

**LEGISLATIVE ASSEMBLY OF THE
NORTHWEST TERRITORIES
10TH ASSEMBLY, 5TH SESSION**

TABLED DOCUMENT NO. 10-85(2)

TABLED ON JUNE 11, 1985

THIS MEMORANDUM OF AGREEMENT made this

Day of

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BETWEEN

The Government of Canada,
represented herein by the
Minister of Finance,
(hereinafter called "Canada").

OF THE FIRST PART.

AND

The Government of the Northwest
Territories represented herein
by the Commissioner of the
Northwest Territories, and the
Executive Council Member
responsible for Finance
(hereinafter called "the
Territory").

OF THE SECOND PART.

WHEREAS pursuant to Treasury Board approval for inclusion in Indian Affairs and Northern Development Vote 40 of the Estimates for the fiscal years ending March 31, 1986, 1987 and 1988, Canada is authorized to make certain payments to the Territory in accordance with an agreement entered into by the Minister of Finance on behalf of the Government of Canada and the Commissioner of the Northwest Territories and the Executive Council Member responsible for Finance on behalf of the Government of the Northwest Territories, with the approval of the Governor-in-Council;

AND WHEREAS the Commissioner-in-Council has authorized the Commissioner of the Northwest Territories to enter into this Agreement;

AND WHEREAS the approval of the Governor-in-Council has been obtained for the entry by the parties hereto into this Agreement;

AND WHEREAS it is understood that neither Canada nor the Territory shall be deemed by reason of having entered into this Agreement to have surrendered, abandoned or give over to the other any of the powers, rights, privileges or authorities vested in them under the CONSTITUTION ACTS 1867 to 1982 and the NORTHWEST TERRITORIES ACT, as the case may be, or otherwise, or to have impaired any of such powers, rights, privileges or authorities;

NOW THEREFORE THIS AGREEMENT WITNESSETH that the parties hereto in consideration of the Covenants and Undertaking herein contained covenant and agree as follows:

Interpretation

1. In this agreement, unless the context otherwise requires:

"Base Period" means the 1982-83 Fiscal year in which the gross expenditures are initialized.

"Base Period Rates" means those tax, revenue and recovery rates in effect as of March 31, 1985.

"Base period Gross Expenditures" means the sum of Federal grants, transfer payments, recoveries, own revenues, and mutually agreed upon base year adjustments as identified in Appendix A, Addendum A.

"Eligible Revenues" means the sum of transfer payments, hypothetical own revenues and recoveries and excludes those items identified in Appendix A, Addendum B..

"Fallsafe" means the adjustment of income taxes, established programs financing payments and other eligible revenues in the event that the final determination is less than or greater than the estimated amounts used in determining the grant. The purpose of the fallsafe is to safeguard the Territory and Canada from revenue shortfalls and windfalls.

"Fiscal Year" means the period of twelve months commencing on the 1st day of April and ending the 31st day of March next following.

"Formula Financing" or "Formula" means the fixed tax rate formula funding mechanism which is used to calculate the annual grant to the territory.

"Grant" means the payment by Canada to the Territory referred to in the Estimates for the Fiscal Year 1985/86 to 1987/88 on which Vote 40 is based.

"Gross expenditure base" means the base period gross expenditures and subsequent year adjustments, escalated by the P-L escalator to any given year.

"Growth Rate of Provincial-Local Expenditures (P-L escalator)" means a three year moving average of the percentage change in the aggregate municipal and provincial government annual expenditures.

"Hypothetical own revenues and recoveries" means the yield of base period rates applied to current bases of own source revenues and recoveries.

"Income Tax" means a tax imposed upon the income of an individual or a corporation and include:

- (i) a tax upon the income from an office or employment,
- (ii) a tax upon the income from a business or property, and
- (iii) a poll or head tax based on income;

"Operating Procedures" means the methodology which will govern the calculation of the formula funding grant, as outlined in Appendix A hereto attached which shall form part of this agreement.

Covenant by Canada

- 2) In respect of the 1985-86 to 1987-88 fiscal years, Canada shall pay to the Territory, a grant subject to the terms and conditions set out in this agreement, the annual Implementation Agreement, set out in Section 4, and subject to appropriation by Parliament, based on the Formula calculation. More specifically the grant will represent the difference between:
 - (a) base period gross expenditures escalated by the growth rate of Provincial-Local expenditures and;
 - (b) eligible revenues.
- 3) For the period of the financing agreement the 1982-1983 base period gross expenditures will be \$438,291,000, as calculated in Appendix A, Addendum A.

- 4) An annual Implementation Agreement substantially in the form annexed hereto as Appendix B to be entered into by the Minister of DIAND and the Territory shall embody the estimated eligible revenues, the estimated P-L escalator, and change to the gross expenditure base, upon which the payments will be based.
- 5) Payments on account of the grant will be made in such instalments as are mutually agreed to by Canada and the Territory in the annual implementation agreement.
- 6) The operation of the formula including the method and timing for grant adjustments in subsequent fiscal years will be governed by the operating procedures as set out in Appendix A. The operating procedures may be amended from time to time as mutually agreed to by Canada and the Territory.
- 7) Canada will convene not less than once per fiscal year a meeting with the Territory to discuss and review fiscal arrangements and financial issues of interest to Canada and the Territory.
- 8) It is understood and agreed that funds in addition to those which will flow from the application of the formula will be provided to the Territory by the federal government to cover significant costs arising out of new federal initiatives or unforeseen events that create new responsibilities for the Territory and are beyond the powers of the Territory to control or to absorb. Any extraordinary costs of this nature identified by the Territory will require appropriate approvals. The Territorial Government may seek, through the Minister of D.I.A.N.D., cabinet approval of policy funding.

General

- 9) Nothing contained in this Agreement shall be deemed to vary or terminate any of the rights or obligations of the Territory or Canada under any agreement heretofore entered into between them or to limit their authority to enter into any further agreement in addition to or by way of amendment to this Agreement.
- 10) (a) This Agreement shall come into force on the first day of April 1985 and shall terminate subject to paragraph (b), on the 31st day of March 1988, or on an earlier date if the parties mutually agree.
 - (b) (i) By mutual written consent between the parties this agreement may be extended for two fiscal years.
 - (ii) Section 6 shall survive the termination of the Agreement and shall remain in force until the provisions contained in the said section, Appendix A and the annual Implementation Agreement have been complied with, or have been declared to be no longer in force by mutual written agreement between the parties hereto.
 - (iii) This agreement shall terminate should legislation to divide the Northwest Territories occur during the period this agreement is in effect.
- 11) No member of the House of Commons or Senate shall be admitted to any share or part of this Agreement or to any benefit arising therefrom.

IN WITNESS whereof the Minister of Finance, has hereto set his hand on behalf of Canada, and the Commissioner and the Minister of Finance of the Northwest Territories has hereunto set their hand on behalf of the Territory.

Signed on behalf of Canada by the
Honourable

Minister

Minister of Finance in the presence of

Signed on behalf of the Northwest
Territories by

Commissioner of the
Northwest Territories

Commissioner of the Northwest
Territories in presence of

Executive Council Member
responsible for Finance for
the Northwest Territories

Executive Council Member
responsible for Finance for
the Northwest Territories
in presence of

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Operating Procedures
Territorial Fixed Tax Rate
Funding Formula

1. This document serves to provide the parties to the financial agreement with a concise statement of the operating procedures which will govern the operation of the "Formula". The definitions included in the agreement are re-printed below and in some cases examples provided for purposes of clarification only.

2. Definitions

- 2.1 The Formula

Under the formula the annual territorial grant entitlement is equal to the difference between

- (a) base period gross expenditures escalated by the growth rate of provincial-local (P-L) expenditures, and
 - (b) the eligible revenues.
 - 2.2 "Base period" means the 1982-83 fiscal year (FY) in which the gross expenditures are initialized.
 - 2.3 "Base Period rates" means those tax, revenue and recovery rates in effect as of March 31, 1985.
 - 2.4 "Base Period Gross expenditures" means the sum of federal grants, transfer payments, recoveries, own revenues and mutually agreed upon base year adjustments, as identified in Appendix A, Addendum A.

The 1982-83 base period value illustrated as Addendum A will be escalated by the growth rate of P-L expenditures.

- 2.5 "Growth Rate of P-L Expenditures (P-L escalator)": means the three year moving average of the percentage change in the aggregate municipal and provincial government annual expenditures. For example, for FY "t", the growth rate would equal the simple average of year-over-year percent increases in FY's (t), (t-1), and (t-2).
 - 2.6 "Eligible revenues" means the sum of transfer payments, hypothetical own revenues and recoveries and excludes those items identified in Appendix A, Addendum B.
 - 2.7 "Hypothetical own revenues and recoveries" means the yield of base period tax, revenue and recovery rates applied to current bases of own source revenues and recoveries.

3. Operating Procedures

- 3.1 Schedule of Calculations

The formula-based grants will be calculated semi-annually, in March and October, beginning in 1984. As shown in Table 1, the grants for each of the years 1985-86 through 1987-88 will evolve through a series of calculations.

3.2 Data Sources

(a) P-L Expenditure Growth

The most current data source is Statistics Canada's "National Income and Expenditure Accounts" (catalogue 13-001). However, the total consolidated P-L expenditures are segregated and require the following calculations (based on Table 6 of the publication):

- (i) Record total current expenditures by all levels of government (line 78 minus 82)
- (ii) Subtract Federal Government and Canada and Quebec Pension Plan expenditures (lines 79, 83, and 84)
- (iii) Subtract transfers from provincial to municipal and from municipal to provincial governments (lines 74 and 76)
- (iv) Subtract provincial and municipal capital consumption allowances (lines 94 and 95)
- (v) Add capital expenditures of provincial and municipal governments (lines 99 and 100)

The currency of data does not remove the need for forecasting the growth rate of P-L expenditures. To calculate gross expenditures for FY t, the required data will pertain to FY's t, t-1 and t-2. At the time of the F calculations, (October, t-1), Statistics Canada preliminary data will be available for FY t-2. Conference Board of Canada data will be used to calculate the projected growth rate increases for t-1 and t. As Statistics Canada National Income and Expenditure account data becomes available, the value of t-1 and t will be revised to reflect actuals.

(b) Territorial Revenues

Initial calculations of the grant for year t will be based on territorial projections of eligible revenues to be provided six months prior to the fiscal year for which the grant is to be calculated (e.g. October t-1). Except that estimates of Income Tax and E.P.F. will be provided by the Department of Finance (Canada).

For year t grants (initially computed October t-1) the estimates of eligible revenues and grants themselves will have to be revised on the basis of Territorial Accounts, and Department of Finance final estimates for Income tax E.P.F., and the P-L escalator.

The procedure for, and timing of these adjustments will be outlined in the annual Implementation Agreements'.

The revenue adjustments are made using tax rates in effect as of March 31, 1985. As real (non inflationary) tax increases accrue to the benefit of the Territory, adjustments for inflation (nominal tax increases) will only be exercised with respect to the following territorial revenues and the net aggregate inflationary tax adjustment will be made to the 1988-89 opening base:

Fuel Oil Taxes
Tobacco Taxes
Liquor Revenues Profits

The inflation factor for adjustment purposes will be based on product cost increases for each commodity.

3.3 Calculation Procedures (refer to Table 1)

TABLE 1
SCHEDULE OF FUNDING FORMULA
CALCULATION

DATE	FUNDING PERIOD	1985-86	1986-87	1987-88
March '84		P1	-	-
Oct. '84		F	-	-
March '85		-	P1	-
Oct. '85		R1	F	-
March '86		-	-	P1
Oct. '86		R2	R1	F
Oct. '87		R3	R2	R1
Oct. '88		R4	R3	R2
Oct. '89		R5	R4	R3
Oct. '90		-	R5	R4
Oct. '91		-	-	R5

P - Preliminary Calculation of Formula-based Grant
F - Funding Calculation of Grant
R - Revised Calculation of Grants

1. (a) 1985-86 Grants

Preliminary (P) Calculation - March 1984

1. Escalate base period (1982-83) gross expenditures to 1983-84, 1984-85 and 1985-86.
2. Compute P value of grant using historical (1982-83) and extrapolated (1983-84, 1984-85 and 1985-86) P-L growth rates and eligible revenue projections.

Funding (F) Calculation - October 1984

3. Compute F value of grant based on 1985-86 eligible revenues from updated territorial forecasts and historical (1982-83, 1983-84) and extrapolated (1984-85 and 1985-86) P-L growth rates.

Revised (R) Calculations - October 1985 through
Oct. 1989

4. Recalculate grant on the basis of the following components as these are available.
 - (a) Actual eligible revenues excluding Income Tax and EPF - 1986-87.
 - (b) Final estimates of Income Tax 1987-88.
 - (c) Final determination of EPF 1988-89.
 - (d) Annual adjustment in the P-L growth rate with a final adjustment in 1989-90.
5. Subtract latest R grant from preceeding F or R value and add (subtract) difference to (from) latest F value in 1986-87, 1987-88 or 1988-89 or 1989-90 grant. For example, the 1985-86 grant will have a P computed in March 1984 (for information purposes alone). In October 1984, the F value of the 1985-86 grant will be determined based on a combination of historical and projected data. This value of the grant will subsequently be adjusted as actual data replace the projected figures. The differences between the R and F values will be added to (subtracted from) the F values of subsequent years' grants. In the case of the 1985-86 grant, these differences will be determined through R calculations performed annually from October 1985 to October 1989.
6. By October 1989, 1985-86 P-L growth rates will be finalized and hence 1985-86 grants can be finalized. These revisions to P-L growth and the 1985-86 grants are not expected to be severe since a 3-year moving average of P-L growth is used, and in any case, the initial Statistics Canada estimates of P-L growth do not typically undergo major revisions.

(b) 1986-87 Grants

F and R calculations follow the steps outlined in 3, 4, 5 and 6 with the dates moved ahead 1 year (to October 1985, through October 1990).

(c) 1987-88 Grants

F and R calculations follow the steps outlined in 3, 4, 5 and 6 with the dates moved ahead 2 years (to October 1986, through October 1991).

Addendum A

GOVERNMENT OF NORTHWEST TERRITORIES
1982/83
BASE CALCULATION

		<u>(\$'000)</u>
Total receipts per 1982-83 Territorial Accounts		\$462,114
<u>Less</u>		
Excluded items:		
Projects for Canada and other	\$22,654	
Sale of capital assets	1,707	
Interest - other	1,345	
D.I.A.N.D. Contribution for:		
Hospital Care	10,846	
Medical Care	<u>1,871</u>	
		<u>\$ 38,423</u>
		<u>\$423,691</u>
<u>Add</u>		
Reinstatement of one time capital grant reduction	10,000	
1982-83 Health expenditures	<u>4,600</u>	<u>\$ 14,600</u>
Base period gross expenditures for formula financing		<u>\$438,291</u>

NORTHWEST TERRITORIES

EXCLUSIONS FROM FORMULA FUNDING
FAIL-SAFE CALCULATION

- 1) New, O&M or Capital, Revenue, Recovery or Transfer Programs introduced during the fiscal year. If these are ongoing programs, a mutually agreed to annualized adjustment will be made to the base in subsequent formula funding periods, for which no exclusion will be allowed.
- 2) Any amounts appearing in the territorial accounts as being, "Work performed on behalf of 3rd Parties".
- 3) Any amounts appearing in the territorial accounts as being, "Interest on Mortgages and Debentures recovery".
- 4) D.I.A.N.D. contribution for Hospital and Medical care for Indian and Inuit.
- 5) Economic Development agreements between NWT and Canada.
- 6) Any amounts appearing in the territorial accounts as being, "capital recoveries and sale of capital items".

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