

## The House of Commons Standing Committee on Finance (FINA) *Pre-Budget Consultation (PBC)*

Submitted by: The First Nations Finance Authority

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On behalf of the First Nations Finance Authority (FNFA), I want to thank the Committee for the opportunity to make this submission and congratulate you on undertaking such extensive and inclusive consultations ahead of the tabling of the 2017 Federal Budget.

The First Nations Finance Authority (FNFA) is a statutory not-for-profit organization without share capital, operating under the authority of the *First Nations Fiscal Management Act, 2005*. The FNFA is not an agent of Her Majesty or a Crown corporation and is governed solely by the First Nations communities that join as Borrowing Members (fnfa.ca). The FNFA's purposes are to provide access to long-term loans with preferable interest rates, accompanied by capital advice to its members to ensure better loan understandings, and loan terms that match asset lifecycles. These available services are to parallel best-practices of provincial and local governments.

The FNFA was a First Nations led idea, and was created to provide First Nations governments with the financial instruments, available to other levels of government in Canada, to build their futures on their own terms. Relationships have been developed with First Nations organizations, capital market investors and the financial services sector. Also, paralleling Provincial Treasury departments, the FNFA has created a Banking Syndicate which includes the capital markets access divisions of all 6 Chartered Banks. This Syndicate acts as a go-between for the FNFA (who raises monies for its First Nations clients) and the capital market investors (who look for investment opportunities). Through our daily operations and interactions, the FNFA is able to remain current with respect to the evolving standards in financial oversight, risk management, benchmarking and financial market utilities necessary for sustainable undertakings.

Up until June 2012, when the FNFA issued its first loan, First Nations across Canada were the last form of government that received loans from the Chartered Banks. All other levels of government, since the 1970's, access loans directly from the capital markets. FNFA, since 2012, makes this path available to First Nations.

To this end, the FNFA has issued 3 debentures into the capital markets since June 2014, raising \$251 million for its members; another \$45 million has been loaned from FNFA's Interim Loan program, and these loans will form part of FNFA's expected 4<sup>th</sup> debenture in 2017. All FNFA loans are supported by First Nations' own source revenues and have been used to build

community housing, community infrastructure, a school, wellness centres, administration buildings, economic development opportunities, land purchases, green energy projects, and other community priorities. Currently, 200 First Nations across Canada (8 out of 10 provinces plus one Territory represented) voluntarily requested of INAC to be scheduled to the FNFA's Act, and have received the Minister's sign-off. In 2012, by comparison, the number of scheduled First Nations to the FNFA's Act was approximately 80. This number continues to grow at a substantial pace.

One of the critical contributory elements to the FNFA success is the ability to provide communities with access to financial advisory services. The ability to work directly with communities in order to help them navigate the complexities of the financing and investing sectors leads to more sustainable projects and leaves an ongoing legacy of financial literacy that contributes to an improved business environment within those communities. Staff at the FNFA has over 30 years' experience accessing the capital markets.

In addition, all FNFA clients work closely with the First Nations Financial Management Board (FMB). This relationship allows our members to not only receive the benefits of capital markets loans, but to also strengthen their internal governance models to municipal standard levels, with the intent to create an environment that manages infrastructure growth and wealth management.

The FNFA is mandated to work exclusively with indigenous communities, and is actively engaged in providing a suite of financial services and options for any purpose that promotes economic growth, infrastructure and social development.

As a result of this experience, the FNFA would encourage the Government to continue to incorporate evidence-based decision making and evaluation into the program development and management process. These measures will help all Canadians in terms of expenditure efficiencies and the quality of the outcomes.

In its coordinating capacity, the FNFA works collectively with First Nations for infrastructure and economic development projects. Experience has shown us that right-sized, well maintained infrastructure attracts investments, creates economic opportunities and generates income and employment for residents. The FNFA is able to obtain lower interest rates, fix the rate for the term of the loan and customize the repayment period to meet the community's budget requirements. The FNFA provides the same services to all First Nations Communities, regardless of size, location, or current financial situation. We believe that economic health builds capacities that manifest themselves in positive economic and social outcomes.

In Budget 2016, the Federal Government acknowledged and supported the work of the FNFA by investing a further \$20 million, received over two fiscal years, to strengthen our capital base.

The tangible benefits that resulted from this additional investment were both immediate and significant. Two months after the Federal Budget 2016 announcement, the FNFA completed its third debenture issuance of \$111 million. This brings FNFA's total debenture issuances since 2014 to \$251 million. Noteworthy, 22 investors (pension plans, life insurance companies, other large investors) participated in purchasing the 2016 debenture; by contrast there were 9 investors for the 2014 debenture. Of the 22 investors, 11 were new participants attracted to the FNFA as a direct result from the new liquidity the Budget 2016 allocation facilitated. FNFA's interest rate charged to its members dropped from the 2014 rate of 3.79%, when the Credit Enhancement Fund (CEF) was at \$10 million, to 2.90% in June 2016, when the Federal Government promised in the 2016 Budget to increase the CEF to \$30 million. This downward trend in loan rates by FNFA to its members enables their budgets to start prioritizing community needs, and economic opportunities. A further increase to the CEF will provide additional comfort to the capital markets, attract new investors, and help the loan rates to drop further, allowing infrastructure/economic projects supported by First Nations' own source revenues to become more affordable still.

Of equal significance was the fact that the largest investors were from the United States and Provincial Pension Plans, which positions the FNFA to be able to raise larger amounts of affordable capital for its expanding client base. For example, the new FNFA loans were leveraged into 71 community houses, 30 remediated houses to address mold issues, a new school, 2 green energy projects involving wind and solar technology, infrastructure, economic ventures and land purchases to expand reserves.

Moody's rating agency in its July 2015 report gave the FNFA a "Negative Outlook" (i.e. the number of First Nations being scheduled to FNFA's Act was overpowering FNFA's \$10 million CEF liquidity); in its July 2016 report, Moody's stated that the increase to the CEF from \$10 million to \$30 million balanced membership growth and FNFA's CEF liquidity and upgraded the FNFA to "Stable Outlook". And that "a further increase in liquidity relative to expected future outstanding debt could lead to a ratings upgrade". A ratings upgrade would solidify FNFA's ability to continue to access the capital markets as its membership grows materially.

By way of contrast, all BC's local governments borrow through their pooled borrowing entity the BCMFA, which has a \$105 million capital injection to back-stop its credit ratings and growing loan portfolio.

Our challenge, as the number of First Nations who voluntarily opt into the Act will exceed 200, is to manage this growth in a way that continues to allow FNFA to retain two investment-grade credit ratings, continuous access to the capital markets, and favourable loan rates and terms to its members.

As there continues to be a material number of First Nations requesting that the INAC Minister schedule them under the *Act*, and because the FNFA clearly operates in a sector that benefits from scale, the FNFA is asking the Committee to consider recommending that Budget 2017 include a commitment of an additional \$20 million for FNFA's capital base, to reflect and support our mandate to improve economic opportunities for Indigenous peoples while helping to grow the Canadian economy. This commitment would further strengthen our position with credit rating agencies and financial sector partners, as well as position the FNFA to support further rapid growth in the use of the regime by First Nations for years to come.

Under FNFA's Act, investment earnings from the CEF are retained by the FNFA to partially offset costs of operations. These additional revenues were used to expand the staff at the FNFA, including a new Director of Finance, French-speaking consultants to support our growth in Quebec, and to develop in-house expertise and capacities.

In conclusion, the FNFA fully supports the areas of focus that the Standing Committee identified for the pre-budget submission process and feel that our work directly aligns with those objectives, as they pertain to First Nations Communities. We wish you well in your efforts to advise the Minister on the scope and scale of Budget 2017, and would more than welcome an opportunity to appear before the Committee when you launch your pre-budget meetings in the Fall.

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