INTRODUCTION

Mr. Speaker, the Budget I am presenting today is the first of the 15th Legislative Assembly, and my first as Minister of Finance. I would like to thank Members for their comments and input during the preparation of this Budget.

As a new Assembly, we are eager to take on the many challenges ahead. Looking ahead, the future seems as bright as the polished diamonds that we are sending across Canada and the world. The reality, however, is more like a diamond in the rough. Our economy is growing. Employment is high. The prospects for our territory's long-term success are very positive. But this success has brought its share of challenges. We want our residents and communities to benefit from economic growth – through employment, through business opportunities, through better infrastructure, and through higher revenues that will allow us to cope with the strains and stresses of development and to invest in a brighter future for our children.

Right now, our fiscal situation does not allow us to achieve this. Our revenues, although showing some growth because of our economy, are being outstripped by the corresponding demands on our spending. We need to address this fiscal reality and bring expenditures and revenues in line.

To do this we, as NWT residents, need to take a hard look at what we want government to do for us. We need to agree on what is critically important, and what is less important, to ensure that what we are doing is sustainable in the long term.

We need to get a better deal from the federal government on our Formula Financing Agreement and on sharing the revenues from resource development, but we also need to look to our own sources to help meet the rising cost of providing essential services to NWT residents.

This Budget is for the 2004-05 fiscal year. We have had only a few months in office to review the plans for the upcoming year, and to make some limited, but important changes. We may need to re-examine all our options, and make further adjustments during the course of the year if some critical assumptions are not met, such as the federal government's willingness to address the adequacy of our Formula Financing Agreement.

This Budget is a stepping-stone toward achieving our goal of long-term fiscal sustainability. Before we set our course for the next four years, however, we must consult with Northerners and evaluate our options. We want to take the time to fully discuss these options with NWT leaders so that our plans are well considered, built on extensive consultation, and reflect the priorities of NWT residents. Following these discussions, we will be in a better position to put together our longer-term fiscal plans for 2005-06 and beyond.

As Premier Handley stated in this Assembly in January, we face some tough choices, and it is important that we work together over the next four years to make those choices.

ECONOMIC REVIEW AND OUTLOOK

Mr. Speaker, we don't have to look hard to see the evidence of the NWT's dramatic economic growth. Economic activity throughout the NWT is very strong and labour market conditions are very good. The average employment rate in 2003 was 70 per cent (compared to the national rate of 62 per cent), with employment rates in communities outside Yellowknife at 60 per cent. These are some of the highest rates since employment numbers were first collected in 1984.

Territorial real Gross Domestic Product (GDP) grew approximately 53 per cent from 1999 to 2003 and we expect it will grow an additional 8 per cent in 2004. These growth rates are unprecedented. In just five years, the NWT has gone from having no diamond industry to being the world's third largest supplier of rough diamonds by value. Production from the Ekati and Diavik diamond mines in 2003 amounted to $1.7 billion. This represents 12 per cent of total global output – placing Canada ahead of South Africa and closing in on Russia and Botswana. Construction on a third diamond mine planned by DeBeers at Snap Lake is expected to start in 2005, with full production starting in 2008. A fourth diamond mine is currently undergoing the early stages of a project review. Within the next few years, the NWT could account for 15 per cent of the world's gem quality diamonds.

The prospects are excellent that a 1,200 kilometre natural gas pipeline will be built in the next few years, connecting the Mackenzie Delta to Alberta. If pipeline construction starts as proposed in 2007, and gas begins flowing from the Mackenzie Delta fields in 2009, our 6 trillion cubic feet (Tcf) of proven onshore reserves will begin to fill the growing supply shortfall in southern Canada and the United States. Current estimated reserves in the Beaufort-Mackenzie Delta region would provide supplies until 2033. A pipeline will also benefit the rest of Canada through the generation of almost $5 billion in labour income over the course of the project.

Furthermore, the portion of the Western Sedimentary Basin located within the NWT contains proven oil reserves of 1.75 billion barrels and natural gas reserves of 15 Tcf. Exclusive of a potential pipeline, it is expected that oil and gas companies will invest over $1 billion in exploration projects in the NWT over the next five years.

The NWT has world-class hydroelectric potential that rivals that of James Bay. Many of the NWT's rivers are ideally suited to using run-of-the-river technology, which means smaller dams and no massive flooding.

Hydroelectricity can provide a more environmentally friendly source of energy for NWT communities, mines, pipelines, and for export. Currently, opportunities are being explored to supply the diamond mines from the Taltson River system and to supply pipeline compressors from development on Great Bear River. Preliminary research indicates that the NWT's hydroelectric resources can be developed in a manner that is both cost effective and environmentally acceptable.

Although there is considerable focus on our resource potential, we must not ignore the prospects in other sectors of our economy, especially tourism. Close to 40,000 people visit the NWT each year. Although this industry contributes over $50 million to our economy every year, it is still mainly underdeveloped. Our vast territorial landscape provides extensive tourism possibilities that could generate even more income for NWT businesses and residents.

FISCAL REVIEW AND OUTLOOK

Mr. Speaker, I would now like to turn to our fiscal situation, starting with a summary of results from the current and prior fiscal years. As I noted earlier, our fiscal situation is not as positive as the growth in our economy.

2002-03 Year End Results

Our final numbers for the 2002-03 fiscal year show an operating deficit of $34 million, significantly improved from the $106 million deficit estimated at this time last year. The improvement can be attributed to higher revenues from the Formula Financing Grant as the federal government recognized the concerns raised by the GNWT and agreed to postpone re-basing the tax effort in the Formula.

2003-04 Update

The 14th Assembly forecast a $77 million operating deficit for the 2003-04 fiscal year. Current projections show this virtually unchanged at $78 million.

2004-05 Outlook

Despite action on both the revenue and expenditure sides of the budget, our 2004-05 revenues are expected to remain below expenditure needs in the coming fiscal year. Expenditures in 2004-05 are budgeted to be $950 million, or 1.9 per cent higher than 2003-04. Revenues are forecast to be $917 million, a 6 per cent increase from the current year. After adjustments for estimated supplementary requirements, we project a $46 million operating deficit for 2004-05.

This government is committed to an operating deficit of no more than $50 million for 2004-05. If risk factors cause decreases in revenue forecasts, we are committed to revisiting the Budget at a later date in order to achieve this target. We understand that this is a significant deficit. However, closing what was almost an $80 million gap between revenues and expenditures in 2003-04 will require significant policy, program and organization reform. This could not be achieved in the few months we have been in office. This government will consider major actions only after careful deliberation and consultation with NWT governments and residents.

The timing of prior year Formula Financing Grant adjustments and Corporate and Personal Income Tax collections mean that our overall cash and borrowing positions are still positive. We expect to end 2004-05 in a cash surplus position, with a total debt, including that of the NWT Power Corporation and NWT Housing Corporation, of $148 million.

Medium-Term Outlook

While the GNWT will not exceed its authorized borrowing limit of $300 million in 2004-05, our fiscal situation remains uncertain. Without changes in our revenue or expenditure outlooks, the GNWT will continue to run significant operating deficits and will exceed our debt limit two years from now, in 2006-07. This is clearly not an option.

FISCAL STRATEGY

Mr. Speaker, this Budget is the 15th Assembly's first step in the path towards fiscal sustainability. Although our fiscal situation is serious, it is not a surprise and we have no intention of falling into a crisis mode. Since taking office, we as Members have spent considerable time evaluating our options. In doing so, four important themes have emerged as the areas the 15th Assembly will explore as priorities. Premier Handley has outlined these areas as partnership, maximizing human resources, options for organizational change, and economic growth. We want to develop our priorities within these areas through consultation with Aboriginal and community leaders and governments. Until we have considered these themes in detail, and discussed possible options and their implications with Northern leaders, we will not be finalizing our broad principles for guiding the Government priorities and decision-making for the next four years.

In short, we will not let our fiscal challenges divert us from the objectives NWT residents want us to achieve:

- We want Northern governments that can work together to meet the social and economic needs of NWT residents.
- We want to make investments in the infrastructure we need to cope with increased economic development and to further strengthen our economy.
- We want NWT residents to be able to benefit from, participate in, and cope with economic development.
- We want to establish the GNWT as one of the best fiscal performers in the country. Our goal is to have a balanced budget by 2006-07.

Achieving our goals will require a careful fiscal strategy, using a number of approaches. We need to reallocate our current expenditures to better reflect our priorities. We have started this already. This Budget includes a reallocation of $15 million from lower priority spending to allow us to reinvest in higher priority areas. In the longer-term, we will need to find an additional $20 million in expenditure savings or cost avoidance in each of the following two fiscal years, if we are to balance our books by 2006-07.

Part of this longer-term solution will require a better understanding of what the GNWT can realistically deliver to our residents. In the five years from April 1, 1999 to March 31, 2004, the GNWT's operating expenditures will have increased by $212 million, or $5,100 per NWT resident. This represents an expenditure growth rate of 6.7 per cent per year. Over the same period, our revenues increased by only $134 million, or 4.3 per cent annually. By limiting our expenditure growth and improving our revenue outlook through economic growth, better federal-territorial fiscal arrangements and some increased contribution by taxpayers toward the cost of programs, we will be able to work our way out of the structural deficit facing us now.

Since 1999, the GNWT has provided $184 million in increased spending for social programs – an increase of 33 per cent. While we have seen some improvement in a number of key measurements of the health of our society, we remain seriously below the national average in the most critical areas. We must ask ourselves if we are achieving better results with our increased spending. And, more importantly, how are we going to pay for social program costs that are growing much faster than our revenues?

As NWT residents, we must recognize that we will have to bear some of the rising cost of the programs and services that we receive. We must pay our fair share of the burden. Despite our efforts to reduce expenditure growth, the simple fact remains that we will require additional revenues to respond to our fiscal situation.

The GNWT's options for securing additional revenues are limited. The high cost of providing basic public services in the North means that taxpayers cannot generate all the revenue necessary to fund these programs and services. As well, NWT tax rates must remain competitive with other provinces. Finally, the interaction between GNWT own-source revenues and the Formula Financing Grant must be considered.

Currently, the GNWT does not benefit from the royalties generated by the major resource operations in the NWT. Resource revenue sharing negotiations with the federal and Aboriginal governments are ongoing but are not likely to yield revenues to the NWT before 2007. We recognize in this Budget that some increase in taxes will be a necessary component of our fiscal strategy.

Despite our desire to stand on our own, we depend on the federal government for 75 per cent of our revenues. The NWT's vast distances, harsh climate and sparse population mean that we do not have the fiscal capacity to raise enough revenues to meet our expenditure needs, especially since we do not have access to resource royalties. Our Formula Financing Agreement with the federal government was originally designed to fill the gap between our expenditure needs and our revenue raising ability but the link with our spending needs has been broken. To address its own fiscal situation in 1996, the federal government reduced our expenditure base by 5 per cent, costing the pre-division GNWT $58 million annually. The federal government also cut transfers to the provinces and the 5 per cent cut was meant to treat the territories in a similar way. However, the per capita amount of the cuts to the provinces has since been restored.

The Formula Financing Agreement is scheduled to be renewed for a five-year period starting April 1, 2004. Renewal discussions involving adequacy of federal/territorial funding arrangements have been under way for some time.

Last month, along with my colleagues from Nunavut and Yukon, I met with the Honourable Ralph Goodale, the federal Minister of Finance, to discuss the adequacy of the Formula Financing Agreement. At that meeting, the federal Minister put a proposal forward that would increase the GNWT's expenditure base by only $7.6 million in 2004-05.

For a number of reasons, the current federal offer does not meet the commitment made a year ago to address the long-term adequacy of the Formula.

It is critical that the federal government restore the 5 per cent cut. This would mean $18 million annually more than has been offered – funding desperately needed to fund critical programs and services.

We are pleased that the federal government has agreed to our request to eliminate the Gross Expenditure Base ceiling. Although the past effects of the ceiling have not been restored, the permanent removal of the ceiling assures more predictability in GNWT revenues.

A final issue of concern for us in Formula Financing renewal is the plan to update the calculation of the Formula's Tax Effort Adjustment Factor, more commonly referred to as re-basing. This factor measures the GNWT's revenue raising effort compared to the provincial average. Initial re-basing calculations have produced a result that makes no sense to us. They suggest our tax effort has gone down relative to the provinces during a period when we know our tax rates increased while some provinces' rates decreased. These results would have a significant negative effect on our revenues if they are implemented. This could also reintroduce "perversity" into the Formula. This means, for example, that if the Corporate Income Tax revenue increases by $1, the Grant will drop by $1.07, resulting in a net loss to the GNWT. We are continuing to discuss options with the federal government to try to resolve this flaw in our Formula.

Getting a better deal from the federal government also means getting a fair deal on resource revenue sharing. Under the Formula, most of the growth in our tax revenue generated by resource activity is clawed back. Therefore, the GNWT is gaining little fiscal benefit from the large-scale developments in our territory. In fact, rapid resource development continues to put severe strain on our physical infrastructure and on GNWT programs and services. This is why devolution is so important.

Devolution negotiations deal with the transfer of provincial-like authorities and responsibilities for the Northwest Territories' lands and resources from the federal government. Devolution also includes the transfer of resource revenues - revenues critical for the Northwest Territories to become less dependent on Canada for funding our programs and services. Devolution will allow us, the people of the Northwest Territories, to control our resources.

This January, the Aboriginal Summit and the Government of the Northwest Territories signed a Devolution Framework Agreement, setting the groundwork for negotiating an Agreement-in-Principle. This is an important example of how Northern governments can work together towards achieving our goal of self-reliance.

There is still much work to be done if we are to complete the Agreement-in-Principle and reach our target of completing a Devolution Agreement by 2005 with an effective date in 2006. We support the timely completion of this work. A fair deal on devolution and resource revenue sharing is a critical component for NWT governments to cope with the pressures of resource development.

Mr. Speaker, expenditure restraint, combined with expected revenue growth, will allow us to return the Government to balanced budgets. We must assure the public that we will tackle our fiscal situation. We will not mortgage our children's future to pay for today's spending. I believe one of the best ways to achieve this is to put in place a legislated accountability framework that will assure the people of the NWT that we will act in a fiscally responsible manner. To that end, I am considering creating legislation that would establish accountability measures and debt and deficit limits to make our financial management transparent and open to public scrutiny.

We must be fiscally accountable to the people of the NWT. This Government is committed to making the necessary expenditures in critical areas but we expect, and will continue to expect, measurable results for every dollar spent.

We intend to balance our Budget. We must get our fiscal situation under control, which will mean a combination of revenue raising initiatives, expenditure reforms, and a better deal from the federal government through the Formula Financing Agreement and resource revenue sharing. We must also work with the federal government to develop a more appropriate approach to establishing our borrowing limit. Currently, the $300 million borrowing limit is an arbitrary number, based neither on what we can afford, nor on what we need in the way of fiscal flexibility. Although we do not want to, or intend to, get into significant debt, borrowing is an integral component of any responsible capital investment program.

We currently base our capital spending requirements on objective measures such as population forecasts and the age of existing infrastructure. We have a twenty-year needs assessment and a five-year infrastructure plan. But our actual infrastructure investments are falling far short of our needs due to cash shortages caused by operating deficits and the federal restriction on our borrowing.

Infrastructure investment in 2004-05 will be $92 million, meeting only 76 per cent of our identified infrastructure needs. The shortfall in replacements of, and upgrades to, our existing capital is further impacted by the pressures from non-renewable resource development. Increased demand on current municipal infrastructure from additional camps and external users will be beyond our ability to finance. Another stark example is the rapid deterioration of our transportation infrastructure as a result of increased volume of commercial traffic on our highways and airports.

In the long run, there are only three sources of funding for capital infrastructure investments: surplus cash from operations, cost sharing from other parties, and borrowing. As is clear from our fiscal situation, we are not generating any surplus cash from operations to invest in capital infrastructure, nor does federal cost sharing make up the shortfall. We must be prepared to borrow to fund necessary capital infrastructure investment. We will be asking for an increase in the $300 million authorized borrowing limit to allow us to do this. The debt and deficit legislation that this Government is considering will address our debt management strategy, but the GNWT is prepared to borrow where necessary in a fiscally responsible manner. Borrowing to finance today's operating costs is not acceptable. However, without borrowing, the Government is limited in its ability to invest in critically required capital infrastructure. On this basis, we are prepared to borrow to invest in infrastructure that benefits the next generation who will have to help pay for it.

EXPENDITURE MEASURES

Mr. Speaker, total budgeted expenditures will grow by $18 million in 2004-05 over last year's budgeted amount. We have allocated $32 million to meet the increased costs and demands of existing programs and services. We have also budgeted $12 million in new initiatives required to respond to critical new needs. As noted earlier, to reduce the rate of growth in our spending, departments have identified $15 million in reductions in lower-priority areas. In addition, $9 million in programs have come to an end.

These expenditures represent the Government's significant investments in addressing critical social issues, promoting and supporting economic development, developing strong partnerships with Aboriginal governments, and ensuring devolution and resource revenue sharing remains a priority.

As Premier Handley stated in January, we intend to run a tight ship but recognize that strategic investments will need to be made to ensure we stay on the right track and continue towards our goal of self-sufficiency. The initiatives and investments proposed in this Budget support this objective.

Despite our considerable fiscal challenges, addressing the social needs of NWT residents will continue to be a priority for this Government. Over 70 per cent, or $671 million, of our operating budget this year will be spent on social and community programs.

Investing in Our Health Care System

Our health care professionals play an essential part in maintaining a stable NWT health care system that can deliver necessary services to NWT residents. This budget includes over $6 million for previously negotiated compensation and benefits increases for health care professionals to ensure we remain competitive with the rest of the country.

Addressing the mental health needs of NWT residents is a continuing priority. Self-reliant individuals, families and communities are able to take part in improving social well-being, and can also take advantage of potential resource development and job opportunities. Federal funding flowing from the 2003 Health Accord will allow the Honourable Michael Miltenberger, Minister of Health and Social Services, to continue the Mental Health and Addictions initiative that was started last year. We are able to provide $1.3 million to continue this initiative.

The Health Accord funding has also allowed for continued investment in other priority initiatives, including:

- $672,000 to increase the available seats for the Nurse Practitioner Program at Aurora College;
- $855,000 for infrastructure upgrades to support the health authorities in providing adequate work space and equipment for their employees;
- $800,000 for a 1-800 Call Centre that will provide health and social services advice and information to NWT residents through a toll-free telephone access service. This service will complement the work of front line care providers and will be available twenty-four hours a day, seven days a week; and,
- $650,000 for the purchase of new diagnostic imaging and medical equipment for health authorities.

In total, this Budget includes $18 million in additional funding for new health care initiatives and program funding, bringing the total budget for the Department of Health and Social Services, after expenditure reductions and other adjustments, to $247 million in 2004-05.

Maximizing Human Resources

Maximizing the potential of our residents to participate in our economic growth is a critical priority of this government. Participation of NWT residents in our wage economy has been increasing and we must continue to invest in our most important resource, our people.

Education is a cornerstone of the GNWT's vision for self-reliant, healthy, well-educated individuals that are full participants in NWT society. Access to education is critical if NWT residents are to take advantage of higher-paying, quality employment. We need to continue to improve education attainment levels, especially in the Aboriginal population. We are addressing this challenge on many fronts. Enhancing the well-being of families through improved health and employment prospects will directly and indirectly increase the well-being of children and improve their ability to take advantage of education opportunities.

Overall education attainment levels in the NWT are improving and the number of NWT students in post-secondary institutions has risen significantly since 1999. To ensure funding is available to meet this demand, an additional $825,000 has been added to the Student Financial Assistance budget.

As a result of the high enrolments in other nursing programs in southern Canada, northern nursing students need the opportunity to complete the third and fourth years of their degrees in the NWT. Starting in 2004-05, an additional $880,000 has been allocated to Aurora College's delivery of the last two years of the nursing program in the North. The first Northern class will graduate with a Bachelor of Science in Nursing in 2005-06.

This Budget provides an additional $6 million for the Education Boards and Aurora College for previously negotiated increased compensation and benefits and increased operating costs. These investments increase the Department of Education, Culture and Employment's budget, after expenditure reductions and other adjustments, to $214 million in 2004-05.

Crime Prevention

One of the most troubling challenges we face as a territory is high crime rates, particularly for violent crimes. Given the links between increased resource development activity and crime rates, action must be taken. Over $2.4 million has been included in this Budget to provide the Royal Canadian Mounted Police with additional resources for increased operating costs, additional members and the establishment of a Relief Unit. This will help improve policing in our communities.

Last October, the Legislative Assembly passed the *Protection Against Family Violence Act* to provide additional protection to NWT residents who are threatened or harmed by a family member. The Honourable Charles Dent, Minister of Justice has been charged with implementing this important legislation. This Budget includes over $400,000 to provide training for the RCMP, for crisis line workers, for Justices of the Peace and for the court workers who will be processing the applications.

High crime rates have also placed a heavy demand on our legal aid services. With assistance from the federal Legal Aid Renewal Strategy, an additional

$315,000 per year will be available to provide legal aid services to NWT residents in 2004-05 through 2006-07.

Building Partnerships

The NWT is strengthened by the ability of our residents, our communities, and our governments to work together. This government will work to build these partnerships.

The Government has supported the Intergovernmental Forum as a way to bring together federal, Aboriginal and territorial governments to discuss issues of significance to the NWT. This Budget includes $500,000 for the continued ongoing support to the Intergovernmental Forum process.

Insurance premiums for community governments have been steadily increasing over the past few years. The Department of Municipal and Community Affairs has worked with the NWT Association of Communities to create the Northern Communities Insurance Exchange, a mechanism where communities share the cost and risk of insurance coverage. The Department will contribute $1.9 million per year over the next two years towards the cost of the Exchange.

The Honourable Brendan Bell, Minister of Resources, Wildlife and Economic Development, through this Budget, will be implementing the NWT Beverage Container Recovery Program. By introducing better waste management practices, this program will help communities reduce the amount of waste going into landfills and reduce the amount of litter on their streets. This Budget provides $1.1 million to implement this program in 2004.

Resource development must benefit Northern communities and residents. We are committed to continue working closely with the private sector, the federal government and Aboriginal groups to ensure that effective benefits monitoring programs are in place. This year, $725,000 will be invested for the development of socio-economic monitoring agreements with the Mackenzie Valley Gas Producers' Group to support the Mackenzie Valley Development Project and with De Beers Canada Mining Inc. for the diamond mine at Snap Lake.

As oil and gas development activity in the Mackenzie Valley progresses beyond the exploration and initial field development phases, it critical that support from Aboriginal groups is secured for the pipeline project to move ahead. For this to happen, Aboriginal groups must be able to participate as owners. Over the next six years, the Government will provide $1.5 million to the Aboriginal Pipeline Group to support them in their goal of attaining one-third ownership in the Mackenzie Valley Pipeline project. We will continue this commitment in 2004-05 with a contribution of $250,000.

Mr. Speaker, last October, the 14th Legislative Assembly passed the *Tlicho Land Claims and Self-Government Agreement Act*. On the date that the *Tlicho Agreement* comes into effect, new Tlicho Community Governments will be established in Wekweti, Gameti, Rae-Edzo and Wha Ti. The Honourable Henry Zoe, Minister of Municipal and Community Affairs, will be bringing forward the *Tlicho Community Government Act* to establish these community governments. These communities will have powers and jurisdictions similar to those of hamlets and charter communities. This Budget provides for an additional $471,000 to the Department of Municipal and Community Affairs to help the communities of Gameti and Wekweti assume their new responsibilities.

In keeping with the theme of creating partnerships, this Government remains fully committed to entering into a concession agreement with the Deh Cho Bridge Corporation to construct a bridge over the Mackenzie River. Although the project is delayed because of the environmental assessment, negotiations with the Deh Cho Bridge Corporation continue and will remain a priority for our Government.

Economic Growth

One of the Government's main priorities for the next four years will be to work with our partners to foster an economy that is prosperous and environmentally sustainable. We must also ensure that economic growth benefits NWT residents.

Our highway system is a vital link in the supply chain for non-renewable resource exploration, development and resupply and a crucial part of the GNWT's plans for ensuring better access to our resources to sustain our level of economic growth and prosperity. Enhancing our highway system benefits Northerners through lower transportation costs for goods, improved road safety, and increased economic activity and Northern business opportunities.

Last fall, the federal government announced an investment of $45 million from the Strategic Infrastructure Fund for transportation projects in the NWT over the next five years. This investment was on top of a $20 million commitment announced the year before and will advance the work on the two major transportation corridors identified in *Corridors for Canada*, the GNWT's May 2002 proposal to the Strategic Infrastructure Fund. The Honourable Michael McLeod, Minister of Transportation will be overseeing this vital investment – an investment in opening up the NWT. This Budget identifies the additional matching funds of $42 million over the next five years. We will borrow if necessary to meet our share of this investment.

In 2004-05, the Strategic Infrastructure Fund program will support capital projects on Highways 3, 4, 7 and 8, and the construction of several bridges along the Mackenzie Valley Winter Road.

Mr Speaker, there is a shortage of affordable housing for both government and industry workers in our communities. Opening up new subdivisions and providing services to new properties is very costly. To ensure enough lots are ready for developers, $300,000 is provided in this Budget to fund land use planning studies, geotechnical investigations and other required legal and engineering surveys in non-tax based communities.

Over the last few years our fiscal situation has limited what we can afford to invest in critical infrastructure. Nevertheless, we must continue to plan significant investments to ensure that the health, safety and education of NWT residents are not compromised. The 2004-05 Infrastructure Acquisition Plan being proposed in this Budget includes:

- $9.5 million to continue to improve water and sewer systems in communities,
- $2.3 million to upgrade and increase capacity for tank farms,
- $5.2 million for improvements to hospitals and health care and treatment facilities,
- $2.5 million for major medical equipment required by hospitals and health centres,
- $9.3 million for schools, and
- $1.6 million for fire safety equipment in communities and improvements to community fire halls.

REVENUE INITIATIVES

Mr. Speaker, in reducing the forecast operating deficit to under $50 million, we considered both the expenditure and revenue sides of the Budget. We have included $15 million in expenditure reallocations in this Budget and will be looking for an additional $20 million in each of the following two fiscal years. On the revenue side, I am announcing a number of measures to increase our revenues in 2004-05 by approximately $10 million.

Effective January 1, 2004, we will be increasing the Corporate Income Tax rate from 12 per cent to 14 per cent. The small business rate on the first $250,000 of income will remain unchanged at 4 per cent. While I recognize that the large Corporate Income Tax rate was only recently lowered as a way to encourage corporate investment in the NWT, we need to make this change to protect our revenue base. As I noted earlier, as a result of re-basing the Tax Effort Adjustment Factor in the new Formula Financing Agreement, the GNWT would actually lose revenues if we attract investment at the current Corporate Income Tax rate.

We estimate that this initiative will generate an additional $8 million in 2004-05.

Work schedules in the NWT resource industry allow employees to work in the NWT but reside and pay taxes in other parts of Canada. At the same time, the increased economic activity is putting immense strain on our infrastructure and we have no choice but to raise taxes. Effective January 1, 2005, the NWT Payroll Tax will increase from 1 per cent to 2 per cent of employment income. The purpose of the Payroll Tax when it was introduced in 1993 was to ensure that "fly in/fly out" workers would pay tax in the NWT.

To minimize the impacts of this change on those most in need, we will also decrease the Personal Income Tax rate for the lowest bracket from 7.2 per cent to 5.9 per cent and the second lowest bracket from 9.9 per cent to 8.6 per cent. We will also increase the Cost of Living Tax Credit from 1.6 per cent to 2.6 per cent of income up to $12,000. The minimum credit will be increased from $250 to $350 for singles and from $500 to $700 for couples. These changes take effect January 1, 2005.

The increase to the Payroll Tax is expected to generate $12.4 million in its first full year of operation. This will be partially offset by the $3.2 million increase in the Cost of Living Tax Credit and a $7.2 million decrease in Personal Income Tax revenues that will be introduced in conjunction with the Payroll Tax increase. The net impact in the final quarter of the 2004-05 fiscal year is expected to be $1.7 million.

Though each taxpayer's circumstances are different, the majority of people with a total income less than $66,000 will benefit from the combination of the changes to the Payroll Tax and the Personal Income Tax and Cost of Living Tax Credit.

The NWT tax system is based primarily on the principle of ability to pay. This Budget includes measures that will increase the tax rates for the two highest Personal Income Tax brackets effective July 1, 2004. The rate on taxable income greater than $108,101 will be increased from 13.05 per cent to 14.05 per cent. The rate on the second highest bracket, which applies to income between $66,492 and $108,101, will be increased from 11.70 per cent to 12.20 per cent. These two rate changes will generate almost $1 million of revenue for the GNWT per year.

Even after this increase, the NWT combined top marginal Personal Income Tax rate will be the fourth lowest rate in Canada.

CONCLUSION

Mr. Speaker, this Budget represents our first step toward putting our fiscal house in order. As the Fifteenth Legislative Assembly, we are just beginning to deal with the broader fiscal challenges of inadequate revenues, rapidly increasing expenditures and a looming debt wall.

We intend to meet these challenges in a responsible manner. This includes making difficult choices. Choices that can only be made after considered deliberation. We will not avoid these challenges but we will be careful in how we address them.

Resource development in the North benefits all Canadians. To ensure that the benefits of this development continue, we need a better deal with the federal government that will allow us to make the necessary investments. A deal that recognizes that the fiscal pressures on the GNWT created by rapid resource development are not balanced by increased growth in GNWT revenue. A deal that addresses the adequacy of territorial financing in a fair and equitable manner.

Increased funding from the federal government and a share of resource revenues is only part of the solution. We must also be prepared to contribute our share. We must be sure that we are spending our money wisely and are getting results for every dollar spent. More important, we must be realistic about what we can afford to do.

A strong NWT depends on our willingness to accept the challenges and responsibilities ahead. We must build a positive, productive and respectful working relationship with Northern leaders. We must talk about our long-term direction before we set priorities and work plans for the next four years. Once our priorities are established, however, we must take the steps necessary to achieve fiscal sustainability.

Mr. Speaker, by working together, we can ensure that we, as the people of the NWT, have a solid foundation on which we can build our future.

NORTHWEST TERRITORIES ECONOMIC OUTLOOK

The NWT economy had yet another remarkable year in 2003 and real Gross Domestic Product (GDP) growth is predicted to reach 13 per cent. Diamond mine construction drove GDP growth in 2000 and 2001 and a decline in the momentum was expected in 2002 as construction ended. Now, with two mines in full production, the value of diamond exports has more than doubled and real GDP is expected to continue to grow dramatically – a growth rate of 8 per cent is forecast for 2004.

The NWT has propelled Canada into the forefront of world diamond production, taking the nation in only five years from producing no diamonds to being the world's third largest supplier of rough diamonds by value. Currently, two diamond mines are in production and a third is scheduled to start construction in early 2005. A possible fourth diamond mine is under project review.

Going beyond diamonds, other sectors of the NWT economy are more than holding their own. The oil and gas industry remains healthy. While exploration expenditures for the winter of 2003 were down from the previous winter, this was due largely to the natural cycle of exploration activity, as companies performed analysis on previously explored options.

The buoyant non-renewable resource sector is helping to support other sectors of the economy, especially the housing sector. Housing investment more than doubled from 2001 to 2002 and this level was maintained in 2003. Housing shortages are easing in Yellowknife, primarily due to several large residential construction projects.

The manufacturing sector has almost tripled in value between 1999 and 2003, the wholesale sector saw an increase of 43 per cent from 1999 to 2003 and retail sales continue to climb year after year.

While the growth in the non-renewable sector tends to overshadow the renewable sector of the economy, the tourism industry is coming into its own. The 2002-03 season saw a 22 per cent increase in visitors and a 30 per cent increase in spending by tourists visiting the NWT. Preliminary survey results for 2003-04 suggest another good year for tourism.

The NWT's employment rate averaged a remarkable 70 per cent for 2003, compared to an average of 62 per cent for Canada as a whole. The NWT's two operating diamond mines alone are now providing 1,300 person-years of direct employment annually. This will climb to 1,800 person-years when the third mine becomes operational in 2006.

The future of the NWT economy is bright. The vast potential of the NWT is largely untapped. If approved, the Mackenzie Delta natural gas pipeline is expected to start pre-construction activity in late 2005 and gas may start to flow south in 2009. There is considerable interest in potential hydroelectric production using run-of-the-river technology, which means smaller dams and no massive flooding. Finally, the GNWT continues to make investments in infrastructure that will encourage further economic investment in the NWT.

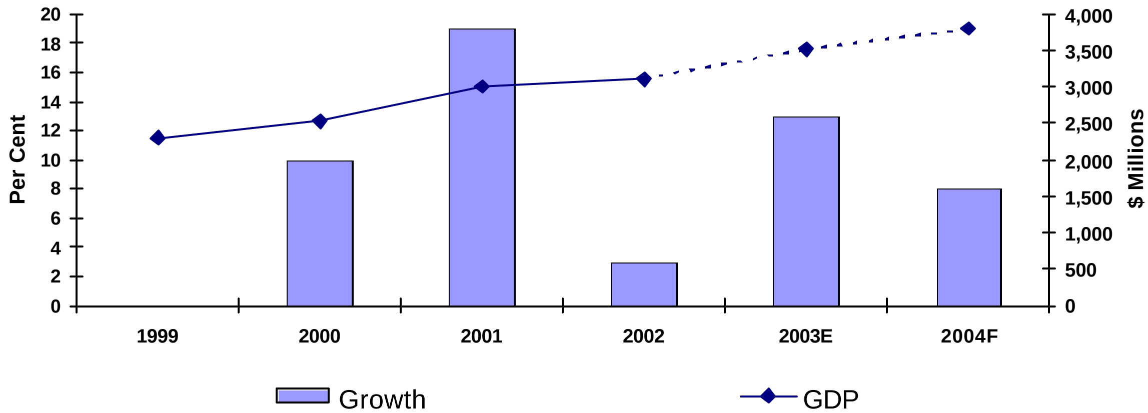
Northwest Territories Economic Indicators

INDICATOR	2001(A)	2002(A)	2003(E)	2004(F)
Gross Domestic Product Chained (1997) Dollars	3,011	3,111	3,525	3,803
(% Change)	19.2	3.3	13.3	7.9
Total Investment Chained (1997) Dollars	1,461	1,545	935	981
(% Change)	72.9	5.7	-39.5	5.0
Consumer Expenditures Chained (1997) Dollars	923	952	962	972
(% Change)	3.0	3.1	1.1	1.1
Government Expenditures Chained (1997) Dollars	985	1,018	1,074	1,143
(% Change)	6.1	3.4	5.5	6.5
Exports Chained (1997) Dollars	1,581	1,588	2,762	3,085
(% Change)	11.6	0.4	73.9	11.7
Imports Chained (1997) Dollars	1,853	1,880	2,156	2,326
(% Change)	21.2	1.5	14.7	7.9
Employment (Number of Persons)	20,775	20,925	20,850	20,910
(% Change)	7.4	0.7	-0.4	0.3
Avg. Weekly Earnings ($)	862	888	895	908
(% Change)	4.8	3.1	0.7	1.4
CPI (Yellowknife, 1992 = 100)	113.0	116.3	118.4	120.3
(% Change)	1.6	2.9	1.8	1.6

Sources: Statistics Canada
NWT Department of Finance
NWT Bureau of Statistics

(E) Estimated by NWT Department of Finance
(F) Projected by NWT Department of Finance
(A) Actual per Statistics Canada

Real Gross Domestic Product (Chained, 1997)



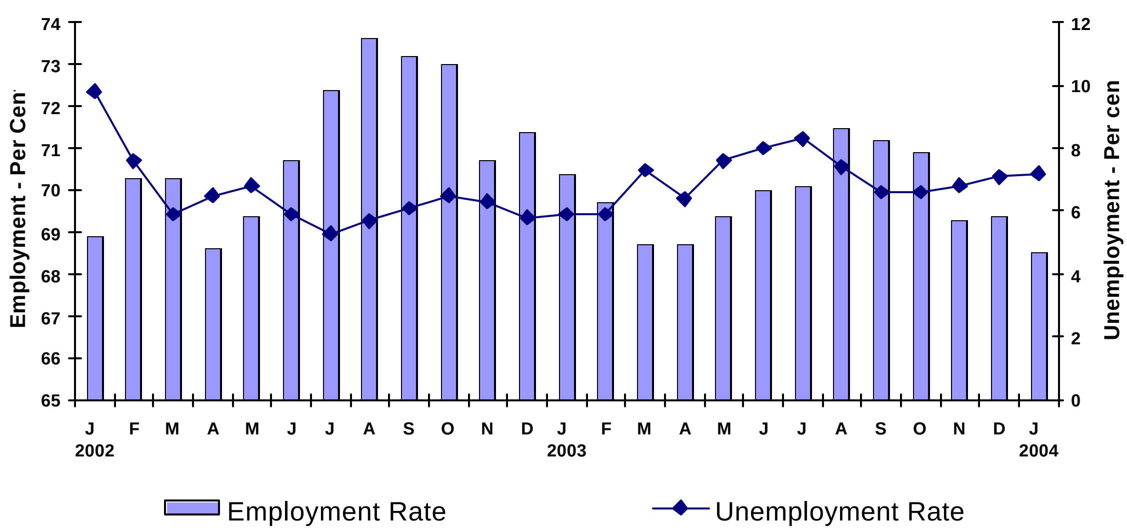
Source: Statistics Canada (2000 to 2002 actuals). NWT Finance (2003 estimate and 2004 forecast).

EMPLOYMENT

On average in 2003, of the 29,900 NWT residents 15 years of age and older, 20,900 persons were employed, representing an overall employment rate of 69.9 per cent compared to a national average of 62.4 per cent. The employment rate in Yellowknife was 81.9 per cent, compared to 60 per cent in the other NWT communities.

The NWT's participation rate continues to be consistently higher than the national average. The average NWT labour force participation rate in 2003 was 75.2 per cent, compared to 67.5 per cent for Canada. The NWT began 2004 with a January unemployment rate of 7.2 per cent compared with an average January unemployment rate of 7.9 per cent for Canada.

Labour Market



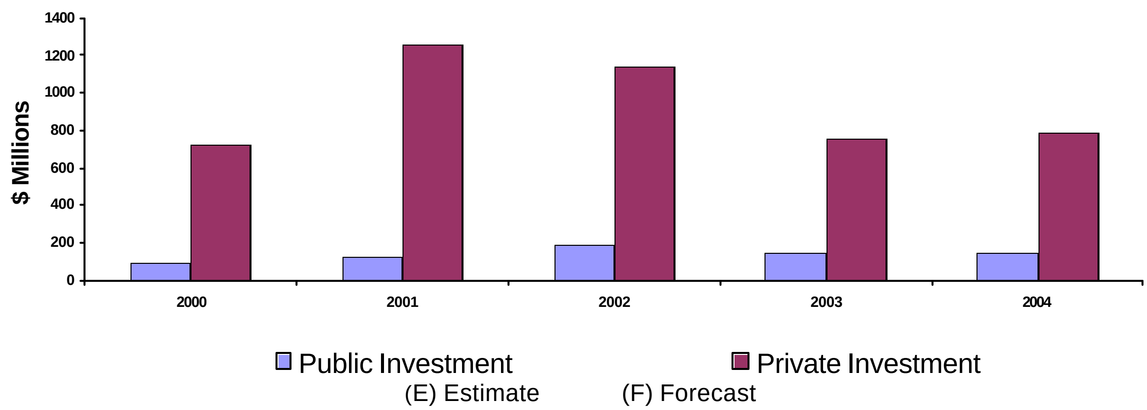
Source: Statistics Canada Labour Force Survey

INVESTMENT

As expected, private investment decreased 34 per cent in current dollars from 2002 to 2003 as construction of the second diamond mine was completed in late 2002. Private investment is forecast to increase in 2004 because of a slight increase in oil and gas activity in the run-up to the start of the Mackenzie Valley pipeline. Pre-construction investment in both the pipeline and the Snap Lake diamond mine will also impact the investment numbers in 2004.

Government investment as a share of NWT total investment has ranged from 9 per cent to 26 per cent in the past five years. Total government investment decreased 19 per cent from 2002 to 2003 and is expected to decrease a further 5 per cent in 2004. The main driver behind the 2004 decrease is the drop in GNWT capital investment due to fiscal constraints.

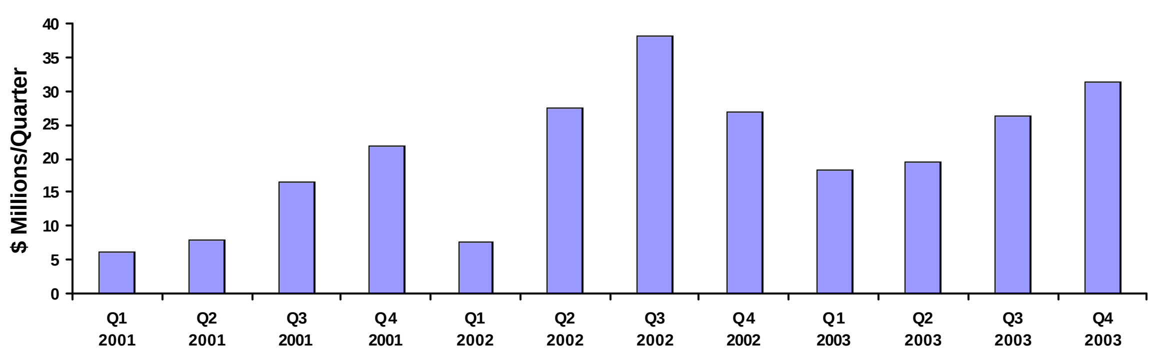
Public and Private Investment



Source: Statistics Canada
Note: 2000 to 2002 data are actuals, 2003 data are preliminary actuals, and 2004 data are based on Statistics Canada's public and private survey of investment intentions.

Total private and public housing investment in 2003 is down slightly from 2002, yet continues to be strong following a dramatic increase of 137 per cent from 2001 to 2002. A total of $96 million was invested in the housing sector in 2003, compared to $100.2 million for 2002, a decrease of 4.2 per cent. Most of the housing construction activity in 2003 was centred in Yellowknife.

Housing Investment



Source: Statistics Canada

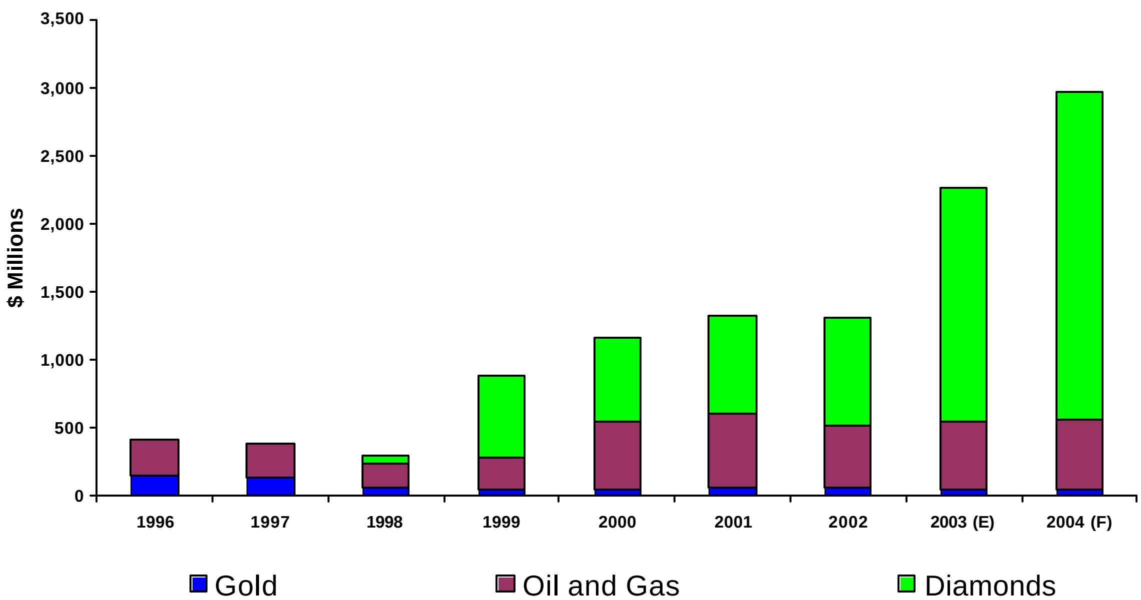
The value of NWT residential building permits was down only slightly from $53.8 million in 2002 to $51.5 million in 2003. These numbers continue to reflect the strength of the NWT economy as the level of building permits was maintained through 2003 even after growth rates of 163 per cent and 94 per cent from 2000 to 2001 and 2001 to 2002, respectively.

MINING AND OIL AND GAS EXPLORATION

The non-renewable resource sector is the dominant force in the NWT economy. Diamond production drives the NWT non-renewable resource sector with a 60 per cent share of the value of total NWT mining and oil and gas extraction. In 2002, the two producing diamond mines generated 12 per cent of the world's diamonds by value. Diamond production increased 10 per cent from 2001 to 2002 and a further 117 per cent increase is expected in 2003.

The current value of rough diamonds mined in Canada is $1.7 billion. The final retail value of these diamonds is estimated at $12.2 billion. However, currently less than one per cent by volume of Canada's rough diamonds remains in Canada to be cut and polished.

Value of Gold, Oil and Gas Production, and Diamonds



(E) Estimate (F) Forecast

Source: Natural Resources Canada, Mineral and Metals Sector

Note: Data excludes Nunavut for all years.

Oil and gas production has been fairly constant over the past few years, representing approximately 22 per cent of the value of the NWT total mining and resource extraction sector.

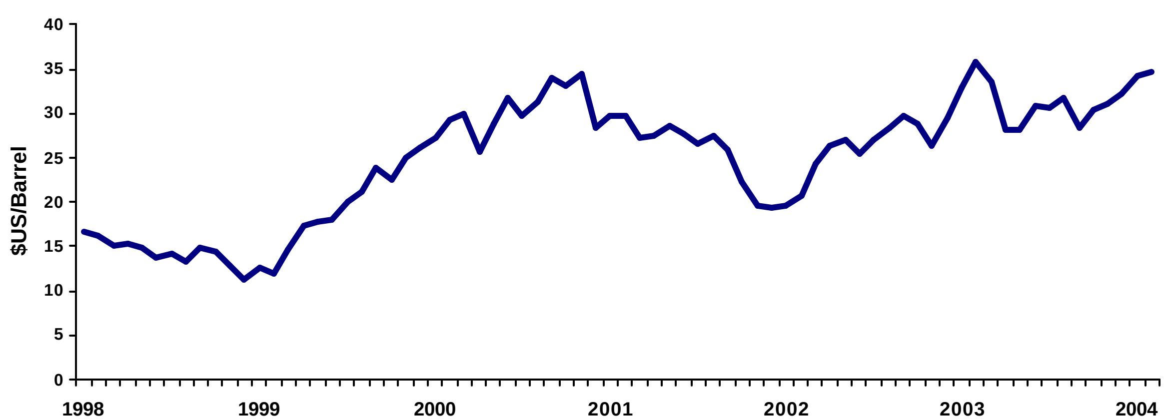
Oil and gas exploration activity is occurring throughout the NWT but varies in intensity depending on the region. Exploration in the Mackenzie Delta is being postponed until closer to a time when the natural gas can be transported to southern markets. Exploration is expected to decline 25 per cent to approximately $140 million in the 2003-04 winter season.

Gold mining represents 2 per cent of the value of the NWT total mining and resource extraction sector. One of the two remaining gold mines in Yellowknife stopped underground gold mining in 2003. The second gold mine is expected to remain in production through to mid-2005.

COMMODITY PRICES AND EXCHANGE RATES

Commodity prices in general have picked up since the low prices experienced in late 2001 and are again at levels last experienced in 2000. The average price of oil in December 2003 was 32.14 US$/bbl compared to 29.44 US$/bbl in December 2002. Prices are expected to remain strong throughout 2004.

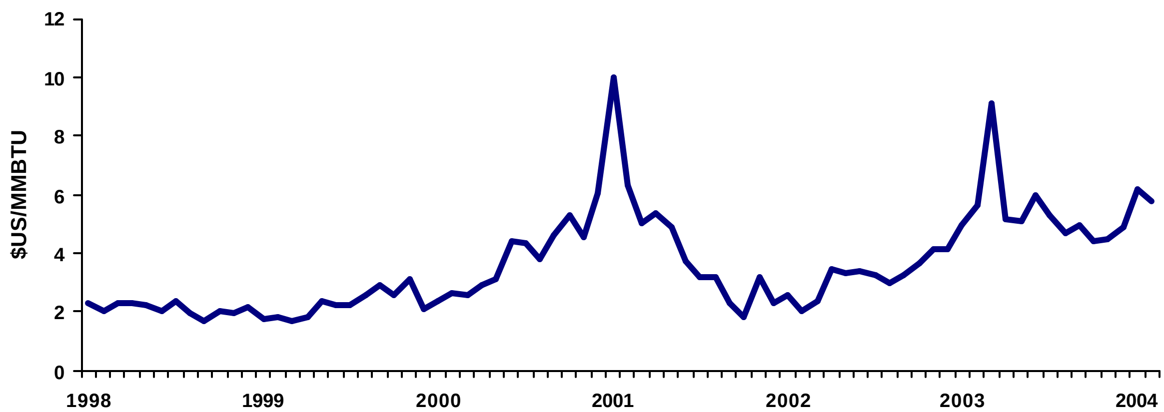
West Texas Intermediate Crude Oil Price



Source: Sproule Associates Limited

Natural gas prices continued to increase throughout 2003, rising considerably from the low prices seen at the end of 2001. The average natural gas price for 2003 was 5.39 US$/MMBtu, a $2.17 increase from the 2002 average of 3.22 US$/MMBtu.

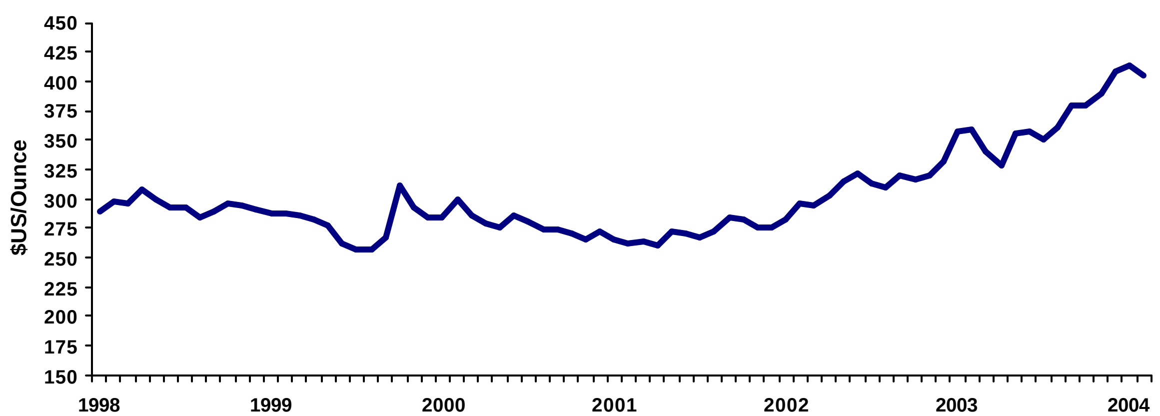
Natural Gas Prices
Henry Hub NYMEX



Source: Sproule Associates Limited

Gold prices are at their highest levels since 1996, at 405.33US$ per ounce in February 2004. The rise in the price of gold is directly related to the decrease in the value of the U.S. dollar against major world currencies. Gold is expected to remain strong throughout 2004.

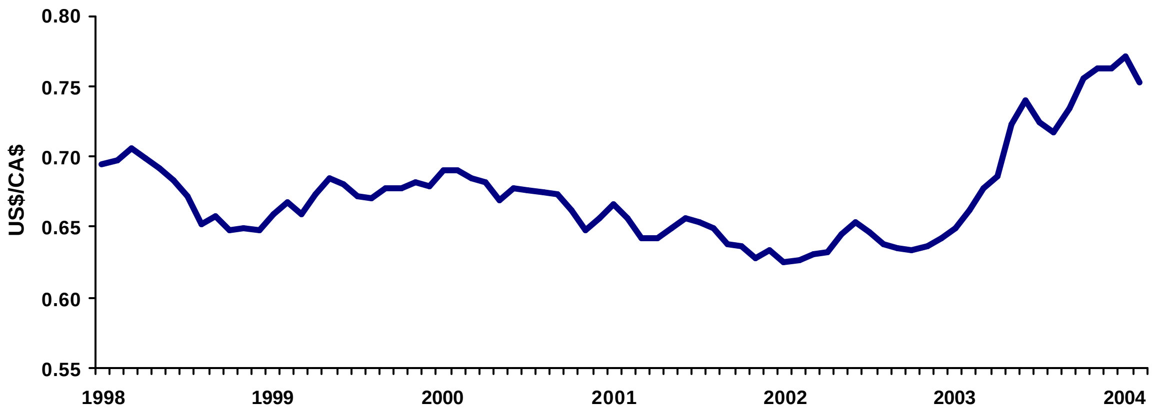
Gold Prices



Source: Kitco Precious Metals, TD Economics

The Canadian dollar experienced a dramatic increase in value in 2003. The average value of the Canadian dollar in 2003 was US$0.716 compared to an average value of US$0.637 in 2002. Canadian tradable exports have been under pressure as a result of the ascent of the Canadian dollar relative to the U.S. dollar.

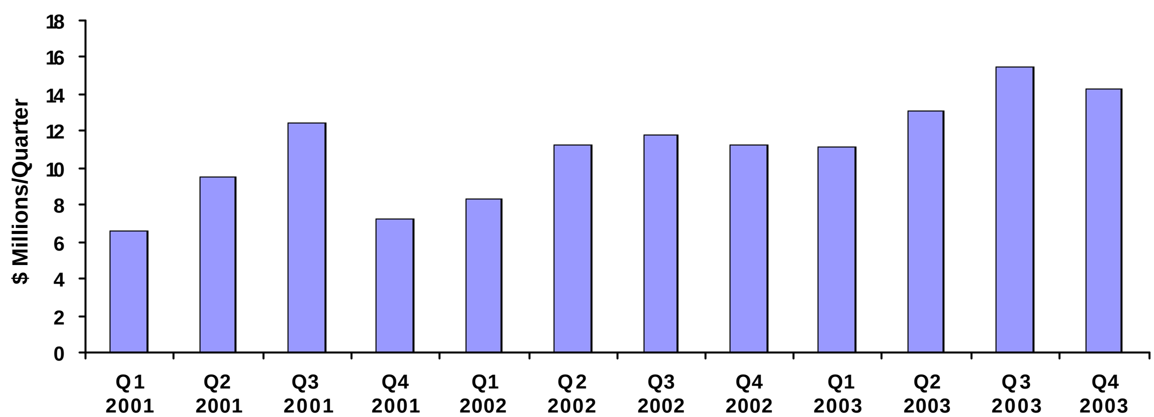
U.S.- Canada Exchange Rate



Source: Bank of Canada

As the value-added industry for diamonds continues to expand in the NWT, manufacturing shipments' share of export values continue to grow. Shipments were up $11.4 million, or 26.5 per cent, in 2003.

Manufacturing Shipments



Source: Statistics Canada

Renewable Resource Sector

Tourism

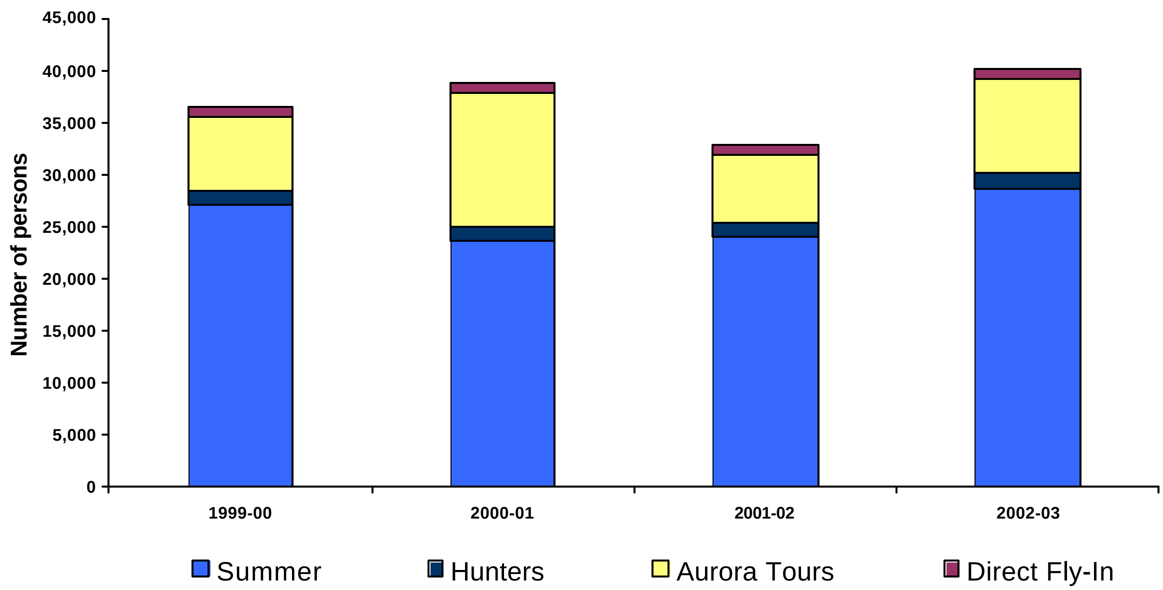
The total number of visitors to the NWT increased 22 per cent in 2002, from 32,833 in 2001 to 40,100. Almost 2,500 more Aurora tour visitors and an additional 5,000 summer tourists visited the NWT during 2002 compared to 2001.

The value of tourism to the NWT economy is estimated to have increased $12 million, or 30 per cent, from 2001 to 2002. Most of the increase was due to the increase in Aurora tour and summer visitors; however, there was also an overall increase in spending by summer visitors.

Preliminary data for May through August of 2003 show a 10.5 per cent decline in the number of visitors compared to the summer of 2002. However, preliminary data suggests that the number of Aurora tourism visitors will show an increase over 2002. Spending data for 2003 is not yet available.

Despite the tourism industry's $50 million contribution to the NWT economy, its potential is still largely undeveloped. The vastness of the NWT landscape provides for extensive tourism possibilities. Lack of infrastructure, particularly highways, is a major impediment to increasing the size of this industry.

Visitors to the Northwest Territories



Source: NWT Resources, Wildlife, and Economic Development

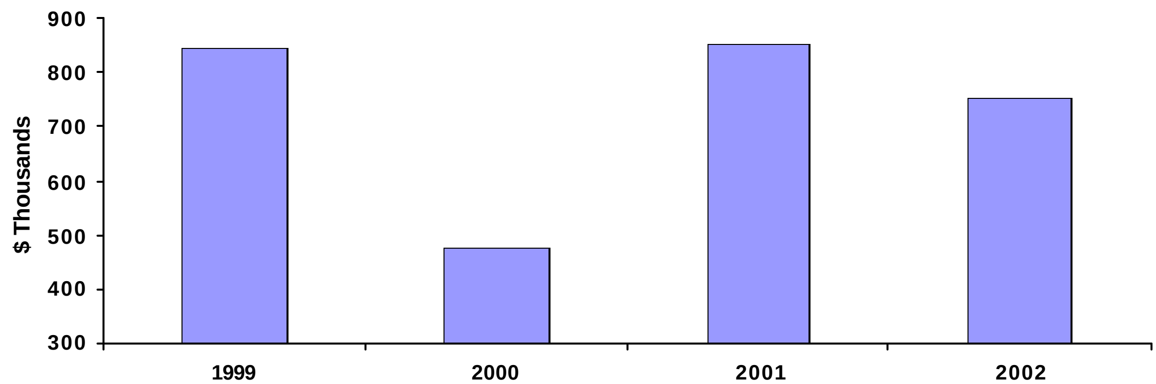
Commercial Fishery

At 3.8 per cent of the Canadian industry total by value, the NWT's commercial fishery industry added over $1.4 million to the NWT economy in 2002. According to the federal Department of Fisheries and Oceans, 1,164 tonnes of freshwater fish were caught commercially in 2002, 4.9 per cent of the national freshwater total.

Fur

The total value of pelts produced in the NWT in 2002 was over $750,000, the most recent year for which data was available. The pelts with the greatest market share in 2002 were marten, lynx, beaver, muskrat, seal, wolverine and white fox. Good returns are expected for both 2003 and 2004 as prices remain high and there exists a continued interest in the industry. However, prices realized and sales depend heavily on the value of the Canadian dollar and trends within the highly unpredictable world of fashion.

Total Value of Pelts, for Year Ending June 30

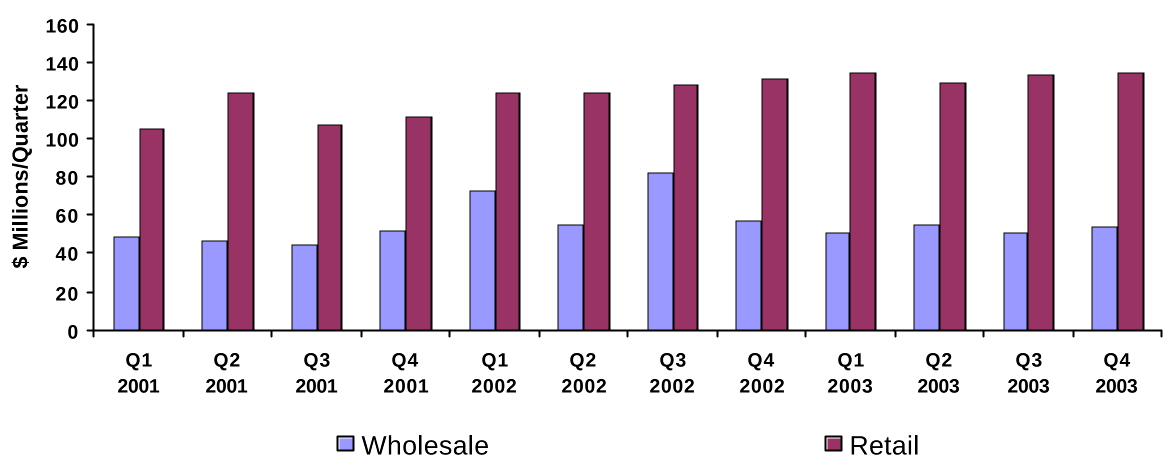


Source: NWT Resources, Wildlife, and Economic Development

TRADE

The level of retail trade has increased significantly over the last year, driven by an increase in population and by higher consumer spending power, which was the result of higher average employment earnings. Retail trade grew by $24.5 million, or 4.8 per cent, in 2003 compared with 2002. Wholesale trade decreased 21.5 per cent from 2002 to 2003 due to completion of the second diamond mine.

Retail and Wholesale Trade
(Seasonally Adjusted)



Source: Statistics Canada

FISCAL REVIEW

The GNWT faces significant fiscal challenges. Revenues are growing, but not as fast as expenditures, and the GNWT is projecting a significant operating deficit. The costs of current programs are rising and there is a growing need to invest in infrastructure and to address the pressures associated with economic development. Careful consideration must be given to all spending to ensure that available dollars are directed to the areas of greatest priority.

2002-03 Final Results

2002-03 revenues were $854 million and expenditures were $888 million, leaving the GNWT with an operating deficit of $34 million. At the time of the 2003-04 Budget, the 2002-03 deficit forecast was $106 million. The main reason for the change from last year's Revised Estimates was postponement of re-basing the Formula Financing Grant due to serious data issues concerning the Tax Effort Adjustment Factor.

2003-04 Revised Estimates

The revised 2003-04 revenue forecast is $5 million lower than the 2003-04 Main Estimates, decreasing from $862 million to $857 million. The small decrease is composed of some significant changes in total revenues: postponement of rebasing the Grant due to data concerns lowered Grant estimates and the final 2001 census and undercount results that addressed many of the GNWT concerns with the poorly executed 2001 census increased Grant estimates; while final 2002 Corporate Income Tax collections received in 2003-04 lowered revenues.

The revised forecast for 2003-04 Corporate Income Tax shows negative revenues of $232 million. The negative amount is the result of an overpayment of 2002-03 Corporate Income Tax. The federal government bases estimates of Corporate Income Tax on the latest actual prior year tax revenues (for example, 2002-03 estimates were based on 2000-01 actual collections). The 2002-03 estimate of NWT Corporate Income Tax was based on the large one-time payment from 2000-01, and the overpayment more than offsets the 2003-04 Corporate Income Tax estimated revenues.

This overpayment of Corporate Income Tax is also the main reason for the $490 million increase in the 2003-04 Formula Financing Grant entitlement over the 2002-03 amount. The downward revision of Corporate Income Tax revenues caused an increase in the 2002-03 Grant. This increase is recorded in 2003-04 as a prior year adjustment.

Estimates of 2003-04 operating expenditures, after estimated supplementary requirements and appropriation lapses, are $3 million lower than the 2003-04 Budget. This would not have been achieved without $13 million in expenditure mitigation efforts, which have held the operating deficit for the year to $78 million, only $1.7 million higher than forecast.

Capital investment expenditures in 2003-04, at $115 million, are expected to be 56 per cent higher ($41 million) than projected in the 2003-04 Budget. Most of the increase ($35 million) was due to capital carry-overs from 2002-03. Revised 2003-04 capital expenditures are $8 million higher than 2002-03 actual capital investment expenditures.

Total debt at the end of 2003-04, including that of the NWT Power Corporation and the NWT Housing Corporation, is forecast to be $194 million, $20 million lower than estimated last year at this time. The available borrowing authority at year-end will be $106 million.

2004-05 BUDGET

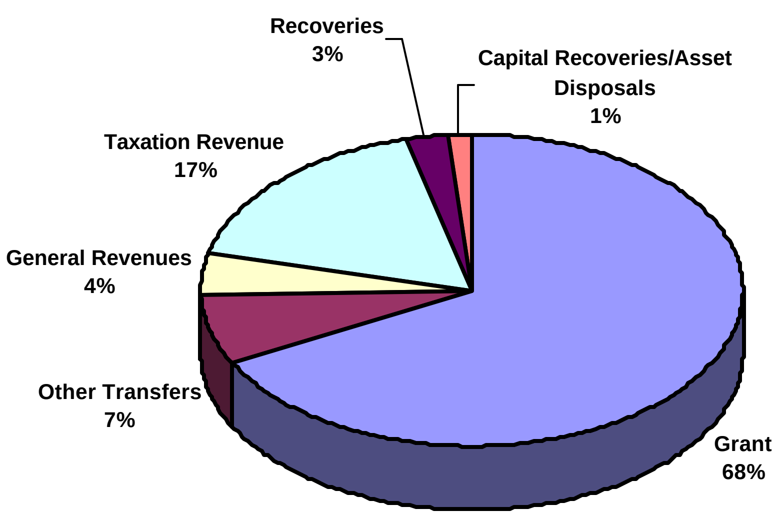
Revenues

Total 2004-05 revenues are expected to increase 7 per cent, or $59 million, to a total of $917 million.

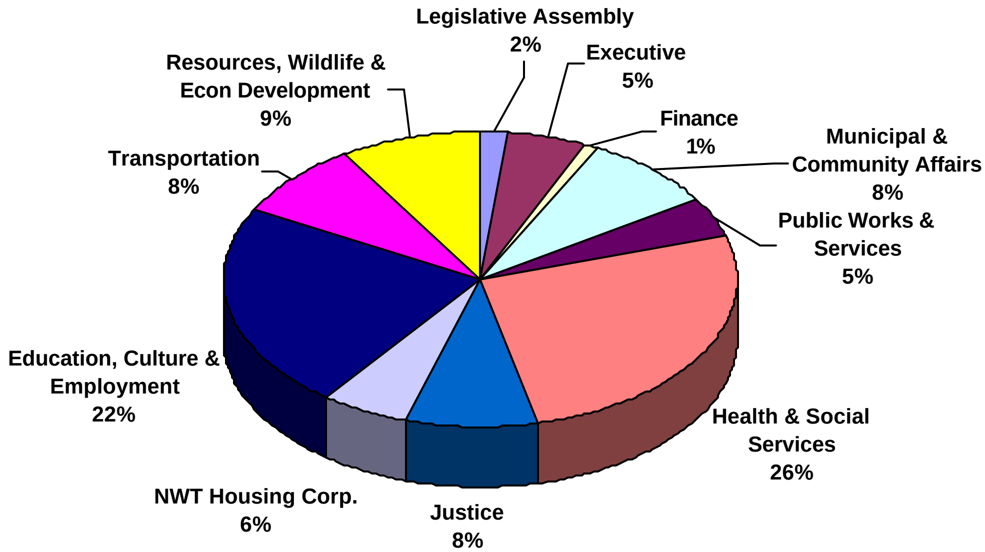
As the effect of the large one-time Corporate Income Tax paid in 2001-02 for the 2000 tax year finally works through the system, the composition of GNWT revenues will return to a more typical pattern. The Formula Financing Grant, at 68 per cent of total revenues, is $221 million lower than the 2003-04 revised Grant estimate. This is because the 2003-04 Grant entitlement includes the 2002-03 adjustment for Corporate Income Tax. Total transfers from Canada are expected to be 75 per cent of GNWT total revenues in 2004-05.

GNWT own source revenues will total $220 million in 2004-05, or 24 per cent of total revenues. Own source revenues include taxes, net liquor revenues, revenues from fees and licences, rental income, power subsidy recoveries, sales of government assets and sales of goods and services. Taxes will make up 71 per cent of the GNWT's own source revenues.

Total GNWT Revenues by Source
2004-05



Operations Expenditures by Department
2004-05



Forecast 2004-05 Personal Income Tax revenues have decreased slightly from 2003-04, to $57 million. The net effect of the Personal Income Tax changes announced in this Budget accounts for this decrease.

Corporate Income Tax revenues are forecast to increase from the 2003-04 revised forecast to $32 million. Comparisons with 2003-04 are difficult because of adjustments resulting from large one-time increases to revenues in prior years. The 2004-05 forecast reflects the effect of the Corporate Income Tax rate change announced in this Budget.

Fuel Tax revenues in 2004-05 are expected to increase slightly to $17.8 million as economic growth results in increases in fuel consumption.

The $3.8 million increase in the Payroll Tax revenue forecast from 2003-04 reflects both projected increases in employment income as well as the announced increase in the Payroll Tax rate for the last three months of the year.

Tobacco Tax revenues are forecast to remain steady at $15 million in 2004-05. Although the NWT population is growing, per capita consumption has been declining.

Property Tax revenues are forecast to increase $3.3 million to $13.9 million in 2004-05, mainly because of increases in the assessments for mineral properties.

Operating Expenditures

Operating expenditures in 2004-05 are projected to increase by $25 million from 2003-04 revised operating expenditures to $961 million, after estimates of supplementary requirements and appropriation lapses are included.

The $12 million in new initiatives was more than offset by $15 million in expenditure reductions in lower priority areas. However, the GNWT required $32 million to address “forced growth”, the increased costs of existing programs and services resulting from uncontrollable impacts of population growth, inflation, rate increases or demographics.

Most territorial spending is in the area of social and community programs: expenditures on education, health, social services, justice, housing and support for communities represent 71 per cent of the GNWT’s annual budget.

Infrastructure Investment Expenditures

Total infrastructure investment expenditures for 2004-05 are estimated at $91.6 million, which includes $81.3 million for capital assets and $10.3 million for infrastructure contributions to communities. Over 92 per cent of 2004-05 infrastructure investment expenditures are in the areas of transportation, health, social services, education, and municipal affairs. In addition, the NWT Housing Corporation plans on investing $9.8 million in housing projects in 2004-05 that are not included in GNWT total infrastructure investment.

Capital investment expenditures for the Department of Transportation will total $48 million, including $38 million for highways and $9.4 million for airports.

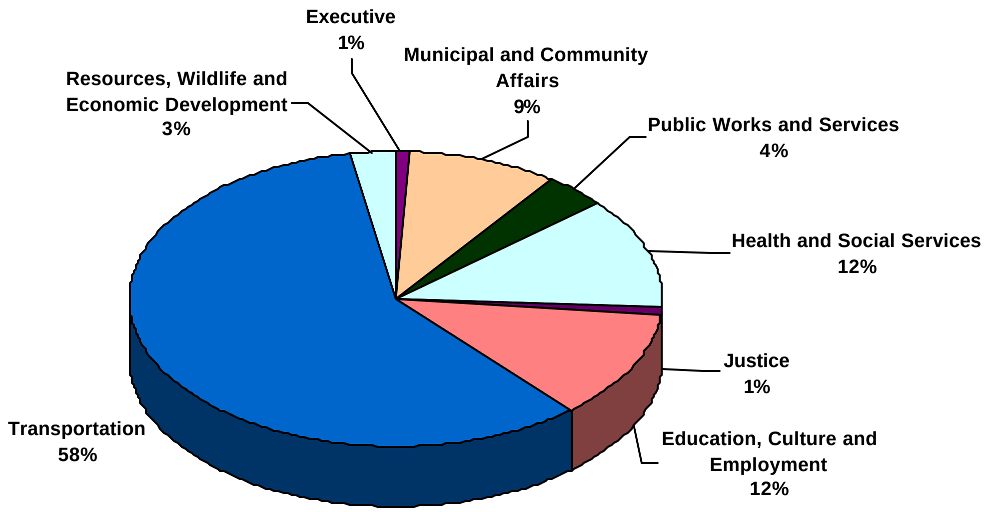
The 2003-04 federal Budget announced an additional $2 billion investment in the Strategic Infrastructure Fund. Of this, a further $45 million was approved for the NWT to continue the work proposed in the GNWT’s May 2002 *Corridors for Canada* proposal. The GNWT has approved additional matching funds of $42 million that had not previously been in the capital acquisition plan. In 2004-05, the Strategic Infrastructure Fund will support capital projects on Highways 3, 4, 7 and 8, and the construction of several bridges along the Mackenzie Valley Winter Road.

Other main capital expenditures included in the 2004-05 Infrastructure Acquisition Plan are:

- $9.5 million to continue to improve water and sewer systems in communities,
- $9.3 million for schools,
- $5.2 million for improvements to hospitals and health care and treatment facilities,
- $2.5 million for major medical equipment required by hospitals and health centres,
- $2.3 million to upgrade and increase capacity for tank farms, and
- $1.6 million for fire safety equipment in communities and improvements to community fire halls.

Approximately 76 per cent of the identified 2004-05 infrastructure needs in the GNWT’s five-year capital infrastructure plan are covered by the 2004-05 budgeted amount. These needs were identified using a 20 year needs assessment developed for the 2004-05 capital planning process and include infrastructure contributions and projects partially or totally funded by third parties. Most of the capital needs shortfalls are in the areas of housing, highways, health centres, schools and student residences.

Capital Investment Expenditures by Department 2004-05



The 20-year capital needs assessment identified needs based on program demands, age of existing infrastructure (including required retrofits and code upgrades), community input and other objective measures.

The shortfall in capital infrastructure investment has serious implications for the GNWT. Postponement of upgrades and infrastructure replacement increases maintenance costs and also increases the risk of emergency replacements at costs higher than would be incurred if investments could be made as required.

Medium Term Outlook

In the absence of both expenditure reallocations and new revenue initiatives, the GNWT will continue to run significant operating deficits and will exceed its authorized debt limit by 2006-07. Although higher Formula Financing revenues for 2002-03 and 2003-04 have improved the Government's cash position, forecast operating deficits for the next three years will increase the GNWT's debt.

The GNWT fiscal strategy is to eliminate the operating deficits by 2006-07 through a combination of revenue initiatives and expenditure reduction measures. These measures will bring the GNWT back to balanced budgets by 2006-07. However, based on current forecasts, the GNWT will need to increase its authorized borrowing limit in 2006-07 to allow for deficits incurred to date and to provide for future capital investment.

Fiscal Framework Operations Summary
(millions of dollars)

	2002-03 Actuals	2003-04 Revised Estimate	2004-05 Main Estimates	2005-06 Forecast	2006-07 Forecast
Revenues before initiatives	854	857	906	947	983
Revenue Initiatives	-	-	10	14	15
Expenditures without mitigation measures	(888)	(951)	(976)	(1,011)	(1,058)
Cumulative Expenditure Reductions	-	15*	15	35	55
Operating Surplus (Deficit)	**(34)**	**(79)**	**(45)**	**(15)**	**(5)**
Capital Investment Requirements	**107**	**115**	**81**	**93**	**87**
Accumulated Cash Surplus (Deficit)	**22**	**(42)**	**71**	**(6)**	**(389)**
Total Debt	**(142)**	**(193)**	**(149)**	**(144)**	**(520)**

* One-time reductions.

Risks to Revenue Forecasts

All forecasts involve an element of uncertainty. The principal risk associated with the GNWT revenue forecast comes from the Formula Financing Grant, since it typically represents between 60 and 80 per cent of total GNWT revenues.

Grant estimates can change as a result of revisions and updates to a number of variables. The following are the most significant changes that could affect the 2004-05 Grant calculation.

- There is no finalized Formula Financing Agreement for April 1, 2004. The outcome of discussions with Canada will affect the final level of the Grant.
- Revisions to the data series used to calculate the Gross Expenditure Base (GEB) escalator (these series include provincial/local government spending and population growth in both the NWT and Canada, and for the 1999-00 to 2003-04 Formula Financing Agreement, national GDP).
- Changes made to the Tax Effort Adjustment Factor used to adjust GNWT own source revenues.
- Changes to GNWT own source revenues.

GNWT's Fiscal Strategy

The GNWT's goal is to provide public services within its capacity to generate revenues. However, revenue growth is not keeping pace with necessary expenditures. The GNWT must strike a balance between making expenditures now, at the risk of incurring deficits and increasing debt, and the potential for gains – fiscal, economic and social - in the future. This includes making expenditures to meet not only the needs of NWT residents today, but 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 areas such as highway infrastructure, the NWT is at risk of losing economic development opportunities. Postponement of infrastructure replacement and upgrades means increased maintenance costs to keep current infrastructure operating.

The GNWT and NWT residents have major challenges to address. Education levels have increased but the high school graduation rate is still seriously below the national average for all students, but particularly Aboriginal students. The health of NWT residents has improved but the rate of heavy drinkers is double the national rate. Fetal Alcohol Syndrome/Effect (FAS/E) is increasing across the NWT. Past investments have had a positive effect on the social well being of NWT residents but there is much more work to be done. Cutting essential programs now will create problems in the future that will increase expenditures.

This does not mean that the GNWT does not plan to take measures to mitigate its fiscal difficulties, both on expenditures and revenues. This Budget includes $15 million in expenditure reallocations and a further $20 million will be required in each of the following two fiscal years.

Revenue options are also being examined. The 2004-05 Budget includes increases to the Corporate Income Tax rate, Payroll Tax rate and the Personal Income Tax rates for income above $66,492. However, the ability to raise additional revenue from own sources is limited. The NWT's 20,000 taxpayers cannot generate the revenue necessary without creating a tax burden that would jeopardize the GNWT's fiscal and economic strategies. The inadequacy of federal/territorial fiscal arrangements must be addressed. As well, it is critical that NWT governments receive a share of resource revenues as soon as possible.

What Does Adequacy of Federal/territorial Fiscal Arrangements Mean?

Availability of resources is the key limiting factor in the GNWT's ability to respond to new directions in social development or to take the measures needed to maximize the benefits and minimize the negative impacts of development. Regardless of any initiatives to reduce expenditures, the GNWT fiscal situation requires that the inadequacy of the government's revenue base be addressed.

Territorial Formula Financing – The Case for Adequacy

The Formula Financing Agreement between the GNWT and Canada is meant to fill the gap between the GNWT's expenditure needs and its ability to raise its own revenues. Each year's Grant is determined by reducing the Formula's Gross Expenditure Base (a proxy for expenditure needs) by the territory's adjusted own source revenues (fiscal capacity). The Gross Expenditure Base (GEB) of the Formula is the theoretical level of the GNWT's expenditure needs. It is based on 1982 expenditures, adjusted in 1999 for Division, and escalated annually by the population-adjusted growth in provincial-local government expenditures. The Formula Financing Grant represents approximately 70 per cent of total GNWT revenues and therefore its adequacy is of fundamental concern.

Without a complete review of the GNWT's expenditure needs compared to its ability to raise revenues, it is not possible to assert that the Formula Financing Grant is adequate. However, if it is assumed that funds were adequate in 1985 when the first Formula Financing Agreement was implemented, and that the growth in provincial/local government spending (adjusted for population) is appropriate as a proxy for the growth in GNWT spending requirements, then it would be reasonable to assume that the Formula Financing Grant is adequate now, barring any changes to the Formula Financing arrangements.

However, there have been a number of arbitrary reductions to the GEB and other alterations to the Formula Financing arrangements that make the adequacy assumption break down. These changes were imposed by the federal government to address its own budgetary concerns. Consequently, financing levels no longer correspond to the "expenditure needs gap" as defined in the original formula.

Gross Expenditure Base Ceiling

Since 1988, the annual growth in the GEB has been subject to a ceiling tied to national GDP growth. The ceiling was introduced as a federal fiscal restraint measure. The ceiling came into effect from 1990 to 1993 and, while in place, prevented the GEB from growing in line with provincial-local spending, weakening the link between the GEB and territorial spending needs. Because of the nature of the ceiling mechanism, the GNWT has never recovered the ground lost in the early 1990s. In the absence of the ceiling, the post-division GNWT GEB would be approximately $90 million higher than its current level.

Since 1999, the GDP ceiling has been slightly different from the original. If triggered, the ceiling no longer permanently reduces the on-going GEB but instead only reduces the Grant in the years it is in effect. The GDP ceiling was triggered in the 2003-04 Grant and is costing the GNWT $2.5 million.

The federal government has proposed permanently removing the GDP ceiling starting in 2004-05. This will provide more certainty and predictability to GNWT revenues. However, this will not restore the funding lost every year as a result of the ceiling being in place in the early 1990's.

Gross Expenditure Base Cut

In creating the CHST in 1996, the federal government reduced cash funding to the provinces and territories for social programs by $6 billion, or approximately $200 per capita. The structure of territorial Formula Financing arrangements meant that this reduction would not affect the territories, because lower CHST revenues were offset by a higher Formula Financing Grant. Consequently, the federal government cut each territory's GEB by 5 per cent effective 1996-97. The cut represented $58 million for the NWT (pre-Division) or $862 per capita. The cut severed any link between the GEB and the expenditure needs of the GNWT.

Since 1996, increases to the CHST have restored the federal per capita share of provincial and territorial health, post-secondary education and social services funding. This has increased GNWT revenues. However, the new CHST is allocated nationally on a per capita basis. This means that in 2004-05, of the almost $11 billion in new CHST and Health Reform Fund since the 1996-97 cut, the NWT's share is only $14.4 million, not including CHST trusts. In comparison, the ongoing effect of the 5 per cent cut to the GNWT is almost $40 million.

Fiscal Capacity Measures

A Tax Effort Adjustment Factor (TEAF) was introduced by the federal government into the Formula Financing Agreement in 1990 to provide an incentive for the territorial governments to tax at a level comparable to the provinces. "Tax effort" refers to the extent to which a government uses the tax room available to it. For example, although the GNWT does not levy a territorial sales tax, it has the potential to do so and the fact that the GNWT does not levy a sales tax will be reflected in a higher TEAF.

The current TEAF uses the 1992-93 fiscal year as its base year. Renewal of the Formula Financing Grant may result in re-calculating the TEAF to the 2000-01 base year. Current estimates of the re-basing result in a $50 million decrease in 2004-05 Grant revenues. This is contrary to theoretical expectations: since 1992-93, the provinces have lowered their overall tax effort while the GNWT has raised tax rates.

Economic Development Incentive

The Economic Development Incentive (EDI) within the Formula is meant to provide an incentive for the GNWT to increase its own source revenues through economic growth. Without this factor, increases in GNWT tax revenues, driven by higher incomes on increased economic activity, would have no effect on total revenues because the Grant would decline by an equivalent amount. The EDI means that 20 per cent of the GNWT's tax and other own source revenues (after adjustments for tax effort) are not offset by a lower Grant. In its initial year (1995), this factor had no net effect on the Grant, as the GEB was reduced by an equivalent amount.

The GNWT is searching for ways to receive a greater fiscal benefit from economic development. The GNWT has identified the need for significant investments in infrastructure, business support and training which its current tax base and fiscal transfers are unable to support. Increasing the EDI would allow the GNWT to benefit from a larger share of its own source revenues generated from economic growth.

Data Quality and Availability

A Formula Financing Agreement that works in principle loses its usefulness if data used to calculate entitlements do not reflect reality. This is clearly evident with the release of the 2001 Census and initial undercoverage results, which seriously underestimated the NWT population. From an adequacy perspective, this issue is serious: the GNWT is incurring costs to deliver programs and services to residents that Statistics Canada failed to measure. The GNWT has had to undertake significant work to demonstrate the shortfalls of the Census results.

A similar argument can be made about calculation of the TEAF. Technical issues make it difficult to implement a meaningful tax effort calculation in practice. The tax bases employed in the federal Equalization program are not representative of the tax bases in the territories and both data availability and quality are often poorer for the territories.

RESOURCE REVENUES - DEVOLUTION/RESOURCE REVENUE SHARING

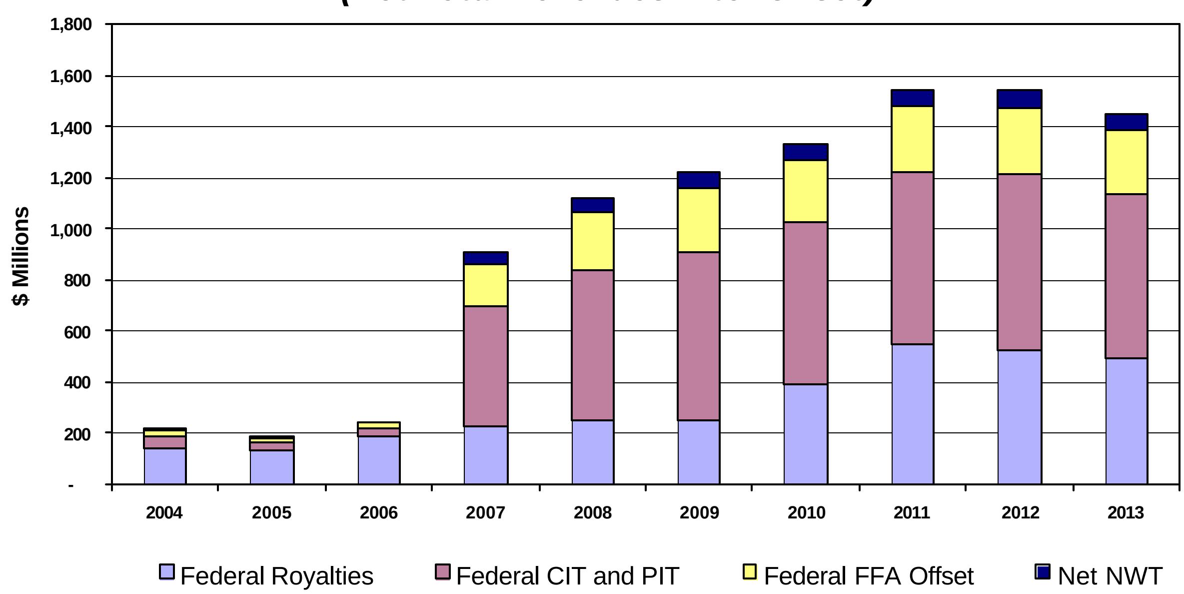
Currently, the federal government receives all the royalties from non-renewable resource activities in the Northwest Territories. Territorial tax revenues generated by resource sector activity are offset by reductions in the Formula Financing Grant. Under the present financial arrangements, the federal government's share of total royalty and tax revenues from resource developments after offsets is over 96 per cent. The GNWT receives less than a 4 per cent share of net revenues from non-renewable resource activities in the Northwest Territories.

Resource revenue sharing involves issues of fairness as well as of adequacy. The GNWT is incurring increased costs due to resource development but only benefits through increased tax revenue that is partially offset under the Formula Financing Grant. Although most NWT residents receive benefits from improved economic activity, they also pay a price through the stresses caused by rapid resource development.

Discussions have been taking place with Canada concerning devolution of resource revenues to the GNWT and NWT Aboriginal governments, including the offsets that would be made against federal transfer payments. Given the timetable for discussions leading to a final agreement and implementation of legislation, it is not expected that new revenues from devolution will occur before 2007.

Furthermore, the larger the offsets of resource revenues against the Formula Financing Grant, the less resource revenues will be able to address the GNWT's fiscal situation.

Federal and NWT Net Royalty and Tax Projections from Anticipated Resource Developments Under Current Fiscal Arrangements (Net Total Revenues After Offset)



Canada's Share: 96% **NWT Share: 4%**

GNWT Capacity to Raise Own Source Revenues

The GNWT raises approximately 25 per cent of its revenues from its own sources and is exploring ways to increase revenues from these sources. However, limits to the GNWT's ability to raise revenues include:

- the need to remain competitive with other jurisdictions (the resource extraction industries lend themselves to work schedules that permit employees to work in the NWT but reside and pay taxes elsewhere);
- the higher cost of living in the North and the relatively small size of GNWT tax bases; and
- the interaction with the Formula Financing Agreement (from 1999-00 to 2004-05, GNWT own source revenues are expected to increase an average 9.7 per cent per year while total GNWT revenues will only increase 4.8 per cent per year due to Formula Financing Grant offsets).

Expenditure Needs

The GNWT is facing tremendous pressure to increase spending on programs and services. The GNWT has needed an additional $146 million in forced growth (growth in expenditures to meet the demand of existing programs and services) between 1999-00 and 2004-05, just to address the increased costs to provide existing programs and services. Forced growth in the Departments of Health and Social Services and Education, Culture and Employment accounted for 62 per cent of the total.

Key Expenditure Challenges

Demographics and Inflation - GNWT expenditure needs are tied closely to population levels, demographic structure, 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.

Over the past twenty years, there have been significant demographic changes in the NWT: birth rates have dropped steadily, income levels have risen as a result of increased wage employment, education levels have increased, there has been a population shift toward regional and territorial population centres, and the population in general has been aging.

Key demographic changes that are expected for the next ten years include: the aging of the population, differences between the education levels of the workforce and the educational levels required, and continued intercommunity migration. These demographic factors mean, for example, increased health care costs associated with a larger population of seniors and increased need for childcare spaces as participation in the wage economy increases.

Economic Growth and Development – The past decade has seen radical changes in economic activity in the NWT. Private sector activity, especially in the resource sector and associated secondary industries, has grown considerably. Employment is at record levels. The GNWT has limited ability to control or influence large-scale resource development activity. In most cases, GNWT net revenues do not substantially increase as a result of economic growth and development. However, resource development has resulted, and will result, in significant costs for the GNWT.

Social Organization and Change – The NWT faces serious social challenges and the need for effective social programs and services is significant. The GNWT has made, and continues to make, investment in this area a priority. The results are measured by increased income levels, reduced dependence on income support, improved housing and education, and improved health and social services. While conditions are still seriously below national standards, progress is being made. As examples, the GNWT's challenges include high levels of tuberculosis and sexually transmitted diseases, excessive alcohol and non-prescription drug consumption, family violence, and poor graduation levels. Now, in addition, the GNWT must deal with the additional challenges generated by rapid resource development.

Governance - Settlement of Aboriginal land claims and the negotiation of Aboriginal self-government agreements will change NWT governance structures. These new governance structures will create financial challenges in meeting costs associated with establishing new government structures as well as on-going costs due to losses in economies of scale.

KEY EXPENDITURES NEEDS/ISSUES

Health Care - The NWT's sparse population, spread across a large geographical area, makes providing adequate health care services comparable to southern jurisdictions a challenge. The remoteness of many small NWT communities and the resulting recruitment issues, the health status of NWT residents, and the geographical distances for medical transportation are just three of the many factors that make providing health services more costly in the North.

Education - Access to education is critical to ensure that NWT residents have access to higher-paying, quality employment. Lack of economies of scale greatly increase the cost of providing kindergarten to senior secondary grades programs in small community schools but these schools play a vital role in ensuring NWT students are able to take advantage of culturally appropriate education and are critical for keeping students in school. Grade extensions in community schools since 1993 have dramatically increased the enrolment levels of 15 to 19 year olds. The overall education attainment levels of the territorial population have been improving, but they are still seriously below the national average.

Housing – The NWT is experiencing housing shortages throughout the territory. The main housing issues in the market communities (Yellowknife, Inuvik, Hay River and Fort Smith) are linked to the high costs associated with land development and construction. Non-market community housing issues are exacerbated by reduced economies of scale, smaller number of potential private market participants, absence of extensive and consistent private market performance, lower average net incomes of many residents, a history of dependence on government for housing needs, and limited access to local private sector property management services, maintenance services and financing institutions.

Resource Development - The GNWT recognizes and supports resource development for the positive effects it creates: new training and employment opportunities create higher incomes, which is indirectly tied to education. Both higher incomes and education are connected to better health. Higher incomes tend to improve population health and social well being by increasing opportunities for improved housing conditions, more recreational activities and a higher standard of living.

However, the GNWT cannot ignore the negative impacts:

- increased income inequality can intensify social issues, such as increased crime rates;
- higher incomes also create stresses among families, where difficulties in financial management can lead to problems such as gambling and marital conflict; and
- higher incomes can also lead, in the short term, to increased alcohol and drug abuse.

The impacts of development on GNWT expenditures are wide-ranging. It is estimated that current and planned resource development projects will cost the GNWT $1.3 billion in increased expenditures over the next 20 years. However, expected fiscal benefits from the higher tax revenues and population growth will be only $900 million, for a net cost to the GNWT of current and planned development projects of $400 million.

Infrastructure investment - Only 60 per cent of the identified capital needs in the GNWT's five-year capital infrastructure plan are addressed in the current 2003-04 to 2007-08 plan. Most of the capital needs shortfalls are in the areas of housing, highways, health centres, schools and student residences.

Self-government Financing Arrangements - There are currently seven active self-government negotiation processes in the NWT, covering one-half of the territory's population. Financing issues are a critical element of self-government. The federal government has not addressed the issue of funding for building community capacity.

Summary of Operations

	(thousands of dollars)			
	2004-05 Main Estimates	2003-04 Revised Estimates	2003-04 Main Estimates	2002-03 Actuals
REVENUES	**916,519**	**857,194**	**861,910**	**853,534**
OPERATIONS EXPENSE				
Compensation and Benefits	186,537	179,603	180,421	181,053
Grants and Contributions	478,809	479,452	462,767	434,128
Other Expenses	238,331	238,500	243,224	231,999
Amortization	46,484	45,129	45,276	40,400
TOTAL OPERATIONS EXPENSE TO BE VOTED	**950,161**	**942,684**	**931,688**	**887,580**
OPERATING DEFICIT BEFORE ADJUSTMENTS	**(33,642)**	**(85,490)**	**(69,778)**	**(34,046)**
Petroleum Products Revolving Fund – Net Revenue	-	-	-	455
ESTIMATED SUPPLEMENTARY REQUIREMENTS				
Operating Expenditures	(20,000)	(5,000)	(15,000)	-
ESTIMATED APPROPRIATION LAPSES				
Economizing Measures	-	2,000	-	-
Regular Operating Activities	8,000	10,000	8,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	38,428	52,180	49,499	53,561
Expenditures	(38,428)	(52,180)	(49,499)	(53,561)
OPERATING DEFICIT FOR THE YEAR	**(45,642)**	**(78,490)**	**(76,778)**	**(33,591)**
ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR	**681,904**	**760,394**	**687,521**	**793,985**
ACCUMULATED SURPLUS AT THE END OF THE YEAR	**636,262**	**681,904**	**610,743**	**760,394**

Summary of Revenues

(thousands of dollars)

	2004-05 Main Estimates	2003-04 Revised Estimates	2003-04 Main Estimates	2002-03 Actuals
GRANT FROM CANADA	**614,877**	**836,238**	**809,192**	**346,409**
TRANSFER PAYMENTS	**68,171**	**59,797**	**57,251**	**61,578**
TAXATION REVENUE				
Personal Income Tax	57,376	57,986	51,001	50,629
Corporate Income Tax	31,750	(231,778)	(181,587)	274,593
Tobacco Tax	15,406	15,491	15,048	12,866
Fuel Tax	17,804	17,581	17,581	15,612
Payroll Tax	17,377	13,553	12,369	12,718
Property Taxes and School Levies	13,912	10,651	7,047	6,824
Insurance Tax	2,150	2,150	2,150	2,348
	155,775	**(114,366)**	**(76,391)**	**375,590**
GENERAL REVENUES				
Liquor Commission Net Revenues	20,853	20,611	20,897	19,199
Regulatory Revenues	11,334	11,326	12,080	11,561
Investment Income	6,530	4,508	2,774	3,683
Other General Revenues	2,290	1,475	1,132	1,505
	41,007	**37,920**	**36,883**	**35,948**
OTHER RECOVERIES				
Lease and Accommodations	1,221	1,252	1,530	1,440
Service Recoveries	1,533	2,095	1,492	1,800
Program Recoveries	16,712	16,828	15,883	15,206
Commodity Sales	386	383	106	53
Insurance Proceeds	-	-	-	4
Other Miscellaneous Recoveries	132	96	20	273
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	1,972
	22,984	**23,654**	**22,031**	**20,748**
GRANTS IN KIND	**396**	**622**	**-**	**370**
CAPITAL				
Gain on Disposal of Assets	100	100	100	367
Deferred Capital Contributions	13,209	13,229	12,844	12,524
	13,309	**13,329**	**12,944**	**12,891**
TOTAL REVENUES	**916,519**	**857,194**	**861,910**	**853,534**

Summary of Operations Expenditures by Department

(thousands of dollars)

	2004-05 Main Estimates	2003-04 Revised Estimates	2003-04 Main Estimates	2002-03 Actuals
Legislative Assembly	14,963	14,526	14,432	15,784
Executive	49,590	50,416	50,103	49,550
Finance	7,354	8,940	10,521	7,462
Municipal and Community Affairs	77,397	81,031	77,994	71,067
Public Works and Services	44,639	44,418	44,218	42,467
Health and Social Services	246,978	241,495	233,959	220,075
Justice	79,973	76,151	75,256	74,249
NWT Housing Corporation	53,047	53,928	52,971	49,276
Education, Culture and Employment	213,705	211,020	210,474	204,098
Transportation	76,940	74,057	76,251	73,736
Resources, Wildlife and Economic Development	85,575	86,702	85,509	79,816
TOTAL OPERATIONS EXPENDITURES	**950,161**	**942,684**	**931,688**	**887,580**

Summary of Capital Investment Expenditures by Department

(thousands of dollars)

	2004-05 Main Estimates	2003-04 Revised Estimates	2003-04 Main Estimates	2002-03 Actuals
Legislative Assembly	215	-	-	286
Executive	497	1,782	600	1,546
Finance	-	-	-	-
Municipal and Community Affairs	7,488	12,787	8,053	3,167
Public Works and Services	2,920	3,136	1,443	4,634
Health and Social Services	9,930	17,870	10,504	21,207
Justice	645	20,061	14,092	24,530
NWT Housing Corporation	-	-	-	-
Education, Culture and Employment	9,609	19,126	8,928	6,136
Transportation	47,752	35,579	27,276	43,705
Resources, Wildlife and Economic Development	2,203	4,648	2,935	1,458
TOTAL CAPITAL INVESTMENT EXPENDITURES	**81,259**	**114,989**	**73,831**	**106,669**

Summary of Changes in Capital Assets and Amortization

(thousands of dollars)

	2004-05 Main Estimates	2003-04 Revised Estimates	2003-04 Main Estimates	2002-03 Actuals
BEGINNING OF THE YEAR				
Cost of Capital Assets in Service	1,380,737	1,304,830	1,320,328	1,194,570
Accumulated Depreciation	(493,693)	(449,205)	(471,297)	(408,805)
Net Book Value	887,044	855,625	849,031	785,765
CHANGES DURING THE YEAR				
Capital Assets Put into Service	108,812	80,593	83,053	111,098
Disposals	-	(3,985)	-	(838)
Amortization	(46,629)	(45,188)	(45,356)	(40,400)
NET BOOK VALUE OF CAPITAL ASSETS IN SERVICE AT THE END OF THE YEAR	**949,227**	**887,045**	**886,728**	**855,625**
Work in Progress on Multi-year Projects	76,822	94,784	112,141	87,559
TOTAL NET BOOK VALUE AND WORK IN PROGRESS	**1,026,049**	**981,829**	**998,869**	**943,184**

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 are shown based on original cost, not current or replacement cost.

Summary of Total Debt and Estimated Borrowing Capacity

(thousands of dollars)

	2004-05 Main Estimates	2003-04 Revised Estimates	2003-04 Main Estimates	2002-03 Actuals
CASH SURPLUS (DEFICIT) END OF YEAR	**71,054**	**(41,986)**	**(85,264)**	**21,696**
GUARANTEED DEBT				
NWT Power Corporation	(95,531)	(98,168)	(75,000)	(86,737)
NWT Energy Corporation	(23,003)	(23,003)	(23,000)	(23,637)
NWT Housing Corporation	(29,758)	(30,485)	(31,000)	(31,184)
TOTAL GUARANTEED DEBT	**(148,292)**	**(151,656)**	**(129,000)**	**(141,558)**
TOTAL (DEBT) SURPLUS	**(148,292)**	**(193,642)**	**(214,264)**	**(141,558)**
AUTHORIZED BORROWING LIMIT	**300,000**	**300,000**	**300,000**	**300,000**
AVAILABLE BORROWING CAPACITY	**151,708**	**106,358**	**85,736**	**158,442**

Notes: 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)

	2004-2005 Main Estimates	2003-2004 Revised Estimates	2003-2004 Main Estimates	2002-2003 Actuals
OPERATING TRANSACTIONS				
Cash Received From:				
Canada	937,154	795,177	683,159	589,261
Other Revenues	161,247	175,886	132,482	216,531
	1,098,401	**971,063**	**815,641**	**805,792**
Cash Paid For:				
Operations Expenses	(914,541)	(943,213)	(870,985)	(887,431)
Projects Performed for Others	-	-	-	(136,259)
Cash Provided By (Used For) Operating Transactions	**183,861**	**27,850**	**(55,344)**	**(217,898)**
CAPITAL TRANSACTIONS				
Capital Investment	(81,259)	(114,989)	(73,980)	(107,946)
Carry-over of Appropriations from Previous Year	(27,000)	-	-	-
Estimated Supplementary Requirements	(12,000)	(11,000)	(17,000)	-
Estimated Appropriations for Incomplete Projects Continued in Subsequent Year	26,000	27,000	12,000	-
Estimated Lapsed Capital Investment	4,000	4,000	-	-
Proceeds from Disposal of Capital Assets	-	-	-	2,855
Capital Contributions Received and Deferred	26,650	10,700	11,000	13,057
Cash Provided By (Used For) Capital Transactions	**(63,609)**	**(84,289)**	**(67,980)**	**(92,034)**
INVESTING TRANSACTIONS				
Designated Cash and Investments Purchased	-	-	-	2,656
Loans (Net of Repayments)	(4,480)	(4,511)	(5,000)	(8,504)
Cash Provided By (Used For) Investing Transactions	**(4,480)**	**(4,511)**	**(5,000)**	**(5,848)**
FINANCING TRANSACTIONS				
Repayment of Capital Lease Obligations	**(2,732)**	**(2,732)**	**(2,000)**	**(931)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**113,040**	**(63,682)**	**(130,324)**	**(316,711)**
Cash and Cash Equivalents at the Beginning of the Year	(41,986)	21,696	45,060	338,407
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**71,054**	**(41,986)**	**(85,264)**	**21,696**

2004-05 TAX INITIATIVES

The GNWT's fiscal situation requires action both to control expenditure growth and to raise additional revenues. While the GNWT is pursuing better fiscal arrangements with the federal government through Formula Financing and resource revenue sharing discussions, NWT taxpayers are also being asked to contribute a share of the growing cost of providing programs and services.

Two underlying principles of the NWT tax system are that taxes should be based on the ability to pay and that users of government services should contribute to maintaining those services. Based on these principles, the GNWT has introduced three tax initiatives as part of its goal to achieve fiscal sustainability.

The 2004-05 Budget includes the following tax initiatives:

- Effective January 1, 2004, the large Corporate Income Tax (CIT) rate will be increased from 12 per cent to 14 per cent.
- Effective July 1, 2004 the Personal Income Tax (PIT) rate on taxable income greater than $108,101 will be increased from 13.05 per cent to 14.05 and the second highest PIT bracket rate will be increased from 11.70 per cent to 12.20 per cent.
- Effective January 1, 2005, the NWT Payroll Tax will increase from 1 per cent to 2 per cent of employment income. To reduce the effect of this change on low-income earners, the PIT rate for the lowest bracket will be decreased from 7.2 per cent to 5.9 per cent and for the second lowest bracket will be decreased from 9.9 per cent to 8.6 per cent. The Cost of Living Tax Credit (COLTC) will be increased from 1.6 per cent to 2.6 per cent of income up to $12,000 and the minimum credit will be increased from $250 to $350 for singles and from $500 to $700 for couples. These changes will also take effect January 1, 2005.

LARGE CORPORATE INCOME TAX RATE INITIATIVE

In July 2002, the large CIT rate was lowered from 14 to 12 per cent and the small business rate was lowered from 5 to 4 per cent to maintain the competitiveness of the NWT CIT. However, since then, changes in the interaction between the NWT tax system and the Formula Financing Grant mean that changes in tax rates must be considered. The Formula's "tax effort" factor will likely be recalculated when the Formula Financing Agreement is renewed effective April 1, 2004. The effect of changing the tax effort would create the perverse situation where the GNWT would lose revenue for every dollar in CIT collected unless it increases its CIT rate. For example, if NWT large corporate taxable income is $100 million, at 12 per cent the GNWT would collect $12 million in CIT. However, the Formula Financing Grant would fall by $12.8 million – a net reduction in revenue of $800,000. With a CIT rate of 14 per cent, the GNWT would collect $14 million in income tax, and receive net revenue of $1.2 million. Increasing the CIT rate to 14 per cent is necessary to ensure that the GNWT receives a net fiscal benefit from growth in the CIT base.

CIT collections fluctuate significantly from year to year in the NWT, but it is estimated that increasing the tax rate from 12 per cent to 14 per cent effective January 1, 2004 will result in approximately $8 million in additional revenue in 2004-05.

HIGH INCOME PERSONAL INCOME TAX CHANGE

Effective July 1, 2004, the tax rates for the top two tax brackets will increase. An increase of 0.5 percentage points to the second highest PIT tax bracket will change the marginal rate from 11.70 per cent to 12.20 per cent. This change will raise an additional $250,000 from 3,700 NWT taxpayers. A taxpayer with a taxable income of $88,000 will pay $108 per year more tax, or $4.15 per biweekly pay.

Increasing the top rate from 13.05 per cent to 14.05 per cent, combined with the impact of the second highest tax bracket increase will generate an additional $700,000 from approximately 900 taxpayers. A taxpayer with a taxable income of $150,000 would pay an additional $627 per year in tax or $24.12 biweekly.

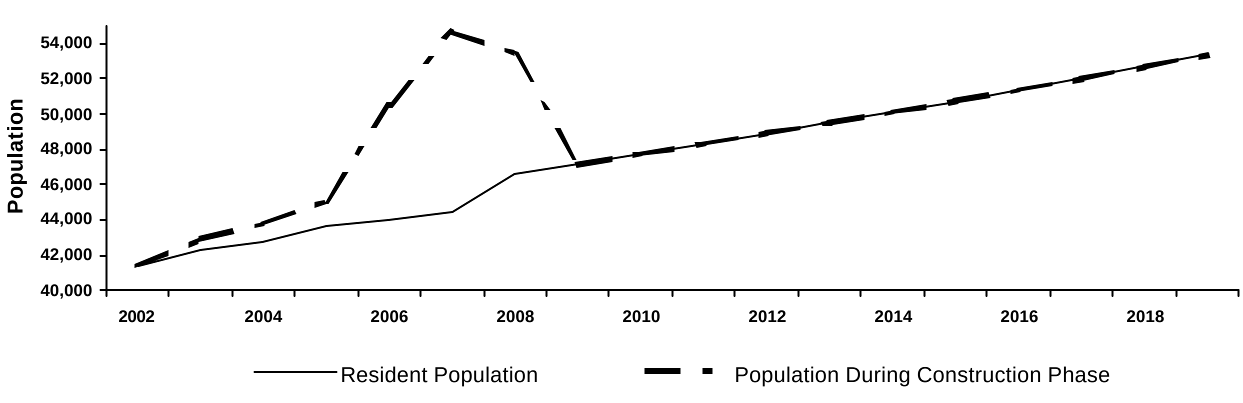
The changes will move the NWT combined top marginal rate to 43.05 per cent, still below the Canadian average of 45.68 per cent.

PAYROLL TAX, INCOME TAX AND COST OF LIVING TAX CREDIT INITIATIVE

The Tax Collection Agreement between the GNWT and Canada specifies that most income, including employment income, is taxed in the province or territory in which the taxpayer resides on December 31. As a result, many people who work in the NWT do not pay income tax to the NWT. This is a particularly significant problem for the NWT because the nature of work schedules in the resource industries allows individuals to work in the NWT but to live and pay taxes elsewhere. Payroll Tax receipts for 2002 suggest that employment income earned in the NWT reached $1.2 billion. However, 2002 PIT returns filed in the NWT show only $1 billion of employment income. It is important that individuals who benefit from NWT resource development contribute toward the GNWT's increased costs caused by resource development. The GNWT introduced a Payroll Tax in 1993 to address this issue.

It is expected that the proposed Mackenzie Valley Pipeline will create almost 60,000 person years of employment over the next 30 years. Much of this will be imported labour from outside the NWT. Other resource projects, such as the construction of additional diamond mines, will add to this number. The potential impact on the NWT population of expected resource development is shown in the following chart.

Population Impacts From Anticipated Resource Development Projects



The GNWT receives no fiscal benefit from this huge influx of workers, either through the Formula Financing Grant or from Income Tax, as these individuals are not officially residents of the NWT. However, the GNWT must absorb the additional operational and capital costs from activities of the larger workforce. To address these pressures, the Payroll Tax will be increased by 1 per cent effective January 1, 2005.

The GNWT stands to generate significant Payroll Tax revenues from the construction phase of the proposed Mackenzie Valley Pipeline. It is estimated that labour income over a 21-year period from this project could be $2.5 billion dollars, ranging from an annual low of $9 million to a high of $561 million during the construction phase.

To minimize the negative impacts of this change on lower-income NWT residents, the PIT rate for the lowest bracket will be decreased from 7.2 per cent to 5.9 per cent and the second lowest bracket will be decreased from 9.9 per cent to 8.6 per cent. Furthermore, the COLTC will be increased from 1.6 per cent to 2.6 per cent of income up to $12,000 and the minimum credit will be increased from $250 to $350 for singles and from $500 to $700 for couples.

2004-05 Budget Tax Changes

	Pre-Budget Rates	Proposed Rate Changes
Corporate Income Tax	12%	14%, effective January 1, 2004
Payroll Tax	1%	2%, effective January 1, 2005
COLTC		Effective January 1, 2005
$0 to $12,000	1.6%	2.6%
$12,000 to $48,000	$192 plus 1.25% of amount exceeding $12,000	$312 plus 1.25% of amount exceeding $12,000
$48,000 to $66,000	$642 plus 1.00% of amount exceeding $48,000	$762 plus 1.00% of amount exceeding $48,000
Over $66,000	$822	$942
Single Minimum Credit	$250	$350
Couple Minimum Credit	$500	$700
Personal Income Tax		Effective January 1, 2005[1]
$0 to $33,245	7.2%	5.9%
$33,245 to $66,492	$2,394 plus 9.9% of the amount exceeding $33,245	$1,961 plus 8.6% of the amount exceeding $33,245
$66,492 to $108,101	$5,685 plus 11.7% of the amount exceeding $66,492	$4,820 plus 12.2% of the amount exceeding $66,492
Over $108,101	$10,553 plus 13.05% of the amount exceeding $108,101	$9,897 plus 14.05% of the amount exceeding $108,101

[1] The top two tax brackets will be increased effective July 1, 2004. Changing the top tax bracket from 13.05% to 14.05% in the middle of the 2004 year causes the 2004 rate to be 13.55% (13.05% plus half of 1%). The second highest tax bracket rate for 2004 will be 11.95% (11.7% plus half of 0.5%).

2004 Provincial and Territorial Tax Rates as of March 17, 2004

	Combined Top Marginal PIT rate [(a)] (%)	Retail Sales Tax (%)	Fuel Tax [(b)] Gas (¢/litre)	Fuel Tax [(b)] Diesel (¢/litre)	Tobacco Tax on Cigarettes ($/carton) [(c)]	Payroll Tax [(d)] (%)	Corporate Income Tax Small (%)	Corporate Income Tax Large (%)	Capital Tax [(e)] (%)
Northwest Territories	42.55	-	10.7	9.1	42.00	1.00	4.0	14.0	-
Nunavut	40.50	-	6.4	9.1	31.20	1.00	4.0	12.0	-
Yukon	42.40	-	6.2	7.2	26.40	-	6.0	15.0	-
British Columbia	43.70	7.5	14.5	15.0	35.80	-	4.5	13.5	0/3.0
Alberta	39.00	-	9.0	9.0	32.00	-	3.0 [(f)]	11.5 [(f)]	-
Saskatchewan	44.00	6.0	15.0	15.0	32.00	-	5.5	17.0	0.6/3.25
Manitoba	46.40	7.0	11.5	10.9	31.00	2.15	5.0	15.5	0.5/3.0
Ontario	46.41	8.0	14.7	14.3	19.70	1.95	5.5	14.0	0.3/0.9
Quebec	48.22	7.5	15.2	16.2	20.60	4.26	8.9	8.9	0.64/1.28
New Brunswick	46.84	8.0	14.5	16.9	23.50	-	3.0	13.0	0.3/3.0
Nova Scotia	47.69	8.0	15.5	15.4	26.04	-	5.0	16.0	0.25/3.0
Prince Edward Island	47.37	10.0	14.0	13.5	29.90	-	7.5	16.0	0/3.0
Newfoundland	48.64	8.0	16.5	16.5	30.00	2.00	5.0	14.0	0/4.0
Average [(g)]	45.68	6.9	14.1	14.3	24.59	1.88	5.8	12.7	

Notes:

(a) Combined Federal-Provincial/Territorial highest personal income tax rates in effect for the 2004 tax year.

(b) 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.

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

(d) The NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or the rates vary depending on the payroll size.

(e) Capital tax rates are for large corporations and for financial institutions in the order shown. The tax bases are different for different types of companies.

(f) Alberta plans to reduce small and large corporate income tax rates to 3.0 per cent and 11.5 per cent, respectively, effective April 1, 2004.

(g) Average weighted by provincial/territorial population.