

FIRST NATIONS FINANCE AUTHORITY



Presented to:

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First Nation Governments Revenue Raising Powers



- « Inherent Right of Self-government/Aboriginal Rights
- « Treaties
- « *Indian Act*
- « Self-government Agreements
 - ¢ Stand alone
 - ¢ Part of modern treaties
- « Sectoral Arrangements (e.g.)
 - ¢ *First Nations Land Management Act*
 - ¢ *First Nations Fiscal and Statistical Management Act*
 - ¢ *First Nations Oil and Gas and Moneys Management Act*
- « Delegated powers under agreement (legislated)



Financing Infrastructure Construction

« Sources of Revenue:

- ¢ Charges, fees and taxes
- ¢ Transfers, grants and contributions from other governments
- ¢ Other own source revenues

« Financing Options

- ¢ Self
- ¢ Private (i.e. through developers)
- ¢ Conventional (retails/commercial banking)
- ¢ Public (bond financing through FNFA)



FNFA Mandate

“To create a First Nation bond financing regime to promote First Nations' economic development”



A Unique Corporation

- « Established in 1995. A ‘not for profit’ corporation. Statutory authority through the *First Nations Fiscal and Statistical Management Act, 2005*.
- « Governed by an all First Nations board chosen from the Members of the Authority. Current Board:
 - ▣ Chief Robert Sam – Songhees
 - ▣ Chief Terrance Paul - Membertou
 - ▣ Deanna Hamilton – Westbank
 - ▣ Chief Joe Hall – Tzeachten
 - ▣ Sophie Pierre – St Mary’s



First Nations' Financing Needs

- First Nations need financing for:
 - Designated land infrastructure
 - Community infrastructure (water, housing, etc.)
 - Economic infrastructure
 - Energy infrastructure
 - Refinancing of combinations of above



How it Works

- « Governments typically issue bonds (debentures) to finance their activities (capital and operating). Governments do not typically go to banks and get their financing ‘retail’ unless they have to. Rather they go to the markets and get it “wholesale”.
- « First Nations are typically too small, lack diversification and are unknown, to go the market individually.
- « The FNFA as a “cooperative” pools the borrowing requirements of its Members (capital only), issue bonds in its own name and re-loans the money (without profit) to its members.
- « This form of debenture financing reduces the cost of borrowing and makes financing available to more First Nations.



All revenue streams will support FNFA loans

FSMA provides FNFA authority to borrow on the basis of two sources:

1. Other Revenues: **Economic and Social Development, including Land purchases**
2. Property Tax collected by First Nations:
“Capital Infrastructure to provide local services on reserve lands”

OBJECTIVE IS TO MAXIMIZE FN’S BORROWING ROOM.

Maximizing Your Community's Borrowing Room

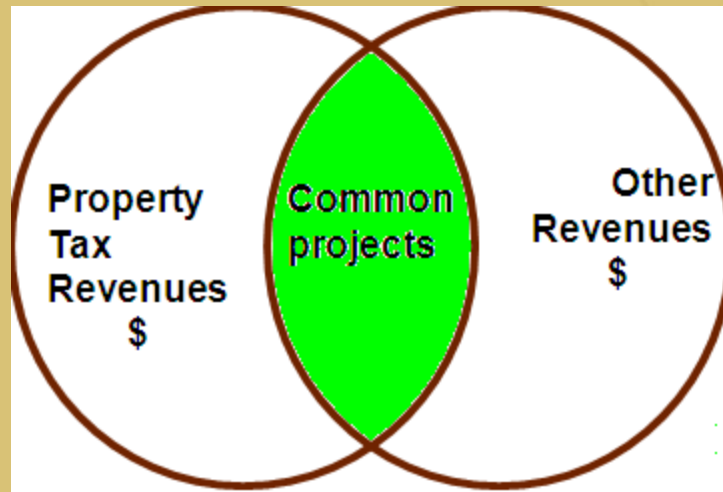


revenues

- Property tax

Purposes:

- Capital infrastructure for provision of local services on reserve lands



revenues

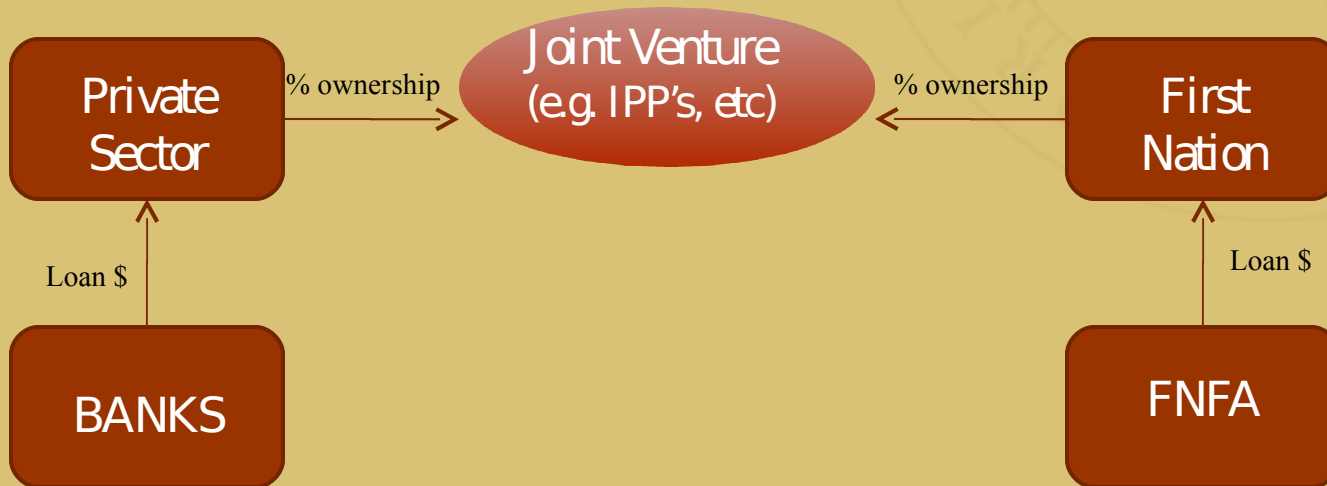
- Canada or Provincial Transfers
- Contract Revenues
- Royalties
- Independent Power Projects
- Gaming Revenues
- Business Revenues

Purposes:

- Economic or Social development
- Includes land purchases

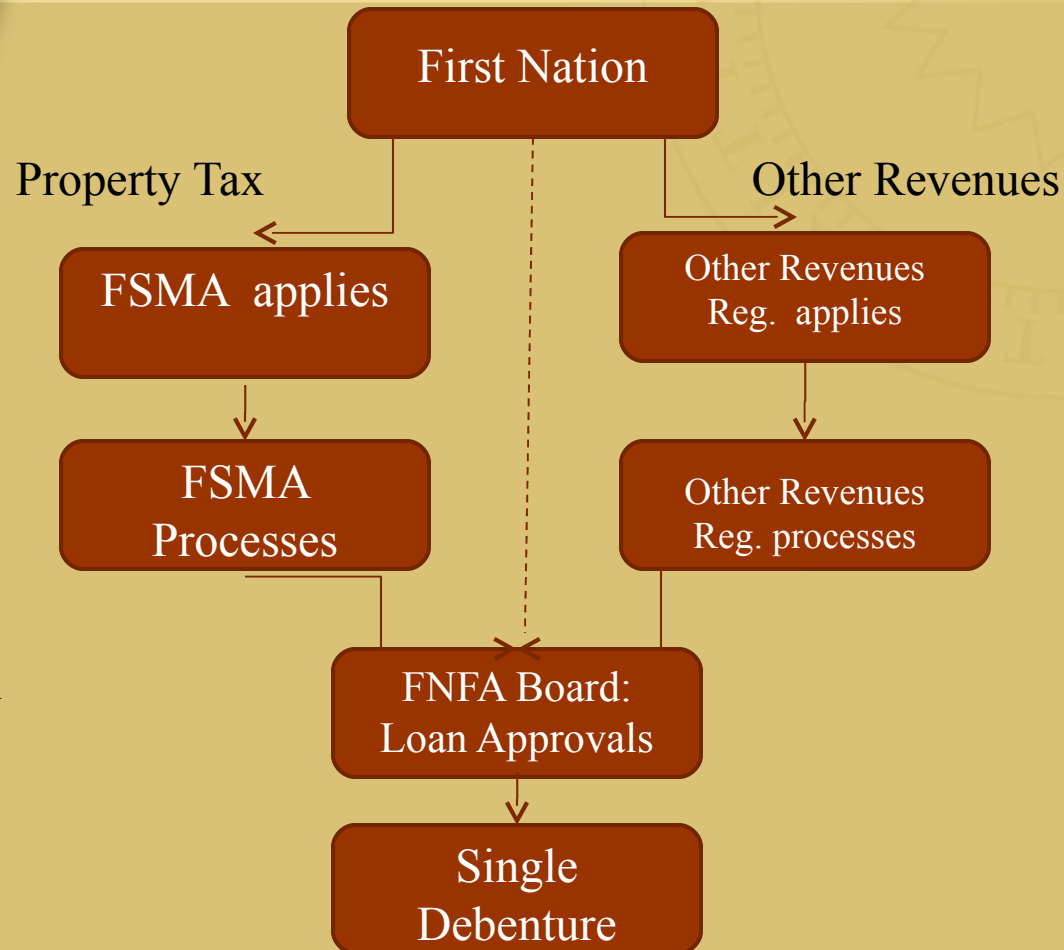


Public and Private Partnerships



1. FNFA is mandated to provide equity loans
2. To ensure loan repayment, FNFA secures the dividend payments from the Joint Venture to the First Nation.

FNFA is available to all First Nations



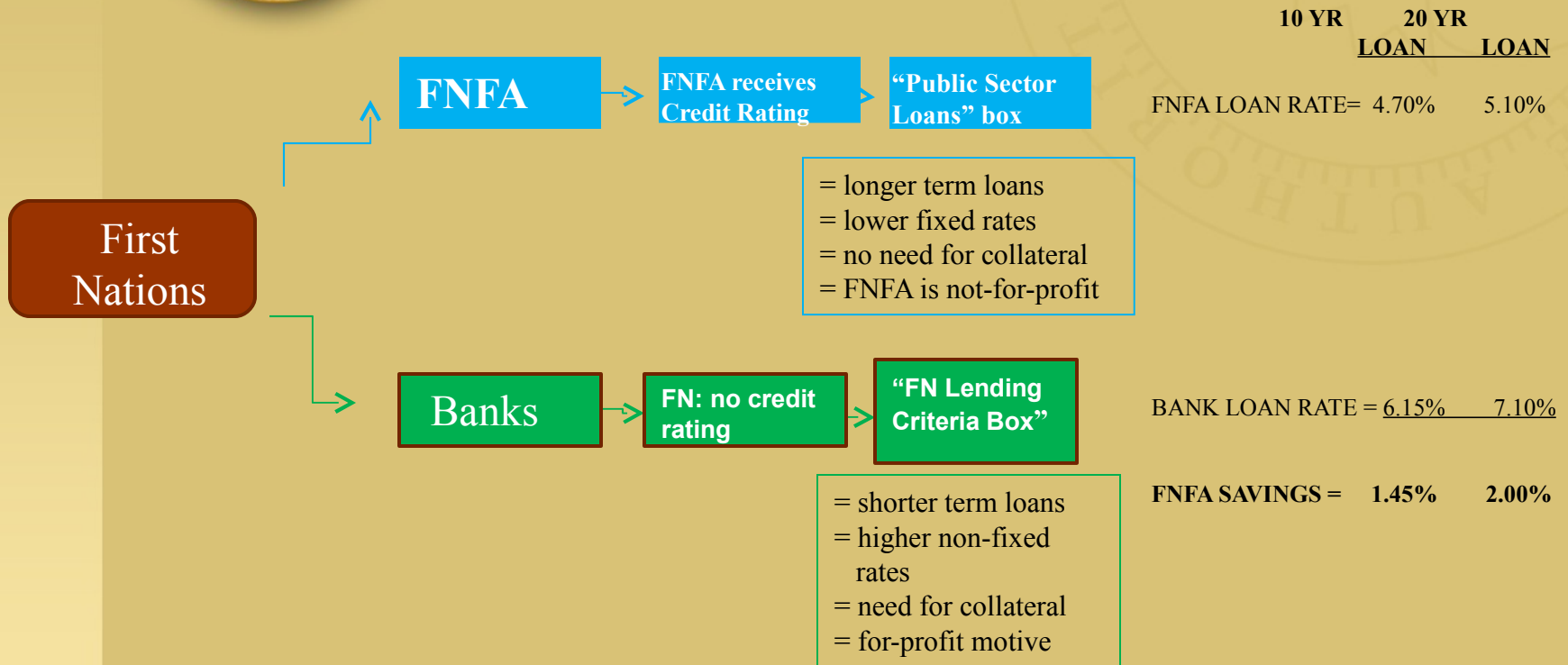
- Many First Nations will use both sides.

-Single Debenture maximizes size, attracts investors, and lowers interest rates.



Why the FNFA is beneficial to First Nations (Part 1)

Long Term Debt Example:



FNFA's credit rating will allow all FNFA borrowing members access to capital that is currently available to other levels of government of Canada.



Why the FNFA is beneficial to First Nations (Part 2)

LONG TERM DEBT EXAMPLE

Using loan rates from previous slide, a First Nation can save the following interest with an FNFA loan vs. a Bank loan.

Example: \$10,000,000 loan

Loan Rate Savings:

**Interest Savings
with**

**FNFA loan vs. a Bank
loan**

**FNFA loan vs.
Banks**

Loan Term is 10 years	1.45%	\$1,450,000
Loan Term is 20 years	2.00%	\$2,000,000

- i) Access to markets should also be emphasized – unrated borrowers (First Nations) may be unable to borrow from Banks when economic upheavals occur (such as the Fall 2008).
- ii) While rated borrowers (Provinces, cities, FNFA) will find access to capital still available.
- iii) This availability to the FNFA means that every FNFA borrowing member will be able to receive financing when they want it!
- iv) FNFA's economies of scale (pooling First Nations financing demands into one large debenture) together with its credit rating will ensure a lower cost of borrowing for First Nations:
 - i) Share rating agency costs, legal fees, promotional materials, etc...



Why the FNFA is beneficial to First Nations (Part 3)

SHORT TERM LOAN EXAMPLE

FNFA is working with Canada to initiate its Short Term Loan Program. When this occurs, for the first time First Nations will be able to receive Short Term Loans below Bank Prime.

(Currently Bank Prime = 2.75%).

Example: Short Term Loan

Loan Rate Savings:

FNFA loan vs. a Bank loan

FNFA Short Term rate (rate fluctuates with Prime)	1.75%	Loans can be for up to 5 Years
Banks' Short Term rates to FN's (rate fluctuates with Prime)	3.75%	Loans can be for up to 5 Years

- i) By accessing the capital markets directly, the same method the Banks use to raise monies, FNFA will be able to lend to First Nations at rates below Bank Prime.
- ii) These below Bank Prime rates are currently enjoyed by Provinces and cities across Canada.



FNFA refinancing of current bank loans is an option

- FNFA offers First Nations that become FNFA Borrowing Members the choice to refinance their current Bank loans.
- Refinancing has two advantages to a community:
 - Firstly: the current Bank short term loan becomes longer term.
“FNFA loans = cash savings now!”
 - Secondly: FNFA loan rates should be lower than current Bank loan rates, and so further cash flow savings occur now!

Longer term, fixed-rate loans

- = healthier First Nation’s Budgets.
- = maximizes Capital Planning
- = job creation when projects begin.



First Nations can choose loan term

How long can we take to repay?

Answer: anywhere from 5 years to 30 years. You choose!

5 yrs. = \$230,627 each year

10 yrs. = \$133,291 each year

15 yrs. = \$ 99,941 each year

20 yrs. = \$ 83,582 each year

25 yrs. = \$ 74,012 each year

30 yrs. = \$ 67,830 each year

Example: annual principal plus interest on \$1,000,000 loan

Conclusion: you can choose a repayment term that keeps your budget healthy!



Conclusion: FNFA is here to assist First Nations

- LOANS:**
- (i) Long Term fixed rate up to 30 years
 - (ii) Each community can choose their own repayment term
 - (iii) Repayment terms can be from 5 years to 30 years
 - (iv) Working with Canada to get Short Term Loan Program

operating:

-- when operating, FN's will receive "Prime minus" rates

- THOUGHTS:**
- (i) FNFA staff can provide thoughts on:
 - optimal loan repayment structures
 - estimated borrowing power for a community

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