

National Aboriginal
Economic Development Board



Conseil national de
développement économique
des Autochtones

RECOMMENDATIONS ON FINANCING FIRST NATIONS INFRASTRUCTURE

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FINANCING FIRST NATIONS INFRASTRUCTURE

The National Aboriginal Economic Development Board (NAEDB) is a cabinet-appointed body mandated to provide strategic policy and program advice to the federal government on Aboriginal economic development. Comprised of First Nations, Inuit and Métis community and business leaders from across Canada, the Board plays an important role in helping the federal government develop economic policies and programs that are coordinated, accessible, and responsive to the unique needs and circumstances of Aboriginal Canadians. A list of Board members is attached as Annex A.

The Board contends that the federal government has a key role to play in educating the public about the importance of ensuring that Aboriginal people fully participate in the Canadian economy. As the original peoples of this land, Aboriginal people have a unique place in Canada, which is recognized and affirmed in Canadian law. The economic participation of Aboriginal Canadians is crucial to the well-being of Canada as a whole - when Aboriginal economies grow, regional economies grow and all of Canada stands to benefit.

In Budget 2010, the Government committed to undertake a comprehensive review of its current approach to financing First Nations infrastructure on reserve. Working in partnership with First Nations representatives, the federal government is exploring new ways to more effectively support First Nations in accessing alternative sources of financing and innovative approaches to improving the life-cycle management of capital assets.

The NAEDB is ideally positioned to assist the federal government in meeting this commitment. As champions for economic opportunities on-reserve, the NAEDB understands the inherent connection between economic development and Infrastructure needs. It should be noted that while these recommendations do not address the infrastructure needs of Inuit, Métis, and First Nations under modern treaties, these groups also face significant infrastructure challenges and require similar levels of commitment.

INTRODUCTION

The Infrastructure Challenge

Across Canada, local governments are facing increasing challenges to manage current infrastructure demands, multiplied by a growing backlog of required maintenance and rehabilitation projects. The Federation of Canadian Municipalities (FCM) asserts that many municipalities continue to face an infrastructure tipping point: revenues cannot keep pace with infrastructure demands and overall quality of life and competitiveness are being compromised.

According to FCM, the consequences of not investing adequately in local infrastructure are immense and if infrastructure investment continues at current levels, Canada will not be able to realize its full economic potential. Infrastructure is a critical component of economic development, helping to set the conditions for all communities to attract investment and take advantage of economic opportunities.

To varying degrees, both municipal and First Nation governments are expected to plan for their infrastructure needs, contribute to their financing, and take responsibility for the management of infrastructure assets. To properly fulfill these roles, a First Nation government must have the capacity to:

- Understand regulatory frameworks to allow for sufficient independence from the federal and provincial governments to identify and pursue their social and economic priorities;
- Develop and implement comprehensive plans that include land usage and capital infrastructure asset plans;
- Identify opportunities for leveraging infrastructure development as a means to attract commercial development;
- Generate own-source revenues and the independence to use these revenues to fund their infrastructure projects; and,
- Access to a variety of methods to finance infrastructure, including P3's.

By comparison, infrastructure development in First Nations communities is much less structured. Most First Nations are necessarily more reliant on federal transfers because they have less ability to generate their own revenues, such as real property taxes and royalties, and have limited access to alternative methods of financing. First Nations capacity to develop and support infrastructure development varies and therefore the options available to them should vary. Many First Nations pursue infrastructure development without the benefit of long term comprehensive plans, making it difficult to identify linkages between individual infrastructure projects. The lack of long-term planning in the reserve context also results in multiple funding applications, higher borrowing costs, and disconnected approval processes that delay or prevent investment and the pursuit of economic development opportunities.

The First Nations Infrastructure Gap

Infrastructure in First Nations communities is deteriorating rapidly and the cost of maintaining and upgrading existing infrastructure is increasing. The current identified on-reserve infrastructure gap is estimated to be in the range of \$3 to 5 billion, including projected upgrades of assets and identified infrastructure needs across First Nation communities, but not the operations and maintenance of existing assets. This infrastructure gap continues to have a significant and direct impact on the quality of life on reserve and the ability of First Nations to realize their full potential, both socially and economically.

The First Nations infrastructure gap is exacerbated by a variety of factors, including a rapidly growing population, reduced funding levels and the absence of appropriate financing tools. The current federal approach to supporting First Nations infrastructure is primarily a cash-based financing model that involves a “one size fits all approach” to supporting First Nations communities. The current funding model is not flexible or responsive to the wide range of needs or capacity among First Nations communities, and is widely recognized as being unsustainable.

A Growing Population – The Aboriginal population is young and fast-growing. Between 2001 and 2006, the on-reserve population grew almost twice as fast as that of non-Aboriginal Canadians, with a median age of 23 as compared to 39.7 for non-Aboriginals. The demands on existing infrastructure will increase as this population expands and assets will deteriorate more rapidly than expected.

Disproportionate Funding Levels – Federal government contributions have not kept pace with the infrastructure needs or capacity requirements of First Nation communities. The federal government currently funds anywhere between 20 to 100% of the operations and maintenance costs for certain infrastructure assets on-reserve. The remaining amount is expected to be covered by the community, but not all First Nations have the financial capacity to fund this portion.

An Absence of Financing Tools – The absence of appropriate financing tools for First Nations communities has limited the ability of communities to engage in long-term infrastructure planning. For example, provinces provide local governments access to long-term, low cost financing that assists them in building and maintaining their communities’ infrastructure. While a similar financing model is being developed for First Nations through the First Nations Financing Authority (FNFA), this model has yet to become fully operational. Currently Government financing is provided on a cash-based model which limits the extent to which the funding can contribute to the infrastructure gap.

RECOMMENDATIONS

The NAEDB urges the Government to develop a modern approach to financing First Nations infrastructure that is focused on increased access to alternative financing options, strengthened capacity to leverage different sources of financing, and comprehensive community planning to support sustainable and long-term planning for capital assets. Further, the NAEDB recommends that the federal government streamline approval and administrative processes and leverage partnerships to maximize investment and address the increasing First Nations infrastructure gap.

1. Financing Infrastructure

There are a variety of methods used by local governments across Canada for funding and financing infrastructure. Governments use different types of taxation and/or user fees to fund infrastructure projects. To finance projects, governments employ a pay-as-you-go approach or use different types of debt financing. First Nations need greater access to these different methods of funding and financing infrastructure, and need greater capacity supports to manage these methods.

Own-source revenue is a stable means of funding infrastructure and can be a significant driver of infrastructure financing. First Nations generate own-source revenues from a variety of sources, including taxation, royalty streams, and Band-owned business earnings. These revenue streams can be leveraged through - for example - financial markets, providing a community a source of long-term, low-cost financing. However, some communities generate limited revenue and require support to develop economic opportunities and use the subsequent revenue to leverage financing for infrastructure projects.

In some instances, current federal government policies are perceived to penalize First Nations who generate revenues with the reduction of core funding/transfer payments. This situation serves as a disincentive for communities to generate own-source revenue and must be remedied.

On March 23, 2005, the *First Nations Fiscal and Statistical Management Act* (FNFSMA) was enacted, creating four fiscal institutions to support First Nations in accessing tools to attract private investment and promote economic development on reserve: the First Nations Financial Management Board (FMB), the First Nations Tax Commission (FNTC), the First Nations Finance Authority (FNFA), and the First Nations Statistical Institution (FNSI).

The primary purpose of these institutions is to help First Nation communities develop a financial management structure and levy taxes which can then be used to securitize bonds. The bonds are issued by the FNFA and used by First Nations to build community infrastructure, with the investment grade bonds backed by the property tax revenues of the First Nation and the collective credit of the borrowing pool. It is optional whether or not First Nation governments choose to apply to finance their community infrastructure through the FNFA.

The FNFA has to date not issued a bond securitized by taxation revenue. There is an urgent need to streamline the processes under the FNFSMA so that more communities are in a position to leverage taxation revenue for FNFA bonds. In addition, the FNFA's current credit enhancement fund could be too low to satisfy the expected demand of First Nations wanting to issue bonds. This credit enhancement fund should be increased to ensure interested communities continue to have the ability to issue bonds on future revenue.

While the bonds issued by the FNFA provide an attractive opportunity for investors, they require a stable source of capital that many First Nations do not have access to. As such, there has been a lack of participation on the part of First Nations who cannot generate sufficient own-source revenues. The federal government must provide alternative options to finance infrastructure for those communities that elect not to use or are unable to use the FNFSMA process to fund infrastructure. Alternative forms of funding and financing options must be made available to these communities. Where possible, the existing network of Aboriginal Financial Institutions (AFIs) should be used to finance these infrastructure projects in order to build up capacity.

Specifically, the NAEDB recommends that the federal government:

1. Assist communities in generating own-source revenues – including taxation, royalties, user fees, and business development - to allow for increased revenue sharing with the private sector and other levels of government.
2. Provide safeguards to communities generating their own source revenues guaranteeing that their core funding will not be reduced and they will not be penalized.
3. Find ways to accelerate the process through which communities can benefit from the financing provided through the First Nations Finance Authority.
4. Invest a minimum of \$100M to the First Nations Finance Authority to help create a strong credit rating on debentures backed by own source revenues, while ensuring that the FNFA has sufficient regulatory oversight. This would enable FNFA to begin addressing the current projected 3 billion dollar infrastructure gap.
5. Strengthen the capacity of Aboriginal Financial Institutions (AFIs) to engage in long-term financing of infrastructure projects, and issue bonds where capacity has been developed.

2. Comprehensive Community Planning

Comprehensive plans that include capital asset plans allow communities to identify and set long-term priorities for infrastructure development. Developing comprehensive plans is difficult in the First Nations context because many communities do not have sufficient capacity for land use and infrastructure asset planning and many do not have direct control over their lands. Moreover, at the federal level, infrastructure projects are considered in isolation from a community's comprehensive plan.

At the community level, more training is required to ensure communities have access to community planners capable of developing and managing comprehensive plans. Stronger mechanisms must also exist to pool community resources and share planning, or to provide funding to access quality advice for planning and management.

Specifically, the NAEDB recommends that the federal government:

1. Provide adequate sustainable funding for the **development** and **implementation** of comprehensive community plans.
2. Ensure infrastructure asset plans are approved within comprehensive plans with a clear simplified approval process.
3. Increase the technical and administrative capacity within INAC to support the review of comprehensive community plans and feasibility studies according to set service standards.
4. Use a community's comprehensive plan to identify targets and develop performance measures, and link funding application and reporting requirements to these targets.

3. Federal Role

The federal government provides over \$1 billion annually in cash financing for infrastructure in First Nation communities. This funding is used almost exclusively to address the operation, maintenance and upgrading of existing infrastructure, to assist with community health and safety needs or to assist in the building of schools and housing. This funding does not support the development of commercial infrastructure that is required for communities to pursue economic development opportunities.

Existing infrastructure funding programs do not adequately take into consideration fluctuations in population over time, the higher costs for infrastructure development in remote and isolated communities, or the life-cycle costs of infrastructure. Further, funding is neither stable nor predictable - with infrastructure projects spending years on a waiting list before getting funding - which prevents long-term community planning. Due to the lack of support for commercial infrastructure, communities are restricted or prohibited from taking advantage of economic opportunities. First Nation governments require an approach to financing infrastructure that allows them to choose among a variety of financing options, based on their own needs and circumstances.

The federal government can play an important role in building the capacity of First Nations to manage infrastructure projects through encouraging partnerships with the public and private sector. These partnerships will develop skills for First Nations in the areas of procurement, planning and asset management, and will help build relationships between First Nations and their surrounding communities.

Communities require access to trained financial planners, land managers and trust managers. The Aboriginal institutions that have been established to provide these types of training play an important role in building up both community and institutional capacity and must be strengthened. In particular, the network of Aboriginal Financial Institutions (AFIs) and the institutions under the *First Nations Fiscal and Statistical Management Act* (FNFSMA) can facilitate access to these alternative forms of financing and build up community capacity. Wherever possible, these institutions should be used by the federal government to finance First Nations infrastructure.

Specifically, the NAEDB recommends that the federal government:

1. Create a single-window access point for all infrastructure programs to streamline the application process and ensure program options are clearly communicated.
2. Establish a \$200M/year commercial infrastructure fund that can be used by Aboriginal communities to leverage additional funding from various financial institutions.
3. Develop a funding formula for First Nations infrastructure that addresses population growth, inflation and documents the full cost of infrastructure maintenance and development.
4. Develop a range of supports for communities that address their unique financial and material capacities in addition to cash-based financing.
5. Develop pilot projects for public-private partnerships that identify best practices and increase confidence for the private sector in conducting these partnerships.
6. Facilitate partnerships for infrastructure development by ensuring First Nations have the tools and skills necessary to identify and recruit partners, and manage the partnerships.
7. Facilitate linkages between First Nation communities and surrounding municipalities to collaborate on infrastructure development and to negotiate mutually beneficial service agreements.
8. Provide funding for communities to access trained financial advisors so they can develop their financial literacy skills and administer long-term financial plans.
9. Create linkages between infrastructure financing tools, by allowing federal funds to be leveraged through other organizations such as the First Nations Finance Authority or Aboriginal Financial Institutions.
10. Develop incentives for innovative sustainable technologies to be incorporated into infrastructure projects.

CONCLUSION

Addressing the infrastructure gap in First Nation communities requires a comprehensive review of the current funding options that will lead to a modern, whole-of-government approach that effectively supports financing of First Nations infrastructure.

Like all communities across Canada, First Nations need stable sources of funding for infrastructure that are dedicated to the development of commercial infrastructure so that they can capitalize on economic development opportunities. Further, First Nation communities require the capacity to develop comprehensive community plans, a greater ability to secure own-source revenues and to leverage additional financing for infrastructure projects, and increased access to and strengthened capacity to use the range of options available for financing infrastructure.

The NAEDB is committed to assisting the Government in meeting its Budget 2010 priority of exploring alternative methods of financing infrastructure. The adoption of a modern approach to financing First Nations infrastructure that is based upon the best practices of existing Aboriginal and non-Aboriginal models of infrastructure financing will help bridge the on-reserve infrastructure gap and improve the quality of life for First Nations across Canada, thereby contributing to Canada's overall economic prosperity.

Finally, the NAEDB recommends the establishment of an expert advisory panel to advise the Government on the development and implementation of changes to infrastructure financing which will better address the current on-reserve infrastructure crisis.

ANNEX A: LIST OF NAEDB MEMBERS

Chief Clarence Louie (Chair)

Chief, Osoyoos Indian Band, British Columbia

Dawn Madahbee

General Manager, Waubetek Business Development Corporation, Ontario

Pita Aatami

Former President, Makivik Corporation, Quebec

Richard Francis

Former Director, Economic Development, Kingsclear First Nation, New Brunswick

Joe Linklater

Former Chief, Vuntut Gwitch'in First Nation, Yukon

Matthew Mukash

Former Grand Chief, Grand Council of the Crees, Quebec

Chief Sharon Stinson Henry

Chief, Rama Mnjikaning First Nation, Ontario

Chief Terrance Paul

Chief Membertou First Nation, Nova Scotia

James Ross

President, Aura Ross Resources Limited, Northwest Territories

John Michael Keyuk

President of CES Solution and Vice President of Sikon Quebec

Tara Tootoo Fotheringham

Youth Entrepreneur, Nunavut