Approaches to Infrastructure Cost Sharing

First Nations Infrastructure Institute
Institut des infrastructures des Premières Nations

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An Introduction to Infrastructure Cost Sharing

This backgrounder describes FNII's approach to cost sharing associated with Indigenous infrastructure projects, and includes brief descriptions for the following steps:

1. Estimate whole-of-life costs;
2. Identify infrastructure users;
3. Allocate costs among users;
4. Identify sources;
5. Consider cost recovery tools;
6. Evaluate financing options; and
7. Confirm sustainability.

Step 1: Estimate Whole-of-Life Costs

Identify estimates of the infrastructure project's whole-of-life costs. Cost estimates are often prepared by professionals such as engineers (in the case of utility systems and roads) or architects (in the case of buildings). It is important to consider three types of costs, including capital costs, regular costs associated with routine operations and maintenance, as well as periodic costs associated with rehabilitating, renovating, or replacing major components of the infrastructure in the future.

Step 2: Identify Infrastructure Users

Identify those groups that will have access to the infrastructure facility or benefit from the service provided via the infrastructure. Using a water system as an example – the infrastructure may provide water service to member residences and to the Nation's community buildings; but, it may also provide water service to market housing units or commercial, industrial or other types of buildings located on lands set aside for economic development purposes. It is important to identify all user groups because costs may be allocated differently among different user groups (Step 3) and appropriate sources (Step 4) and cost recovery approaches (Step 5) may also differ for different user groups.

Step 3: Allocate Estimated Costs Among Infrastructure Users

FNII encourages Nations to approach cost allocation with the principle of fairness in mind. This means that costs are allocated to identified user groups in accordance with the estimated cost required to provide service to that group. It is important to recognize the method for allocating costs among user groups likely differs for different types of costs. This sharing framework recognizes the portion of costs imposed on the system by each user group, relative to the others. The basis of a fair allocation methodology can utilize a variety of attributes, such as location, number of users, volume of use, or others.

Step 4: Identify Sources

Identify sources of funds for all cost types as allocated among all user groups. Sources can potentially include government funding and grants, own source revenue streams, including local revenues or other revenues (as defined in the First Nations Fiscal Management Act), existing trusts or savings, or other sources. In the identification of potential sources, the FNII approach relies on two principles:

1. The federal government has a responsibility to fund infrastructure projects on reserve that provide required services to Nation members. Canada, through Indigenous Services Canada, should be the principal source of funds to satisfy costs associated with the provision of required services to Nation members.
2. Nations should have the option to collect funds directly from non-member residents and those using reserve lands for economic development purposes to satisfy costs associated with the infrastructure required to provide services to these groups.

Step 5: Consider Cost Recovery Tools

There are fiscal powers available to participating First Nations under the First Nations Fiscal Management Act (FMA) that are specifically designed to recover costs associated with the development, operation and maintenance of infrastructure. FNII encourages Nations to consider the use of the FMA fiscal tools summarized below where those Nations are interested in collecting funds directly from residents in market housing units and those using reserve lands for other economic development purposes, and where these funds will cover the costs associated with the infrastructure required to provide services to these groups.

Fiscal Tools Available under the First Nations Fiscal Management Act	**Designed to Recover Costs Associated With**
Development Cost Charges	Major off-site infrastructure capital works (benefitting multiple development sites)
Service Taxes	On-site infrastructure capital works (often in retrofit situations)
User Fees	Ongoing operations and maintenance of infrastructure
Property Taxes	Capital, operations and maintenance

Appendix A provides additional information on the fiscal powers in the above table.

In addition to the fiscal powers available under the FMA, FNII would also encourage those Nations managing their lands under the Indian Act or under their own land code (for those participating in the Framework Agreement on First Nations Land Management) to consider options to recover costs through a subdivision and development servicing bylaw or law.

Other Tools Available under the Indian Act and Land Code	Supports Recovery of Costs Associated With
Subdivision and Development Servicing Bylaw / Law	Infrastructure capital works (benefitting individual development sites with common owner)

Step 6: Evaluate Financing Options

Identify and evaluate opportunities to spread capital costs over time by borrowing and committing future funds to service the debt. Nations can work with lenders to match the term of the loan to the expected operational phase of the infrastructure. Nations could consider opportunities to finance capital costs whether the source of funds is a future stream of capital transfers from the federal government (i.e. monetization) or the source of funds is collected directly from those benefitting from the service (via fiscal tools of the FMA, for example), or other sources, such as own source revenue streams. Potential lenders that Nations might consider include the First Nations Finance Authority, the Canada Infrastructure Bank, through its Indigenous Community Infrastructure Initiative, the First Nations Bank, though its Indigenous Land Development Loan Program, commercial banks, or other lenders.

Step 7: Confirm Sustainability

Build a financial model that projects all sources and uses of funds over the project's entire lifecycle in order to confirm financial sustainability. The model should demonstrate that sufficient financial resources will be available to meet all anticipated costs when they are expected to be incurred.

FNII's approach to infrastructure cost sharing, as described in the steps above, ensures sustainable financial models, which support more sustainable infrastructure projects, more sustainable service delivery, and improved infrastructure outcomes for participating Nations.

Appendix – FMA Cost Recovery Tools

Development Cost Charges

- A one-time charge collected from developers of reserve land.
- Payable at the time of building permit approval, subdivision approval, or development approval.
- Used to offset some of the infrastructure costs directly or indirectly attributable to development.
- Infrastructure must service directly, or indirectly, the development for which DCCs are imposed.
- Can be levied to help pay capital costs associated with providing, constructing, altering or expanding water, sewer, drainage, or transportation infrastructure; or providing and improving park and recreation land.
- To implement a DCC, interested Nations can enact their own DCC law under the FMA.
- Institutional support can be provided to interested Nations by the FNTC.

Service Taxes

- Collected to fund a specific improvement, unlike property taxes (which may be expended by Nations in several more general areas). Service tax revenues may only be spent on the specific service for which they were collected.
- Collected annually from property holders benefiting from the improvement, but only for a fixed number of years.
- Eligible capital improvement projects include water and wastewater systems, transportation infrastructure, and park acquisitions and improvements.
- Costs to improve infrastructure are usually paid up-front by the Nation, often through borrowing, then recovered from property holders over time through a service tax. Nations use annual service tax revenues to repay the loan, with a term that can match the fixed time period of the service tax.
- May apply to the entire reserve, or only to a defined area.
- To implement a service tax, interested Nations can enact their own service tax law under the FMA.
- Institutional support can be provided to interested Nations by the FNTC.

User Fees

- Collected to cover the costs of providing a specific service, unlike property taxes (which may be expended by Nations in several more general areas). Fee revenues may only be spent on the specific service for which they were collected.
- Collected from users of the service.
- Can be charged for the provision of services or the use of facilities on reserve lands. Fees may be levied in relation to water, wastewater, transportation, solid waste management, recreation, as well as any similar service.
- Fee revenues must be placed in the Nation's local revenue account and expended under the authority of the Nation's annual expenditure law.
- Fees can provide a more equitable allocation of costs by shifting the burden away from the general tax base to those using or directly benefitting from the service. Taxpayers generally support the use of fees because they reflect a "user pays" approach.
- Entities exempt from taxes (such as other governments) can be charged fees.
- To implement user fees, interested Nations can enact their own fee law under the FMA.
- Institutional support can be provided to interested Nations by the FNTC.

Property Taxes

- Collected annually from holders of real property on reserve (leaseholders).
- Can fund infrastructure, but are also collected to fund more general purposes beyond infrastructure, including general administration, protective services, community development, planning and zoning, health, education and other services.
- Property tax revenues are maintained in a separate account from other monies of the Nation, called the local revenue account.
- Spending of property tax revenues is authorized by the Nation through its annual expenditure law.
- A property tax system is implemented through a property taxation law (and an assessment law) passed by the Nation under the FMA. Tax rates are set by the Nation each year in its annual rates law.
- Institutional support can be provided to interested Nations by the FNTC.