FISCAL REVIEW

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

2002-03 Final Results

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

2003-04 Revised Estimates

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

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

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

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

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

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

2004-05 BUDGET

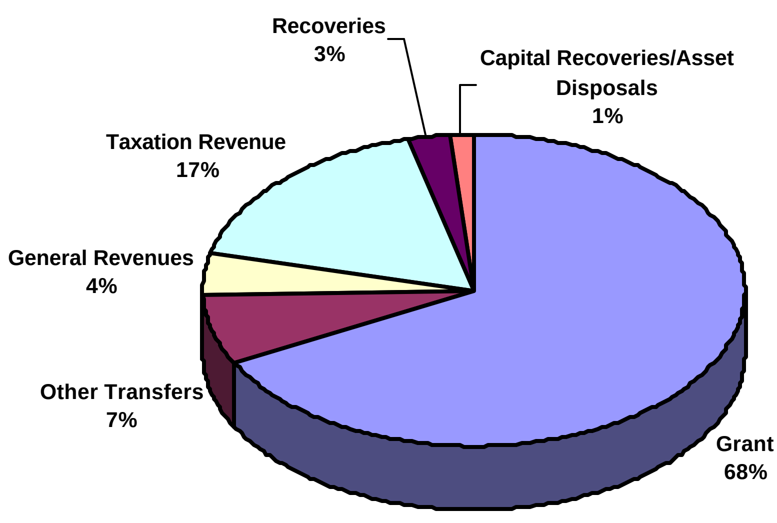
Revenues

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

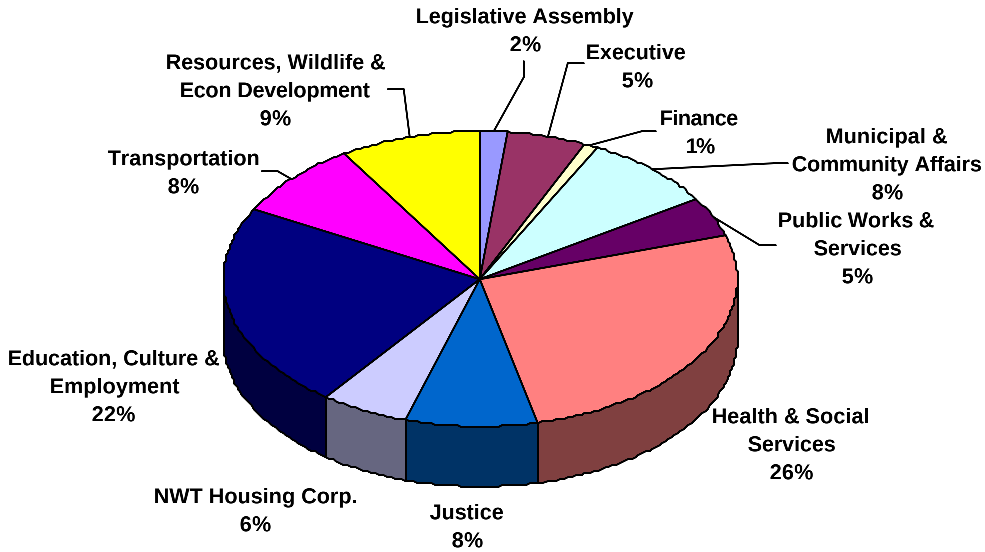
As the effect of the large one-time Corporate Income Tax paid in 2001-02 for the 2000 tax year finally works through the system, the composition of GNWT revenues will return to a more typical pattern. The Formula Financing Grant, at 68 per cent of total revenues, is $221 million lower than the 2003-04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

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

Total GNWT Revenues by Source
2004-05



Operations Expenditures by Department 2004-05



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

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

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

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

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

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

Operating Expenditures

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

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

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

Infrastructure Investment Expenditures

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

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

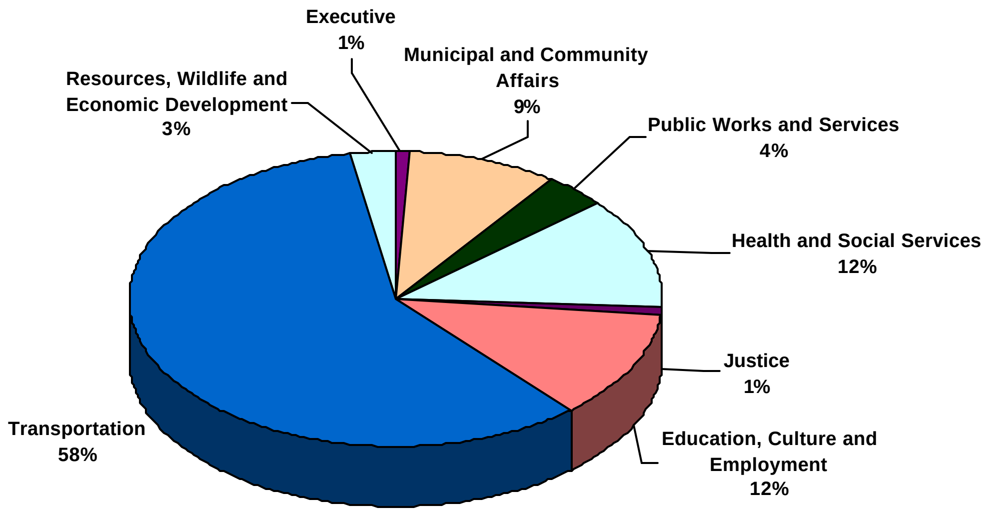
The 2003-04 federal Budget announced an additional $2 billion investment in the Strategic Infrastructure Fund. Of this, a further $45 million was approved for the NWT to continue the work proposed in the GNWT’s May 2002 *Corridors for Canada* proposal. The GNWT has approved additional matching funds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

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

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

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

Capital Investment Expenditures by Department
2004-05



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

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

MEDIUM TERM OUTLOOK

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

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

Fiscal Framework Operations Summary
(millions of dollars)

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

* One-time reductions.

Risks to Revenue Forecasts

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

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

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

GNWT's Fiscal Strategy

The GNWT's goal is to provide public services within its capacity to generate revenues. However, revenue growth is not keeping pace with necessary expenditures. The GNWT must strike a balance between making expenditures now, at the risk of incurring deficits and increasing debt, and the potential for gains – fiscal, economic and social - in the future. This includes making expenditures to meet not only the needs of NWT residents today, but also to invest in the future. For example, investments in training now will allow Northerners to take advantage of future employment opportunities created by resource development. This in turn can mean more tax revenues from NWT residents employed in the higher-wage resource sector.

A similar situation exists for capital investment. If the GNWT does not make investments now in areas such as highway infrastructure, the NWT is at risk of losing economic development opportunities. Postponement of infrastructure replacement and upgrades means increased maintenance costs to keep current infrastructure operating.

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

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

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

What Does Adequacy of Federal/territorial Fiscal Arrangements Mean?

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

Territorial Formula Financing – The Case for Adequacy

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

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

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

Gross Expenditure Base Ceiling

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

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

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

Gross Expenditure Base Cut

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

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

Fiscal Capacity Measures

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

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

Economic Development Incentive

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

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

Data Quality and Availability

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

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

Resource Revenues - Devolution/Resource Revenue Sharing

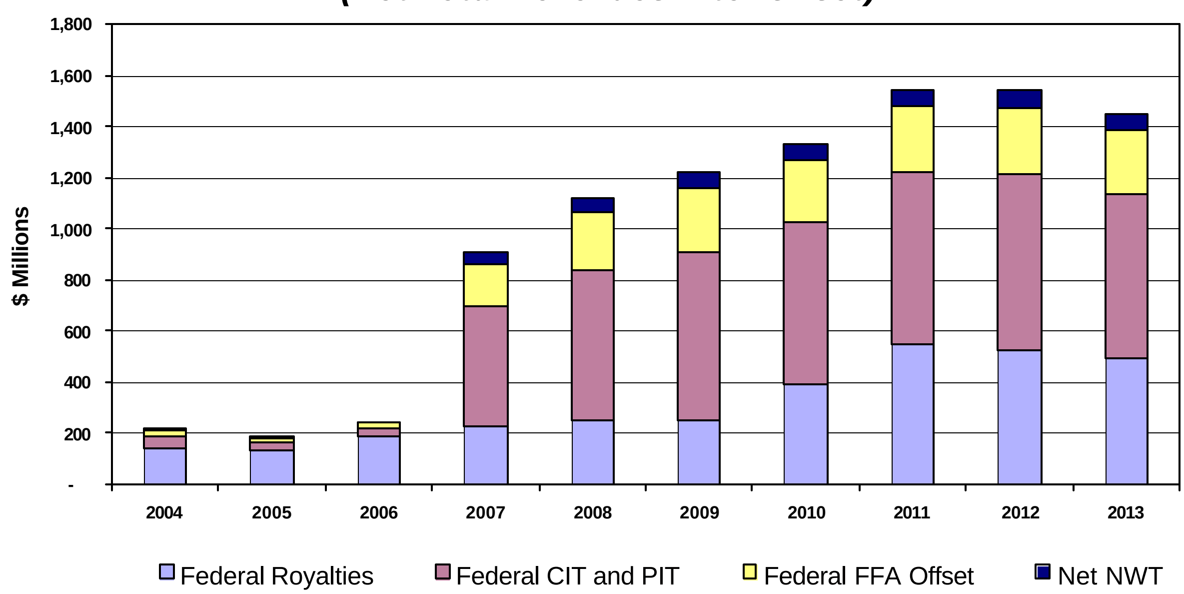
Currently, the federal government receives all the royalties from non-renewable resource activities in the Northwest Territories. Territorial tax revenues generated by resource sector activity are offset by reductions in the Formula Financing Grant. Under the present financial arrangements, the federal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

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

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

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

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



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

GNWT Capacity to Raise Own Source Revenues

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

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

Expenditure Needs

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

Key Expenditure Challenges

Demographics and Inflation - GNWT expenditure needs are tied closely to population levels, demographic structure, and inflation. Many factors, including changes in the overall population, changes to the ratio of dependants (those under 18 and over 64) to the working age population, price changes (especially for health care), the government wage bill and capital investment needs have significant effects on projected overall spending levels.

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

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

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

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

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

KEY EXPENDITURES NEEDS/ISSUES

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

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

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

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

However, the GNWT cannot ignore the negative impacts:

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

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

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

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

Summary of Operations

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

Summary of Revenues

(thousands of dollars)

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

Summary of Operations Expenditures by Department

(thousands of dollars)

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

Summary of Capital Investment Expenditures by Department

(thousands of dollars)

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

Summary of Changes in Capital Assets and Amortization

(thousands of dollars)

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

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

Summary of Total Debt and Estimated Borrowing Capacity

(thousands of dollars)

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

Notes: Any further guarantees of NWT Power Corporation debt may require a review of the GNWT's overall borrowing authority with the Government of Canada.

Summary of Cash Flows

(thousands of dollars)

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