

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.