JOINING FORCES TO BUILD A BETTER FUTURE

FNFA

"Helping Aboriginal Communities build their own futures, on their own terms."

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Letter from our President
To all First Nations Communities

We are delighted to provide to you today this brochure which describes the purpose of the FNFA, its valuable offerings, and the potential benefits you can realize by your First Nation becoming a borrowing member. This is our invitation to you to join the FNFA as a first step in creating a better future and bringing economic development in our Nations to a new level.

Starting over 15 years ago as an idea, the FNFA sprang to life and it is now a reality! The FNFA is created by and for First Nations and allows our communities to have access to market financing on the same terms as other levels of government in Canada and abroad. First Nations have established ways to generate their own revenues from emerging local economies—revenues that become valuable as the basis for borrowing. The FNFA is designed to provide First Nation governments with access to affordable capital to carry out development projects to build, and in some cases, rebuild, key infrastructure in your communities, and thereby enhancing the life, wellbeing, and self-sufficiency of your members.

Like provincial financiers that operate to fund municipal projects, the FNFA is non-profit, and therefore its low-cost of financing is passed onto its client First Nations.

We urge you to start now to plan your project requirements, identify your revenue resources and assets, and list your capital requirements. Now is the best time for First Nations to contact us to apply for membership. By joining the FNFA now, your government will be ready to take full advantage of the wide range of resources, products, and services that are available to you. And we are here to help: FNFA will provide advising and planning support, guide you through the process, and even assist you with completing the membership application. We are available to you each step of the way to ensure that becoming a member is as easy as possible for you.

Whether during economic downturns or prosperity, the FNFA is positioned to help First Nation governments, large and small, to build stronger communities and economies. As an active, borrowing member, FNFA is confident that affordable capital for key projects will have a powerful impact on every member of your community. Together, we can celebrate this new and important opportunity to achieve a vision—a vision of creating a new, vibrant future that includes healthy, safe, and thriving First Nation communities.

Call us today to learn what we can do for your community!

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Deanna Hamilton, Founding Director/President
First Nations Finance Authority

INTRODUCTION

The First Nations Finance Authority, (FNFA) is a not-for-profit finance authority created and operated by and for First Nations. The purpose of the FNFA is to facilitate greater and more effective community and economic development for the First Nations by providing access to affordable financing. The FNFA was created in 1993 and is now governed by the *First Nations Fiscal and Statistical Management Act*.

Helping Aboriginal Communities build their own futures, on their Own Terms.

An objective of the FNFA is to provide First Nation governments, institutions, and their corporations across Canada with the same financial instruments that all other orders of governments in Canada have to manage the financing of their capital infrastructure. FNFA services include 1) access to low-cost, short-term and long-term capital directly from the capital markets, 2) advice on financing, including developing long-term financing mechanisms for First Nations, and 3) management of cash surpluses, including access to low-risk, short-term investment products.

It is essential for First Nations to have access to affordable capital for improving infrastructure, public works, and local services to build and maintain safe, healthy, proud, and prosperous communities. FNFA provides powerful new tools and options to help communities take control of their development and build their economies.

To learn more
This brochure describes what FNFA can do for your First Nation. To learn more about how the FNFA works, how you can become a borrowing

FNFA helps communities take control of their development and build their economies.

member of the FNFA, and for more information on the *First Nations Fiscal and Statistical Management Act*, please visit the web site at www.fnfa.ca, or call us at (250) 768-5253.

Good infrastructure makes safer and healthier communities.

Finance for prosperity

Good infrastructure makes for safer and healthier communities. This infrastructure can also attract business investments that result in more jobs and greater prosperity. Communities usually require large amounts of capital to finance their projects, such as purchasing land, building roads, bridges, water and sewer systems, public buildings and amenities. Most non-Aboriginal governments borrow this capital by issuing bonds and debentures based on the strength of their stable and predictable sources of income over which they have jurisdiction or control. These sources of revenue include taxes, fees, charges, tolls, resource income, government-owned business income, and transfer payments from other orders of government.

Finance authorities and pooling

Large governments, such as national and provincial governments, major cities, and utilities, have the capacity to manage their own public borrowing. Smaller regional and local governments, however, do not have the large size necessary to achieve these same low rates on their own. Instead, these smaller borrowers finance their projects through higher rates at banks,

Predictable low costs enable First Nations governments to plan better, and stretch their resources for growth.

Pooling results in lower interest rates and transaction costs.

or request funding from their provincial governments. To correct this unfairness, some provinces pool together all of the financial needs for all municipalities to form finance authorities, for example, the Municipal Finance Authority of British Columbia (MFA), after which the FNFA is modeled. This pooling approach enables the borrowing requirements of all municipalities, large and small, to achieve the volume necessary for the finance authority to access directly the bond market. Individual municipalities, under this pooling approach, do not themselves need to be experts on borrowing. Instead, the finance authority employs people with expertise in capital financing. Municipalities pooling their financial needs also increase the amount of borrowing, which attracts institutional investors, and increases their leverage to negotiate the best terms and conditions.

The size, stability, and diversification of finance authorities allow them to directly access the financial markets, issuing their own bonds or debentures on behalf of their members. Pooling First Nations will result in lower interest rates and transaction costs. Borrowing members choose the term or repayment period that best suits their needs and have the option of locking in interest rates for the full repayment term. Predictable low costs, and the flexibility to set repayment terms to match budget capacity enables First Nations governments to plan better, and to stretch their resources for growth.

The FNFA Board is made up entirely of Chiefs and Councillors elected by FNFA members.

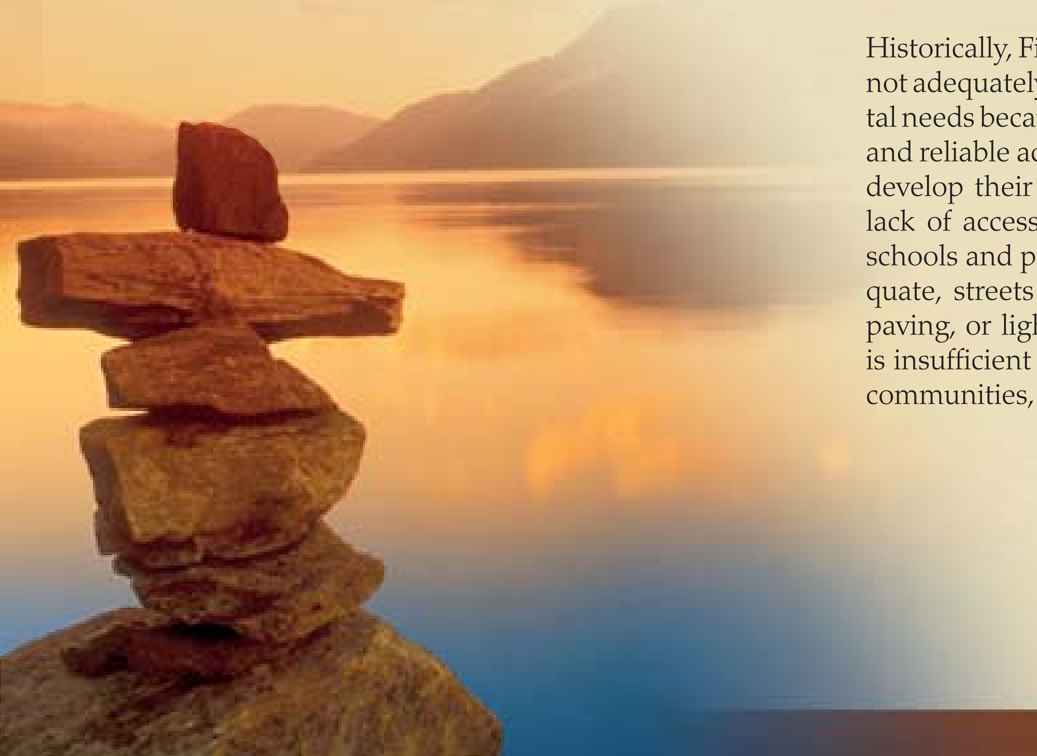
Finance authorities are non-profit
Finance authorities, like the FNFA, are not banks. Finance authorities are not privately owned and are not run to make profits. They are owned entirely by the borrowing members they serve. The FNFA is entirely owned and controlled by its member First Nations, and its Board is made up entirely of Chiefs and councillors elected by FNFA members.

However, finance authorities do work with banks. *Syndicates*, which are made up of sales teams from chartered banks, assist the finance authorities by providing advice on the bond market, marketing to the investors who buy the bonds, and advise on the timing of bond issues. Finance authorities negotiate the most beneficial arrangements with the banking syndicate and can therefore broker the best terms in the financial markets.

Finance authorities are owned entirely by the borrowing members they serve.

The impact of unaffordable capital
Before FNFA, First Nation governments were the only order of government in Canada that did not have access to affordable financing through the capital markets.

Historically, First Nation governments could not adequately plan for their long-term capital needs because they did not have sufficient and reliable access to affordable financing to develop their *community infrastructure*. This lack of access results in governments with schools and public buildings that are inadequate, streets and roads without servicing, paving, or lighting; and social housing that is insufficient and inadequate; and, in some communities, water not healthy to drink.



Without economic infrastructure, First Nations lands lie dormant, under-used, and undervalued.

Additionally, these First Nation governments have had even greater challenges accessing adequate and affordable financing to build *economic infrastructure*. Sound economic infrastructure would encourage more private investment and business development on the reserves. Presently, only costly, short-term retail bank loans are available for First Nations with sources of revenue under their control. Without economic infrastructure, First Nations lands lie dormant, under-used, and undervalued. First Nations miss potential economic opportunities and experience greater unemployment or underemployment. Even First Nations with valuable assets or revenue cannot secure necessary financing for economic development at rates available to Canadian regional and local governments. This results in First Nations paying more to arrange financing and slows their development.

A solution by First Nations, for First Nations
Research shows that pooled borrowing, a model that the Municipal Finance Authority of British Columbia (MFA) uses, is the most successful way to raise capital. MFA members include cities and local governments, with some the size of smaller First Nations. Like First Nations, these local governments have real capital needs. All members of the MFA collectively benefit from the pooled borrowing, and all members receive the same borrowing rates.

The objective of the FNFA is to ensure continuous access to affordable financing.

The FNFA need statutory authority to copy the MFA model. This statute provides a number of safeguards for investors and borrowers and provides the markets with a degree of confidence necessary to ensure an investment-grade credit rating for FNFA bonds. The statute provides for the following:
1) Clear borrowing powers;
2) Regulation and oversight of the financial management systems used by borrowing members;
3) Regulation of the revenue source used to repay loans; and
4) Mechanisms for remedy should a default occur on a debt service repayment.

The FNFA joined forces in 2001 with the Indian Taxation Advisory Board to develop legislation to create the model chosen for the FNFA. This legislation, which became the *First Nations Fiscal and Statistical Management Act* (FSMA), was approved in 2005, and was initially focused on raising debentures financing supported by property taxation revenues.

The FSMA allows the FNFA to borrow for all Aboriginal governments.

Revenues other than property taxation
Not all First Nations choose, or ever will choose, to exercise property taxation powers. Many First Nations have developed other stable sources of revenue which they could borrow against through the FNFA. Some First Nations, and the Inuit communities, now operate outside of the *Indian Act*, with self-government powers not reflected in the FSMA. To accommodate these unique circumstances, the FSMA includes provisions for regulations to be developed to enable the FNFA to borrow for all Aboriginal governments, regardless of the source of their revenue streams, for greater community development.

The FNFA objective
The objective of the FNFA is to ensure continuous and equal access to affordable financing for all First Nations, large or small, rich or poor, urban or remote, and regardless of the source of their revenues.

The Benefits of FNFA

What the FNFA can do for you

1. MARKET DEBT-FINANCING FOR NATION BUILDING

Tools to leverage your revenue and start building infrastructure for the future

The primary role of the FNFA is to secure affordable and flexible short-term and long-term capital financing for First Nation governments, their institutions, and their corporations for the development of First Nations communities.

Capital financing activities

The FNFA has the authority to raise capital to develop community and economic infrastructure. This includes projects such as 1) water lines and water treatment plants, 2) sewers and waste treatment plants, 3) roads, sidewalks, lighting, and bridges, 4) land purchases, land reclamation and remediation, 4) public buildings, such as administrative buildings, social housing, arenas, schools, fire halls, and community centres, 5) economic infrastructures such as marinas, docks, industrial parks and road or utility access to resources, 6) energy projects, such as independent power production units (for example, run-of-river mini-hydro projects), and 7) rolling stock.

The objective of the FNFA is to ensure continuous access to affordable financing.

The FNFA does not raise capital for direct commercial activities. The cost of building the necessary infrastructure for First Nation owned commercial ventures may be available through the FNFA, but the commercial or business financing is not available from the FNFA.

FNFA members can borrow for short-term needs and interim cash requirements. Short-term loan financing is used to cover the costs of projects during the construction period. Once projects are complete and the full costs are known, and when the timing for a new bond issue is appropriate, the short-term debt is converted by the FNFA into fixed-rate, long-term debt, at a repayment term that matches the borrowing member's revenue flows.

The FNFA can consider financing for First Nation participation in regional projects involving multiple communities, including non-First Nation communities, and for minority ownership in eligible projects if structured appropriately. The FNFA can also consider refinancing

All First Nations revenue streams are available for borrowing against.

existing debt for projects that meet the eligibility criteria. Refinancing can often result in lowering and fixing of the interest rate, with a significant decrease in the annual debt-service payments, thus enabling a First Nation to use these savings toward other developments without increasing payment amounts.

First Nations sources of revenue
First Nations may borrow through the FNFA on the basis of ongoing stable, unencumbered, and secure revenue streams. These revenue streams may include any or a combination of the following:

1. Resource-revenue sharing agreements, impact-benefit agreements, resource extraction or treatment income under the control of the First Nations, and, in some instances, business income, such as gaming, oil and gas, fishing, forestry, and so forth;
2. Government transfer payments, and income derived from inter-governmental agreements, with or without government guarantees;

The FNFA can refinance existing debt.

3. Property taxes (under the FSMA regime only), fees, charges, grants-in-lieu-of-taxes, First Nations GST, and other taxation income.

The borrowing room, that is, the maximum amount of debt that can be borrowed against a particular revenue stream, varies depending on the liability commitments against the revenues (for example, salaries, rent, operating expenses, and so forth), and any restrictions on that revenue stream.

First Nations seeking to borrow through the FNFA based on other sources of revenue are not required to collect property taxes.

Where the source is property-tax revenues, the borrowing room is calculated based on a formula determined by the First Nations Tax Commission (FNTC). This formula examines the available local revenue after the obligations of the First Nations under the First Nations Fiscal and Statistical Management Act (FSMA) have been met.

Borrowing regime and controls
The FSMA describes in detail the system for borrowing based on property taxation for those communities that are scheduled, that is, that choose to opt out of section 83 of the Indian Act, in favor of the FSMA.

First Nations seeking to borrow through the FNFA based on other sources of revenue are not required to collect property taxes. The FSMA does not require First Nations to enact property taxation laws when joining the FNFA.

The FSMA defines the legal structure of the FNFA.

Property tax based regime
The FSMA defines the legal structure of the FNFA and established two other institutions that regulate the property tax system on reserves and support the borrowing activities of the FNFA. A separate institution is dedicated to collecting statistical data in support of this effort[1].

The First Nations Tax Commission (FNTC) was established to oversee the First Nations property tax system across Canada. The First Nations Financial Management Board (FMB) role is to set financial management standards for First Nations. For more information on the FNTC or FMB please see their websites or contact them directly.

Other revenues, other purposes regime
The FSMA provides for regulations that define the regime for other revenues. This regime addresses the standards demanded by the capital markets for an investment-grade credit rating and include provisions for appropriate First Nations financial management systems, appropriate income management and borrowing approvals, borrowing limits through determination of borrowing capacity, and default provisions.

*1. For more information on the FSMA and the roles and responsibilities of the four fiscal institutions, see our web site at www.*fnfa.ca.

Private developers and investors interested in developing First Nations lands require that the lands have the necessary infrastructure.

Risks and benefits of accessing market capital for development

NATION-BUILDING BENEFITS

1. addressing the community and economic infrastructure backlog

Many First Nations have had challenges with planning and budgeting for land use and community development. The Department of Indian and Northern Affairs Canada (INAC), upon whom many First Nations rely for a majority of their government revenues, has taken a "pay-as-you-go" approach to financing the development of *community* infrastructure. Often the monies available from the Department of INAC are not sufficient and are only available to communities with the greatest need, and there is limited or no funding available to build *economic* infrastructure. Private developers and investors interested in developing First Nations lands require that the lands have the necessary infrastructure. If the First Nation cannot finance the infrastructure servicing costs, the value of the land to the developer or investor is reduced accordingly.

The Department of INAC has indicated that it is exploring possible solutions to facilitate developing community infrastructure, such as the water and sewer systems. By converting even a small portion of the current Department of INAC major capital budgets from a "pay-as-you-go" approach to one of "securitizing now," most of the backlog of needed projects could be eliminated in a few years and water quality problems solved. Social housing could benefit from the same approach. Combining the securitizing of Department of INAC major capital budgets and other First Nations revenues could speed up or expand projects. The FNFA, acting as the finance authority, could use these combined sources of revenue to arrange financing for First Nations, and thereby enable First Nations to begin planning infrastructure development more effectively.

FNFA loans are not secured by collateral, and they do not require cash deposits.

2. borrowing flexibility

Short-term financing through banks requires security (hard assets or deposits that become unavailable for the duration of the loan) and means higher and unpredictable interest costs as interest rates change over time. Short-term financing is available only to well-organized First Nations with major resources, claims agreements, or a valuable geographical location. Poorer, more isolated First Nations have limited or no commercial credit access.

First Nations can choose the loan repayment term, ensuring that their budgets are protected.

The FNFA with its short-term and long-term financing programs, provide the First Nations with the flexibility to choose their repayment terms. As a result, First Nations can match their annual debt repayments to budgeted revenues. FNFA loans are not secured by collateral, and they do not require cash deposits or general security agreements, but instead are secured by the specific income source. FNFA borrowing conditions are the same for all borrowing member First Nations. Because FNFA deals only with First Nations, no expensive legal research is needed to ensure consistency with the *Indian Act* or self-government regulations.

Borrowing through the FNFA creates a strong First Nations financial presence in the capital markets.

Borrowing through the FNFA creates a stronger First Nations financial presence in the capital market, which will become increasingly valuable as new economic opportunities appear and greater amounts of capital are required. A recent Department of INAC research paper indicates that over $43 billion in capital for business financing alone would be required to fuel a First Nation economy with the same activity level as the Canadian economy.

Refinancing may allow First Nations to proceed with other developments without the need to find additional revenues.

Financial benefits

The two main financial benefits of borrowing through the FNFA are as follows:

1) Consistent access to low-interest, fixed-rate borrowings and the sharing of transaction costs; and

2) Flexibility in choosing the repayment terms so that a member's annual debt service payments can be matched with their budgeted cash flows.

By choosing a repayment term that matches their budget, each member will then have an affordable annual debt service liability, allowing them to maximize the number of projects they can undertake each year.

Borrowing cost

The FNFA is not-for-profit and accesses capital wholesale, like provinces and municipalities, based on an investment-grade credit rating. The FNFA lending rates to its members are not marked up, and therefore do not include the risk and profit premium charged by retail banking, or Public Private Partnership (PPP) ventures (representing typically as much as 2%).

When used correctly, debt can speed up the development of First Nations projects and help to reduce a dependence on other government revenues.

Borrowing term

Borrowing members decide on the borrowing term for their loans to match their annual debt-service capacity to the projections of their cash flow budget. Terms vary between 5 to 30 years, however should not exceed the expected life of the assets being financed, or the timeline of income associated with repayment (for example, contract revenues).

The longer the term that First Nations choose the smaller their annual payment will be.

Impact of combined term and borrowing cost

A $1 million loan, based on 5%[1], would require the following annual debt-service payments:

Term	Annual Payment
5 years	*$ 226,455*
10 years	*$ 129,505*
20 years	*$ 80,243*
30 years	*$ 65,051*

The information above illustrates:

• The longer the term that First Nations choose the smaller there annual payment will be. When a member enjoys the low FNFA annual debt service costs, they have greater cash flow that would allow the First Nation to stretch their borrowing capacity and increase the number of infrastructure projects they can undertake immediately.

This means that, in some cases, simply refinancing current outstanding loans could reduce the current annual debt-service obligations sufficiently for First Nations to proceed with other developments without the need to find additional revenues.

Risks and risk control

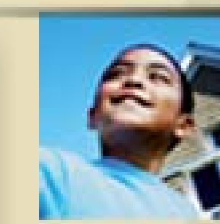
Debt, and especially long-term debt, can be a powerful instrument. When used correctly, debt can speed up the development of First Nations projects, deal with the buildup of infrastructure needs and help to reduce a dependence on other government revenues. When used in an incorrect way or for an inappropriate purpose, debt can lock First Nations into further dependence and stifle growth. Long-term debt must be used to build appropriate infrastructure on a scale that will meet the needs of the community, and with a life longer than the borrowing term. It is best to identify in advance the maintenance and operating budgets with appropriate controls. Ideally, the assets will translate into tangible safety, health and economic benefits, with associated savings

1. Updates for this table and all other point in time data can be found on our website at www.fnfa.ca

in government expenditures or increases in government income.

While pooled borrowing results in shared benefits, it also involves responsibilities that are spelled out in the Borrowing Members Agreement. Where a First Nation is temporarily unable to make payments, the FNFA has access to a *debt reserve fund* and a *credit enhancement fund* to meet short-term obligations to bondholders. Furthermore, default mechanisms provide for a delinquent borrowing member to replenish these funds if they are used and can, in a worst-case scenario, involve external management of the income account. The MFA has never, in over 30 years, used its debt-reserve fund. This shows the low risk levels associated with investment-grade borrowing and the rationale for the oversight regime associated with the FSMA.

2. CAPITAL ASSET FINANCING ADVICE AND SUPPORT



Planning for the future: identify your financing needs and map your options

Government capital planning and financing is complex. FNFA members enjoy a distinct advantage by having timely access to competent, specialized expertise at their side when when we don't want them to use us.

The FNFA can assist First Nations finance personnel with sophisticated analysis tools.

The FNFA can assist First Nations finance personnel with sophisticated modeling, budgeting, and financing tools for analysis, planning, and problem-solving. This support can help First Nations when assessing their future capital needs and the leveraging potential of different income sources. It can also help when determining whether current asset financing is optimal, and to identify and compare financing options for specific short-term or long-term projects.

Should a First Nation have more complex questions, they might require private external consulting expertise. The FNFA can help First Nations managers faced with complex partnership opportunities, PPP proposals, refinancing options, and capital financing challenges. They can also help with selecting consultants, the drafting of terms of references, the preparation of requests for proposals, and the review of reports and findings.

Finally, the FNFA can assist First Nations that do not have any immediate borrowing plans, but that seek to arrange their capital budgets to be better able to access financing in the future.

Advisory services are offered free of charge to all First Nation governments.

3. CASH MANAGEMENT SERVICES

Keeping First Nations monies working for First Nations

Investing surpluses
Capital budgeting for First Nations includes managing short-term cash surpluses from specific income streams, such as property taxes, or specific expenditure accounts, such as public works. FNFA members can invest these surpluses in attractive, short-term investment pools. The FNFA currently provides First Nation governments access to approximately a $2 billion investment pool. First Nations that invest receive the same returns and treatment as if they were actually investing the entire amount of the pool, thus the returns are high for even modest investments. The FNFA negotiates the best expertise and for the lowest possible cost.

Using the investment funds
The FNFA money market fund operates with the flexibility of a bank account with a 24-hour turn-around time for cash redemption (by phone-fax, with no penalties). The minimum deposit is $1,000. The Money Market Fund is benchmarked against the DEX 91-Day Treasury Bill Index. You can choose an intermediate fund for longer-term investments that is benchmarked against the DEX 365-day Treasury Bill Index.

FNFA staff will be pleased to assist your team by providing investment advice and assistance setting up accounts. The FNFA objective is to keep First Nation monies working for First Nations.

The FNFA assists First Nation governments to manage their capital financing operations, and to access affordable funding from the financial market to fund projects so that First Nations can build and rebuild safe, healthy, and prosperous communities. The FNFA is a First Nation-owned and controlled institution established by First Nations to help First Nations achieve their goals.

Please contact us to learn how we can help you.

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