



Budget Paper B

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FINANCIAL REVIEW  
AND STATISTICS

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# FINANCIAL REVIEW AND STATISTICS

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## ■ Introduction

The 2002 Manitoba Budget provides a balanced response to significant new challenges. Our Government made difficult decisions to manage slower revenue growth as a consequence of slower economic growth and a major federal government income tax accounting error. The decisions we have made over the past few months enable us to meet the challenge posed by these events.

Budget 2002 continues our Government's commitment to strengthening the Province's finances, and to building Manitobans' confidence in the future of our province.

- All the provisions of the balanced budget act are fully met in 2001/02 and 2002/03.
- For the first time since balanced budget legislation was enacted, there are back-to-back years (2000/01 and 2001/02) in which balances have been achieved with no withdrawals from the Fiscal Stabilization Fund.
- In 2002/03, for the third consecutive year, \$96 million is set aside to repay long-term debt and pension liability.

These accomplishments are made possible by carefully managing our expenditures, and by the particular strengths of the Manitoba economy. Despite significant ongoing cost pressures in health care and emergency spending needs, 2001/02 spending is limited to 0.3% above budget, the smallest increase over budget since 1993/94. For 2002/03, the expenditures of most Government departments are reduced from last year's budget. Health care continues to be a priority, and its budget increases by 7.1%. Investment in education and support for Manitobans in need will also increase.

The Government will access exceptional surplus funds generated by Manitoba Hydro through its record-breaking export sales in the last few years. This follows the practice of other jurisdictions with public utilities. Domestic electricity rates will remain the lowest in North America. Manitoba Hydro's retained earnings will continue to grow.

In addition to creating a surplus in the Operating Fund and meeting the requirements of the balanced budget act, the Government is taking measures to accelerate the elimination of General Purpose Debt and pension liability.

The 2002 Budget builds on the progress we have made together. It meets today's challenges to help ensure a better future for all Manitobans.

## Comparative Statement of Budgetary Revenue, Expenditure, Transfers and Balance

2001/02

	2001/02	2001/02	Increase/(Decrease)	
	3Q-Forecast'	Budget'	From Budget to 3Q-Forecast	
	(Millions of Dollars)		(Millions of Dollars)	%
<b>Revenue</b>				
Own-Source	4,690	4,676	14	0.3
Federal Transfers	2,210	2,127	83	3.9
<b>Total Revenue</b>	<u>6,900</u>	<u>6,803</u>	<u>97</u>	<u>1.4</u>
<b>Expenditure</b>				
Program	6,388	6,318	70	1.1
Debt Servicing	391	439	(48)	(10.9)
<b>Total Expenditure</b>	<u>6,779</u>	<u>6,757</u>	<u>22</u>	<u>0.3</u>
<b>Net Revenue</b>	121	46	75	n/a
<b>Interfund Transfers</b>				
Debt/Pension Repayment	(96)	(96)	0	0.0
Fiscal Stabilization Fund	0	60	(60)	(100.0)
<b>Balance Under Balanced Budget Legislation</b>	<u>25</u>	<u>10</u>	<u>15</u>	<u>150.0</u>

Note 1: The 2001/02 information has been adjusted to be consistent with the 2002/03 Estimates structure.  
The 2001/02 forecast is based on the Third Quarter Financial Report.

## ■ 2001/02 Results

The Government's record of solid and stable fiscal performance has continued through the 2001/02 fiscal year. Expenditures have been controlled. Revenue growth, with measures to mitigate the losses due to the federal accounting error, is projected to be higher than budgeted. The revenue projections include an assumption that the Equalization Program regulations will be amended to remove an unjustifiable anomaly related to a federal accounting error in Personal Income Tax remittances to the Province. This situation is described in full in the Appendix to this Budget Paper.

### Revenue

Own-source revenue will exceed Budget 2001 estimates. The economic slowdown was already under way at the time the 2001 Budget was prepared, and Manitoba collections were not severely impacted, even after the events of September 11.

Personal and Corporation Income Tax revenue will be \$177 million below the Budget estimate. The federal accounting error has resulted in a federal recovery of \$168 million related to refunds of Personal Income Tax amounts paid by mutual fund trusts for the 2000 tax year. A further recovery will occur with respect to the 2001 tax year. The accounting for Personal Income Tax revenue is outlined in the Appendix on page B31.

In these circumstances, \$150 million will be received from Manitoba Hydro. With an appropriate correction to Equalization regulations, federal transfer revenue will also be higher than budgeted.

### Expenditure

Projected total expenditure exceeded the budgeted amount by \$22 million. This increase reflects continuing cost pressures in health care and some emergency expenses that were incurred in the spring and summer of 2001. This increase was offset by lower than budgeted expenditures in most other departments, and by debt costs being \$48 million lower than budgeted, as a result of lower interest rates and our debt management strategy. The 0.3% expenditure increase from budget was the lowest since 1993/94.

### Net Revenue

Net Revenue is projected to be \$121 million, representing a \$75 million improvement over the Budget projection.

### Balance Under Balanced Budget Legislation

Balanced budget legislation provides that \$96 million will be transferred to the Debt Retirement Fund for the purpose of payment of the General Purpose Debt and pension liability. The remaining \$25 million of Net Revenue will be transferred to the Fiscal Stabilization Fund.

## Comparative Statement of Budgetary Revenue, Expenditure, Transfers and Balance

2002/03 and 2001/02

	2002/03 Budget	2001/02	2001/02 Budget <sup>1</sup>	Increase/ (Decrease) from 3Q-Forecast to 2002/03 Budget		Increase/ (Decrease) from 2001/02 Budget to 2002/03 Budget	
		3Q- Forecast <sup>1</sup>		(Millions of Dollars)	%	(Millions of Dollars)	%
<b>Revenue</b>							
Own-Source	4,579	4,690	4,676	(111)	(2.4)	(97)	(2.1)
Federal Transfers	2,362	2,210	2,127	152	6.9	235	11.0
<b>Total Revenue</b>	<u>6,941</u>	<u>6,900</u>	<u>6,803</u>	<u>41</u>	<u>0.6</u>	<u>138</u>	<u>2.0</u>
<b>Expenditure</b>							
Program	6,560	6,388	6,318	172	2.7	242	3.8
Debt Servicing	368	391	439	(23)	(5.7)	(71)	(16.2)
<b>Total Expenditure</b>	<u>6,928</u>	<u>6,779</u>	<u>6,757</u>	<u>149</u>	<u>2.2</u>	<u>171</u>	<u>2.5</u>
<b>Net Revenue</b>	13	121	46	(108)	(89.3)	(33)	(71.7)
<b>Interfund Transfers</b>							
Debt/Pension Repayment	(96)	(96)	(96)	0	0.0	0	0.0
Fiscal Stabilization Fund	93	0	60	93	n/a	33	55.0
<b>Balance Under Balanced Budget Legislation</b>	<u>10</u>	<u>25</u>	<u>10</u>	<u>(15)</u>	<u>(60.0)</u>	<u>0</u>	<u>0.0</u>

Note 1: The 2001/02 information has been adjusted to be consistent with the 2002/03 Estimates structure.  
The 2001/02 forecast is based on the Third Quarter Financial Report.

## ■ 2002/03 Budget

### Revenue

Revenue for the 2002/03 fiscal year is budgeted to be only marginally higher than forecast for the 2001/02 fiscal year. Personal and Corporation Income Taxes are \$310 million lower than last year's budget. The Personal Income Tax track is impacted by the federal accounting error. The economic slowdown is having a significant impact on the taxable income of many corporations, which are often able to offset losses against tax liabilities previously paid. The payment from Manitoba Hydro will be \$75 million. Partially offsetting the effect of the federal accounting error are higher budgeted Equalization payments or equivalent compensation that we estimate at \$140 million.

### Expenditure

The 2002 Budget restrains total program expenditure to 2.7% above forecast 2001/02 expenditure. 2002/03 Program Expenditure Estimates represent an increase of \$242 million over the 2001/02 Budget. Of this \$242 million, close to \$184 million, or about 75% will be devoted to health care. The majority of departments will have lower appropriations. Debt servicing costs will continue to decline, falling to \$368 million or 5.3% of total expenditure.

### Net Revenue

This Budget results in Net Revenue of \$13 million, as compared to the \$46 million budgeted and \$121 million forecast for 2001/02.

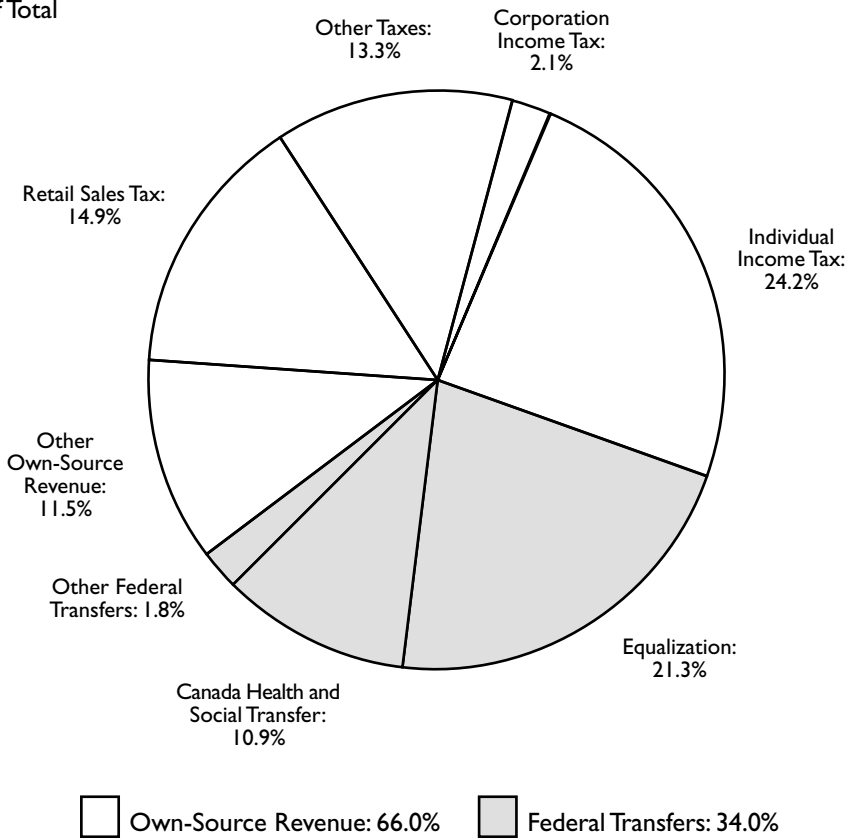
### Balance Under Balanced Budget Legislation

This Budget continues to apply \$96 million to General Purpose Debt and pension liability retirement. As in the past, the Debt Retirement Fund Allocation Committee will determine the most cost-effective use of these funds. The Budget assumes \$75 million is applied to the payment of General Purpose Debt. A draw of \$93 million from the Fiscal Stabilization Fund is budgeted, all of which will be used for debt and pension repayment. The balance under balanced budget legislation is a positive \$10 million.

## Provincial Revenue, 2002/03

### Major Sources

Percent of Total



## Revenue by Source

2002/03 and 2001/02

	2002/03	2001/02	Change 2002/03	
	Budget	3Q-Forecast	from 3Q-2001/02 Forecast	
	(Millions of Dollars)		(Millions of Dollars)	(%)
Own-Source Revenue	4,579	4,690	(111)	(2.4)
Government of Canada	2,362	2,210	152	6.9
<b>Total Revenue</b>	<b>6,941</b>	<b>6,900</b>	<b>41</b>	<b>0.6</b>



## Revenue Estimates

(Thousands of Dollars)

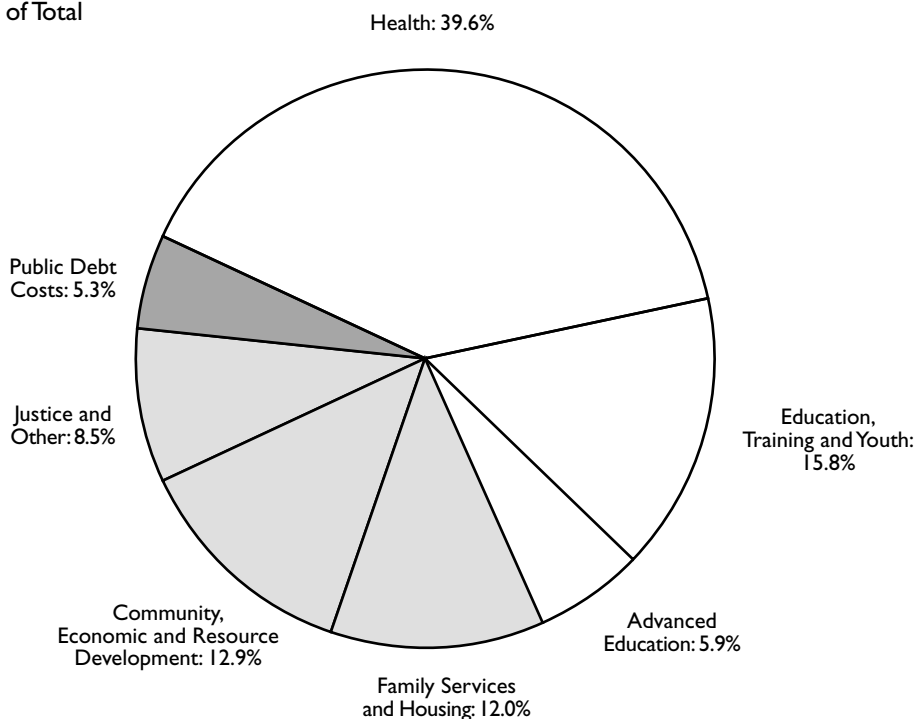
	2002/03 Estimate	2001/02 3Q-Forecast <sup>1</sup>	2001/02 Budget <sup>1</sup>	Percent Change 2002/03 from 2001/02 Forecast
<b>■ Own-Source Revenue</b>				
<b>Income Taxes</b>				
• Individual Income Tax .....	1,682,300	1,649,600	1,754,350	
• Corporation Income Tax .....	146,500	303,400	375,200	
Subtotal .....	1,828,800	1,953,000	2,129,550	(6.4)
<b>Taxes, Levies and Collections</b>				
• Land Transfer Tax .....	13,000	13,082	11,900	
• Corporation Capital Tax .....	129,000	133,200	137,500	
• Gasoline Tax .....	157,600	157,000	157,000	
• Insurance Corporations Tax .....	42,363	41,452	41,452	
• Levy for Health and Education .....	243,300	240,100	241,400	
• Mining Tax .....	17,500	16,700	20,000	
• Motive Fuel Tax .....	67,700	67,000	67,000	
• Oil and Natural Gas Tax .....	3,314	3,553	3,984	
• Retail Sales Tax .....	1,032,500	976,450	957,600	
• Revenue Act, 1964, Part I .....	65,600	65,600	65,600	
• Tobacco Tax .....	178,000	140,000	135,500	
• Environmental Protection Tax .....	3,000	3,000	3,000	
• Other Taxes .....	72	431	112	
Subtotal .....	1,952,949	1,857,568	1,842,048	5.1
<b>Fees and Other Revenue</b>				
• Fines and Costs; and Other Legal .....	19,765	18,036	21,393	
• Minerals and Petroleum .....	5,450	5,320	5,942	
• Automobile and Motor Carrier Licences and Fees .....	69,975	61,443	60,993	
• Drivers' Licences .....	14,066	14,066	14,066	
• Water Power Rentals .....	98,690	108,200	103,100	
• Parks; Forestry; Fisheries; and Other Conservation .....	27,174	27,901	29,210	
• All Other Manitoba Collections .....	56,497	72,332	55,947	
Subtotal .....	291,617	307,298	290,651	(5.1)
<b>Crown Corporations/Entities</b>				
• Manitoba Lotteries Corporation .....	252,000	248,000	240,000	
• Manitoba Liquor Control Commission .....	167,000	162,500	161,250	
• Manitoba Hydro .....	75,000	150,000	0	
• Other .....	11,650	12,545	12,200	
Subtotal .....	505,650	573,045	413,450	(11.8)
<b>Total Own-Source Revenue .....</b>	<b>4,579,016</b>	<b>4,690,911</b>	<b>4,675,699</b>	<b>(2.4)</b>
<b>■ Federal Transfers</b>				
• Equalization .....	1,481,300	1,390,300	1,306,100	
• Canada Health and Social Transfer (CHST) ...	728,800	683,900	677,800	
• Medical Equipment Fund .....	19,300	2,842	18,000	
• Primary Health Care Transition Fund .....	5,200	0	0	
• Other Transfers .....	127,674	132,526	125,800	
<b>Total Federal Transfers .....</b>	<b>2,362,274</b>	<b>2,209,568</b>	<b>2,127,700</b>	<b>6.9</b>
<b>■ Total Budgetary Revenue .....</b>	<b>6,941,290</b>	<b>6,900,479</b>	<b>6,803,399</b>	<b>0.6</b>

Note 1: The 2001/02 information has been adjusted to be consistent with the 2002/03 Estimates structure.  
The 2001/02 forecast is based on the Third Quarter Financial Report.

## Provincial Operating Expenditure, 2002/03

### Major Categories

Percent of Total



## Program Expenditure Estimates

2002/03 and 2001/02

	2002/03	2001/02	Change 2002/03	
	Budget	3Q-Forecast <sup>1</sup>	from 2001/02 Forecast	
	(Millions of Dollars)		(Millions of Dollars)	(%)
Health	2,771	2,686	85	3.2
Education, Training and Youth	1,108	1,073	35	3.3
Advanced Education	412	412	0	0.0
Family Services and Housing	839	812	27	3.3
Other Departments	1,495	1,426	69	4.8
<b>Expenditure Estimates</b>	<b>6,625</b>	<b>6,409</b>	<b>216</b>	<b>3.4</b>

Note 1: The 2001/02 information has been adjusted to be consistent with the 2002/03 Estimates structure. The 2001/02 forecast is based on the Third Quarter Financial Report.

## Operating Expenditure Estimates

(Thousands of Dollars)

	2002/03 Estimate	2001/02 3Q-Forecast <sup>1</sup>	2001/02 Budget <sup>1</sup>	Percent Change 2002/03 from 2001/02 Forecast
■ Health .....	2,770,933	2,685,918	2,587,328	3.2
■ Education				
• Advanced Education .....	411,660	412,257	415,899	
• Education, Training and Youth .....	1,107,627	1,073,287	1,074,387	
<b>Total Education .....</b>	<b>1,519,287</b>	<b>1,485,544</b>	<b>1,490,286</b>	<b>2.3</b>
■ Family Services and Housing .....	839,047	812,285	810,395	3.3
■ Community, Economic and Resource Development				
• Aboriginal and Northern Affairs .....	27,340	23,900	24,717	
• Agriculture and Food .....	121,151	119,428	122,113	
• Conservation .....	144,248	147,339	149,161	
• Industry, Trade and Mines .....	47,814	48,248	51,212	
• Intergovernmental Affairs .....	141,926	140,228	143,780	
• Transportation and Government Services .....	341,157	319,132	327,085	
• Enabling Appropriations .....	56,417	10,827	69,888	
• Other Appropriations .....	20,775	37,464	20,775	
<b>Total Community, Economic and Resource Development .....</b>	<b>900,828</b>	<b>846,566</b>	<b>908,731</b>	<b>6.4</b>
■ Justice and Other Government				
• Legislative Assembly .....	22,807	22,780	22,369	
• Executive Council .....	3,435	3,372	3,571	
• Civil Service Commission .....	4,311	3,675	4,411	
• Community Support Programs .....	5,731	5,852	6,033	
• Consumer and Corporate Affairs .....	9,576	9,426	9,773	
• Culture, Heritage and Tourism .....	59,201	58,959	60,125	
• Employee Pensions and Other Costs .....	60,012	57,131	57,358	
• Finance .....	104,738	102,869	106,158	
• Healthy Child Manitoba .....	21,730	16,038	17,085	
• Justice .....	237,397	234,262	231,108	
• Labour and Immigration .....	26,016	25,255	25,351	
• Seniors Directorate .....	739	717	788	
• Sport .....	10,315	10,263	10,368	
• Status of Women .....	1,146	1,152	1,218	
• Enabling Appropriations .....	27,500	26,637	25,833	
<b>Total Justice and Other Government .....</b>	<b>594,654</b>	<b>578,388</b>	<b>581,549</b>	<b>2.8</b>
■ Total Program Estimates .....	6,624,749	6,408,701	6,378,289	3.4
■ Public Debt Costs .....	368,310	390,557	438,689	(5.7)
■ Total Expenditure Estimates .....	6,993,059	6,799,258	6,816,978	2.9
■ Less: Year-End Lapse and In-Year Savings .....	(65,000)	(20,000)	(60,000)	
■ Total Budgetary Expenditure .....	6,928,059	6,779,258	6,756,978	2.2

Note 1: The 2001/02 information has been adjusted to be consistent with the 2002/03 Estimates structure.  
The 2001/02 forecast is based on the Third Quarter Financial Report.

## Manitoba Financial Statistics, Ten-Year Summary

	2002/03 Budget	2001/02 3Q-Forecast	2000/01 Actual	1999/00 Actual	1998/99 Actual
(Millions of Dollars)					
<b>FINANCIAL STATEMENTS<sup>1</sup></b>					
<b>Revenue</b>					
Own-Source Revenue	4,579	4,690	4,661	4,264	4,323
Federal Transfers	2,362	2,210	2,091	2,073	1,559
Total	6,941	6,900	6,752	6,337	5,882
<b>Expenditure</b>					
Program Expenditure	6,560	6,388	6,104	5,971	5,372
Public Debt Costs	368	391 <sup>2</sup>	511	465	515
Total	6,928	6,779	6,615	6,436	5,887
<b>Net Revenue/(Expenditure)</b>	13	121	137	(99)	(5)
<b>Debt/Pension Repayment</b>	(96)	(96)	(96)	(75)	(150)
<b>Transfers from/(to) Fiscal Stabilization Fund</b>	93	0	0	185	186
<b>Balance Under Balanced Budget Legislation</b>	10	25	41	11	31
<b>Net Direct and Guaranteed Debt</b>					
General Purpose	6,257	6,406	6,537	6,473	6,632
Manitoba Hydro	6,415	6,264	6,053	5,798	5,677
Other	1,250	1,100	1,086	943	947
Health Facilities	457	390	220	0	0
Capital Investments	245	245	260	245	142
Total	14,624	14,405 <sup>3</sup>	14,156	13,459	13,398
<b>Other Obligations</b>					
Health Debt	202	232	358	501	450
Pension Liability	3,315	3,142	2,924	2,774	2,624
Pension Assets	(126)	(97)	(21)	0	0
Total	3,391	3,277	3,261	3,275	3,074
<b>Total Obligations</b>	18,015	17,682	17,417	16,734	16,472
<b>Fiscal Stabilization Fund</b>					
<b>End of Year Balance</b>	285	359	320	264	427
<b>Memorandum Items</b>					
Population (000's)	1,154	1,150	1,146	1,142	1,138
GDP at Market Prices	35,625	34,914	33,881	31,777	30,881

Note 1: Refer to Public Accounts of Manitoba for applicable statements on accounting policies.

Note 2: Reflects change in accounting policy re: tangible capital assets (see page B15).

Note 3: As at March 31, 2002: see Operating Fund Statement of Valuation and Purpose of Direct and Guaranteed Debt Outstanding.

**1997/98 Actual      1996/97 Actual      1995/96<sup>5</sup> Actual      1994/95 Actual      1993/94 Actual**

(Millions of Dollars)

3,858      4,047<sup>4</sup>      3,789      3,310      3,247  
 1,884      1,716      1,873      1,895      1,629  
5,742      5,763      5,662      5,205      4,876

5,171      4,869<sup>4</sup>      4,913      4,804      4,752  
 520      539      592      597      585  
5,691      5,408      5,505      5,401      5,337

51      355      157<sup>6</sup>      (196)      (461)  
 (75)      0      0      0      0

100      (264)      0      0      30

76      91      157      (196)      (431)

6,773      6,808      6,814      7,364      6,834  
 5,569      4,893      5,090      5,022      5,426  
 976      1,212      1,770      1,945      1,876  
 0      0      0      0      0  
 0      0      0      0      0  
13,318      12,913      13,674      14,331      14,136

461      438      604      617      607  
 2,572      2,182      2,039      1,924      1,863  
 0      0      0      0      0  
3,033      2,620      2,643      2,541      2,470

16,351      15,533      16,317      16,872      16,606

565      578      210      31      29

1,137      1,134      1,130      1,124      1,118  
 29,826      28,492      26,992      26,026      24,739

**FINANCIAL STATEMENTS<sup>1</sup>**

**Revenue**

Own-Source Revenue  
 Federal Transfers  
 Total

**Expenditure**

Program Expenditure  
 Public Debt Costs  
 Total

**Net Revenue/(Expenditure)**

**Debt/Pension Repayment**

**Transfers from/(to) Fiscal Stabilization Fund**

**Balance Under Balanced Budget Legislation**

**Net Direct and Guaranteed Debt**

General Purpose  
 Manitoba Hydro  
 Other  
 Health Facilities  
 Capital Investments  
 Total

**Other Obligations**

Health Debt  
 Pension Liability  
 Pension Assets  
 Total

**Total Obligations**

**Fiscal Stabilization Fund End of Year Balance**

**Memorandum Items**

Population (000's)  
 GDP at Market Prices

Note 4: Includes net gain of \$264.6 million from divestiture of Manitoba Telephone System.

Note 5: Balanced budget legislation came into effect in 1995/96.

Note 6: Includes \$145 million Special Lotteries Transfer.

## Manitoba Financial Statistics, Ten-Year Summary

	2002/03 Budget	2001/02 3Q-Forecast	2000/01 Actual	1999/00 Actual	1998/99 Actual
<b>Annual Change</b>					
			(Percent Change)		
Own-Source Revenue	(2.4)	0.6	9.3	(1.4)	12.1
Federal Transfers	6.9	5.7	0.9	33.0	(17.3)
Total Revenue	0.6	2.2	6.5	7.7	2.4
Program Expenditure	2.7	4.7	2.2	11.2	3.9
Public Debt Costs	(5.7)	(23.5)	9.9	(9.7)	(1.0)
Total Expenditure	2.2	2.5	2.8	9.3	3.4
Balance Under Balanced					
Budget Legislation	(60.0)	(39.0)	272.7	(64.5)	(59.2)
Net General Purpose Debt	(2.3)	(2.0)	1.0	(2.4)	(2.1)
Total Net Debt	1.5	1.8	5.2	0.5	0.6
<b>Percent of GDP</b>					
			(Percent)		
Own-Source Revenue	12.9	13.4	13.8	13.4	14.0
Total Revenue	19.5	19.8	19.9	19.9	19.0
Program Expenditure	18.4	18.3	18.0	18.8	17.4
Public Debt Costs	1.0	1.1	1.5	1.5	1.7
Total Expenditure	19.4	19.4	19.5	20.3	19.1
Balance Under Balanced					
Budget Legislation	0.0	0.1	0.1	0.0	0.1
Net General Purpose Debt	17.6	18.3	19.3	20.4	21.5
<b>Percent of Revenue</b>					
Own-Source Revenue	66.0	68.0	69.0	67.3	73.5
Federal Transfers	34.0	32.0	31.0	32.7	26.5
Public Debt Costs	5.3	5.7	7.6	7.3	8.8
Net General Purpose Debt	90.1	92.8	96.8	102.1	112.8
<b>Percent of Expenditure</b>					
Program Expenditure	94.7	94.2	92.3	92.8	91.3
Public Debt Costs	5.3	5.8	7.7	7.2	8.7
Balance Under Balanced					
Budget Legislation	0.1	0.4	0.6	0.2	0.5
<b>Dollars Per Capita</b>					
			(Dollars)		
Total Expenditure	6,003	5,895	5,772	5,636	5,173
Public Debt Costs	319	340	446	407	453
Balance Under Balanced					
Budget Legislation	9	22	36	10	27
Net General Purpose Debt	5,422	5,570	5,704	5,668	5,828

Source: Manitoba Department of Finance

1997/98 Actual	1996/97 Actual	1995/96 Actual	1994/95 Actual	1993/94 Actual	
					<b>Annual Change</b>
		(Percent Change)			Own-Source Revenue
(4.7)	6.8	14.5	1.9	12.7	Federal Transfers
9.8	(8.4)	(1.2)	16.3	(10.3)	Total Revenue
(0.4)	1.8	8.8	6.7	3.8	Program Expenditure
6.2	(0.9)	2.3	1.1	(3.1)	Public Debt Costs
(3.5)	(9.0)	(0.8)	2.1	4.7	Total Expenditure
5.2	(1.8)	1.9	1.2	(2.3)	Balance Under Balanced
					Budget Legislation
(16.5)	(42.0)	n/a	(54.5)	(23.9)	Net General Purpose Debt
(0.5)	(0.1)	(7.5)	7.8	10.6	Total Net Debt
3.1	(5.6)	(4.6)	1.4	11.2	
		(Percent)			<b>Percent of GDP</b>
12.9	14.2	14.0	12.7	13.1	Own-Source Revenue
19.3	20.2	21.0	20.0	19.7	Total Revenue
17.3	17.1	18.2	18.5	19.2	Program Expenditure
1.7	1.9	2.2	2.3	2.4	Public Debt Costs
19.1	19.0	20.4	20.8	21.6	Total Expenditure
					Balance Under Balanced
0.3	0.3	0.6	(0.8)	(1.7)	Budget Legislation
22.7	23.9	25.2	28.3	27.6	Net General Purpose Debt
					<b>Percent of Revenue</b>
67.2	70.2	66.9	63.6	66.6	Own-Source Revenue
32.8	29.8	33.1	36.4	33.4	Federal Transfers
9.1	9.4	10.5	11.5	12.0	Public Debt Costs
118.0	118.1	120.3	141.5	140.2	Net General Purpose Debt
					<b>Percent of Expenditure</b>
90.9	90.0	89.2	88.9	89.0	Program Expenditure
9.1	10.0	10.8	11.1	11.0	Public Debt Costs
					Balance Under Balanced
1.3	1.7	2.9	(3.6)	(8.1)	Budget Legislation
		(Dollars)			<b>Dollars Per Capita</b>
5,005	4,769	4,872	4,805	4,774	Total Expenditure
457	475	524	531	523	Public Debt Costs
					Balance Under Balanced
67	80	139	(174)	(386)	Budget Legislation
5,957	6,004	6,030	6,552	6,113	Net General Purpose Debt

## ■ The Medium-Term Fiscal Framework

Total Provincial Government revenue is projected to increase at an average annual rate of about 2.7% over the medium term, a rate that reflects the lower growth trajectory arising as a result of the federal accounting error on mutual trust funds (see page B27 for a detailed discussion), and the ongoing commitment to tax relief. According to the February 2002 Conference Board Forecast, Manitoba's nominal Gross Domestic Product is expected to grow at an average annual rate of 4.4% over the next three years. Real Gross Domestic Product is expected to average about 3.1% over this period.

Program expenditure is targeted to increase at an average annual rate of 2.0% after 2002/03 – a rate that reflects a balancing of more moderate medium-term growth prospects for revenue, with the need to maintain key public services, and fund modest improvements in areas of greatest priority.

Public debt costs are expected to continue at their 2002/03 level of \$368 million.

This medium-term fiscal framework incorporates draws on the Fiscal Stabilization Fund to 2004/05. However, deposits to the Debt Retirement Fund equal or exceed the Fiscal Stabilization Fund transfer each year. Beginning in 2005/06, net revenue growth will allow the Government to eliminate further draws, and begin to replenish the Fund and continue to pay down the debt.

In line with our Province's balanced budget legislation, debt reduction and the retirement of pension liability will continue at the \$96 million level to 2004/05, rising thereafter to \$121 million.

### Medium-Term Fiscal Framework

	2001/02 <sup>1</sup>	2002/03	2003/04	2004/05	2005/06
			(Millions of Dollars)		
<b>Revenue</b>	6,900	6,941	7,069	7,246	7,516
<b>Expenditure</b>					
Program Expenditure	6,388	6,560	6,691	6,825	6,961
Public Debt Costs	391	368	368	368	368
<b>Total</b>	6,779	6,928	7,059	7,193	7,329
<b>Net Revenue</b>	121	13	10	53	187
<b>Interfund Transfers</b>					
Debt/Pension Repayment	(96)	(96)	(96)	(96)	(121)
Fiscal Stabilization Fund	0	93	96	53	(56)
<b>Balance Under Balanced Budget Legislation</b>	25	10	10	10	10

The Medium-Term Fiscal Framework reflects current forecasts and assumptions. Should future circumstances depart from these, budget decisions will reflect these changes.

Note 1: 3Q–Forecast.



## ■ Improving Transparency and Accountability

### Capital Acquisitions

2002/03 will see the introduction of a measure which will include the full cost of capital assets in program costs. In the past, departments were required to budget for the cost of their capital acquisitions. The budget for the acquisition cost has been reflected through Part B of the Estimates. The related annual amortization costs have been voted as part of departmental appropriations. This has resulted in the amortization component of capital-related costs being included in overall departmental program costs. For 2002/03, this process has been expanded to include the interest-carrying costs of capital assets in each department. This interest charge is determined on the basis of the unamortized capital balance for each asset. This will not only provide greater departmental accountability for capital expenditures, but will also ensure that the interest attached to capital acquisitions is considered.

### Pension Accounting

In a continued effort to address the Government's outstanding pension liability, departments will fund the cost of matching contributions for employees hired on or after October 1, 2002 from their appropriations. This funding will be directed to the Pension Assets Fund, in addition to other contributions being made through the Debt Retirement Fund. This will begin to reflect the cost of the pension benefits in the various programs across Government.

### Improved Reporting

The Government's first Annual Report was issued for the fiscal year 2000/01. This fulfilled our commitment to provide more comprehensive reporting on the Government's fiscal results. The Report included not only financial statements, but also discussion and analysis. It also included financial and economic indicators for the Government's central operations, as well as for the entire Government reporting entity. Last year for the first time, a Summary Budget was presented that represented the entire Government reporting entity. In this Budget, the Report on Consolidated Operations includes the Summary Budget Forecast, information on prior years and more complete explanations of the components of the Summary Financial Statements.

## ■ Report on Consolidated Operations/ Summary Budget Forecast

The Report on Consolidated Operations provides information on the entire Government entity, including Government enterprises and organizations which deliver Provincial Government services.

### The Operating Fund

The Operating Fund reflects the central operations of Government, and is the basis for the Estimates process and appropriations voted by the Legislature. The Operating Fund posted a surplus of \$137 million in the 2000/01 fiscal year, and is projected to have a \$121 million surplus for the 2001/02 fiscal year. This Budget projects a surplus for the Operating Fund of \$13 million for the current year.

	2002/03 Budget	2001/02 3Q-Forecast	2001/02 Budget	2000/01 Actual
Operating Fund Balance	13	121	46	137

### Interfund Transfers/Debt Retirement

For the fiscal year 2001/02, it will not be necessary to make any draw on the Fiscal Stabilization Fund. For the first time, there will be back-to-back years without a draw on the Fund. Given the lower revenue track resulting from the federal accounting error and the economic downturn in 2001, this Budget proposes a draw of \$93 million for the 2002/03 fiscal year.

	2002/03 Budget	2001/02 3Q-Forecast	2001/02 Budget	2000/01 Actual
Debt Retirement Payment	(96)	(96)	(96)	(96)
Fiscal Stabilization Fund	93	0	60	0
Total Interfund Transfers	(3)	(96)	(36)	(96)

### Balance Under Balanced Budget Legislation

Under balanced budget legislation, payments to the Debt Retirement Fund, and payments to or withdrawals from the Fiscal Stabilization Fund, are included to arrive at a balance. This balance must be positive to comply with the provisions of the balanced budget act. The balance will be positive for the eighth consecutive year. A positive balance of \$10 million is projected.

	2002/03 Budget	2001/02 3Q-Forecast	2001/02 Budget	2000/01 Actual
Balance Under Balanced Budget Legislation	10	25	10	41

### Transfer To The Fiscal Stabilization Fund

Consistent with balanced budget legislation, the balance is deposited to the Fiscal Stabilization Fund.

	2002/03 Budget	2001/02 3Q-Forecast	2001/02 Budget	2000/01 Actual
Transfer to The Fiscal Stabilization Fund	(10)	(25)	(10)	(41)

## Special Funds – Change in Balances

There are a number of special funds created by the Legislature for specific purposes. The two principal funds are the Fiscal Stabilization Fund and the Debt Retirement Fund. There are also a number of small, special-purpose funds (such as Mining Community Reserve Fund and Quarry Rehabilitation Reserve), which combined are projected to have little effect on the overall balance.

	2002/03 Budget	2001/02 3Q-Forecast	2001/02 Budget	2000/01 Actual
Debt Retirement Fund	79	25	79	75
Fiscal Stabilization Fund	(74)	39	(33)	56
Other	(1)	0	0	1
<b>Total Special Funds</b>	<b>4</b>	<b>64</b>	<b>46</b>	<b>132</b>

## Government Enterprises and Crown Corporations

This Report notes the net changes in the operating balances of Government enterprises and Crown corporations during the fiscal year. The totals for Manitoba Hydro reflect both the payments to the operating fund in 2001/02 and 2002/03, and a projected change in net earnings from \$209 million in 2001/02 to \$106 million in 2002/03. Accumulated retained earnings in Manitoba Hydro will continue to increase. Lower net earnings are also projected for 2001/02 for the Manitoba Public Insurance Corporation due to lower investment income and higher claims. A negative balance for 2002/03 with respect to other enterprises and Crown corporations primarily reflects the projected use of \$28 million of accumulated reserves of the Manitoba Crop Insurance Corporation to assist Manitoba farmers.

	2002/03 Budget	2001/02 3Q-Forecast	2001/02 Budget	2000/01 Actual
Manitoba Hydro	31	59	99	270
Manitoba Public Insurance Corp.	5	(16)	38	46
Others	(35)	(14)	(14)	106
<b>Total Enterprises &amp; Crown Corps.</b>	<b>1</b>	<b>29</b>	<b>123</b>	<b>422</b>

## Balance Before Pension Items

The Consolidated Balance before consideration of the pension liability will be in surplus for the fourth consecutive year. The Consolidated Net Income, before consideration of the pension liability, would total \$652 million for the period 2000/01 through 2002/03.

	2002/03 Budget	2001/02 3Q-Forecast	2001/02 Budget	2000/01 Actual	3-year Total
Net Income Before Pension Items	5	93	169	554	652

## Pension Liability and the Pension Assets Fund

Upon coming into office, our Administration put into place a plan to retire the General Purpose Debt and to eliminate the Government's pension liability. Prior to this, it was projected that pension liability would grow to \$8.4 billion by 2028, and would continue to grow after that.

The Government continues to take concrete action toward increasing the sustainability of Provincial finances through improvements to plans to repay the long-term debt and pension liability of the Government.

The 2000 Manitoba Budget introduced a comprehensive approach to address both debt and pension obligations. This involved:

- continuation of payments of retiree pension obligations;
- continuation of the provision for debt repayment; and
- inclusion of amounts within debt retirement allocations sufficient to equal employee contributions for civil servants and teachers hired on or after April 1, 2000.

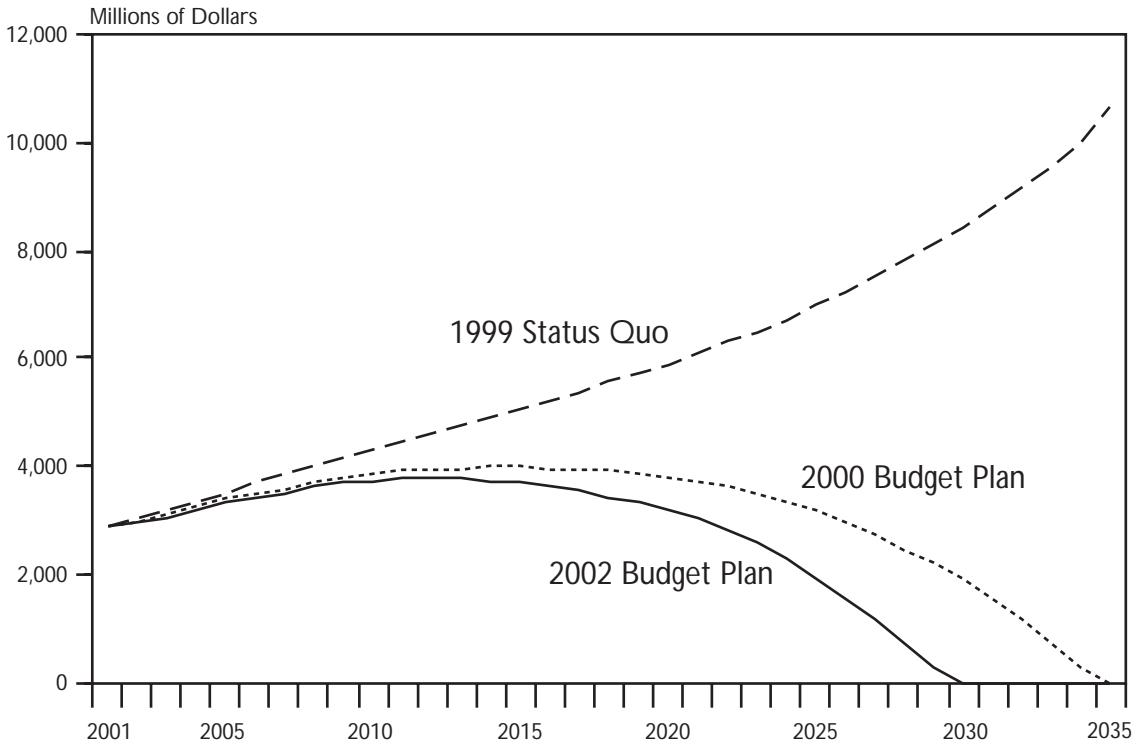
The 2001 Budget continued these measures, and \$21 million from the \$96 million allocation to the Debt Retirement Fund was budgeted for the Pension Assets Fund. The Debt Retirement Fund Allocation Committee increased the allocation to the pension liability to \$75 million in 2001/02, and correspondingly reduced the allocation against General Purpose Debt to \$21 million from the \$75 million budgeted. Reflecting better pension investment returns, this change will improve the impact of the \$96 million allocation by an estimated \$5 million by March 31, 2005, and by \$51 million by March 31, 2030.

In 2002/03, \$96 million will be paid into the Debt Retirement Fund, and directed to the most appropriate purpose by the Debt Retirement Fund Allocation Committee. Based on the anticipated deposits, together with earnings, the Debt Retirement Fund is projected to grow by \$80 million, and the Pension Assets Fund by \$29 million in this fiscal year. The funds deposited in the Pension Assets Fund are invested with the Civil Service Superannuation Fund and the Teachers Retirement Allowances Fund. Interest earned on these investments is credited to the Pension Assets Fund.

In this Budget, the Government is once again acting to reduce the term over which the pension liability will be eliminated. In addition, beginning October 1, 2002, departments and agencies will be required to fund matching contributions for their new employees from within existing resources. It is anticipated that the requirement will be slightly under \$1 million in 2002/03, \$4 million in 2003/04 and approximately \$6 million in 2004/05.

These measures, when taken together, are expected to ensure that the pension liability that built up over 40 years will begin to decline starting in 2013 and will accelerate payment of the pension liability by an additional five years from the 2000 Budget Plan. In addition, both the General Purpose Debt and the pension liability will be eliminated by 2036 – four years earlier than projected in the 2000 Budget Plan.

### Pension Liability Retirement Plan



Year Ending March 31	1999 Status Quo	2000 Budget Plan	2002 Budget Plan
(Millions of Dollars)			
2001	2,880	2,857	2,857
2005	3,517	3,392	3,325
2010	4,324	3,868	3,739
2015	5,073	3,998	3,706
2020	5,900	3,802	3,191
2025	6,978	3,153	1,926
2030	8,438	1,887	0
2035	10,647	0	0

Source: Manitoba Department of Finance

## Summary

	2002/03 Budget	2001/02 3Q-Forecast	2001/02 Budget	2000/01 Actual	3-year Total
Net Income Before Pension Items	5	93	169	554	652
Increase in Pension Liability	(167)	(156)	(156)	(144)	(467)
Increase in Pension Assets Fund	29	76	23	21	126
Consolidated Net Income (Expenditure)	(133)	13	36	431	311

After consideration of the pension liability and the Pension Assets Fund, this Budget projects a net expenditure of \$133 million for the entire Manitoba Government operating entity. Over the three-year period from 2000/01 through 2002/03, it is projected that the entire Government entity will record net revenue of \$311 million. Major factors for the decline in 2002/03 include significant reductions in income tax revenues, lower projected Hydro revenue and payments to farmers from accumulated reserves of the Manitoba Crop Insurance Corporation. On a comparative year-over-year basis, earlier results were augmented by payments resulting from the federal accounting error. (In fiscal year 2001/02, the federal government recovered \$168 million related to mutual trust fund refunds. A further \$112 million of mutual trust fund tax refunds are estimated as the amount to be assessed and recovered in 2002/03. The 2002 Budget reflects calculations of offsetting amounts, which may be received in Equalization or other payments for the 2001/02 and 2002/03 fiscal years under a settlement of the federal error issue.)

Taken together, these items reflect the entire operations of the Government. The Government's financial stewardship is directed toward ensuring the long-term sustainability of the services to Manitobans. Much has already been accomplished. The strength of Manitoba's Crown corporations and enterprises is expected to continue to contribute to the long-term sustainability of services delivered to Manitobans by their Government. This Budget, including the new measures to ensure earlier elimination of all debt and pension obligations, provides a more solid foundation for a sustainable future.

## ■ Fiscal Stabilization Fund

In 2001/02, the budgeted draw from the Fiscal Stabilization Fund will once again not be required. After requiring consecutive draws on the Fund from 1996/97 through 1999/2000 to meet the requirements of balanced budget legislation, this was the second year in a row that a draw was not required. The positive balance for 2001/02, projected at \$25 million, is deposited in the Fiscal Stabilization Fund. The budgeted draw for 2002/03 is \$93 million, all of which is directed to debt and pension liability repayment. The closing balance of the Fund is projected to be \$285 million.

## Fiscal Stabilization Fund Statement of Revenue, Expenditure and Balance

Projection as at March 31, 2002 and March 31, 2003

	2002/2003	2001/02 3Q-Forecast
	(Millions of Dollars)	
<b>Fund Balance, beginning of year</b>	359	320
<b>Revenue</b>		
Balance Under Balanced Budget Legislation	10	25
Interest Earnings	9	14
	<u>19</u>	<u>39</u>
<b>Expenditure</b>		
Transfer to Operating Fund	(93)	-
<b>Fund Balance, end of year</b>	<u>285</u>	<u>359</u>

### ■ Debt Retirement Fund

In accordance with *The Balanced Budget, Debt Repayment and Taxpayer Accountability Act*, a \$96 million deposit to the Debt Retirement Fund is required in each of 2001/02 and 2002/03. Of the 2001/02 amount, the Allocation Committee determined that the most cost-effective allocation was \$75 million to pension liability and \$21 million against General Purpose Debt. In the 2002 Budget plan, the 2002/03 allocation is \$21 million to pension liability, and \$75 million against General Purpose Debt, subject once again to the decision of the Allocation Committee as to the most effective use.

## Statement of Revenue, Expenditure and Balance

Projection as at March 31, 2002 and March 31, 2003

	2002/2003	2001/02 3Q-Forecast
	(Millions of Dollars)	
<b>Fund Balance, beginning of year</b>	100	75
<b>Revenue</b>		
Transfer from Operating Fund	96	96
Interest Earnings	4	4
	<u>100</u>	<u>100</u>
<b>Expenditure</b>		
Transfer to Pension Assets Fund	(21)	(75)
<b>Fund Balance, end of year</b>	<u>179</u>	<u>100</u>

## ■ Capital Investment

Part B Capital Investment is required for the annual purchase or acquisition of tangible capital assets which meet the established guidelines for amortization (see Appendix B of the 2002/03 Estimates of Expenditure). Tangible capital assets are those with a useful life extending beyond one year which are acquired, constructed or developed and held for use, not resale. Tangible assets, whose acquisition value is less than established capitalization thresholds, are recorded as operating expenditure in the year of acquisition. As of April 1, 2002, departments and agencies will be required to fund interest costs associated with Part B Capital Investment from within operating appropriations.

Any Part B Capital Investment authority that is not used at year-end, lapses, similar to unused Part A Operating Expenditure authority.

The following table outlines the Part B Capital Investment authority requirements for 2002/03.

### Capital Investment, 2002/03

(Thousands of Dollars)

Government Services Capital Projects .....	13,600
Transportation Equipment and Other Capital .....	11,100
Information Technology Projects	
Better Systems Initiative .....	18,300
Health.....	4,500
Family Services and Housing .....	2,000
Justice .....	1,400
Finance .....	1,120
Consumer and Corporate Affairs .....	980
Other Departments.....	3,550
Other Equipment and Buildings .....	1,450
	<u>58,000</u>

## ■ Capital Grants, Infrastructure and Capital Investment

Total spending for capital purposes is comprised of spending on capital grants and infrastructure from Part A of the Estimates of Expenditure, and Capital Investment spending from Part B of the Estimates of Expenditure.

Total spending for capital purposes is outlined in the following table.

### Capital Grants, Infrastructure and Capital Investment, 2002/03

(Thousands of Dollars)

Capital Grants (Part A).....	210,938
Infrastructure (Part A) .....	170,087
Capital Investment (Part B).....	58,000
	<u>439,025</u>



## ■ Loan Act Requirements

The following table reflects expenditure authority to be included in *The Loan Act, 2002*.

### Incremental Capital Authority Requirements for Non-Budgetary Programs, 2002/03

(Thousands of Dollars)

#### The Loan Act, 2002

The Manitoba Hydro-Electric Board .....	309,000
Manitoba Health .....	161,500
The Manitoba Agricultural Credit Corporation .....	135,900
Manitoba Industrial Opportunities Program .....	66,500
Manitoba Housing and Renewal Corporation .....	55,500
Manitoba Lotteries Corporation .....	39,200
Manitoba Lotteries Corporation	
First Nations Casino Development.....	29,000
Red River College .....	20,000
Red River Floodway Renewal and Expansion .....	20,000
Manitoba Student Financial Assistance Program .....	11,730
Special Operating Agencies Financing Authority	
Fleet Vehicles Agency.....	6,250
Food Development Centre.....	3,800
Communities Economic Development Fund .....	3,700
Rural Economic Development Initiatives.....	830
Venture Manitoba Tours Ltd.....	700
International Education .....	250
	<u>863,860</u>

### Non-Budgetary Capital Program, 2002/03

(Thousands of Dollars)

The Manitoba Hydro-Electric Board .....	390,500
Manitoba Health .....	212,393
The Manitoba Agricultural Credit Corporation .....	145,700
Manitoba Industrial Opportunities Program .....	94,500
Manitoba Housing and Renewal Corporation .....	60,695
Manitoba Lotteries Corporation .....	52,800
Manitoba Student Financial Assistance Program .....	30,000
The Manitoba Water Services Board .....	27,634
Red River College .....	20,000
Red River Floodway Renewal and Expansion .....	20,000
Manitoba Lotteries Corporation	
First Nations Casino Development.....	12,000
Special Operating Agencies Financing Authority	
Fleet Vehicles Agency.....	10,351
Communities Economic Development Fund .....	9,700
Community Development Bonds.....	6,000
Miscellaneous Corporations, Agencies and Other Programs.....	15,489
	<u>1,107,762</u>

## ■ Borrowing Requirements

Manitoba's borrowing requirements for both general and self-sustaining purposes, including the guaranteed debt of Crown corporations, will total \$2.3 billion in 2002/03. A total of \$1.7 billion is required for the refunding of general purpose and self-sustaining debt. The remainder is required for self-sustaining programs, including Manitoba Hydro. Incremental capital authority requirements totalling \$864 million are provided by *The Loan Act, 2002*.

### Borrowing Requirements

(Thousands of Dollars)

	Estimated Unfunded as at	Refunding	New Cash Requirements	Estimated Repayments & Non Cash Items	Borrowing Requirements
	March 31/02	2002/03	2002/03	2002/03	2002/03
Refunding					
General Government Program Debt	–	1,374,690	–	75,000	1,299,690
Capital Investments	(27,000)	–	27,000	–	–
The Manitoba Hydro- Electric Board	180,000	282,956	309,000	–	771,956
Manitoba Hospital Facilities	–	67,559	–	28,989	38,570
The Manitoba Agricultural Credit Corporation	–	–	75,000	56,500	18,500
Business Support Programs	(20,000)	–	75,000	25,000	30,000
Manitoba Housing and Renewal Corporation	–	–	60,695	60,695	–
Student Financial Assistance Program	–	–	30,000	25,000	5,000
Manitoba Lotteries Corporation	–	–	47,200	–	47,200
Red River College	–	–	20,000	–	20,000
Red River Floodway Renewal and Expansion	–	–	20,000	–	20,000
The Manitoba Water Services Board	–	–	14,416	10,000	4,416
Communities Economic Development Fund	–	–	9,450	9,450	–
Fleet Vehicles Agency	–	–	6,850	2,000	4,850
Miscellaneous	–	–	5,629	5,629	–
	<u>133,000</u>	<u>1,725,205</u>	<u>700,240</u>	<u>298,263</u>	<u>2,260,182</u>

## Statement of Valuation and Purpose of Direct and Guaranteed Debt Outstanding

(Thousands of Dollars) Preliminary Unaudited

As at March 31, 2002 (with comparative figures for March 31, 2001)

Canadian Dollar Equivalent at Date of Issue March 31/02	Canadian Dollar Equivalent at Date of Issue March 31/01	Increase/ (Decrease) March 31/02 over March 31/01		Canadian Dollar Valuation (Note 1) March 31/02	Canadian Dollar Valuation (Note 1) March 31/01	Increase/ (Decrease) March 31/02 over March 31/01
<b>Direct Debt Payable in:</b>						
11,835,290	11,576,012	259,278	Canadian Dollars	11,807,490	11,548,212	259,278
2,962,401	2,489,533	472,868	Issues Swapped to Canadian Dollars	3,221,628	2,624,374	597,254
3,055,916	3,656,931	(601,015)	U.S. Dollars	3,734,566	4,765,523	(1,030,957)
1,403,111	881,092	522,019	Issues Swapped to U.S. Dollars	1,555,051	1,015,640	539,411
<u>19,256,718</u>	<u>18,603,568</u>	<u>653,150</u>	Total Direct Debt	<u>20,318,735</u>	<u>19,953,749</u>	<u>364,986</u>
<b>Guaranteed Debt Payable in:</b>						
596,698	416,102	180,596	Canadian Dollars	596,698	416,102	180,596
0	0	0	U.S. Dollars	0	0	0
<u>596,698</u>	<u>416,102</u>	<u>180,596</u>	Total Guaranteed Debt	<u>596,698</u>	<u>416,102</u>	<u>180,596</u>
19,853,416	19,019,670	833,746	<b>Total Direct and Guaranteed Debt</b> (Note 2)	20,915,433	20,369,851	545,582
6,410,572	6,138,654	271,918	Less: Sinking Fund Investments	6,410,572	6,138,654	271,918
100,083	75,227	24,856	Less: Debt Retirement Fund	100,083	75,227	24,856
<u>13,342,761</u>	<u>12,805,789</u>	<u>536,972</u>	<b>Net Direct and Guaranteed Debt</b> (Note 3)	<u>14,404,778</u>	<u>14,155,970</u>	<u>248,808</u>

Note 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at March 28, 2002 and March 31, 2001.

Note 2: Direct and Guaranteed Debt are payable in Canadian and U.S. dollars. As at March 31, 2002, total gross debt was payable 75% in Canadian dollars and 25% in U.S. dollars. Of this total, General Purpose Debt and Other Debt was payable 94% in Canadian dollars (87% at March 31, 2001) and 6% in U.S. dollars (13% at March 31, 2001), while Manitoba Hydro was payable 42% in Canadian dollars (47% at March 31, 2001) and 58% in U.S. dollars (53% at March 31, 2001).

Note 3: The above debt was issued for the following purposes:

	March 31, 2002		March 31, 2001	
	(\$ Thousands)	(\$ Per Capita) (Note 4)	(\$ Thousands)	(\$ Per Capita) (Note 4)
General Government Programs	6,406,474	5,575	6,537,300	5,693
The Manitoba Hydro-Electric Board	6,263,612	5,451	6,052,524	5,271
Capital Investments	244,900	213	260,390	227
Manitoba Hospital Facilities	390,000	339	220,000	192
Other	1,099,792	957	1,085,756	946
	<u>14,404,778</u> (Note 5)	<u>12,535</u>	<u>14,155,970</u>	<u>12,329</u>

Note 4: Per capita data is based upon population figures at January 1, 2002 and April 1, 2001 as reported by Statistics Canada.

Note 5: General Government Program Debt decreased by \$130 million primarily by the deposit to the Debt Retirement Fund and non-cash budgetary items. All other debt increased \$379 million due to the continued consolidation of Hospital Facilities debt on to the Province's records, combined with the refinancing of Centra Gas debt at a saving to Manitoba Hydro, and the impact of a weaker Canadian dollar.

## Direct and Guaranteed Debt

Net Maturities to March 31, 2042

	Canadian Valuation Payable in		Net Maturities
	Canadian Dollars	U.S. Dollars	
		(Millions of Dollars)	
2002/03	1,633	24	1,657
2003/04	1,347	178	1,525
2004/05	1,115	77	1,192
2005/06	683	322	1,005
2006/07	1,454	–	1,454
2007/08	401	–	401
2008/09	852	308	1,160
2010 - 14	1,251	1,008	2,259
2015 - 19	602	637	1,239
2020 - 24	67	592	659
2025 - 42	1,349	–	1,349
Treasury Bills and Promissory Notes	505	–	505
<b>Total</b>	<b>11,259</b>	<b>3,146</b>	<b>14,405</b>

The above table is based on foreign exchange rates in existence on March 28, 2002.

## Appendix: Effect on Manitoba of the Federal Accounting Error

### Description of the Accounting Error

Under federal-provincial tax collection agreements, the federal government administers personal income taxes on behalf of all provinces other than Québec. It has responsibility for the collection of provincial income taxes and for paying the amounts owed to provincial governments. The federal government makes interim payments to provinces during the taxation year, based on an estimate of the total amount of provincial income taxes that will ultimately be assessed on tax returns in each province. After the income tax returns for the tax year have been filed and processed, the taxes actually assessed in the province are reconciled with the interim payments. If the interim payments were too high, the difference is paid by the province to Canada or, if they were too low, by Canada to the province.

Each year, the federal Auditor General attests to the statements prepared by the federal government, and the Provincial Auditor confirms amounts paid. In the case of mutual fund trusts, however, refunds of provincial tax assessed on capital gains were never accounted for in the federal reconciliation calculation. On January 29, 2002, the federal government disclosed this longstanding error to provinces.

Provinces rely entirely on federal payment reporting and accounting processes. Until very recently, provinces were not given any information on mutual fund trust returns. Only after the federal disclosure has some of the data provincial governments receive differentiated between mutual fund and other trust returns.

### The Error's Effects on Manitoba's Income Tax Revenue

Manitoba is fortunate to have a large and robust financial service sector, but this means the federal error has had a relatively greater effect on personal income taxes in Manitoba than in any other province. The effect in Ontario is the largest in absolute terms, and second-largest in relation to its total income tax revenue. (This has important implications for transfer payment entitlements, which are discussed later.) Mutual fund trust refunds in other provinces are much smaller and, as a result, they affect those provinces' income tax revenues to a much smaller degree.

### Mutual Fund Trust Capital Gains Tax Refunds

	<u>1993-1999</u>
	(Millions of Dollars)
Ontario	2,803
Manitoba	408
Other Provinces	125
<b>Total</b>	<b><u>3,336</u></b>

Source: Canada Customs and Revenue Agency data, March 5, 2002

For the tax years 1993 through 1999, the federal government estimates that capital gains tax refunds claimed by mutual fund trusts nationally totaled about \$3.3 billion, with about 90% of the total attributable to the 1997, 1998 and 1999 tax years. The federal government is still reviewing records for the 1993 to 1999 period, as well as prior periods, before taking a position on whether to do anything about its accounting error. For the 2000 tax year, a significant amount (\$168 million) was refunded with respect to Manitoba-based mutual fund trusts, and on March 28, 2002, the federal government recovered from Manitoba the \$168 million related to 2000 tax year mutual fund trust capital gains tax refunds.

### **The Error's Effects on Manitoba's Transfer Payments**

The overall impact of the federal accounting error has significantly wider implications for three principal reasons:

- higher income tax remittances were made from the federal government, mainly to Manitoba and Ontario;
- lower Equalization payments were received by Manitoba, and lower Canada Health and Social Transfer (CHST) payments by Ontario; and
- higher Equalization and CHST payments were made to other provinces.

Also, as a result of the federal accounting error, provinces have based their budgets on an artificially inflated revenue track. Current Equalization regulations do not correctly address the effects of the error in respect of mutual fund trusts. In fact, they exacerbate the problem by failing to recognize the impacts of the refunds on Manitoba's fiscal capacity under the Personal Income Tax calculation.

This same Equalization issue previously arose in the late 1980s concerning corporation income taxes. In this case, the refunds were properly netted from the income tax payments remitted to provinces. However, Corporation Income Tax shares were skewed, and entitlements within the Equalization Program were distorted, because taxes on capital gains of mutual fund trust corporations were being included in provinces' tax bases, even though the taxes were also refunded to the companies.

The federal government took swift, corrective action by amending the Equalization regulations. This regulation change was made immediately and retroactively for all "open" years of the Program. The calculation now removes the effect of capital gains tax refunds claimed by mutual fund corporations from the calculation of provinces' Corporation Income Tax base. At the time, the federal Minister of Finance, the Honourable Michael Wilson, noted that failure to act would have created an "unjustifiable anomaly" in the Equalization Program (see Exhibit C). A parallel correction to the Equalization regulations on measurement of fiscal capacity with respect to the same type of refunds of Personal Income Tax is needed to prevent a similar "unjustifiable anomaly" at this time.

There are also effects on CHST payments, which may be quite significant for Ontario. The impact on CHST for Manitoba is not significant.

The fiscal effect of the accounting error on Manitoba and other provinces, with Equalization corrected for the unjustifiable anomaly, is estimated in the following table.

## Net Effect of the Federal Accounting Error

	Manitoba	All Other Provinces	National Total
(Millions of Dollars)			
<b>1993-1999 Tax Years</b> (1993/94 to 1999/2000 Fiscal Years)			
Personal Income Tax paid related to Mutual Fund Trust Refunds	408	2,928	3,336
Effect on Equalization	(261)	1,052	791
Net Effect (1993/94-1999/2000)	147	3,980	4,127
<b>Net Effect (\$ Per Capita)</b>	<b>129</b>	<b>140</b>	<b>139</b>
<b>2000 Tax Year</b> (2000/01 Fiscal Year)			
Personal Income Tax paid related to Mutual Fund Trust Refunds*	0	0	0
Effect on Equalization	(140)	140	0
Net Effect (2000/01)	(140)	140	0
<b>Net Effect (\$ Per Capita)</b>	<b>(123)</b>	<b>5</b>	<b>0</b>
<b>Net Effect 1993/94-2000/01</b>	<b>7</b>	<b>4,120</b>	<b>4,127</b>
<b>Net Effect 1993/94-2000/01 (\$ Per Capita)</b>	<b>6</b>	<b>145</b>	<b>139</b>

\* The amount recovered from Manitoba on March 28, 2002 was \$168 million.

As the table shows, during the period 1993 through 1999, the additional Personal Income Tax revenue related to mutual fund trust refunds was, for Manitoba, offset to a large extent by lower Equalization payments. This is because the Equalization Program is designed to incorporate all revenue sources in determining a province's fiscal capacity, and the extra revenue provided to Manitoba as a result of the accounting error artificially overstated the calculation of Manitoba's fiscal capacity. This reduced Manitoba's Equalization entitlements. It may be noted that so long as the error persisted and provinces actually received the associated revenue, this was the correct treatment.

The table also shows that other Equalization recipient provinces benefited – through the Equalization Program – from the federal accounting error. The Personal Income Tax revenue received by non-recipient provinces, such as Ontario and British Columbia, was not offset by Equalization reductions, but did adversely affect their CHST payments. The net result was that, even before the recent federal recovery of income tax for the 2000 tax year, Manitoba's net benefit resulting from the federal error was less, on a per capita basis, than that received by other provinces. The fact that the capital gains tax refunds attributable to the 2000 tax year have already been recovered, while Equalization entitlements have not yet been adjusted to reflect these refunds, means that Manitoba is experiencing both lower income tax revenue and the compounding effects of an "unjustifiable anomaly" which lowers Equalization entitlements.

The recovery of the \$168 million at the end of the fiscal year has resulted in considerable stress to Manitoba's financial situation, pending federal remedial action. Recently, the federal government acted to protect other provinces from fiscal shocks of relatively smaller magnitude, while outstanding issues were resolved.

In addition, the recovery has resulted in a situation which, if left uncorrected, would result in unfair treatment to Manitoba. This is particularly pronounced for the 2000 tax year, for which it is estimated that, without correction, other provinces benefited from the net effect of the federal error, while Manitoba lost a total of \$123 per capita.

### **Principles for Resolving this Issue**

On February 7, 2002, Honourable Greg Selinger tabled with Honourable Paul Martin three principles that Manitoba views as essential in guiding the resolution process:

- the settlement should be comprehensive and fair;
- the approach should be responsible; and
- revenue stability must be addressed.

These were detailed in Manitoba's position paper, and reiterated in a letter dated March 22, 2002 (Exhibit A). Manitoba's paper, appended as Exhibits B-D, includes correspondence and analysis related to the earlier decision on Equalization calculations with respect to mutual fund trusts in the Corporation Income Tax base.

Discussions to date with Ottawa suggest that the federal government will act in keeping with the established precedent for rectifying this type of error. The position has been discussed with and is understood by the federal government, and we have been assured that these principles will be reflected in the resolution of the issue.



## Accounting for the Federal Error in Manitoba's Budget and Financial Statements

The assumptions underlying the results for 2001/02 and the revenue forecast in the 2002 Budget are cautious and prudent. The revenue estimates in the 2002 Budget, as well as the 2001/02 preliminary results, assume that Manitoba will not be made worse off for the 2000/01 and subsequent years than if the federal error had never occurred. This requires recognition that the current measurement of fiscal capacity for 2000/01 in the Equalization Program is overstated, and that the recovery of refunds for the 2000 tax year has already occurred.

Manitoba also expects that the federal government will treat Manitoba equitably, and provide Manitoba with transitional relief similar to what it gives to other provinces. Such arrangements could take many forms. The revenue estimates presented at this time, however, do not assume any amounts for transition.

**2002 Income Tax and 2002/03 Transfer Payments:** Advance income tax payments from the federal government are lower, in part, due to the correction of the error. The estimates of federal transfers assume a correction will be made to the Equalization regulations to ensure that estimates of Manitoba's fiscal capacity will not include any element associated with capital gains tax refunds. This is consistent with the "unjustifiable anomaly" precedent. A compensation payment, made in recognition of the effects of the tax recovery for the 2000 tax year, and the lack of adjustment to the Equalization entitlement calculations for the 2000/01 fiscal year, and their subsequent effects on Manitoba's revenue, is also assumed.

**2001 Income Tax and 2001/02 Transfer Payments:** It is assumed that the federal government will recover an amount reflecting 2001 mutual trust fund capital gains tax refunds assessed in 2002. Three-quarters of this amount is attributable to the 2001/02 fiscal year. It is assumed that the Equalization Program entitlements for the 2001/02 fiscal year will be adjusted through a change to regulations to remove the unjustifiable anomaly. This should impact entitlements when new official estimates are released later this year.

**2000 Income Tax:** The final determination of Manitoba 2000 income tax revenue identified \$168 million in refunds to mutual fund trusts. Consistent with generally accepted accounting principles and with established precedent and following discussions with the Provincial Auditor, this amount, along with one-quarter of the amount estimated for the 2001 tax year will be added to the accumulated deficit pertaining to prior fiscal years. A multi-year adjustment was treated in this manner in 1992/93, when a change in federal methodology for determining the population numbers used for calculating transfer payments required the Province to repay the federal government for overpayments resulting from the previous methodology. The \$100 million that pertained to prior years was recorded as an increase to the accumulated deficit.

**1999 and Earlier Years:** The federal government has not stated how it intends to proceed with respect to these taxation years. A decision on the appropriate recording of any liabilities related to these years will be made after the Province has a clearer understanding of federal intentions.

**Exhibit A:**



**MINISTER OF  
FINANCE**

Legislative Building  
Winnipeg, Manitoba, CANADA  
R3C 0V8

MAR 22 2002

The Honourable Paul Martin  
Minister of Finance  
Government of Canada  
L'Esplanade Laurier, East Tower  
140 O'Connor Street  
Ottawa ON K1A 0G5

Dear Minister:

I am taking this opportunity to review outstanding issues with respect to the federal error in income tax remittances to provinces and the related effects on Equalization payments.

The error has created a large revenue shortfall and generated considerable instability with respect to Manitoba Personal Income Tax revenues. In my Budget, I will have to report to the people of Manitoba on the status of our discussions with the federal government.

At our meeting on February 7, 2002, we began the process of developing an appropriate settlement to this problem. At that time, I indicated the broad framework for a fair settlement should be based on the principles of comprehensiveness, responsibility and stability. In the view of the Manitoba Government, that framework must include the following elements.

- A comprehensive settlement which includes both the income tax and transfer effects of the error on provincial revenues.
- Recognition that Equalization payments were impacted negatively for Manitoba, and positively for the other recipient provinces, whenever overpayments of income taxes were made.
- Equitable treatment for Manitoba when compared with other provinces. After Equalization effects of the federal error are taken into account, Manitoba received

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similar revenues per capita to those received by other Equalization-recipient provinces.

- Recognition that we cannot adjust expenditure or taxation retroactively and that, for the most part, decisions with respect to 2002 were made before the error became known.

Though we have not met again as planned, our officials have had some discussions since February 7. We understand that some work has been undertaken and some options have been considered. I am disappointed, therefore, that your department is proceeding with the recovery of \$168 million with respect to mutual fund trust refunds pertaining to the 2000 tax year before you have confirmed a comprehensive solution to the federal error. The latest official estimate of Equalization entitlements has not corrected the Equalization calculation for Manitoba. In effect, your government is recovering substantially more than Manitoba owes. This is in stark contrast with the quick federal action taken this month to defer recoveries on certain Equalization issues impacting other provinces.

As we discussed, a comprehensive solution must include the substantial Equalization offsets our Province is entitled to receive when our fiscal capacity is reduced by correction of the income tax error. I, along with all Manitobans, expect that after a comprehensive solution is in place, Manitoba and all provinces will be treated equitably.

In conclusion, while we recognize the complexities of the issue, they are not insurmountable. I would reiterate my offer to work with you and your department to arrive at a resolution that is fair and reasonable for every government affected by this regrettable development.

Sincerely yours,



Greg Selinger  
Minister of Finance

## **Exhibit B: Manitoba's Position Paper Tabled with Honourable Paul Martin**

Mutual Fund Trusts: Meeting between  
Honourable Greg Selinger and Honourable Paul Martin  
February 7, 2002  
Ottawa

### ***CORRECTING PROBLEMS RESULTING FROM ERRORS IN THE TREATMENT OF MUTUAL FUND TRUST ASSESSMENTS***

#### ***BACKGROUND***

##### ***1. PRINCIPLES TO GUIDE THE RESOLUTION PROCESS***

- Manitoba believes that the resolution of the payment errors should be based on three principles:
  - A. The settlement should be comprehensive and fair;
  - B. The approach should be responsible; and
  - C. Revenue stability must be improved.

##### ***A. Comprehensive and Fair***

- The impact of the error in the treatment of mutual fund trust assessments goes well beyond the overpayment of Personal Income Tax revenue.
- This error has had significant effects on Equalization and CHST payments. It has systematically reduced transfer payments to Manitoba and Ontario while entitlements for other Equalization recipient provinces were higher than they would have been had the error not been made.
- So far, these effects have not been correctly factored into the federal analysis of the magnitude of the error and its impact on provinces.
- The resolution to these problems must be comprehensive—covering Personal Income Tax, Equalization and the CHST—and it must be fair to all parties. Provinces must have confidence that the assessment data is complete and accurate. Adjustments to income tax revenue must be reflected consistently in both the revenues to be equalized *and* in each province's share of the tax base.
- For each year that the federal government corrects the income tax error, Equalization and CHST entitlements must also be corrected.
- In a virtually exact precedent from the late 1980s, the federal government of the day corrected a similar problem in equalization calculations for capital gains of mutual fund corporations (as discussed later in this note).

**Mutual Fund Trusts: Meeting between  
Honourable Greg Selinger and Honourable Paul Martin  
February 7, 2002  
Ottawa**

## **B. A Responsible Approach**

- We acknowledge that the federal government has been forthright in taking responsibility for this error. The federal government prepared provincial tax legislation, and designed the tax forms and the collection and payment mechanics. Provinces relied on the federal government for all the information and reports.
- Once all the potential adjustments under the federal calculation methodology have been added together, it is evident that the effect on Manitoba's finances and public services would be enormous. Current estimates of these effects—using Finance Canada estimates of Equalization impacts—could be \$600 million for Manitoba, or even more after accounting for 2001 and 2002 results.
- By making the appropriate and parallel adjustment to entitlements under transfer payment arrangements, the damage to Manitoba would be greatly reduced. When Equalization entitlements are calculated using income tax shares correctly adjusted for the disproportionate effect of the error on Manitoba, the financial damage to Manitoba is reduced by approximately 65% to 70%.
- Even so, the potential revenue loss to Manitoba remains very large. Any repayment arrangement would have to be reasonable and affordable.
- Removing the federal error from provincial revenue bases going forward also requires significant adjustments. A responsible resolution must recognize that while all provinces will have less revenue, Manitoba's loss—even after it is calculated correctly—is by far the largest in relation to its budget. Fair resolution requires some form of transitional support. The unanticipated improvement in the federal fiscal position from correcting the error provides some capacity to provide transition. The transitional assistance provided to provinces that harmonized with the GST might serve as a useful model for structuring assistance.
- It is important that Canadian health, education and other social programs be sustained. A responsible solution must consider the effects on programs delivered by provinces, and any solution should extend beyond the simple recovery of income tax and transfer revenue.

## **C. Stability of Provincial Revenue**

- For several years, Manitoba has expressed concern about the instability of federal estimates of income tax and transfer revenue. This payment error heightens and adds to this concern.
- The Province of Manitoba established a Fiscal Stabilization Fund, which is designed and needed to see our Province through economic slow-downs, such as that occurring presently. It is not sufficient to address huge errors in federal payments estimates.

**Mutual Fund Trusts: Meeting between  
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February 7, 2002  
Ottawa**

- Fiscal stabilization, with appropriate roles for federal and provincial governments, must be considered.

## **2. APPROPRIATELY ADJUSTING EQUALIZATION: A CLEAR PRECEDENT**

- Although the magnitude of the present payments error is unprecedented, a closely parallel issue arose in the late 1980s. In that case, corporate income tax shares were skewed, and entitlements within the Equalization program were distorted, because taxes on capital gains of mutual fund companies were being included in the tax base, even though the taxes were normally refunded to the companies.
- When it was discovered that the capital gains tax refunds of these corporations were not reflected in the calculation of the corporate income tax base for Equalization purposes, Manitoba raised the issue with then federal Finance Minister Michael Wilson. After due deliberation, the Equalization regulations were changed to ensure that refunds were excluded from the base for calculation of Equalization. As noted in Minister Wilson's letter to the Manitoba Minister, not to do so would have resulted in "an unjustifiable anomaly in the equalization program".
- It should be noted that Mr. Wilson did not wait for the subsequent renewal of the Equalization Program, but implemented the change immediately and for all the years for which entitlements were not finalized.
- Whether occurring in the corporate or the personal income tax sector, the principle is identical. Refunds must be excluded from the base of calculations to properly measure a province's revenue raising capacity. For any year in which recoveries are made for capital gains tax refunds to mutual fund trusts, the Equalization base must also be adjusted. As noted before, in the case of Manitoba, this parallel adjustment offsets 65% to 70% of any income tax recoveries, depending on Manitoba's share of the total during a given year.
- Correspondence and analysis related to the decision on corporate income taxes is attached as Appendix A, together with some of the calculation detail. The appropriate adjustment for mutual fund trust refunds is still made in the calculation of Equalization with respect to corporate income taxes.

## **3. TIMELINESS OF THE RESOLUTION**

- Manitoba wishes to work with the federal government to achieve an expeditious and fair resolution to this unfortunate error. We need stability with respect to our finances and cannot carry the uncertainty of a potential liability on our books into the future.
- The federal government must develop and consider its options and consult with provinces on the most appropriate course. However, this should not become a drawn-out process. It should be possible to develop the outline of the proposed resolution for inclusion in provinces' spring Budgets, with final resolution before provinces close their books for the 2001/02 fiscal year.

**Mutual Fund Trusts: Meeting between  
Honourable Greg Selinger and Honourable Paul Martin  
February 7, 2002  
Ottawa**

***SUMMARY***

- Manitoba proposes that the solution to the problems arising from this error should be based on the principles of comprehensiveness and fairness, responsible action, and concern for fiscal stability.
- The full facts must be known, and the full effects of the decisions on transfer payments must be factored in. Any correction to tax payments for previous years must result in parallel corrections to transfer payments in order to provide equitable treatment and assure the integrity of these programs.
- The potential impact on Manitoba's fiscal situation is very large, ranging upward of \$435 million for 1993 through 1999, with a further \$201 million for 2000 and yet to be quantified amounts for subsequent years. Our concerns would be substantially mitigated by appropriate treatment of mutual fund trust refunds within the Equalization program and the CHST. The precedent with respect to the exclusion of mutual fund trust refunds in the corporate income tax base should be followed and applied to refunds in the personal income tax calculations. This should be done for all years for which income tax payments are corrected.
- Any repayments should be over a reasonable time frame consistent with the fact the problem occurred over several years.
- Transitional support to help the Province adjust to the new fiscal track could possibly be along lines similar to that offered provinces which harmonized with the GST.

## Exhibit C:

Minister of Finance



Ministre des Finances

FEB - 8 1990



The Honourable Clayton Manness, M.L.A.  
 Minister of Finance  
 Province of Manitoba  
 Room 103 - Legislative Building  
 450 Broadway Avenue  
 Winnipeg, Manitoba  
 R3C 0V8

Mr. Minister:

I am writing concerning your request for a change in the tax base that is currently used to equalize provincial revenues from the corporation income tax, with particular reference to the treatment of capital gain refunds to mutual fund corporations. This is an issue which has been raised on a number of occasions - most recently by your letter to me of December 5, 1989.

I have now had an opportunity to consider this issue following a review by officials. I agree that the current treatment of the capital gain refunds constitutes an unjustifiable anomaly in the equalization program and have decided to proceed with the technical change necessary to correct the situation. This will require amendment of the Regulations and the necessary steps are being taken to do this as quickly as possible.

I realize that it has taken a long time to resolve this matter but it has raised a number of issues of a complex nature which have had to be taken into account.

Yours sincerely,

A handwritten signature in cursive script that reads 'Michael H. Wilson'.

Michael H. Wilson

Ottawa, Canada K1A 0G5

Clayton Manness

c.c. C.E. Curtis



## Exhibit D:

# Manitoba



Minister of Finance

January 17, 1989

Honourable Michael Wilson  
Minister of Finance  
Government of Canada  
Place Bell Canada  
160 Elgin Street  
OTTAWA, Ontario  
K1A 0G5

Dear Mr. Wilson:

A technical issue has been brought to my attention concerning the calculation of equalization entitlements with respect to corporate income tax. Specifically, because corporate capital gains refunds accorded mutual fund trusts upon payment of capital gains dividends do not result in corresponding adjustment to corporate taxable income data, the provincial corporate income tax bases for equalization purposes are overstated by varying amounts, dependent on the total of refunds applicable to a given province in any fiscal year.

Manitoba has witnessed a sharp increase in such refunds since 1985, to a point where our corporate taxable income in 1987 is overstated by about 8%. Recently, federal officials provided us with data which allows us to analyze this situation and estimate the effects on equalization entitlements.

Analysis shows that the overstatement of corporate taxable income results in the federal government paying larger equalization entitlements in total, while Manitoba in fact receives substantially less equalization than if the corporate income tax bases were appropriately adjusted to remove from corporate taxable income the amount pertaining to the refunds — on which no corporate income tax has ultimately been paid.

This result is obviously technically unsound, unfair to Manitoba, and costly to the federal Treasury. The situation should be remedied immediately.

I would ask that you investigate this issue with your officials who, I understand, are familiar with the detail and with Manitoba's concern. It might also be appropriate for us to discuss this issue together. Specifically, I would propose a bilateral meeting, with our officials present, to be held sometime during the next few weeks. It is an important issue for Manitoba (involving an estimated \$40 million over a five year period), and one which should be resolved expeditiously and most certainly prior to the further finalization of any equalization entitlement calculations.

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I look forward to your early response. My office would be pleased to arrange a mutually convenient date and place for the meeting I have proposed.

Sincerely,  
ORIGINAL SIGNED BY  
Clayton Manness  
Clayton Manness

c.c. C.E. Curtis