Alternative Approaches to Access Capital for Housing & Infrastructure

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OFNTSC reports

- Developed two reports: “Alternative Approaches to Access Capital for Housing & Infrastructure” & “Transfer of Capital Review”
- Presented to All Ontario Chiefs Conference in June, 1998
- Tie in to dialogue/facilitation on financing alternatives for infrastructure
- Review of relevant points & advance the current agenda

Objectives

- To investigate and develop recommendations on alternatives to access capital for FN housing & infrastructure
- A PTO approach was used to consider models based on Ontario FN needs
- Also explored the viability & impact of taking over management of capital from INAC

Summary Recommendations

- The basic condition of larger communities or groups of FNs in close proximity could effect minimum thresholds – business fundamentals, economical viability
- On Reserve populations of 3-5,000 to establish purchasing clout, stronger pooled equity positions & lower administrative costs
- Tribal councils and treaty groups have put this strategy into practice

Establish an ACC-like authority or institution

- Could refinance a portion of outstanding CMHC & other loans
- An intermediary step to establishing a revolving loan fund would be to use existing ACCs – they have trained staff & equity on the balance sheet
- Leads to greater FN control, strengthens credit worthiness and ties into business development

Minor & Major capital

- Allow a portion of these funds to be used to SEED RLFs
- A portion to be pledged as security for infrastructure project loans
- Annual appropriations directed to make or in support of loan payments
- Requires FN to have solid financial management practices & credit worthiness
- Builds relationships between FN, bank and contractors

FNs as guarantors

- FN governments & trustees serve as guarantors for housing loans
- A mechanism to realize on defaulted loans & build FN equity - Kahnawake model
- This has been addressed through the FN Market Housing Fund by providing a back stop and added security for banks on loan defaults

Revolving Loan Funds

- FN could work to pool a portion of capital appropriations
- Minimum thresholds needed for sustainability based on some key assumptions & planned investment from annual appropriations
- Need to maintain a spread between loan interest rate and bad debt allowance of 4-5%
- Need to know your community, i.e. income composition, employment levels

The Numbers

- Revolving Loan Funds are a way to grow & control local capital for housing & infrastructure
- 2 Scenarios - $2 M initial fund (mid-large FN)
    - $500,000 initial investment (smaller FN)
- Conditions for 10 year sustainability model:
    - 50% of capital financed at 3% (prime rate)
    - 7% interest
    - 2% bad debt provision
    - Fund administrative Operating budget of $200,000
    - Average Loan amount $100,000 in 2010 increased by 3% per annum
    - Repayment terms of 15-20 years

Market Capital sources

- FNFA has addressed this where tax law is in place in raising funds through municipal-type bonds
- Legislative consideration to allow securitization of revenue streams other than tax, i.e. minor capital appropriations, other funding
- Need to look at stablizing a portion of annual major capital budgets over longer terms as a back stop for infrastructure projects or in support of RLFs

Pooling of purchasing power & Joint Ventures

- Work effectively with private sector companies to plan, design, build, finance and operate housing & infrastructure projects
- Results in cost saving on both investment costs and O & M
- Requires an effective business plan supported by stable revenue streams

Example

- In Grand Treaty 3 there were 1,652 units in 1998 with about 51 new housing units built each year
- This translates into over $7 M in annual costs for materials, furnishings, hhld equipment, repairs & maintenance
- Impact of recirculating spending on the local economy – employment and capacity building

Alternative/Sustainable approaches

- for housing and infrastructure
- Example is the Holmes partnership
- Participation on Canada Housing/building Export Strategy – sustainable forestry and building products industry – for Japan
- Manufactured housing using alternative materials, green technologies

FN ownership/partnership

- manufacturing & supply companies
- Holmes project
- Utilities, eg: Six Nations Natural Gas Ltd Partnership
- Location and resource based assets
- Investment in fee simple lands for development
- Trade missions with China

Financial conditions

- Over $1 B in on reserve housing loans existed in 1998
- RLFs established by refinancing/ rewriting a portion of existing loans and/or gradually increased over time
- Requires commitment on use of a portion of capital dollars or other revenues to finance loans until sustainable operations can be achieved

Conclusions

- Various needs require a case by case Business Plan approach.
- Where lack of revenue sources preclude viability/ Break-even, CFM program still needed
- Need to ensure flexibility in use of source revenues for infrastructure development – based on realistic long term Capital Plan, population growth, economic prospects & making a Business Case