



Building Bridges – Towards a First Nation Development Cost Charge Program

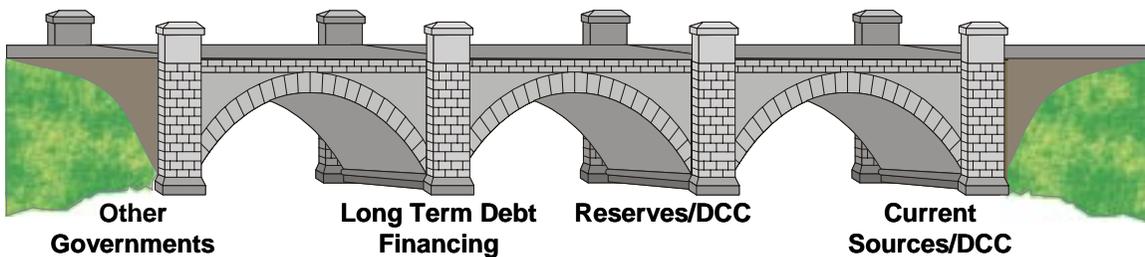
Recent research projects conducted under the direction of the Indian Taxation Advisory Board (the ITAB) and the Department of Indian Affairs Research and Analysis Directorate have identified a lack of infrastructure such as water and sewer treatment and distribution systems and roads on First Nations land. The under-provision of infrastructure contributes to the high costs of doing business on First Nations' land. The lack of infrastructure, and more specifically, a lack of any policy or regulation that contemplates the provision of such infrastructure, increases uncertainty for potential investors and hence increases the level of risk of any investment.

Developments cost charge (DCC) policy contemplates the provision of infrastructure and reduces the uncertainty and risk for investors. DCCs are charged to investors who are developing sites. The charges help pay for the current costs of infrastructure expansion and to offset the future costs of infrastructure replacement and depreciation. This allows developments to proceed and provide benefits to the local community. These benefits include employment, provision of goods and services for local residents, tax revenue, and even the subsidization of infrastructure and services for residential users by commercial users. Development cost charge policy is a familiar part of the municipal government regulatory toolkit. As of yet First Nation governments do not utilize a similar tool.

How do municipal governments finance infrastructure?

Multiple sources of revenue enable a local government (sometimes in co-operation with other local governments) to build the initial infrastructure system, to extend the system to undeveloped areas and to maintain the system. The diagram below shows a bridge that represents the provision of infrastructure. Each of the supports of the bridge represents the different methods of financing infrastructure. In the case of local governments in Canada there are sufficient supports, or revenue options, to complete the bridge, or to provide the infrastructure.

Municipal Sources of Finance for Infrastructure



First Nation governments, on the other hand, have limited financing options to provide infrastructure on its land. First Nations do not have the sufficient sources of funding, or supports, to complete the construction of the bridge, or to provide infrastructure.

Will a DCC policy help reduce the costs of doing business?

Building capacity in First Nation government and reducing the costs of doing business presents a series of complex challenges. A multi-faceted approach is required to overcome these challenges, of which development cost charges will play an integral part. The table below outlines how development cost charge program addresses several of the problems associated with commercial development on First Nations’ lands.

Challenge	Description	Response
Reduce Search Costs	First Nations do far less marketing of their jurisdiction and its sites than do other jurisdictions.	
Incomplete separation of politics and administration	The separation of politics and administration sends a positive message to investors that the regulatory environment is fair and stable.	ITAB/FNTC Institution building and coordination (AFN & DIAND).
Build Administrative Capacity	Most First Nations have not developed administrative procedures for investment facilitation.	DIAND LTS Review process First Nation Financial Management Board (FNFMB) <u>Development Cost Charge Program</u>
Improve Regulatory Certainty	First Nations have not developed a body of law to govern land use and development.	A First Nation Land Management Act. <u>Development Cost Charge Program</u> ITAB/FNTC, LTS Review
Reluctance of the Crown to take risk	This problem manifests itself in the negotiation of lease documents.	A First Nation Land Management Act. DIAND LTS Review Process
Develop Competitive Infrastructure	Most large investment projects on First Nation lands have required extensive infrastructure improvements.	ITAB/FNTC <u>Development Cost Charge Program</u> First Nation Finance Authority (FNFA).
Improve Access to Financing	Financing of both public infrastructure and private developments has been a significant obstacle to the development of First Nation economies.	(FNFA) <u>Development Cost Charge Program</u>

Research Remaining: Best Practices for Setting Rates

It is clear from this research project that some jurisdictions may not have a direct link between the provision of infrastructure and the development cost charges. If charges are too high, they can inhibit development. If there is no clear link investors may become suspicious that the DCC is not going to benefit their development. Investors may consider DCCs to be another revenue stream for the governing authority. In these cases a development cost charge would increase the costs of doing business, not reduce them as is the intended purpose. The research remaining in this project includes analyzing methods of calculating DCCs and determining how investors respond to these various methods.