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## **REALISTIC, SUSTAINABLE REVENUE OPTIONS**

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*NWT Chamber of Commerce*

*Response to the GNWT's*

*"Revenue Options"*

*September 22, 2008*

# Realistic, Sustainable Revenue Options

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## *NWT Chamber of Commerce Response to the GNWT's "Revenue Options"*

The Government of the Northwest Territories (GNWT) has begun the process of examining ways to boost its revenues to offset a projected fiscal shortfall of \$40 million over the next two years. While the NWT Chamber of Commerce applauds the government on its desire to avoid slipping into a deficit position we have serious concerns about the approach suggested.

Before considering how to raise money, however, it is important to first understand where the territorial government is currently getting its money, and why there's no longer enough of it to go around. Roughly 65 per cent of GNWT funding comes from Territorial Formula Financing from Ottawa. Currently this mechanism provides \$22,000 to the government for every man, woman and child living in the NWT. In fiscal 2007/08 this amount, combined with other federal transfers, totalled roughly \$805 million. Of the remaining \$425 million, more than half came from taxation: Roughly \$92 million from corporate taxes; and \$128 million from individual taxpayers.

Thus far, the majority of the territorial government's highlighted revenue options revolve around either increasing existing taxes or introducing new levies against residents and the businesses employing them. Such an approach would likely force more people to re-evaluate calling the NWT home and hasten the exodus to the south which is at the heart of the government's current dilemma.

Between 2005 and 2006, the NWT population declined by an estimated 1,062 people according to Statistics Canada. That's a decrease of more than \$23.3 million annually in federal transfers. Are higher taxes really expected to stem this tide?

Considering the lower tax rates already enjoyed by high-income earners in neighbouring Alberta and the increasing competition for workers both from traditional hotspots, such as Fort McMurray, and emerging developments, such as Newfoundland's Hibernia project – we, the more than 900 businesses represented by the NWT Chamber of Commerce, say "No."

Rather than examining new ways to squeeze more from the few who are already shouldering such a heavy burden, we would suggest our territorial leaders focus on a multi-tiered approach that would ensure long-term financial security for all residents and businesses of the NWT while working to diversify the overall tax base of the economy.

## Encourage Employers to Move Workers North

In 1999, the NWT Bureau of Stats estimated about 13.2 per cent of all labour income in the Territories was paid to non-resident workers from elsewhere in the country. In 2005, that climbed to about 16.5 per cent, or roughly \$277 million. Based on data from 2007, the government now estimates this fly-in-fly-out segment of our workforce is hauling away roughly 18 per cent of the total wages earned annually in the NWT.

Businesses need incentives to help cover the cost of relocating employees and their families to the North just as these prospective workers need to see the financial benefits of staying in the NWT. The NWT Chamber of Commerce would suggest that the GNWT should share the boost it would get through net in-migration gains, with the firms responsible for those increases.

Since each new arrival means an additional \$22,000 in federal funding, the territorial government should, in effect, partner with business to boost the population. The GNWT could give each business a one-time territorial tax credit of \$5,500 per person moved to the Territories each year, providing they cover the related relocation costs and the new hire stays here for at least one full calendar year.

In the case of families, this should extend to include all persons making the move with the new employee. Looking at a family of four, for example, the company paying to move them North should receive a net tax credit of \$22,000. The GNWT would still enjoy an additional \$66,000 in transfers during that first year and another \$88,000 for each subsequent year of residency based on this example.

Not only would this assist the hiring firm, the Northern business community would also gain another potential full-time worker through the arrival of the unemployed spouse as well as potential workers for hard-to-fill part-time positions depending on the ages of their dependents. The money earned by that family would largely end up being reinvested in the NWT thereby benefiting northern retailers who would earn more and contribute more to the territorial coffers due to their resulting jump in profits.

Such a move would also provide immeasurable benefits to NWT communities through intangibles like added capacity for volunteerism and diversity making them more attractive places to live.

## Targeted Infrastructure Spending

Every year that goes by without an extension to the Mackenzie Highway from Wrigley to Tuktoyaktuk is another missed opportunity to make vast portions the North more attractive to business, investors and individuals. Based on 2006 estimates, it would cost \$700 million to make such a route a reality. While on the surface this seems like a huge expenditure, never has the old adage of spending money to make money been more appropriate.

Such a construction project would result in hundreds of jobs and trades-related training opportunities for the largely aboriginal population along the route. Realising the untapped potential contained in this

segment of the workforce would generate millions in new tax dollars. The overall territorial employment rate was at about 73.6 per cent in 2007, which was tops in the nation. Among First Nation beneficiaries, however, this number falls off to just 55.3 per cent. Even assuming just 100 new careers as a result of this legacy infrastructure project, with average annual earnings of \$30,000 each, that's still an additional \$3 million flowing into the economy and tax coffers that doesn't currently do so.

At the same time, an all-weather extension to the Mackenzie Highway would dramatically reduce the cost-of-living for residents of Tulita, Deline, Norman Wells, Fort Good Hope, Colville Lake and Tuktoyaktuk. In some of these communities it is not uncommon to pay in excess of \$18 for a four-litre jug of milk. Where as in Yellowknife, which enjoys the benefit of largely year-round transportation links, residents pay just \$5-\$6 for the same product. Such a transformation would not only stretch the purchasing power of residents, it would also make it that much easier for companies to attract potential new employees to the North further growing the tax base.

The biggest potential bonus to this project is that the Sahtu is a largely unexplored treasure trove of resources that is already known to host rich reserves of oil, natural gas, diamonds, base metals, precious metals, coal and uranium. A highway down the valley through this area, as well as through the Gwich'in and Inuvialuit lands further North, would fuel an exploration spending boom as companies rush in to explore this largely virgin territory.

Setting aside the tens of millions that would be generated through corporate and personal income taxes due to increased economic activity in the Sahtu related solely to this early-stage, low-impact exploration, should just one mine develop to production it could singlehandedly drive GNWT budgets towards the black. Consider that in 2007, De Beers spent approximately \$362 million on its Snap Lake mine – the smallest of the Territories' three producing diamond mines. Of this total, almost \$279 million went to Northern contractors, suppliers and employees.

## **Remove Barriers to Development**

As suggested by Neil McCrank's recently presented report to the federal government, the NWT is missing out on countless opportunities due to over-regulation and unclear mandates among the many review boards operating around the Territories. While the NWT Chamber of Commerce would never suggest reopening the Land Claim Agreements First Nations groups have worked so long and hard to negotiate with the federal government, ensuring these bodies perform their roles in a timely, efficient and equitable manner would be in the best interest all Northerners.

Over the next five years, the Department of Industry, Tourism and Investment projects more than \$19 billion worth of major industrial development projects could happen, providing unrealistic regulatory hurdles don't chase proponents away to more expedient jurisdictions.

These potential mega-projects include:

- \$16 billion for the development of the Mackenzie Valley Pipeline and related gas fields;

- \$1.2 billion committed to be spent by BP in exploration in the Beaufort Sea;
- \$960 million for the DeBeers Gahcho Kue diamond mine project;
- \$243 million in mineral, oil and gas exploration by various companies;
- \$215 million for Fortune’s NICO project;
- \$200 million for Snare Lakes Hydro expansion;
- \$160 million for the Dehcho Bridge;
- \$100 million for the Prairie Creek Mine;
- and, \$100 million for the Tyhee Yellowknife Gold Project.

## Encourage Cost-Certainty for Business

One of the biggest barriers to business growth and diversification of GNWT taxation revenue streams remains the high and often volatile cost of producing electricity. Currently global economic and security forces hinder the ability of business to flourish around the NWT due to the surging price of diesel fuel required by many communities to meet their power generation needs.

By supporting and advancing hydro-electric development projects, such as the expansion of the existing Taltson and Snare facilities or developing a new generation facility at the St. Charles rapids on the Bear River between Tulita and Deline, the territorial government could largely kick its addiction to fossil fuels while spurring economic development in several otherwise challenged areas of the North.

Hydro-electric projects last for many generations and stabilize the cost of producing power, by removing fuel from the equation.

## In Summary

While the GNWT’s desire to set its fiscal house in order is commendable and applauded by the NWT Chamber of Commerce, the end goal of a balanced budget will never be sustained by increasing taxes.

Only by making the Territories a more attractive place in which to live and do business, can the GNWT ever truly hope to enjoy a meaningful and long-term increase in revenues without risking further decreases to its budgetary backbone, the federal transfers coming through Territorial Formula Financing and the dollars already being paid by overburdened Northern taxpayers and business.

### **For more information, contact:**

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