

# Budget Address

**2006 - 2007**

*NORTHWEST TERRITORIES*

**BUDGET PAPERS**

**B ♦ Fiscal Review**

**February 2, 2006**

## FISCAL REVIEW

The GNWT is forecasting operating surpluses for 2005-06 and 2006-07 and remains within the guidelines of the Fiscal Responsibility Policy.

### 2004-05 FINAL RESULTS

Revenues in 2004-05 were \$996 million and expenditures were \$1,012 million, leaving the GNWT with an operating deficit of \$17 million. Although an operating surplus of \$44 million was estimated for 2004-05 in the 2005-06 Budget, the following one-time events caused this to change to an operating deficit at year-end:

- ◆ Changes to Corporate Income Tax entitlements caused by a prior year capital loss assessed after the 2005-06 Budget reduced 2004-05 Corporate Income Tax revenues by \$36 million. Under previous Territorial Formula Financing (TFF) arrangements, this decrease in tax revenues would result in a partial offset under the TFF Grant. The New Framework for TFF announced in October 2004 does not allow for changes in the Grant when the GNWT own source revenues change. The GNWT has raised this issue with the federal government.
- ◆ The accrual of a \$23 million liability for the Giant Mine remediation following conclusion of an agreement with Canada on the Giant Mine Remediation Project.

### 2005-06 REVISED ESTIMATES

The operating surplus for 2005-06 is projected to be \$18 million. Although this projection has decreased from the \$49 million forecast in the 2005-06 Budget, the GNWT remains within the Fiscal Responsibility Policy guidelines. Revenue projections for the current fiscal year have increased by \$30 million from 2005-06 Main Estimates, primarily due to the inclusion of a number of one-time trust amounts. Forecasts of Corporate Income Tax have decreased by \$29 million from the 2005-06 Main Estimates due to prior year adjustments and because 2004 Corporate Income Tax collections were lower than anticipated.

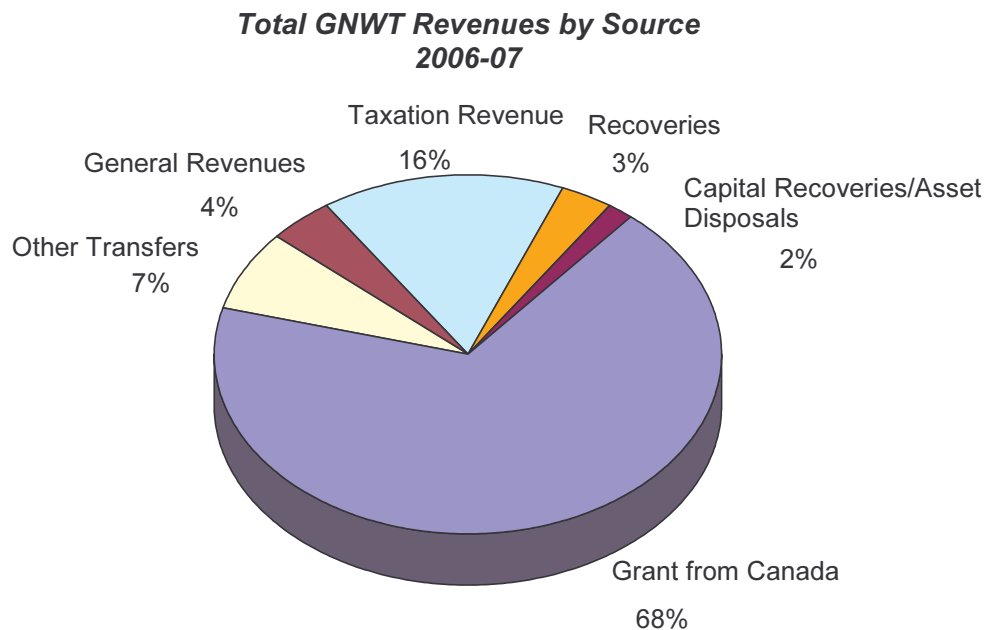
After adjustments for supplementary requirements, total 2005-06 expenditures are expected to be \$97 million higher than budgeted in the 2005-06 Main Estimates. However, these expenditures include \$35 million from the Northern Strategy Trust for the Community Capacity Building Fund and \$18 million for increases related to the settlement of collective agreements.

## 2006-07 BUDGET

A \$31 million operating surplus is projected for 2006-07, including estimated supplementary expenditure requirements. In 2006-07, the GNWT must repay \$290 million of a Corporate Income Tax overpayment received as part of the 2002 Corporate Income Tax estimate. While the GNWT will have to borrow an estimated \$78 million to repay this amount, the GNWT will not exceed the \$300 million federal limit on its debt and will still have \$77 million in borrowing authority remaining at the end of the year.

### Revenues

Total 2006-07 revenues are forecast to increase to \$1.1 billion, a 5 per cent increase from the 2005-06 Main Estimates and a 2 per cent increase from the 2005-06 Revised Estimates.



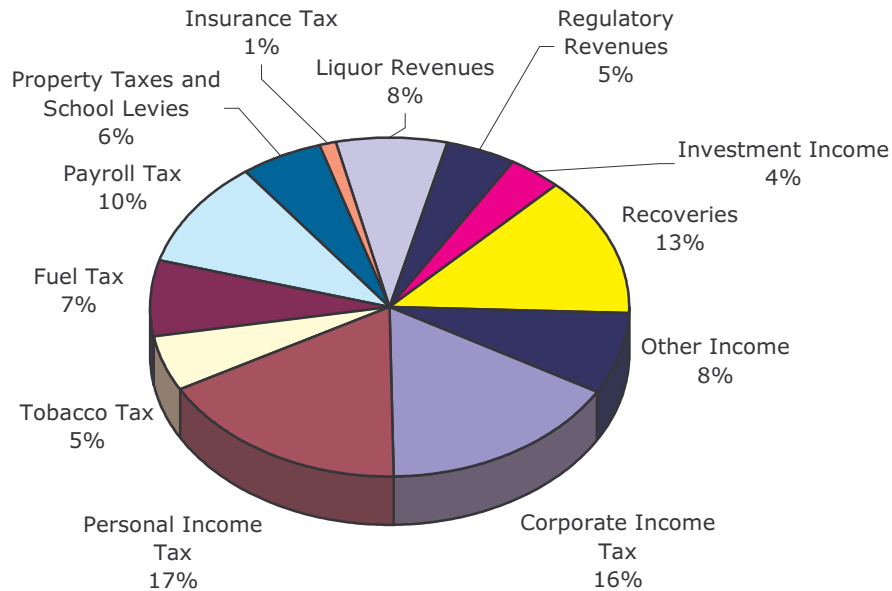
The 2006-07 Grant from Canada will be fixed in federal legislation. The amount of the 2006-07 Grant is expected to be \$752 million, an increase of \$24 million from the 2005-06 revised estimates.

Other transfer payments will decrease \$31 million, primarily due to the one-time funding of \$35 million for the Northern Strategy – Community Capacity Building Fund included in the 2005-06 Revised Estimates.

Taxation revenue estimates are expected to increase \$39 million from the 2005-06 Revised Main Estimates to the 2006-07 Main Estimates. The main differences are:

- ◆ The Corporate Income Tax revenue forecast is \$29 million higher due to higher federal corporate income forecasts.

**GNWT Own Source Revenues  
2006-07**



- ◆ The Personal Income Tax revenue forecast is \$7.9 million higher, mainly because of forecasts of growth in employment income and employment.
- ◆ The Payroll Tax revenue forecast is \$0.8 million higher due to higher employment and employment income forecasts.
- ◆ All other taxation revenues (Tobacco Tax, Fuel Tax, Property Tax and School Levies, and Insurance Taxes) are forecast to increase \$0.9 million in total.

### **Operating Expenditures**

Total operating expenditures in 2006-07 are budgeted to be \$1.07 billion. Excluding one-time spending such as the Community Capacity Building Fund, operating expenditures increased 7 per cent from the 2005-06 Main Estimates but only 3.7 per cent from the 2005-06 Revised Estimates.

The 2006-07 Budget includes \$41 million in funding for new initiatives as well as \$55 million to address the increased costs of existing programs and services. However, this forced growth is partially offset by \$23 million in expenditure reductions in other areas.

The new funding initiatives in 2006-07 continue to address the goals and objectives outlined in the GNWT's *Strategic Plan*. Major initiatives include:

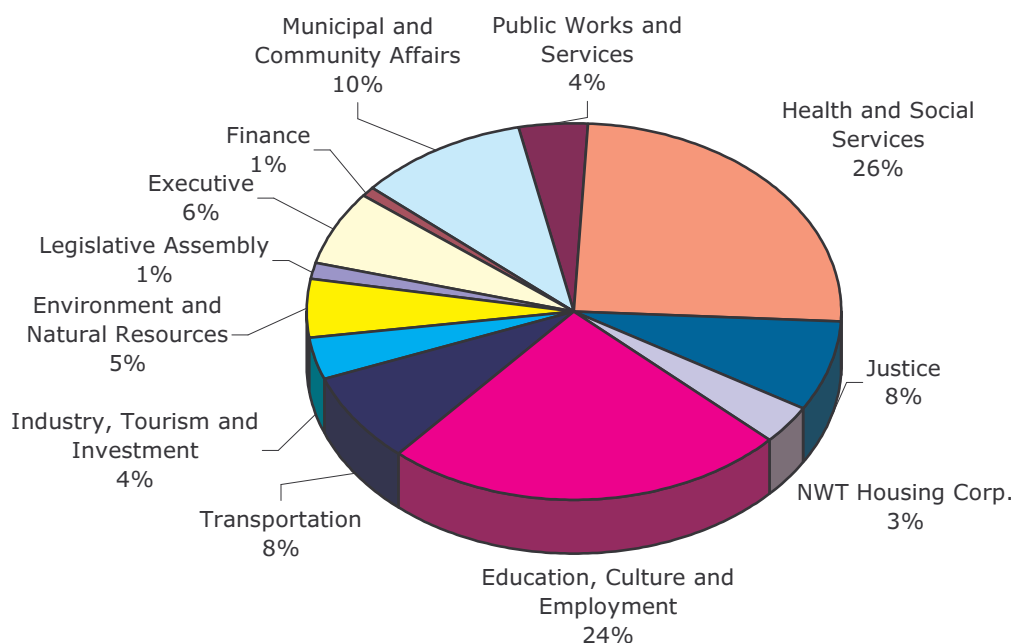
***Helping Promote Self-Reliant, Healthy, Educated Northwest Territories Residents***

- ◆ \$400,000 to develop and implement the Healthy Choices Framework – a healthy eating and physical activity communication plan and a curriculum for NWT schools.
- ◆ \$6.4 million to fund increased demand for health services including funds to reduce wait times at the Stanton Emergency Department, expand the nurse practitioner program, establish an Aboriginal Wellness Program at Stanton Hospital, enhance dialysis and cancer treatment programs, and expand rehabilitation teams.
- ◆ \$1.8 million to increase contributions to Education districts and authorities for student support funding from 15 per cent to 17 per cent in 2006-07.
- ◆ \$1.6 million for on-going delivery costs of full-time kindergarten programs.
- ◆ \$240,000 to fund a pilot program for community-based distance learning education of various grade 7 to 12 courses to prepare Aboriginal students to enter post-secondary education-related programs.
- ◆ \$326,000 to increase the low-income senior citizen supplementary benefit from \$135 to \$160 per month.
- ◆ \$500,000 to implement a Northern Youth Program to coordinate GNWT youth-based initiatives.
- ◆ \$696,000 to help fund the NWT Games Program, the 2008 Arctic Winter Games and the 2007 Canada Winter Games.

***Encouraging Well-governed, Sustainable Communities***

- ◆ \$4 million for the Community Capacity Building Fund to construct new affordable housing units in 14 of the smallest NWT communities where the number of households in core need is greater than 30 per cent.
- ◆ \$1.3 million for the Northern Community Insurance Program to help address the insurance implications of the transfer of community public infrastructure from the GNWT to community governments. This community self-insurance program was developed to mitigate the effects of increasing insurance premium costs faced by community governments. The short-term support provided for the program will help to ensure its long-term sustainability.
- ◆ \$715,000 to improve the management of drinking water in various NWT communities.
- ◆ \$440,000 to help build community government capacity to address Mackenzie Gas pipeline issues.
- ◆ \$350,000 for the interim grant program for 2006-07 to flow property tax revenue under the New Deal for Community Governments to those communities that do not currently raise their own property tax revenues.
- ◆ \$4.5 million in community funding from the federal Gas Tax Transfer Agreement.

**Operations Expenditures by Department  
2006-07**



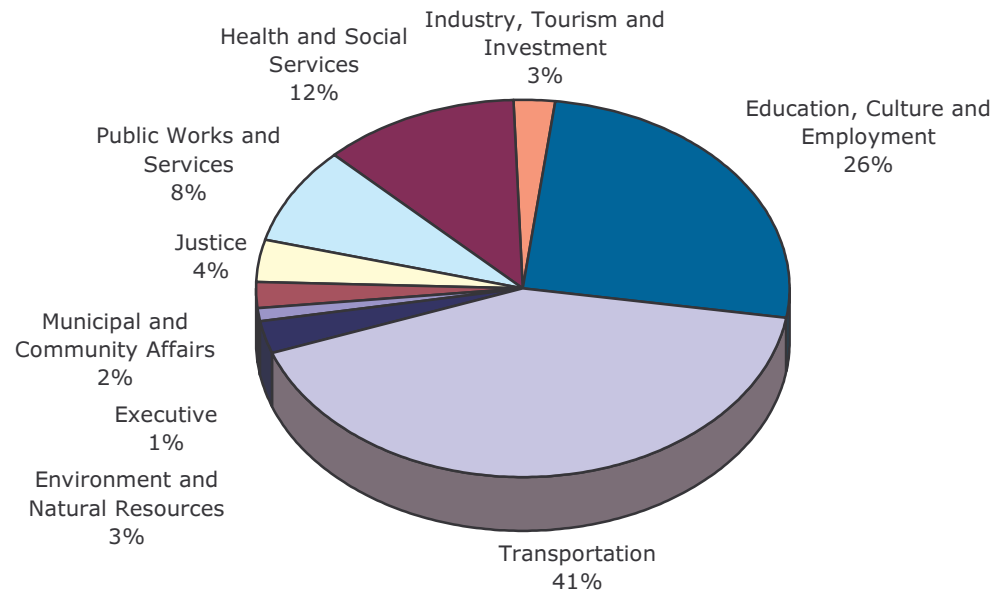
**Creating a Diversified Economy**

- ◆ \$1 million to implement Tourism 2010, a multi-year tourism plan designed to help the NWT compete more effectively in the global marketplace by providing valuable “tourism lures” in more remote locations, to help increase the number of tourism-based businesses in all regions, to work to increase revenues for existing tourism and small business operators in NWT communities and to provide training for NWT hospitality workers.
- ◆ \$1 million in contribution funding to the Northwest Territories Energy Corporation and its project partners, the NWT Métis Nation and the Akaitcho Territory Government, to complete feasibility studies and environmental base line work necessary to file a permit application for construction of the Taltson Hydro Expansion Project.
- ◆ \$1.3 million to address Mackenzie Gas pipeline issues including funding services to support negotiation of a socio-economic agreement with the Mackenzie Gas Pipeline Producers Group and to support the GNWT as an intervener in the National Energy Board reviews.

**Developing a Strong Northern Voice and Identity**

- ◆ \$1.7 million to ensure the government has the resources to participate in lands, resources and self-government negotiations.
- ◆ \$1.7 million extension of funding to enable the government and the Aboriginal Summit to continue to participate in devolution and resource revenue sharing negotiations.

***Direct Investment in Capital Assets by Department  
2006-07***



***Infrastructure Investment Expenditures***

Total infrastructure investment expenditures for 2006-07 are budgeted to be \$141 million. This includes \$111 million in direct investment in capital assets and \$30 million for infrastructure contributions (included in departmental operating expenditures). The infrastructure contributions are mainly for community and regional operations.

The major infrastructure capital investments included in the \$111 million 2006-07 *Infrastructure Acquisition Plan* are:

- ◆ \$19.7 million for three new schools and for renovations in other schools, for a total of \$114 million in direct investments over the time period of the Acquisition Plan;
- ◆ \$2.6 million for upgrades to water treatment plants, solid waste disposal sites and sewage treatment plants and various community building repair;
- ◆ \$9.8 million for airport improvements, including \$5.2 million for runway enhancements, \$3.6 million for buildings and \$1 million for airport equipment;
- ◆ \$35.6 million for various highway programs, including \$11 million for the Mackenzie Valley Winter Road bridge program;
- ◆ \$2.2 million for upgrades and building repairs in various territorial parks;
- ◆ \$1.4 million for the North Slave wildlife laboratory complex;
- ◆ \$1.1 million for forest management infrastructure including improvements to the North Slave heliport;

- ◆ \$1.6 million for improvements at the Prince of Wales museum, including \$1.4 million to build the Aviation Gallery;
- ◆ \$6.4 million for replacement of Aurora College student residences in Fort Smith and to build new student residences in Inuvik;
- ◆ \$11.9 million for renovations to hospital units, medical equipment and health record management upgrades, for a total of \$93 million over the period of the Plan; and,
- ◆ \$6.8 million for tank farm code upgrades and capacity increases.

## MEDIUM-TERM OUTLOOK

The medium-term outlook contains revenue uncertainty with respect to Territorial Formula Financing (TFF) and devolution of NWT resources. In October 2004, the federal government introduced a New Framework for TFF. The New Framework establishes a fixed total TFF amount after 2005-06, escalated annually by 3.5 per cent and which is to be allocated among the three territories by a formula based on recommendations of the Expert Panel on Equalization and TFF. The Expert Panel is expected to provide recommendations in Spring 2006. Until the recommendations are considered and acted on by the federal government, projections of TFF amounts after 2006-07 are based on modified previous arrangements. Devolution and the corresponding resource revenue sharing discussions are on-going but will likely not be completed before 2007 and are therefore not included in the medium-term outlook.

In this environment, the GNWT's medium-term revenue forecasts are conservative. Revenues are forecast to increase 3.1 per cent in 2007-08 and 2.2 per cent in 2008-09 while expenditures are expected to increase 4.0 per cent in 2007-08 and 6.3 per cent in 2008-09. These forecasts will provide an operating surplus in 2007-08 and an operating deficit in 2008-09. However, the GNWT is committed to remain within the guidelines of the Fiscal Responsibility Policy.

### *Fiscal Framework Operations Summary (millions of dollars)*

	2004-05 Actuals	2005-06 Revised Estimates	2006-07 Main Estimates	2007-08 Forecast	2008-09 Forecast
<b>Revenues</b>	996	1,084	1,106	1,141	1,167
<b>Expenditures</b>	(1,013)	(1,066)	(1,075)	(1,118)	(1,189)
<b>Operating Surplus (Deficit)</b>	(17)	18	31	23	(22)
<b>Capital Investment Requirements</b>	81	106	111	128	160
<b>Accumulated Cash Surplus (Deficit)</b>	225	258	(79)	(160)	(331)
<b>Total Debt</b>	(142)	(152)	(224)	(298)	(462)
<b>Available Borrowing Authority</b>	158	148	76	2	(162)



At current projections, with a conservative revenue outlook, the GNWT will be close to its borrowing limit of \$300 million towards the end of 2007-08. However, the GNWT is seeking a change in the way the federal government sets the limit on the GNWT's debt to one based on the capacity to carry debt rather than a fixed arbitrary number.

### ***Risks to Revenue Forecasts***

The 2006-07 Formula Financing Grant will be established in federal legislation and there will be no adjustments to the 2006-07 Formula Financing Grant for prior years. Therefore, almost 70 per cent of GNWT revenues will not change regardless of changing fiscal circumstances. Another 6 per cent of GNWT revenues are composed of other federal transfers, which do not vary significantly. However, 24 per cent of total GNWT own source revenues are subject to differing degrees of variability. Corporate Income Tax in particular can fluctuate significantly.

## **GNWT'S FISCAL STRATEGY**

The foundation for the GNWT's fiscal strategy is the Fiscal Responsibility Policy introduced in February 2005. This Policy provides a framework to ensure a coordinated strategy for responsible spending, borrowing and debt repayment. The key element of the Policy are the guidelines that require the GNWT to monitor expenditures to ensure that it is able to fund a minimum of 50 per cent of annual capital investments through cash surpluses generated from operations.

The GNWT is seeking to maintain a sound fiscal position while at the same time making the investments and pursuing policies that encourage a healthy vibrant economy. This means that the policies that the GNWT pursues to achieve a sound fiscal position must also complement and advance the achievement of a strong, diverse economy. Measures to address fiscal needs, such as tax policy initiatives, setting of expenditure levels or determining the size of the GNWT debt, should not hinder economic growth. In turn, economic growth, through such benefits as increased employment and higher personal income levels, should increase GNWT revenues and reduce the demand for some social programs, such as income support.

Much of the GNWT's fiscal strategy depends on the role the federal government decides to take. The federal government must take positive action on the following issues:

- ◆ The federal response to the recommendations of the Expert Panel on Equalization and Territorial Formula Financing must result in new formula financing arrangements that reflect the needs of the Northwest Territories.
- ◆ The federally imposed \$300 million borrowing limit must be changed to one that reflects the GNWT's capacity to finance debt.
- ◆ Devolution of Northwest Territories' resources to NWT governments, including a resource revenue sharing agreement that provides a net fiscal benefit to the GNWT, must be concluded.

### ***Changes to Federal/Territorial Fiscal Arrangements***

In October 2004, the federal government introduced a New Framework for Territorial Formula Financing. This resulted in the TFF Grants for 2004-05 and 2005-06 being set in federal legislation, with no prior year adjustments after March 31, 2005.

The New Framework established a total amount of TFF funding for all three territories: \$1.9 billion in 2004-05, \$2.0 billion in 2005-06 and thereafter escalated at a rate of 3.5 per cent per year, with a review of the adequacy of the escalator after five years. An Expert Panel on Equalization and Territorial Formula Financing was established to provide recommendations on the allocation of the total fixed amount and was scheduled to release its recommendations in December 2005, in time for calculation of the 2006-07 TFF Grants.

The federal Minister of Finance agreed to the Expert Panel's request to extend its report release from December 2005 to the spring of 2006. Since the Expert Panel recommendations will not be available in time to determine the 2006-07 TFF allocation, Canada will be allocating the 2006-07 TFF amounts based on average Grant shares for the last three years (2003-04 to 2005-06). The 2006-07 amounts will not change after the Expert Panel recommendations are made.

With respect to TFF, the Expert Panel is mandated to advise the Government of Canada on:

- ◆ the allocation of the TFF entitlements set in legislation;
- ◆ ways to make the payments more stable and predictable to assist in sound fiscal planning;
- ◆ the cost of providing services in the North and the function of various own source revenues in determining overall levels of federal support;
- ◆ the role of own source revenues, including resource revenues, in determining levels of federal support; and,
- ◆ whether a permanent independent body should be created to provide advice to the Government of Canada on these matters.

The Panel was asked to provide an evidence-based formula as the basis for allocations in its recommendations.

The three territories have made a joint submission to the Expert Panel that outlines two alternatives for changing TFF. The starting point of both proposals is that the TFF arrangements for each territory must be separate from the other territories because of the significant differences among the territories in both political and economic development. Consequently, neither option adheres to the restrictions of the October 2004 New Framework of a fixed total amount and 3.5 per cent annual escalator. Both proposals would allow the territories to retain a larger proportion of own source revenue growth and to take a larger share of the risk if revenues drop.

The Panel invited approximately 60 academics, Aboriginal and business representatives, and government officials from the three territories to an August 25, 2005 roundtable in

Yellowknife to provide a discussion forum on key questions of interest to the Expert Panel related to TFF.

The major themes discussed at the Yellowknife roundtable were the following:

- ◆ costs and needs are higher in the North, and must be reflected in the transfer arrangements;
- ◆ due to their extremely small population levels, per capita funding is not an appropriate way for the federal government to transfer money to the territories;
- ◆ socio-economic outcomes in the North are far inferior to the national average;
- ◆ the presence of Aboriginal self-government agreements means that governmental structures in the North are more intricate than in southern Canada, these intricacies must be both respected and dealt with properly in any set of transfer arrangements, and there should be no double dipping of Aboriginal self-government revenues; and,
- ◆ unanimous agreement was achieved among all respondents that a system of fixed envelope funding is wholly inappropriate as a means by which to transfer funds to the territories: the territories should not have to compete against each other for a fixed pot of money.

### ***Changes to the Federally Imposed \$300 Million Borrowing Limit***

The GNWT has requested that Canada change the authorized \$300 million borrowing limit to one tied to the GNWT's capacity to borrow. The existence of any borrowing limit is contrary to the principle of territorial autonomy in decision-making. The GNWT's borrowing ability should reflect the GNWT's capacity to finance debt, rather than be set at a fixed level. In addition, the \$300 million authorized borrowing limit is too restrictive as fully half of the limit is taken by the guaranteed debt of the NWT Power Corporation, the NWT Energy Corporation and the NWT Housing Corporation.

The GNWT will need to borrow in the future for the following reasons.

- ◆ Large-scale resource development has created a situation where the timing of increased operational (e.g. training, social mitigation) and infrastructure spending (e.g. roads, airports, and municipal infrastructure) does not match the benefits in revenues from royalties and Corporate Income Tax.
- ◆ Infrastructure investments are needed to set the stage for economic developments.
- ◆ To meet capital infrastructure investment needs required for the normal course of business such as schools, health centres and highways. Currently, the GNWT is meeting less than 75 per cent of the infrastructure needs identified in the GNWT 20 year capital investment needs assessment.
- ◆ To repay the Corporate Income Tax overpayment relating to the 2002 tax year.

The GNWT has demonstrated prudent fiscal management and has adopted a Fiscal Responsibility Policy with clear guidelines and responsible definition of acceptable borrowing limits. Under this Policy, the GNWT will only borrow for infrastructure

investments, self-liquidating investments, and repayable loan programs. The GNWT will not borrow for operating purposes. A minimum of 50 per cent of infrastructure investment will be financed through cash generated from operating surpluses. Therefore, only half of the GNWT infrastructure investment can be financed through short- or long-term debt.

Affordable debt under the Fiscal Responsibility Policy is defined as debt such that total debt servicing payments do not exceed 5 per cent of total revenues in a year. Debt servicing payments include debt servicing costs (non-consolidated debt interest plus incidental costs associated with the administration of non-consolidated debt less the investment income from sinking funds on non-consolidated debt), basic debt or principal repayments, and/or contributions to sinking funds for the repayment of long-term debt.

Moody's Investors Service issued an Aa3 credit rating on GNWT long-term debt in February 2005. This was attributed to the GNWT's history of prudent effective fiscal policy, the GNWT's degree of fiscal flexibility, and the growing resource-based NWT economy. The rating was confirmed in May 2005.

### ***Devolution/Resource Revenue Sharing***

Devolution refers to the transfer of control of the NWT's lands and resources from the federal government to the NWT. This includes control of royalties that are levied on the production of the territory's non-renewable resources. Currently, these revenues flow to the federal government. In 2004-05, Canada received \$270 million in revenues from the production of oil, natural gas and diamonds in the NWT.

Following devolution, these royalty revenues will flow to the NWT. Future revenues could be significant, especially if the Mackenzie Valley pipeline is built and the natural gas reserves of the Mackenzie Delta and Beaufort Sea are made accessible to southern markets.

However, the critical issue is the extent to which NWT residents will benefit from these revenues, and how much will be offset, or "clawed back", by Canada through a lower TFF Grant. The larger the offset, the less net revenues remain in the NWT. A key element of any agreement on devolution is the share of revenues that remains with northern governments, both the GNWT and Aboriginal, after reductions are made in federal transfer payments. This is often referred to as the "Net Fiscal Benefit".

Although many residents benefit from the increased economic activity that resource development generates, they also pay a price. Resource development can produce social and environmental stresses that must be addressed. The NWT's already inadequate transportation and community infrastructure could become overloaded. The GNWT, which currently is responsible for these program areas, needs the fiscal resources to address these impacts. In the future, Aboriginal governments will be providing many of these services and will also need resources. NWT governments also must be able to invest in education and capacity building, in the economy, and in infrastructure, to ensure residents benefit from development through education, training, jobs, business opportunities and a better quality of life. NWT residents should have an incentive to promote the development of their resources – development that contributes to economic growth in all of Canada.

The GNWT is seeking a fair resource revenue sharing arrangement that recognizes that NWT residents must be the principal beneficiaries of the development of NWT resources. There have been a number of delays in the negotiation process, but it is hoped that discussions can resume soon, leading to an agreement in 2006 and implementation by 2007.

## **REVENUE CHANGES**

The NWT Corporate Income Tax rate on large corporations will be reduced to 11.5 per cent, effective July 1, 2006.

In 2004, the NWT Corporate Income Tax rate on large corporations was raised from 12 per cent to 14 per cent to counter the interaction with the tax effort factor within the previous TFF arrangements. However, the interplay between TFF arrangements and tax rates is only one of the GNWT's considerations when determining its tax policies. The GNWT's fiscal strategy should also support a strong and vibrant economy. This objective is a crucial consideration in GNWT tax policy. Tax rates that discourage economic activity are not in the best interests of either the GNWT or the NWT economy. The proposed reduction in the Corporate Income Tax rate on large corporations will provide a more favourable climate for business investment.

The NWT small business Corporate Income Tax rate remains at 4 per cent, well below the national average of 5.7 per cent. The GNWT works with the NWT business community to determine the most effective policies to support the NWT small business sector. One of the most significant policies is the GNWT's Business Incentive Policy, which applies to GNWT procurement contracts. As the dynamics of the NWT economy change, government purchasing plays an increasingly smaller role in supporting local business. To encourage northern businesses to compete for new opportunities in both the renewable and non-renewable resource sectors, the GNWT will consider different approaches in consultation with northern business, industry and Aboriginal governments. The NWT small business Corporate Income Tax rate is part of these deliberations.

*Summary of Operations*

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
<b>REVENUES</b>	<b>1,106,057</b>	<b>1,084,435</b>	<b>1,054,664</b>	<b>995,710</b>
<b>OPERATIONS EXPENSE</b>				
Compensation and Benefits	217,114	204,548	185,466	192,729
Grants and Contributions	516,406	527,398	444,234	481,389
Other Expenses	283,133	292,082	294,893	293,309
Amortization	51,670	47,295	49,717	45,061
<b>TOTAL OPERATIONS EXPENSE TO BE VOTED</b>	<b>1,068,323</b>	<b>1,071,323</b>	<b>974,310</b>	<b>1,012,488</b>
<b>OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS</b>	<b>37,734</b>	<b>13,112</b>	<b>80,354</b>	<b>(16,778)</b>
PETROLEUM PRODUCTS REVOLVING FUND - NET REVENUE	-	-	-	15
<b>ESTIMATED SUPPLEMENTARY REQUIREMENTS</b>				
Health Reform Fund	-	-	(4,700)	
Operations Expenditures	(15,000)	(6,000)	(35,000)	-
<b>ESTIMATED APPROPRIATION LAPSES</b>				
Regular Operating Activities	8,000	11,000	8,000	-
<b>WORK PERFORMED ON BEHALF OF OTHERS</b>				
Recoveries	31,159	35,060	26,248	47,134
Expenditures	(31,159)	(35,060)	(26,248)	(47,134)
<b>OPERATING SURPLUS (DEFICIT) FOR THE YEAR</b>	<b>30,734</b>	<b>18,112</b>	<b>48,654</b>	<b>(16,763)</b>
<b>ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR</b>	<b>696,526</b>	<b>678,414</b>	<b>738,877</b>	<b>695,177</b>
<b>ACCUMULATED SURPLUS AT THE END OF THE YEAR</b>	<b>727,260</b>	<b>696,526</b>	<b>787,531</b>	<b>678,414</b>

### Summary of Revenues

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
<b>GRANT FROM CANADA</b>	<b>751,774</b>	<b>727,654</b>	<b>724,280</b>	<b>710,675</b>
<b>TRANSFER PAYMENTS</b>	<b>80,158</b>	<b>110,967</b>	<b>70,678</b>	<b>69,222</b>
<b>TAXATION REVENUE</b>				
Personal Income Tax	46,829	38,887	39,837	51,811
Corporate Income Tax	45,178	15,687	44,422	3,508
Tobacco Tax	14,462	14,362	15,044	14,379
Fuel Tax	19,894	19,670	17,679	19,452
Payroll Tax	28,340	27,535	26,798	17,062
Property Tax and School Levies	15,249	15,179	13,812	14,406
Insurance Taxes	2,800	2,250	2,250	2,869
	<b>172,752</b>	<b>133,570</b>	<b>159,842</b>	<b>123,487</b>
<b>GENERAL REVENUES</b>				
Revolving Funds Net Revenue	20,923	20,309	19,920	19,929
Regulatory Revenues	12,396	10,786	10,756	12,176
Investment Income	10,106	13,216	13,109	9,019
Other General Revenues	3,230	3,493	3,116	1,987
	<b>46,655</b>	<b>47,804</b>	<b>46,901</b>	<b>43,111</b>
<b>OTHER RECOVERIES</b>				
Lease and Accommodations	1,175	1,220	1,220	1,892
Service	1,805	1,827	2,182	1,297
Program	30,530	30,646	30,499	29,345
Commodity Sales	48	52	444	28
Insurance Proceeds	60	60	60	323
Other Miscellaneous Recoveries	90	444	120	77
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	2,724
	<b>36,708</b>	<b>37,249</b>	<b>37,525</b>	<b>35,686</b>
<b>GRANTS IN KIND</b>	<b>582</b>	<b>8,212</b>	<b>411</b>	<b>405</b>
<b>CAPITAL</b>				
Other	5,215	7,117	1,615	137
Deferred Capital Contributions	12,213	11,862	13,412	12,987
	<b>17,428</b>	<b>18,979</b>	<b>15,027</b>	<b>13,124</b>
<b>TOTAL REVENUES</b>	<b>1,106,057</b>	<b>1,084,435</b>	<b>1,054,664</b>	<b>995,710</b>



*Summary of Operations Expenditures By Department*

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
Legislative Assembly	14,536	14,473	14,477	13,896
Executive	68,045	67,299	48,136	52,011
Finance	7,953	7,072	6,959	6,403
Municipal and Community Affairs	110,012	131,987	82,504	78,004
Public Works and Services	47,140	45,568	44,285	43,901
Health and Social Services	265,186	259,685	252,706	258,905
Justice	83,800	81,036	79,803	80,079
NWT Housing Corporation	36,828	35,971	35,956	38,232
Education, Culture and Employment	259,205	255,280	245,003	251,655
Transportation	82,973	78,974	77,393	77,914
Industry, Tourism and Investment	37,934	36,594	34,973	32,722
Environment and Natural Resources	54,711	57,384	52,115	78,766
<b>TOTAL OPERATIONS EXPENDITURES</b>	<b>1,068,323</b>	<b>1,071,323</b>	<b>974,310</b>	<b>1,012,488</b>

*Summary of Capital Investment Expenditures by Department*

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
Legislative Assembly	110	-	-	205
Executive	1,000	512	500	28
Finance	-	-	-	-
Municipal and Community Affairs	2,610	23,364	16,437	5,745
Public Works and Services	9,253	12,049	7,781	3,052
Health and Social Services	13,101	12,033	6,875	11,392
Justice	4,029	2,961	1,780	829
NWT Housing Corporation	-	-	-	-
Education, Culture and Employment	28,382	25,226	18,190	11,097
Transportation	46,325	60,181	51,376	38,962
Industry, Tourism and Investment	2,783	2,446	1,736	1,183
Environment and Natural Resources	3,027	2,024	1,085	1,703
<b>TOTAL CAPITAL INVESTMENT EXPENDITURES</b>	<b>110,620</b>	<b>140,796</b>	<b>105,760</b>	<b>74,196</b>



**Summary of Changes in Capital Assets and Amortization**

	(thousands of dollars)			
	<b>2006-2007 Main Estimates</b>	<b>2005-2006 Revised Estimates</b>	<b>2005-2006 Main Estimates</b>	<b>2004-2005 Actuals</b>
<b>BEGINNING OF THE YEAR</b>				
Cost of Capital Assets in Service	1,556,044	1,485,464	1,485,961	1,380,498
Accumulated Depreciation	(585,096)	(537,801)	(539,521)	(492,740)
Net Book Value	970,948	947,663	946,440	887,758
<b>CHANGES DURING THE YEAR</b>				
Capital Assets Put into Service	111,502	78,885	94,322	105,902
Disposals	-	(8,305)	-	(936)
Amortization	(51,670)	(47,295)	(49,717)	(45,061)
<b>NET BOOK VALUE OF CAPITAL ASSETS IN SERVICE AT THE END OF THE YEAR</b>				
	<b>1,030,780</b>	<b>970,948</b>	<b>991,045</b>	<b>947,663</b>
Work in Progress on Multi-year Projects	105,731	98,613	97,086	59,702
<b>TOTAL NET BOOK VALUE AND WORK IN PROGRESS</b>				
	<b><u>1,136,511</u></b>	<b><u>1,069,561</u></b>	<b><u>1,088,131</u></b>	<b><u>1,007,365</u></b>
<b>CALCULATION OF CAPITAL INVESTMENT</b>				
Capital Investment per Infrastructure Acquisition Plan	110,620	140,796	105,760	74,196
Supplementary Reserve	12,000	7,000	12,000	-
Carry-over of Appropriations from the Previous Year	26,000	-	26,000	-
Estimated Appropriations for Incomplete Projects Continued in Subsequent Year	(26,000)	(26,000)	(26,000)	-
Estimated Appropriation Lapses	(4,000)	(4,000)	(4,000)	-
Capital Investment Expenditures	<b><u>118,620</u></b>	<b><u>117,796</u></b>	<b><u>113,760</u></b>	<b><u>74,196</u></b>
<b>CALCULATION OF ASSETS PUT INTO SERVICE</b>				
Work in progress, beginning of the year	98,613	59,702	77,648	91,408
Capital Investment Expenditures	118,620	117,796	113,760	74,196
Less work in progress, end of the year	(105,731)	(98,613)	(97,086)	(59,702)
Assets put into service	<b><u>111,502</u></b>	<b><u>78,885</u></b>	<b><u>94,322</u></b>	<b><u>105,902</u></b>

**Summary of Cash Flows**

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
<b>OPERATING TRANSACTIONS</b>				
Cash Received From:				
Canada	881,439	944,032	925,500	1,169,596
Other Revenues	204,331	201,568	188,225	218,555
	<b>1,085,770</b>	<b>1,145,600</b>	<b>1,113,725</b>	<b>1,388,151</b>
Cash Paid For:				
Operations Expenses	(1,024,959)	(1,018,866)	(955,765)	(950,905)
Projects Performed for Others	-	-	-	(137,532)
<b>Cash Provided By (Used For) Operating Transactions</b>	<b>60,811</b>	<b>126,734</b>	<b>157,960</b>	<b>299,714</b>
<b>CAPITAL TRANSACTIONS</b>				
Capital Investment (current year)	(113,150)	(111,860)	(108,994)	(76,823)
Capital Investment (prior year)	(4,936)	(3,109)	(3,807)	-
Proceeds from Disposal of Capital Assets	-	-	-	1,295
Capital Contributions Received and Deferred	19,694	26,832	26,832	2,774
<b>Cash Provided By (Used For) Capital Transactions</b>	<b>(98,391)</b>	<b>(88,137)</b>	<b>(85,969)</b>	<b>(72,754)</b>
<b>INVESTING TRANSACTIONS</b>				
Designated Cash and Investments Purchased	-	-	-	839
Loans (Net of Repayments)	(4,450)	(4,375)	(3,650)	2,902
<b>Cash Provided By (Used For) Investing Transactions</b>	<b>(4,450)</b>	<b>(4,375)</b>	<b>(3,650)</b>	<b>3,741</b>
<b>FINANCING TRANSACTIONS</b>				
Repayment of Capital Lease Obligations	(2,641)	(2,641)	(2,641)	(1,106)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(44,672)</b>	<b>31,581</b>	<b>65,700</b>	<b>229,595</b>
Repayment of Corporate Income Tax Overpayment	(290,457)	(29,298)	(29,672)	-
Cash and Cash Equivalents at the Beginning of the Year	256,837	254,554	214,244	24,959
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>(78,292)</b>	<b>256,837</b>	<b>250,272</b>	<b>254,554</b>

*Summary of Total Debt and Estimated Borrowing Capacity*

	(thousands of dollars)			
	2006-2007 Main Estimates	2005-2006 Revised Estimates	2005-2006 Main Estimates	2004-2005 Actuals
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>(78,292)</b>	<b>256,837</b>	<b>250,272</b>	<b>254,554</b>
<b>GUARANTEED DEBT</b>				
NWT Power Corporation	(94,670)	(99,977)	(101,976)	(89,619)
NWT Energy Corporation	(22,212)	(22,618)	(22,635)	(22,831)
NWT Housing Corporation	(28,155)	(28,980)	(28,985)	(30,623)
<b>TOTAL GUARANTEED DEBT</b>	<b>(145,037)</b>	<b>(151,575)</b>	<b>(153,596)</b>	<b>(143,073)</b>
<b>TOTAL (DEBT) SURPLUS</b>	<b>(223,329)</b>	<b>(151,575)</b>	<b>(153,596)</b>	<b>(143,073)</b>
<b>AUTHORIZED BORROWING LIMIT</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>
<b>AVAILABLE BORROWING CAPACITY</b>	<b>76,671</b>	<b>148,425</b>	<b>146,404</b>	<b>156,927</b>

Any further guarantees of NWT Power Corporation Debt may require a review of the GNWT's overall borrowing capacity with the Government of Canada.

## Provincial and Territorial Tax Rates as of January 23, 2006

	Combined Top Marginal PIT rate <sup>(a)</sup> (%)	Retail Sales Tax (%)	Fuel Tax <sup>(b)</sup>		Tobacco Tax on Cigarettes (\$/carton) <sup>(c)</sup>	Payroll Tax <sup>(d)</sup> (%)	Corporate Income Tax		Capital Tax <sup>(f)</sup> (%)
			Gas (¢/litre)	Diesel (¢/litre)			Small (%)	Large <sup>(e)</sup> (%)	
Northwest Territories	43.05	-	10.7	9.1	42.00	2.00	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	-	4.0	15.0	-
British Columbia	43.70	7.0	14.5	15.0	35.80	-	4.5	12.0	0/3.0
Alberta	39.00	-	9.0	9.0	32.00	-	3.0	11.5	-
Saskatchewan	44.00	7.0	15.0	15.0	35.00	-	5.0	17.0	0.6/3.25
Manitoba	46.40	7.0	11.5	11.5	35.00	2.15	4.5	14.5	0.3/3.0
Ontario	46.41	8.0	14.7	14.3	23.45	1.95	5.5	14.0	0.3/0.9
Quebec	48.22	7.5	15.2	16.2	20.60	4.26	8.5	9.9	0.525/1.20
New Brunswick	46.84	8.0	14.5	16.9	23.50	-	2.0	13.0	0.3/3.0
Nova Scotia	48.25	8.0	15.5	15.4	31.04	-	5.0	16.0	0.3/4.0
Prince Edward Island	47.37	10.0	20.2	19.8	34.90	-	6.5	16.0	0/5.0
Newfoundland	48.64	8.0	16.5	16.5	34.00	2.00	5.0	14.0	0/4.0
Weighted average <sup>(g)</sup>	45.75	6.9	14.2	14.4	26.52	1.87	5.7	12.7	

## Notes:

- (a) Combined Federal-Provincial/Territorial highest personal income tax rates in effect for the 2006 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, 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) The 2006-07 GNWT Budget includes a proposed reduction in the large Corporate Income Tax rate to 11.5 per cent, effective July 1, 2006.
- (f) 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.
- (g) Average weighted by provincial/territorial populations at July 1, 2005.

