPTION

The competitive tax option would use a graduated system and provide NWT residents with the lowest taxes in Canada. This would be accomplished by implementing a rate of 8 per cent for income below \$33,000, a rate of 9.24 per cent for income between \$33,000 and \$60,000 and a rate of 10 per cent for income above \$60,000. The Committee recommended an increase in personal credits with these rate changes.

## 2002-2003 TAX INITIATIVES

The GNWT must strive to balance the tax burden faced by NWT residents with the need to generate revenue, while ensuring that the NWT's taxation system is competitive with those of other provinces and territories. The Graduated Option is considered the most balanced of the three options proposed by the Advisory Committee. It ensures fairness to all taxpayers and is the most cost effective to implement of the three options.

The GNWT is responding also to the Committee's recommendations for the implementation of a minimum Cost of Living Tax Credit and for increases to four amounts which yield NWT non-refundable tax credits – the personal amount, the married amount, the age amount, and the disability amount. NWT non-refundable tax credits will rise by 7.2 per cent of the increase in these four amounts.

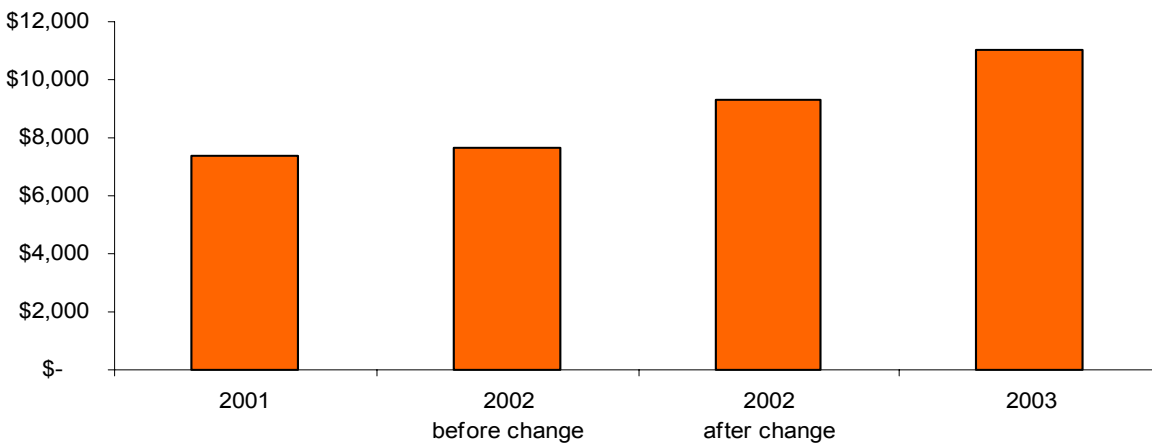
These changes will increase the income level at which a single taxpayer begins to pay NWT income tax from \$14,447 to \$20,650. For a single earner couple, the income level at which no NWT income tax is paid is increased from \$26,076 to \$37,071.

The non-refundable tax credit increases will be phased in over the next two years; half of the increase will become effective in each of 2002 and 2003. The minimum Cost of Living Tax Credit will be effective for the 2002 tax year.

### 1. *Basic Personal Amount*

The personal amount will increase from its current 2002 level of \$7,634 to \$9,342 for 2002 and to \$11,050 for 2003, reducing the tax burden of all NWT taxpayers. With the NWT's 7.2 per cent non-refundable tax credit rate, the increased personal amount will result in tax savings of \$246 for each taxpayer over the current 2002 amount. All taxpayers are eligible to claim the personal amount.

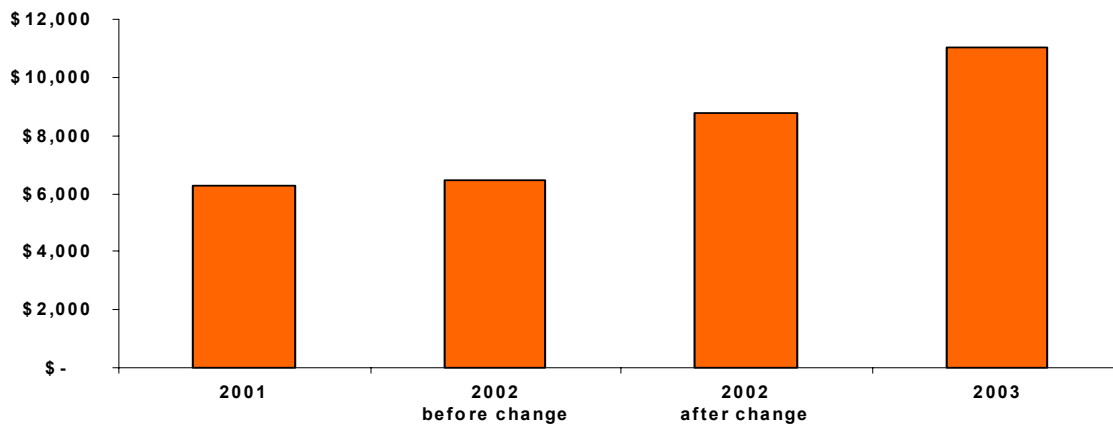
#### **Basic Personal Amount**



## 2. Married Amount

The married amount will be increased to the same level as the proposed personal amount. This eliminates the difference between a married couple and two individual tax filers living together. The married amount will rise from its current level of \$6,482 in 2002 to \$8,766 for 2002 and to \$11,050 for 2003, resulting in increased 2003 tax savings of \$329 for those claiming the maximum married amount. The married amount may be claimed by taxpayers claiming married or equivalent to married status on their tax returns.

**Married Amount**

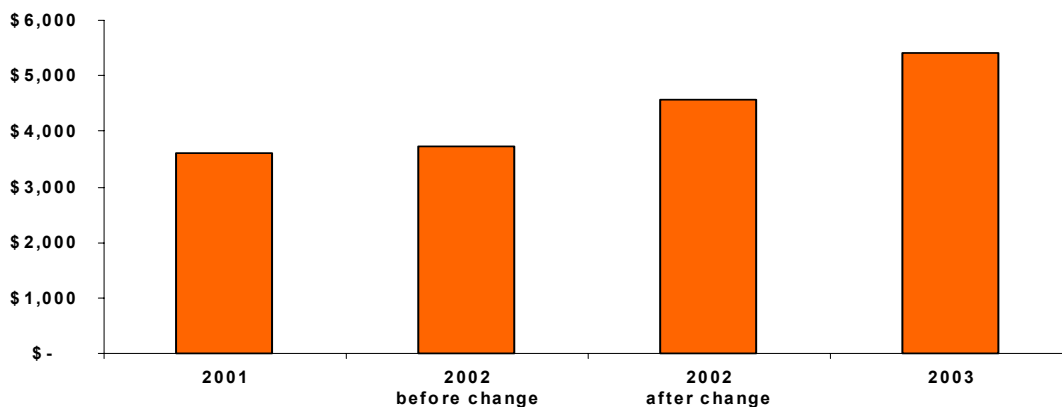


## 3. Age Amount

Increasing the age amount will provide tax relief to NWT seniors. The age amount will increase from the current 2002 level of \$3,728 to \$4,566 for 2002 and \$5,405 for 2003. Taxpayers 65 or older on December 31 of the tax year may be able to transfer all or part of the age amount to their spouse or common-law partner.

Consistent with the treatment of the age amount for the calculation of federal income tax, the age amount begins to be phased out at a rate of 15 per cent of income over a particular income threshold. The income at which the credit is reduced to zero will rise from \$52,602 in 2002 to \$64,337 in 2003, providing an additional \$121 in tax relief for seniors with incomes below \$52,602 and a declining additional benefit for those with incomes between \$52,602 and \$64,337.

**Maximum Age Amount**



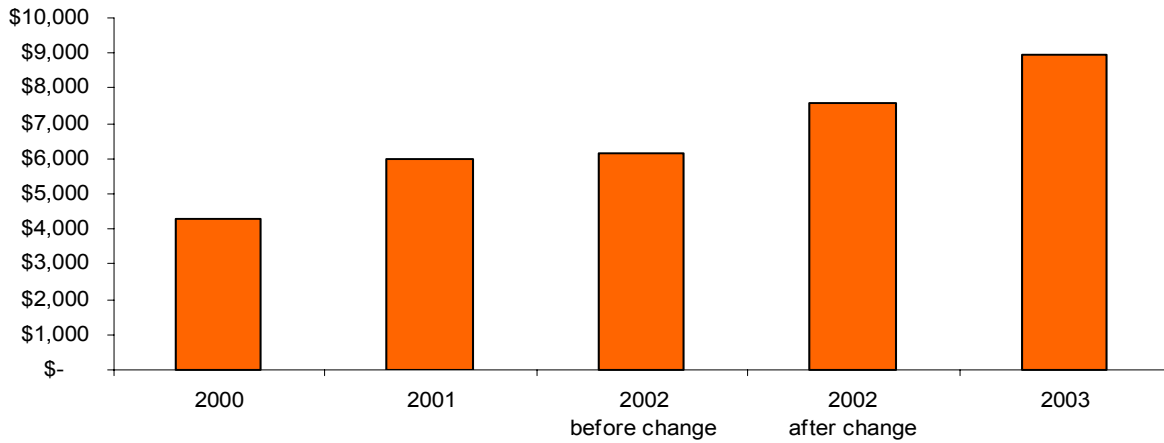
**Age Credit Value**

<b>Net Income</b>	<b>Current 2002 Amount of \$3,728</b>	<b>Proposed 2002 Amount of \$4,566</b>	<b>Proposed 2003 Amount of \$5,405</b>	<b>Increase from 2002 to 2003</b>
\$0	\$268	\$329	\$389	\$121
\$5,000	\$268	\$329	\$389	\$121
\$10,000	\$268	\$329	\$389	\$121
\$15,000	\$268	\$329	\$389	\$121
\$20,000	\$268	\$329	\$389	\$121
\$25,000	\$268	\$329	\$389	\$121
\$27,749	\$268	\$329	\$389	\$127
\$28,303	\$262	\$323	\$389	\$127
\$30,000	\$244	\$304	\$371	\$127
\$35,000	\$190	\$250	\$317	\$127
\$40,000	\$136	\$196	\$263	\$127
\$45,000	\$82	\$142	\$209	\$127
\$50,000	\$28	\$88	\$155	\$127
\$52,602	\$0	\$60	\$127	\$127
\$55,000	\$0	\$34	\$101	\$101
\$58,189	\$0	\$0	\$66	\$66
\$60,000	\$0	\$0	\$47	\$47
\$64,337	\$0	\$0	\$0	\$0
\$65,000	\$0	\$0	\$0	\$0
\$75,000	\$0	\$0	\$0	\$0

**4. Disability Amount**

The disability tax credit provides tax assistance to people with severe and prolonged disabilities. In October 2000, the federal government announced an increase in the amount on which the credit was based from \$4,293 to \$6,000 effective 2001. The disability amount will increase from its current 2002 level of \$6,180 to \$7,570 for 2002 and to \$8,961 for 2003, resulting in increased 2003 tax savings of \$200 for those claiming the maximum disability amount. A person claiming the disability amount may be able to transfer all or part of the amount to a spouse or common-law partner or to another supporting person.

**Disability Amount**



**5. Minimum Cost of Living Tax Credit**

In 2001, the maximum NWT Cost of Living Tax Credit (COLC) was increased from \$645 to \$822. While this increase benefited taxpayers at all income levels, it was structured to provide a proportionately higher benefit for low-income taxpayers.

The Advisory Committee recommended that low-income families should receive a minimum COLC amount of \$250 per tax filer over 18. The minimum amount would be based on the basic credit paid to both spouses and paid to one spouse only.

The minimum \$250 COLC for 2002 announced in the 2002-2003 Budget will provide additional relief from high northern living costs to low-income taxpayers. Similar to the GST rebate, the minimum amount will be based on household income and will be claimed by only one member of the household. The COLC for single taxpayers with incomes below \$16,640 will increase to the minimum COLC of \$250. Couples will be eligible for a minimum COLC of \$500.

**2002 Cost of Living Tax Credits  
Single Taxpayer**

Net income	Basic Credit	Supplement	Total Credit
\$0	\$0	\$250	\$250
\$10,000	\$160	\$90	\$250
\$12,000	\$192	\$58	\$250
\$15,000	\$230	\$20	\$250
\$16,640	\$250	\$0	\$250
\$20,000	\$292	\$0	\$292
\$30,000	\$417	\$0	\$417
\$36,000	\$492	\$0	\$492
\$48,000	\$642	\$0	\$642
\$66,000	\$822	\$0	\$822
\$100,000	\$822	\$0	\$822



**2002 Total Cost of Living Tax Credits for Two Adult Families**

First spouse net income	Second spouse net income	First spouse credit	Second spouse credit	Supplement	Total credit
\$0	\$0	\$0	\$0	\$500	\$500
\$5,000	\$5,000	\$80	\$80	\$340	\$500
\$6,000	\$6,000	\$96	\$96	\$308	\$500
\$8,000	\$7,000	\$128	\$112	\$260	\$500
\$10,000	\$10,000	\$160	\$160	\$180	\$500
\$10,000	\$15,000	\$160	\$230	\$110	\$500
\$20,000	\$0	\$292	\$0	\$208	\$500
\$20,000	\$20,000	\$292	\$292	\$0	\$584
\$48,000	\$0	\$642	\$0	\$0	\$642
\$48,000	\$48,000	\$642	\$642	\$0	\$1,284
\$66,000	\$66,000	\$822	\$822	\$0	\$1,644

The increased tax credit will be paid to eligible taxfilers in early 2003, when 2002 income tax returns are assessed.

**SOURCE DEDUCTIONS**

Individuals are required to complete a TD1 form for their employer or pension administrators for the purpose of calculating the amount of tax to be deducted from their salary or pensions. An employee is entitled to claim credit amounts such as the basic personal amount, married amount, age amount, and disability amount on the TD1 form. For 2002, the NWT will have a separate TD1 source deductions form for the NWT portion of income taxes. Starting July 1, 2002, in order to have their source deductions reflect the higher credit amounts for the NWT, employees will be required to submit new TD1 forms. The 2003 credit amounts for NWT source deductions are shown in the following table.

**NWT Credit Amounts for 2002 and 2003**

	Current 2002	Effective 2002 full year amount	2003
Basic personal amount	\$7,634	\$9,342	\$11,050
Married amount	\$6,482	\$8,766	\$11,050
Age amount	\$3,728	\$4,566	\$5,405
Disability amount	\$6,180	\$7,570	\$8,961

Note: Effective amounts for the 2002 tax year when increases to the 2003 amounts take effect on July 1, 2002.

By having the 2003 source amounts shown in the table above begin on July 1, 2002, the effective 2002 amounts will be the average of the current 2002 amounts and the 2003 amounts.

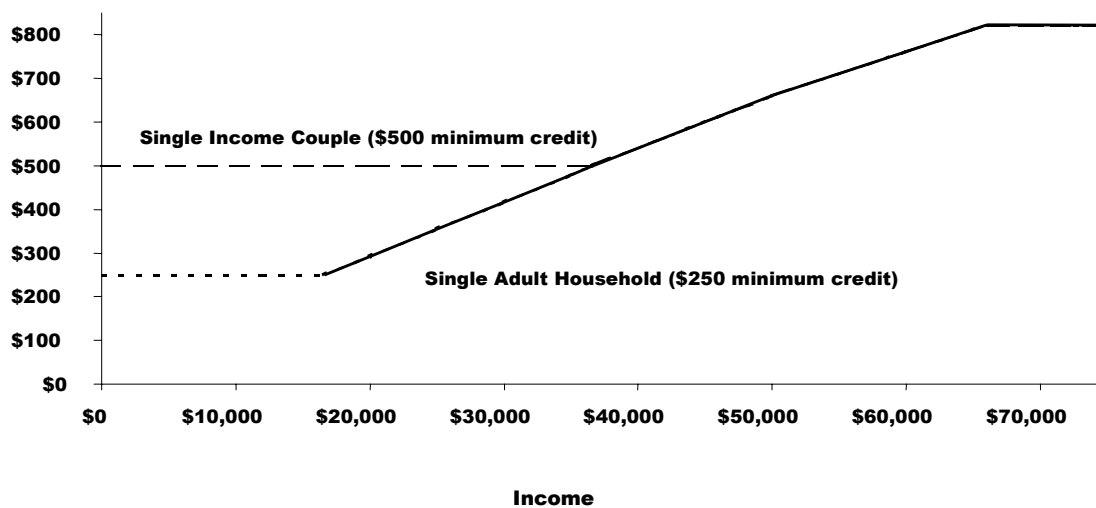
A summary of 2003 tax savings for taxpayers at various income levels resulting from the 2002-2003 Budget tax measures, but excluding the impact of age and disability amounts, is shown in the following table.

**Total 2003 Taxpayer Savings**

<u>Total income</u>	<u>Single person</u>	<u>Single earner couple</u>
\$0	\$250	\$500
\$10,000	\$90	\$340
\$20,000	\$246	\$265
\$30,000	\$246	\$658
\$40,000	\$246	\$575
\$50,000	\$246	\$575
\$60,000	\$246	\$575
\$70,000	\$246	\$575
\$80,000	\$246	\$575
\$90,000	\$246	\$575
\$100,000	\$246	\$575

Note: Amounts do not include age or disability credits.

**2002 Cost of Living Tax Credit**



## PROVINCIAL AND TERRITORIAL TAX RATES 2002

	Combined Top Marginal PIT <sup>(a)</sup> (%)	Fuel Tax <sup>(c)</sup>			Tobacco Tax <sup>(d)</sup> Cigarette (\$/carton)	Payroll Tax <sup>(e)</sup> (%)	Corporate Income Tax		Capital Tax <sup>(f)</sup> (%)
		Retail Sales Tax (%)	Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)	
Northwest Territories	42.05	-	10.7	9.1	27.20	1.00	5.0	14.0	-
Nunavut	42.05	-	6.4	9.1	25.20	1.00	5.0	14.0	-
Yukon	42.40	-	6.2	7.2	18.40	-	6.0	15.0	-
British Columbia	43.70	7.0	11.0	11.5	22.00	-	4.5	13.5	0.15 <sup>(g)</sup> /3.0
Alberta	39.00	-	9.0	9.0	14.00	-	5.0 <sup>(h)</sup>	13.5 <sup>(h)</sup>	-
Saskatchewan	44.50	6.0	15.0	15.0	17.20	-	6.0	17.0	0.6/3.25
Manitoba	46.40	7.0	11.5	10.9	19.20	2.15	5.0	16.5	0.5/3.0
Ontario	46.41	8.0	14.7	14.3	8.90	1.95	6.0	12.5	0.3/0.90
Quebec	48.22	7.5	15.2	16.2	13.10	4.26	8.9	8.9	0.64/1.28
New Brunswick	46.84	8.0	10.7	13.7	12.00	-	4.0	16.0	0.3/3.0
Nova Scotia	47.34	8.0	13.5	15.4	16.04	-	5.0	16.0	0.25/3.0
Prince Edward Island	47.37	10.0	13.0	13.5	17.90	-	7.5	16.0	0/3.0
Newfoundland	48.64	8.0	16.5	16.5	22.00	-	5.0	14.0	0/4.0
Average <sup>(b)</sup>	45.76	6.8	13.5	13.8	13.39	1.88	6.3	12.4	

As of February 13, 2002

(a) Combined Federal-Provincial/Territorial highest marginal personal income tax rates in effect for the 2002 tax year.

(b) Average of all provincial and territorial rates, weighted by population.

(c) Quebec, New Brunswick, Nova Scotia and Newfoundland apply sales tax to fuel. Most provinces have separate tax rates for on-highway and off-highway gasoline. The NWT's off-highway gasoline tax rate is 6.4 cents/litre.

(d) Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, and Newfoundland apply sales tax to tobacco products.

(e) The NWT and Nunavut Payroll Taxes are levied on employees. For other provinces, which levy payroll tax, there are exemptions for small business and/or the rates vary depending on the payroll.

(f) Rates shown for capital tax are for large corporations and for financial institutions in the order shown. The bases are different for different types of companies.

(g) British Columbia plans to eliminate the 0.15% general capital tax as of September 1, 2002.

(h) Alberta plans to reduce small and large corporate income tax rates to 4.0 per cent and 11.5 per cent, respectively, effective April 1, 2002.