



PRE-BUDGET SUBMISSION

FROM THE INDIAN TAXATION ADVISORY BOARD

PBS OVERVIEW

The ITAB is requesting that the Finance Committee:

- Support the swift passage of the **First Nations Fiscal and Statistical Management Act** in order to improve access to capital by participating First Nations and create better conditions to support private investment;
- Support the development of a First Nation infrastructure program that would: (1) provide new monies; and, (2) create a comprehensive framework that would allow a First Nation to use property tax revenues, development cost charges and existing program funding more efficiently in the development of infrastructure; and,
- Support the development of a First Nations Institution for Economic Cooperation and Partnerships an organization that will accelerate the development of knowledge pertaining to investment facilitation in a First Nation context and improve the transfer of that knowledge to First Nations.

These initiatives are necessary to ensure that Canada's most under utilized resources, First Nations lands and people, are made more productive. These initiatives are intended to create conditions which will accelerate the development of First Nation infrastructure, bring businesses to First Nation lands, create employment for First Nation persons, and make it easier to accommodate First Nation interests on their traditional territories.

Canada will receive a significant return to investment from these initiatives. The initiatives will also support many federal policy goals with respect to improving conditions for First Nations, sustaining the social infrastructure, enhancing the social and economic union and improving inter-governmental relations. Most importantly, these initiatives will create hope and a culture of self reliance within participating First Nations and set a fine example to all First Nations.



VISION OF THE ITAB

The vision of the ITAB is one where First Nation governments are increasing the value of their assessment bases by attracting private investment to their lands and where this improvement is allowing community improvements and business and job opportunities.

This vision includes:

- First Nations whose membership sees a direct connection between policies that improve investment and improvements in their own quality of life.
- First Nations that are able to offer investors quality services at a fair price.
- First Nation administrations whose policies, personnel and stability inspire confidence in investors.
- First Nations that have developed their own business communities and an understanding of the needs of business within their administrations.
- First Nations who are able to offer a stable, transparent and cost effective regulatory structure with an institutional backstop.
- First Nations that are able to realize the benefits of cooperating with other governments.
- First Nation children who are inspired by successful business role models early in life.
- First Nations that are able to make investments in improved infrastructure and who receive as much value from such investments as other communities.

MISSION OF THE ITAB

The mission of the ITAB is to support the goals listed above by:

- Improving access to capital;
- Ensuring that the First Nation property tax system is seen as understandable, fair and that provides taxpayers with quality services at a fair price;
- Ensuring a harmonious and efficient system of tax administration;
- Providing an oversight function to assure investors that they will be treated fairly; and,
- Representing the interests of First Nation tax administrations to other governments.



THE POLICY CONTEXT OF THE PBS

Past ITAB Pre-Budget Submissions have stressed the contribution that improving First Nation economies will make to broader goals of Canadian public policy such as improving productivity, sustaining the social infrastructure, maintaining national standards and improving federal-provincial relations.

Past ITAB submissions have also made it clear that there would be dire consequences if First Nation economies are not improved. The First Nation population is much younger and faster growing than the population as a whole. This population is currently more likely to be unemployed, on social assistance, incarcerated or requiring special assistance. If these characteristics do not improve, population growth will drive up social costs and unemployment and drive down productivity. It will also deprive a whole generation of hope, create urban ghettos and exacerbate federal-provincial relations. Conversely, if Canada institutes the initiatives outlined in this submission, it will significantly enhance its stature on the world stage. Issues related to indigenous peoples arise throughout the world. There have generally been only two strategies – forced assimilation or the creation of impoverished dependent communities who are largely prevented from participating in the mainstream economy. A strategy of enabling self-government within an institutional framework will provide a middle way that respects both the uniqueness of indigenous people and the need to maintain the national social and economic union. Canada has an opportunity to demonstrate this approach to the world and increase its international stature by so doing.

Past submissions have consistently stressed that the key to improving First Nation economies is to improve the investment climate. Most First Nation strategies have focused on securing public resources and yet public investment is only about a quarter the scale of private investment. Private investment is the primary engine of growth in Canada. A successful First Nation strategy must recognize this fact. At present, it is far too difficult to do business on First Nation lands. As a result, private investment has suffered and First Nation economies have not been able to offer jobs or generate the revenues that improve communities.

ITAB has helped First Nations across the country attract investment. First Nation tax administrations have used property tax revenues as the lever to improve infrastructure and attract investment. This has provided employment opportunities and the ability to further improve services and infrastructure and created a culture of wealth creation on lands formerly characterized by transfer dependency. Past submissions have also noted that the ability of First Nations to utilize property tax and transform their communities has far exceeded initial expectations.

However, we have not discussed at length the most important benefit that has come from this. There has been a significant change in the thinking of the leadership, of the administration and of the membership in these First Nations. Moreover, their success has been noticed by other First Nations who also have aspirations to improve their communities and provide employment opportunities.



These First Nations have become much more aware of what it takes to attract business - the importance of reputation, certainty and good relations with other governments. The administrations of these First Nations have become more experienced at dealing with the needs of business. Conflict has been defused to a degree because businesses have made the governments adjacent to these First Nations aware of the benefits of cooperation. Most importantly, young people growing up on these reserves are being exposed to success stories, learning about business and being provided with employment opportunities. This is replacing despair with hope. These experiences will benefit people all their lives whether they continue to live on reserve or move elsewhere.

We believe that by helping to develop First Nation economies on reserve, we will also benefit First Nation persons living off reserve. First, job and business opportunities on reserve will reduce the flow of persons to urban centers where they are often unemployed or on social assistance. It may also entice some people to return to an environment where they can benefit from a supportive social network. Second, job and business opportunities on reserve will create more stable homes and increase the exposure of a First Nation person to experiences that can make them more employable. Third, more prosperous reserve economies will create more potential employers off reserve as businesses have their prejudices challenged and on-reserve investors begin to look at opportunities off reserve.

We also believe that the federal government has recognized that this is the best approach to developing First Nation economies and resolving First Nation issues. It is effective because it allows the market to work on First Nation lands and deliver the same benefits as it does elsewhere in Canada. It helps resolve First Nation issues because it addresses poverty, reduces social blight and gives everyone a common stake in cooperation.

ITAB has done much but with the initiatives in this submission it could do considerably more. Substantial barriers remain to the development of First Nation administrations and to ITAB's ability to extend the benefits of property taxation and participation in the economic union to other First Nations.

UNDERSTANDING FIRST NATIONS' UNDERDEVELOPMENT

This section of the submission will explain how First Nations are disadvantaged in the competition for private investment. It is presented in order to make more clear how the initiatives outlined by ITAB work together in improving First Nations' ability to attract investment.

Some simple "arithmetic" lies at the heart of the problem of under performing First Nation economies - it is ten times harder for a First Nation community to attract private investment.

Many previous First Nation economic development initiatives have had limited effectiveness because they were aimed at creating a successful project rather than altering this arithmetic. In truth, public monies can never replace the "missing" private investment or entice private investment and be effective. First, there are simply not enough public resources, and second this approach does not create wealth.

The bottom line - a "solution" to improving First Nation economies or social conditions that does not improve this simple arithmetic is not a solution.



THE SIMPLE ARITHMETIC OF FIRST NATIONS' DISADVANTAGE

Economic development involves both the public and private sectors.

PUBLIC SECTOR ROLE:

Governments use their revenues to pay for local services and infrastructure such as roads, water and sewer. A typical Canadian community can finance \$6 million in new infrastructure from \$1 million in annual property tax revenues.

A typical First Nation community must commit three times as much revenue to finance the same amount of infrastructure.

Typical Canadian Community: \$1 Million Annual Tax Revenue = \$6 Million Infrastructure

Typical First Nation: \$1 Million Annual Tax Revenue = \$2 Million Infrastructure

WHAT IS WRONG

- First Nations are unable to use the tools that other governments use to finance infrastructure – debentures backed by pooled revenues; private contributions; and development cost charges. Underlying these difficulties are problems that potential lenders have with differences in land tenure and jurisdictional structures and the absence of a proper reputation.
- Compounding this problem are difficulties facing First Nations who desire to use funds from different sources to finance infrastructure.

MARKET ROLE:

Governments use their infrastructure and services to entice investors to build houses and businesses on their land. A typical Canadian community entices \$5 million in additional private investment for every \$1 million in infrastructure improvements.

At present, a typical First Nation entices about one third this amount of new investment for every dollar's worth of infrastructure improvement.

Typical Canadian Community: \$1 Million New Infrastructure = \$5 Million New Investment

Typical First Nation: \$1 Million New Infrastructure = \$1.5 Million New Investment

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WHAT IS WRONG

- Many First Nations are unaware of their potential for economic development. For example, they are unaware of their investment potential and how this potential could be used to provide them with additional fiscal resources.
- Many First Nations do not know how to capitalize on their economic development potential. For example, they may not be aware of what investors need or how governance structures and policy meet these needs. Even if they were aware many of these First Nations would need assistance in developing these policies and structures.
- Economic development itself is still controversial in many First Nations. It is viewed with suspicion, either as a threat to traditional ways of life or as a ploy by the federal government to offload its Treaty and fiduciary obligations.
- First Nations lack many of the economic development tools and policy frameworks that other governments use to finance infrastructure and create investor confidence.
- Many First Nation administrations lack experience with investors or lack the resources necessary to address investment proposals. As a result, there are gaps in their supportive policy framework and governance structures and many investment proposals are not addressed promptly.
- Many First Nations either lack the expertise necessary to facilitate investment or lack the means to acquire this expertise.
- Investors are unaware of the potential of First Nations or they are unaware of how to approach First Nations and deal with jurisdictional differences or they lack confidence in the stability of First Nations.
- The dissemination of the substantial knowledge and expertise required to facilitate investments in a First Nation context has no adequate vehicle for dissemination.

In sum, First Nations are facing two serious handicaps. We are paying effectively “triple” for our infrastructure and receiving only one quarter the economic payoff from that infrastructure. The net result – wealth is roughly ten times harder to create in First Nation country than elsewhere.

FIGURE 1: WEALTH CREATION IN A TYPICAL CANADIAN COMMUNITY

These problems are represented in the figures below. Figure 1 shows a typical Canadian community where \$1000 in annual property tax revenues bring \$30,000 into the local economy.

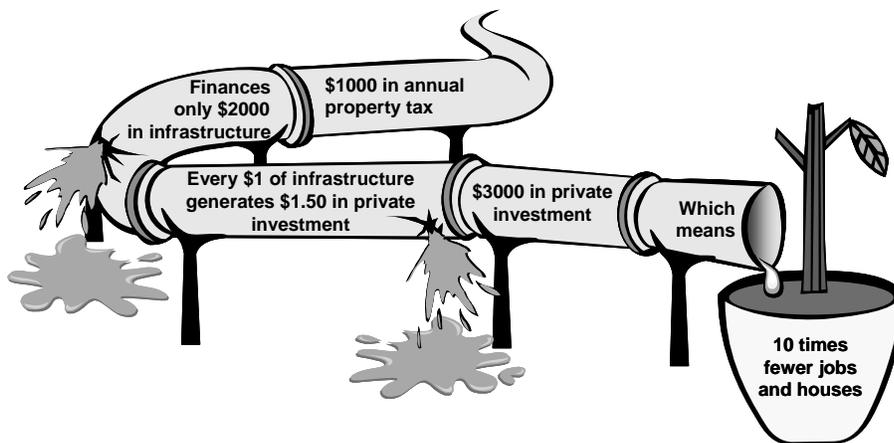
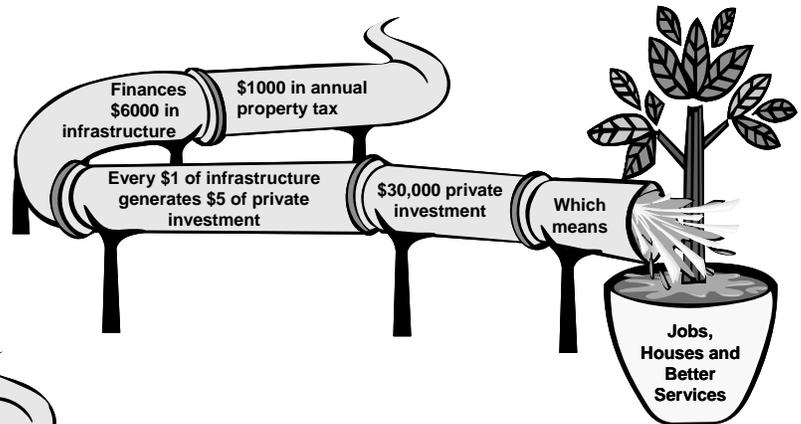


Figure 2 shows the same situation in a First Nation context. That same \$1000 generates only one-tenth the new wealth or \$3000. This means fewer jobs, fewer houses, and poorer services.

FIGURE 2: WEALTH CREATION IN A FIRST NATION COMMUNITY

IMPROVING THE ARITHMETIC

1. Expedite Passage of the FMSA

First Nations who are using property tax need the **First Nations Fiscal and Statistical Management Act (FMSA)** passed quickly. Passage of this Act will allow First Nations to finance infrastructure on terms that are more competitive with those prevailing in the rest of the country. Passage of this Act will help improve the ability of First Nations to attract investment.

The institutions created by the FMSA will improve First Nations ability to finance infrastructure by:

- Reducing the interest rate paid by First Nations when financing infrastructure.
- Removing collateral requirements when obtaining financing for infrastructure.
- Allowing longer re-payment periods.
- Reducing the processing time required by First Nations to receive capital.



The institutions created by the FMSA will also improve the value First Nations receive from infrastructure by providing them with:

- Better statistical information upon which to make decisions about infrastructure investments and support investments into the repair, maintenance and replacement of infrastructure.

The institutions will make investments on First Nation lands more attractive by:

- Improving the confidence of investors regarding service and infrastructure provision.
- Improving the confidence of investors in financial information.
- Making statistical information more readily available to assist in investment decisions.
- Improving First Nations administrations.
- Assuring investors that they will be treated fairly.

2. Create a Comprehensive First Nations Infrastructure Program

First Nation tax administrations need a new and more comprehensive approach to infrastructure provision. At the present time, firewalls between funding sources are making it difficult to use funds efficiently. Program support is needed to allow smaller First Nations with economic potential to initiate the process of wealth creation. An infrastructure program is needed to accelerate development because First Nation infrastructure investments offer some of the highest potential rates of return and an opportunity to fill in the holes where national standards are not being met.

Accordingly, the ITAB is proposing that it: (1) work with the federal government in setting aside infrastructure funds aimed at enhancing the ability of First Nations to finance infrastructure through property tax; and, (2) form a partnership with the federal government to broker infrastructure deals so that First Nations and the federal government alike can get the maximum value from their infrastructure investments. In carrying out these roles, ITAB will use its knowledge of First Nations to ensure that infrastructure investments do not simply subsidize investments that would have been made in any event and do succeed in unlocking under utilized economic potential.

This will improve the ability of First Nations to finance appropriate infrastructure by:

- Improving the ability of First Nations to combine federal program funding with property tax debentures. This will extend their ability to build infrastructure of the proper scale and scope to support both residential and business development needs.
- Enabling many small and less developed First Nations with significant potential to undertake those initial investments in public infrastructure that kick start the wealth creation process. In the past, many small towns across Canada benefited from similar programs that were offered by their provincial governments.



- Allowing the federal government to invest scarce resources into the optimal replacement, repair and maintenance of existing infrastructure in order to reduce liabilities and provide quality service to the maximum number of people.
- Increasing the ability of the federal government to ensure that cost shared programs such as Canada Infrastructure provide the best possible rate of return. The ITAB infrastructure proposal will allow ITAB to assist the federal government by providing important information concerning the ability of First Nations to finance projects, the capacity of First Nations to manage such infrastructure and the potential of First Nations to attract investment as a result of the new infrastructure. This information will help ensure that federal funding does not subsidize projects that would have gone on in any event and does not divert resources from higher value to lower valued uses.

3. Create the First Nations Institution for Economic Cooperation and Partnerships

First Nation tax administrations and other First Nations need an IECF. This organization will bring together the currently unorganized constituency of First Nations with an interest in attracting more private investment. This agency will raise awareness about the potential of private investment and how to attract it by:

- undertaking promotional work and helping First Nations identify their investment potential;
- creating a catalyst for the development and dissemination of governance initiatives that support an improved investment climate;
- supporting the development of First Nation investment facilitation specialists with transferable skills;
- creating a forum that will improve the coordination of actions between First Nations and First Nation institutions;
- assisting First Nations in finding private sector partners to assist with infrastructure projects;
- providing a forum in which business, participating First Nations and other governments can better explore and realize their mutual interests in improving **both** the First Nation investment climate **and** the clarity about how to accommodate First Nation interests in their traditional territories; and
- creating a vehicle through which participating First Nations can market their potential to investors and also raise awareness among First Nations about investment opportunities on First Nation sites and what has been done to create certainty over such investments.
- In sum, the IECF will encourage more First Nations to embark on an economic development strategy. It will help First Nations undertake infrastructure improvements by raising awareness of what is necessary and allowing them to negotiate more easily with private sector partners. It will make substantial improvements in their ability to attract investment.



THE RETURN TO INVESTMENT - WHAT COULD CANADA DO WITH AN EXTRA \$3 BILLION A YEAR?

ESTIMATING THE RETURNS TO THE ITAB PROPOSALS

The ITAB has three proposals in its pre-budget submission:

- 1. Pass the FSMA**
- 2. Establish a specialized infrastructure program and**
- 3. Establish a First Nation Institution for Economic Cooperation and Partnerships**

The methods for estimating the direct benefits from each of these are summarized below.

THE FSMA RETURNS

The FSMA will deliver benefits directly and indirectly. Direct benefits will flow from the first bond issue. Indirect benefits will flow over time as the ability to finance infrastructure, create greater confidence in financial statements, create greater fiscal certainty and improve First Nation statistics and administrative practices. Only the direct benefits are quantified below:

DIRECT BENEFITS

Improved Infrastructure

The FSMA will improve access to capital for First Nations almost immediately. It is estimated that the first bond issue will be valued at \$20 million. By many accounts this should be considered very conservative given that one community has already identified \$40 million in immediate infrastructure requirements.

Based on the experience of other jurisdictions in Canada, First Nations will require about \$3.5 million in annual property tax revenues to support a \$20 million debenture. Without the FSMA, that same \$3.5 million would only build \$7 million infrastructure. The result of the FSMA is that \$13 million of extra infrastructure is built in the first year alone.

This infrastructure will generate about \$40 million in economic benefit if the institutions are not able to improve the First Nation investment climate. However, a typical non-First Nation community could generate roughly \$100 million from that same infrastructure.



It is difficult to say how effective the institutions will be at improving the ability of First Nations to use infrastructure to attract investment. First Nations are presently disadvantaged in many ways. The fiscal institutions can address only some of these fully. However, three of these are essential in improving investment: (a) greater fiscal certainty; (b) improved confidence in statistics and financial statements; and, (c) better administrative practices.

Two other factors should also improve the First Nation investment climate. First, as more First Nations develop land codes using the First Nation Lands Management Act this will create greater land use and property certainty for investors. Secondly, as First Nations develop systems of government based on the comprehensive economic research of the ITAB, this will further improve the performance of the private sector on First Nation lands.

If the institutions are able to close even half the gap between themselves and other communities in Canada they will then generate \$50 million in private investment.

A more detailed explanation of how these estimates were made appears at the end of this appendix.

DIRECT BENEFITS

Pre-Institutions

\$3.5 million in annual property tax = \$7 million in infrastructure = \$14 million in new investment.

Post-Institutions

\$3.5 million in annual property tax = \$20 million in infrastructure = \$50 million in new investment.

Impact of the Institutions in year one

Pre-Institutions – Post-Institutions = \$36 million in additional private investment.

The benefits of lowering financial thresholds for infrastructure projects and enhancing the investment climate will be repeated with each subsequent First Nation bond issue. The FNFA business plan proposes to issue \$20 million in debentures in each of its first three years, \$30 million in debentures in the subsequent two years and \$50 million in debentures in years six through ten.

Other benefits will emerge over time. For example, based on the assumption that \$75,000 in annual investment translates into a new job this means roughly 480 new First Nation jobs created every year with a commensurate ability to reallocate resources from social support.



Direct Benefit Summary of the FSMA

	Additional Infrastructure	Additional Investment	Additional Jobs
Year 1	\$ 13,000,000	\$ 36,000,000	480
Year 2	\$ 13,000,000	\$ 36,000,000	480
Year 3	\$ 13,000,000	\$ 36,000,000	480
Year 4	\$ 20,000,000	\$ 55,000,000	740
Year 5	\$ 20,000,000	\$ 55,000,000	740
Year 6	\$ 50,000,000	\$ 111,000,000	1,480
Year 7	\$ 50,000,000	\$ 111,000,000	1,480
Year 8	\$ 50,000,000	\$ 111,000,000	1,480
Year 9	\$ 50,000,000	\$ 111,000,000	1,480
Year 10	\$ 50,000,000	\$ 111,000,000	1,480
Total	\$ 329,000,000	\$ 773,000,000	10,320

Based on these projections the following direct benefits will be generated over the first ten years of the FSMA.

It is important to reiterate the direct returns to investment from the FSMA. In the first ten years after the legislation is passed it is conservatively estimated that the FSMA institutional framework will deliver:

- \$329 million in new infrastructure
- \$773 million in new investment
- 10,320 jobs (many of these permanent)

These represent conservative estimates for three reasons. First the expected demand for infrastructure financing is expected to be much higher than has been conservatively proposed by the FNFA. Second, the improvement in the investment climate resulting from the institutions is likely underestimated. Finally, to the extent that commercial or industrial developments are supported by the infrastructure improvements, the anticipated jobs are grossly underestimated.

WHAT ADDITIONAL BENEFIT AN INFRASTRUCTURE PROGRAM WILL PROVIDE

A First Nations infrastructure program should be designed so that federal infrastructure programs are: (a) able to assist First Nations in capitalizing on their economic development potential; and, (b) utilize the considerable knowledge ITAB possesses about the economic development potential and fiscal capacity of First Nation tax administrations.



Regarding (a), there are many First Nations with considerable potential to attract investment who are unable to undertake the initial infrastructure improvements necessary to do so. The institutional borrowing regime that will be established under the FMSA will assist some of these First Nations but it still requires that a tax assessment base be in place. Many small communities in Canada were in similar situations in the early years of their development and were able to overcome this hurdle through provincial program funding. First Nations require similar assistance.

Regarding (b), government infrastructure programs, ITAB participation in infrastructure programs aimed at First Nations would greatly assist the federal government. It would help ensure that it does not subsidize what would have been built in any event and that it gets maximum economic return from investments meant to stimulate economic activity. ITAB participation would also help ensure the program expands the number of First Nations able to take advantage of property tax.

The primary effect of an infrastructure program would be an increase in the number and scale of infrastructure projects that could be developed by First Nations under the FMSA.

Based on the analysis above, estimating the returns to an infrastructure program is relatively straightforward. All that is required is a reasonable estimate of the amount of economic infrastructure that will be funded per year through a joint ITAB-Canada Infrastructure program.

In this regard, the ITAB is proposing a modest \$100 million infrastructure program over the next five years to demonstrate the value of this project. Assuming that this program is extended another 5 years, the ITAB estimates that \$20 million a year in additional infrastructure for property tax collecting First Nations will be built over the next 10 years.

It is also assumed that the infrastructure to investment multiplier is the same as for the FSMA - \$2.5 dollars of investment for every \$1 of economic infrastructure. The employment multiplier of \$75,000 of investment per job is also maintained.

The result is that each year the infrastructure program will generate \$50 million in new investment. It will also generate 667 additional jobs. This is reflected in the table below:



Direct Benefit Summary of the FSMA Plus Infrastructure

	Total New Infrastructure	Total New Investment	Total New Jobs
Year 1	\$ 33,000,000	\$ 86,000,000	1,147
Year 2	\$ 33,000,000	\$ 86,000,000	1,147
Year 3	\$ 33,000,000	\$ 86,000,000	1,147
Year 4	\$ 40,000,000	\$ 105,000,000	1,400
Year 5	\$ 40,000,000	\$ 105,000,000	1,400
Year 6	\$ 70,000,000	\$ 161,000,000	2,147
Year 7	\$ 70,000,000	\$ 161,000,000	2,147
Year 8	\$ 70,000,000	\$ 161,000,000	2,147
Year 9	\$ 70,000,000	\$ 161,000,000	2,147
Year 10	\$ 70,000,000	\$ 161,000,000	2,147
Total	\$ 529,000,000	\$ 1,273,000,000	16,973

WHAT ADDITIONAL BENEFIT AN IECP WILL PROVIDE

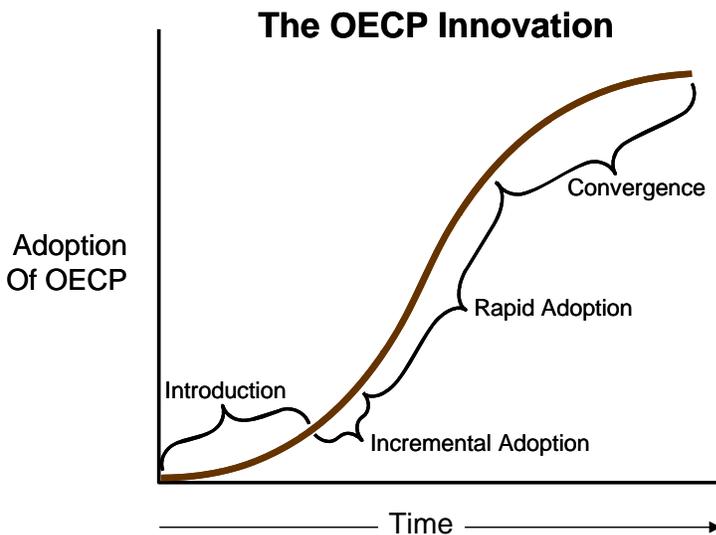
The IECP will provide a forum for First Nations with an appreciation of the importance of private investment to explore opportunities for cooperation and exchange information. Economic development in a First Nation context presents unique challenges and requires unique skills. The IECP will go a long way to ensuring that First Nations are able to overcome the challenges more quickly as well as develop the necessary skills.

In time, this forum will evolve into an institution that allows First Nations to explore ways of achieving service efficiencies through cooperative delivery and harmonization.

The IECP will also provide a forum in which First Nations, business and other governments can explore how to better realize their mutual interest in improving the investment climate on reserve and better clarifying First Nation economic interests over their traditional territories so as to reduce the costs of doing business in both situations.

The IECP will provide the means to raise awareness among First Nations about the potential of economic development and what is necessary to achieve it.

The short term benefits of developing an IECF are listed below. In the short term, the IECF will accelerate the ability of First Nations to develop infrastructure by raising awareness. It will assist them in finding private sector partners to assist in infrastructure projects. The IECF will also improve the ability of First Nations to attract investment. It will help develop policies and governance structures that increase their certainty and reduce the costs of negotiating deals. It will allow participating First Nations to cooperate in marketing and establishing regulatory structures. It will promote the more rapid development of professional investment facilitation staff within First Nations.



In estimating the benefits of the IECF we have modeled it much like how a new technology is modeled. First Nations must adopt the technologies represented by the IECF in order to generate benefit and we have assumed these will be adopted in the standard S curve associated with new technologies.

The adoption of the IECF by First Nations will be slow at first but once the benefits are realized more First Nations will join. This process represents the bottom part of the S. Stated mathematically; this is the logarithmic stage of growth. During this stage two distinct returns to the IECF are being realized:

More Infrastructure – The IECF will help build more infrastructure in two ways. First, by increasing the returns to infrastructure it will help generate more property tax revenues that can be invested in infrastructure. Secondly, it will help attract more private capital for infrastructure. It is assumed that by year five that the IECF will eventually attract an additional \$20 million in infrastructure capital to First Nations. This growth will proceed in a logarithmic fashion.

Higher Returns to Infrastructure – The IECF will also increase the returns to infrastructure. It will do this by helping First Nations build government structures that support an improved investment climate. It will take time not only to build these improved structures but also to develop a reputation for an improved investment climate. It is assumed that the IECF will improve the returns to infrastructure from 2.5 to 3.5 by year five. Progress towards this higher return will proceed in a logarithmic fashion.



The top half of the S curve indicates exponential growth. Exponential growth is characterized by rapid adoption of a new system and convergence to higher standards. It is assumed that by demonstrating the high returns to the FSMA, the infrastructure program and the IECP, that First Nations will quickly join the IECP so that they can receive these benefits. Similar to the bottom part of the S curve, the IECP will deliver two distinct benefits along the top part of the S curve.

More Infrastructure – The IECP will lead to more infrastructure being built through higher property tax revenues and greater private sector participation. It is assumed that by year 10 that \$40 million in annual additional infrastructure will be built on participating First Nation lands. Progress toward this higher infrastructure total will proceed in an exponential fashion.

Higher Returns to Infrastructure – As the First Nation investment climate reputation improves and the number of First Nations adopting IECP standard for First Nation government structures rises, the First Nation return to infrastructure will converge rapidly to the national standard. It is assumed that First Nations returns to infrastructure will converge from 3.5 to 5 (the national average) by year 10 in an exponential fashion.

The impact of the IECP is summarized in the table below.

Direct Benefit Summary of the FSMA Plus Infrastructure Plus OECP

	Total New Infrastructure	Total New Investment	Total New Jobs
Year 1	\$ 34,000,000	\$ 88,500,000	1,180
Year 2	\$ 35,114,743	\$ 91,750,817	1,223
Year 3	\$ 37,472,136	\$ 99,228,757	1,323
Year 4	\$ 49,457,416	\$ 135,430,461	1,806
Year 5	\$ 60,000,000	\$ 175,000,000	2,333
Year 6	\$ 100,542,584	\$ 268,877,383	3,585
Year 7	\$ 105,527,864	\$ 299,581,286	3,994
Year 8	\$ 107,885,257	\$ 324,470,271	4,326
Year 9	\$ 109,000,000	\$ 344,645,608	4,595
Year 10	\$ 110,000,000	\$ 361,000,000	4,813
Total	\$ 749,000,000	\$ 2,188,484,582	29,180

NON-ECONOMIC BENEFITS

The initiatives above will be rightly judged on their ability to deliver infrastructure and business to participating First Nations over the next five to ten years. However, the benefits of these initiatives are not limited to new investment that will be delivered over this short time frame.



This PBS has also made clear that these initiatives will create greater awareness within First Nations and First Nation people of their opportunities. They will create hope. They will create positive role models for a new generation of young First Nation persons. They will make it more likely that those persons who migrate off-reserve have the skills, self esteem and sense of place in the world to be employable.

Moreover, these initiatives offer the best means to realign First Nation political energies towards making business happen in Canada. They will create the means and incentive to support each of the following:

1. Improved accountability regime

The present accountability regime for First Nations suffers from: (a) a lack of standards for financial management and reporting; (b) poor quality statistics; (c) a lack of administrative capacity; and (d) reduced market incentives. The fiscal institutions will help improve each of these shortcomings. The development of business opportunities will address the incentive issue.

2. Improved inter-governmental relations

The institutions will help participating First Nations better realize their mutual interest of economic development with respect to other governments. It will also create a better basis for developing regional cooperation agreements. It will give First Nations a greater fiscal capacity to participate in regional infrastructure projects and will also provide the statistical and financial management capacity to structure agreements.

3. Improved statistics

The institutions will help create improved statistics concerning local revenues and services from participating First Nations. They will produce the data that is necessary to support investment decisions and provide administrations with a management tool. They will also create a data collection infrastructure that will help improve other statistical information.

4. Capacity development

The institutions will help First Nations create capacity. For example, both the First Nation Tax Commission and First Nation Financial Management Board will both help develop administrative capacity within First Nations. First Nations will also acquire expertise with respect to investment facilitation and negotiations through the development of the IECF. The IECF will also serve as an agency that helps First Nations determine what governance structures and policies are appropriate for supporting investment and then helps implement these structures. First Nations will gain additional project management expertise as a result of the accelerated pace of infrastructure development.



5. Successful Role Models in Early Life – Development of a Business Culture

Far too many First Nation persons grow up without being exposed to work opportunities, without exposure to successful role models and without becoming aware of how business works. This lack of exposure can handicap them all their lives regardless of where they choose to live. These circumstances can make it more difficult to acquire skills and positive employment experiences. A key aim of these initiatives is to first raise awareness of their potential, second develop an understanding of what it takes to realize this potential, and finally contribute to a real change in thinking within people of how to identify opportunities and better realize their own potential.

6. Facilitating Agreements.

The development of the First Nations Statistical Institute created by the FSMA will develop the capacity within First Nations to better understand the economic potential of their traditional territories. The development of the IECF will help them understand how this potential can be best used to help them meet their aspirations. It will also put them in contact with templates and expertise that will make deals easier to reach. Ultimately, the IECF will create a forum in which First Nation interests can be pre-specified to the benefit of all parties.



APPENDIX A - PAST ITAB SUBMISSIONS

The table below summarizes the ITAB's past pre-budget submissions from 1999-2003.

Proposal	Year of Submission	Rationale	Results
Expedite the establishment of the First Nation Tax Commission	1999	The FNTC will help First Nations realize the benefits of a market economy.	All Party Support
Revenue Options Should be Expanded	1999, 2000, 2001	The expanded powers of the FNTC will allow it to better guarantee the integrity of the First Nation property tax system and to take measures that improve the investment climate of First Nations.	
The federal government should continue to support to support the establishment of the First Nation Tax Commission	2000,2001	The best means of improving First Nation productivity is to bring private investment to First Nation lands. The FNTC will facilitate investment by: (1) improving infrastructure and services; (2) providing investors with assurances regarding service quality and tax rates; (3) building administrative efficiency on-reserve and (4) reducing compliance costs associated with taxation and ensuring regulatory harmony.	No consultation held that year
All parties in the House of Commons should support the development of the First Nations Fiscal and Statistical Management Act.	2001	The fiscal institutions will facilitate investment by providing FN with the ability to finance necessary improvements to infrastructure and services; providing investors with assurances regarding service quality, tax rates, financial reporting and statistics to reduce search costs; building confidence in FN administrations, statistics, and financial information; reducing compliance costs associated with taxation and ensuring regulatory harmony; preventing disputes between First Nations and other government about services and de-politicizing the financial management issues.	No consultations held that year
Enhance First Nations Infrastructure Program	2002	Lack of quality public infrastructure is a major impediment to economic growth on First Nation lands. As a result, many high quality sites are under utilized and unemployment remains high on First Nation lands. And the chief reason for poor quality infrastructure remains an inability to finance the initial improvements that are necessary to develop a self-sustaining economy.	Suggestion not accepted
Business Assessment Function at DIAND	2002	A significant barrier to the development of the First Nation economy is a cumbersome and lengthy approval process with DIAND. The necessary approvals are often too distant to have a clear understanding of the project; they are divided amongst different parts of the Department and funds supporting economic development.	No specific response
First Nations Organization of Economic Cooperation and Partnerships	2002	A First Nations Organization for Economic Cooperation and Partnerships would develop policies and standards for all members. It would serve as a forum for the exchange of information, the development of information for potential investors and the development of mentoring and advisory services. The FNIECP would also provide a window for the private sector to seek out opportunities and provide advice.	No specific response
ITAB partnership with federal government for a First Nations Infrastructure Program	2003	ITAB, through its inspector of capital projects role could help the federal government realize maximum efficiencies from its infrastructure investments.	



APPENDIX B - ECONOMIC IMPACTS OF THE FSMA – METHODOLOGY

The economic impact estimate of the FSMA is based on four premises:

1. Each dollar of property taxes devoted to infrastructure, builds \$6 of infrastructure on average on non-First Nation lands.
2. Each dollar spent on public infrastructure leads to \$5 in private sector investment on non-First Nation lands.
3. Each dollar of property taxes devoted to infrastructure on First Nation lands builds \$2 of infrastructure.
4. Each dollar of public infrastructure on First Nations lands leads to \$1.50 of private sector investment.

PROPERTY TAX VS. INFRASTRUCTURE OFF FIRST NATION LANDS

In Alberta, every dollar of municipal revenue devoted to infrastructure has the potential of increasing infrastructure six fold through borrowing. Debt limit regulations under the *Alberta Municipal Government Act* state that the debt limit of a municipality is:

- in respect of the municipalities total debt – 1.5 times the revenue of the municipality;
- in respect of the municipalities debt service – 0.25 times the revenue of the municipality.

This means that if a municipality had \$100 in property tax, it would be able to borrow up to \$150 for infrastructure, applying up to \$25 of property tax revenues towards servicing the debt. In effect, it is using \$25 in annual property tax revenue to build \$150 in infrastructure.

A survey of local governments in British Columbia found that every dollar devoted to infrastructure had the potential of increasing infrastructure 7.5 times through borrowing. It was found that the debt to servicing costs (including interest and principal) ratio to be 7.5. This means in British Columbia every dollar in local government property tax devoted to infrastructure is on average increasing the infrastructure stock by 7.5 times when financing is employed.¹

To be conservative, we have settled on each dollar of property tax revenue creating \$6 dollars of infrastructure.

¹ This was calculated by aggregating total debt and serving charges for all local government in BC and then dividing debt by the serving charges.



INFRASTRUCTURE'S LINK TO ECONOMIC GROWTH

Good Infrastructure is an important key to economic growth. This is a well-documented premise that has been supported by the World Bank and the Organization for Economic Co-operation and Development. In a 1993 paper the World Bank put forward:²

- Infrastructure contributes to economic growth, both through supply and demand channels by reducing costs of production, contributing to the diversification of the economy and providing access to the application of modern technology, raising the economic returns to labour (by reducing workers' time in non-productive activities or improving health);
- Infrastructure contributes to raising the quality of life by creating amenities, providing consumption goods (transport and communication services) and contributing to macroeconomic stability;
- Infrastructure does not create economic potential; it only develops it where appropriate conditions (i.e. other inputs such as labour and private capital) exist.

Another World Bank paper found that poor quality or unreliable infrastructure services, or insufficient infrastructure service provision, means that firms may be reluctant to invest, or where established, may invest in "complementary capital" (i.e. provide their own infrastructure services) rather than "productive" capital, thereby lessening the rate of return on private investment.³

And in 2001 the OECD noted that "inadequate infrastructure" (undefined, but excluding education) was identified as a "major impediment to entrepreneurial activity." Public investment in "R&D, transport, communication and infrastructure" was highlighted as enhancing private sector innovation and productivity.⁴

INFRASTRUCTURE VS. PRIVATE SECTOR INVESTMENT OFF FIRST NATION LANDS

The graph below shows how important private investment (investment is defined as capital and repair expenditures) is to the Canadian economy. Over the period shown, private investment has represented on average over 80 per cent of all investment in Canada, while public investment only has represented 20 per cent of total investment. In 2001 the ratio of public to private investment was about 5 to 1.

² Kessides, C. World Bank, *The Contribution of Infrastructure to Economic Development – A Review of Experiences and Policy Implications*, 1993

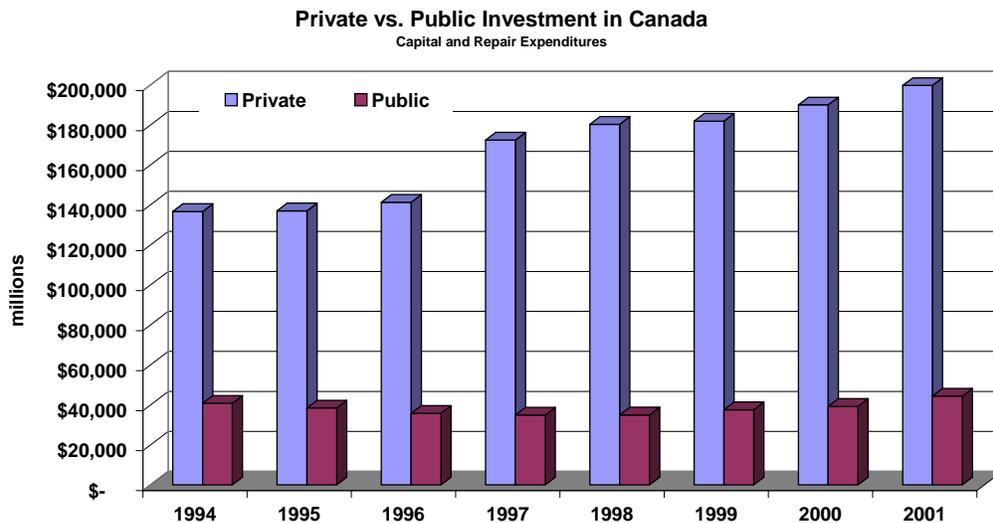
³ Reinikka, Svensson, World Bank, *Investment*, 1999

⁴ OECD, *The New Economy: Beyond The Hype*, 2001



Private investment averaged a growth rate of 5.8 per cent, for the 1994 – 2001 period, while public investment only averaged a 1.4 per cent growth rate over the same period. This implies that the gap between public and private investment is growing. For this reason we felt that our \$5 of private for every \$1 of public was a reasonable estimate.

The graph below summarizes the relationship between public and private investment from 1994 until 2001.



PROPERTY TAX VS. INFRASTRUCTURE ON FIRST NATION LANDS

The lack of statistics showing the current relationship between First Nation property tax expenditures and First Nation infrastructure is a powerful argument for the creation of the First Nation Statistics Institute and its role in support of the other institutions. As a result, a case study approach was used to estimate the relationship between property taxes and infrastructure on First Nation land.

In 1998, the First Nations Finance Authority (FNFA) commissioned a study from Fiscal Realities to estimate the economic and fiscal benefits resulting from the creation of the FNFA. A Westbank case study was presented to demonstrate the costs of developing First Nation infrastructure without an FNFA.

In the case reviewed, Westbank had to finance a \$3.1 million finance project. Terms for financing were from one year to four years with various financial institutions. Westbank used several revenue sources (anticipated lease revenue for example) and collateral to secure the required loans. Based on the complicated financial arrangement it is estimated that property tax revenues secured very little of this infrastructure requirement. It is probable that \$1 of property tax revenue secured less \$2 of infrastructure associated with this project.



Of course, Westbank is a bit of an anomaly since it actually had valuable land to use as collateral in the first place. Most First Nations that collect property taxes do not have this advantage. As a result, most of these First Nations finance infrastructure with a large down payment, and/or with a significant private sector contribution and smaller short-term loans. It is possible that for these First Nations, few if any property tax dollars are used to secure infrastructure financing.

As a result, we are confident that our estimate is if anything generous for most property tax collecting First Nations based on the readily observable substandard or missing infrastructure on First Nation lands. This premise remains to be tested, however, with statistics comparable to those used for the premise that six times more infrastructure is financed off First Nation lands.

INFRASTRUCTURE VS. PRIVATE SECTOR INVESTMENT ON FIRST NATION LANDS

Once again there are no readily available statistics of private sector investment on First Nation lands. Aggregated assessed value information is available for some property tax collecting communities but this captures the stock of investment and not the annual flow of investment. Even so, there are no readily available statistics on public infrastructure investment so a comparison could not be easily made.

As a result, we use a number of anecdotal statistics to suggest that there is little private sector presence on First Nation lands. For example, selected research suggests that over 80% of all on-reserve household expenditures are made off reserve indicating a lack of on-reserve business presence.

Other research suggests that the cost of doing business on the best located First Nation lands is four to six times higher than it is off reserve. This would lead one to assume that the level of private sector development would be 4 to 6 times less on reserve than off reserve.

Based on these anecdotes we thought a generous approach would be to suggest that the private sector investment on First Nation land is 30% what it is off First Nation land. We strongly believe that this is a generous estimate based on the readily observable minimal presence of a private sector on most First Nation land. Similar to the last premise, improved statistics are required to determine how much private investment occurs on First Nation lands.