



# Fiscal Realities Economists

## A FRAMEWORK FOR EVALUATING FISCAL ARRANGEMENTS

Creating Truly Self-Governing  
First Nations – A Presentation by  
Fiscal Realities Economists

# WHAT IS FISCAL?

*STRAIGHT FROM THE DICTIONARY*

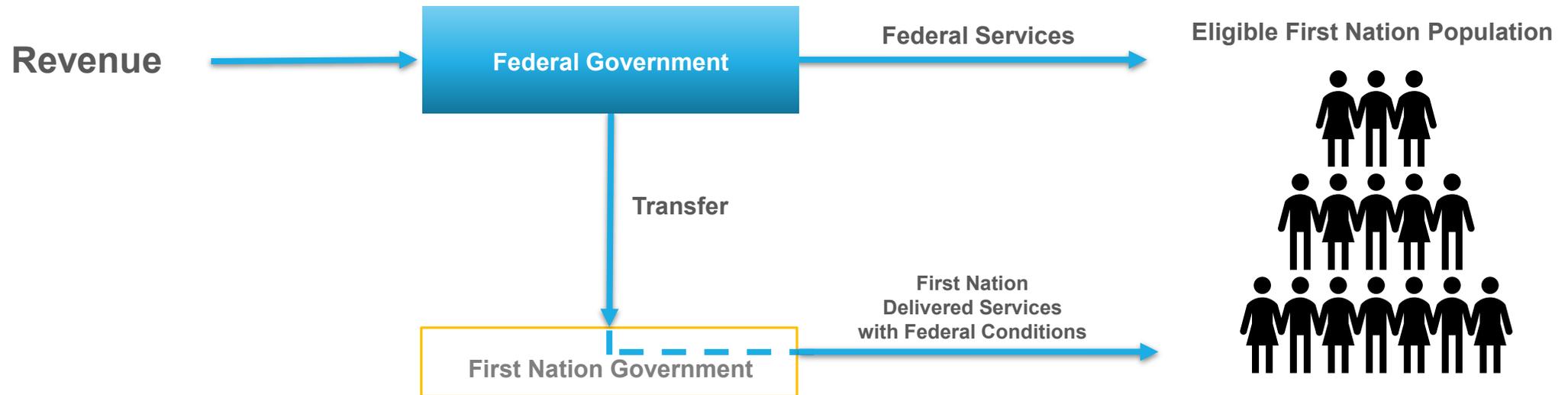
**fis·cal**

/ˈfɪsk(ə)l/

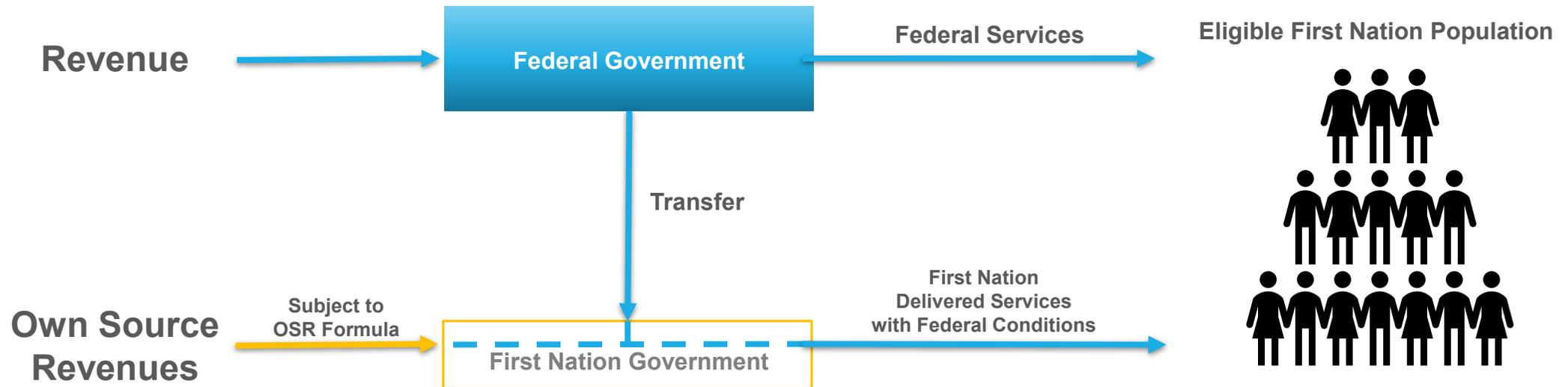
*adjective*

relating to *government* revenue, especially *taxes*.

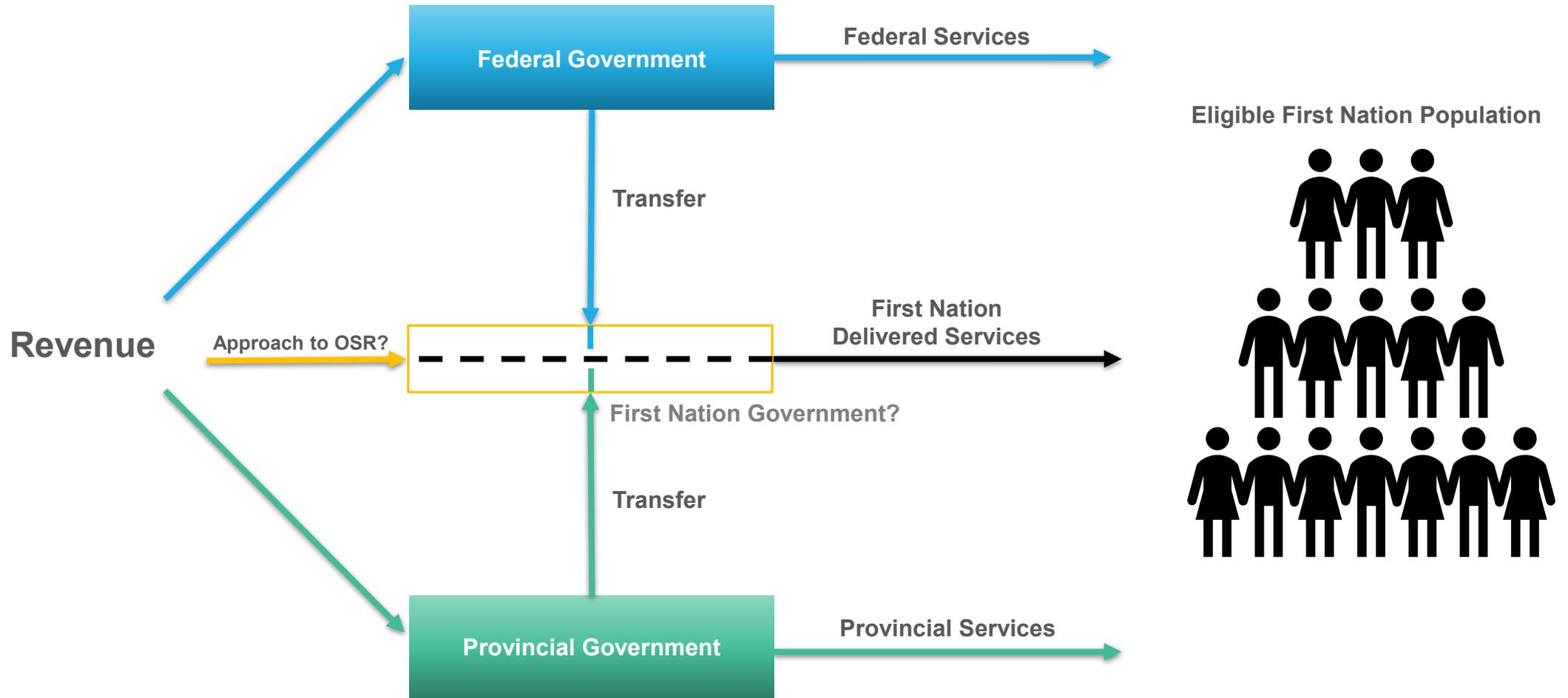
# CONVENTIONAL FRAMEWORK FOR ANALYSIS



# CONVENTIONAL FRAMEWORK FOR ANALYSIS



# ECONOMIST FRAMEWORK FOR ANALYSIS OF FISCAL ARRANGEMENTS



# WHAT IS A FISCAL RELATIONSHIP?

In its simplest form, a fiscal relationship is essentially the answer to the question:

***“How are public services to citizens provided, produced and paid for?”***

We break this into four questions that need to be answered clearly in a fiscal relationship:

1. Which government has which revenue jurisdiction?
2. Which government delivers which services?
3. Which government actually pays for these services?
4. How does the system of transfers reconcile (2) and (3)?

# WHO DOES WHAT? — CURRENT LANGUAGE

Every eight years, or other periods as may be agreed, each party will:

Negotiate and attempt to reach agreement on a Fiscal Financing Agreement that will describe:

- a. the Agreed-Upon Programs and Services, including recipients of those programs and services;
- b. the responsibilities of each of the First Nation, Canada and Province in respect of the Agreed-Upon Programs and Services

# WHO PAYS FOR WHAT? — CURRENT LANGUAGE

Every eight years, or other periods as may be agreed, each party will negotiate and attempt to reach agreement on a Fiscal Financing Agreement that will describe:

- c. the funding for Agreed-Upon Programs and Services;
- d. the First Nation's contribution to the funding of Agreed-Upon Programs and Services from its own source revenues as determined in accordance with 18.1.4

# WHAT ARE “YOUR” REVENUES?

Income Tax (Members, Provincial, Federal)

Corporate Income tax (Members, Provincial,  
Federal)

Sales Tax (Members, Provincial, Federal)

Property Transfer Tax

Property Tax

Carbon Tax

Business Activity Taxes (e.g. Hotel Tax)

Excise Taxes (tobacco, alcohol, cannabis)

Resource Taxes (on reserve)

Resource Sales (off reserve)

Gaming revenues

Land Leasing

Land sales

Business revenues

Interest on capital transfers

Development cost charges

Service Taxes

Business Licensing

Land Use Fees

Fees for service

# WHICH OF “YOUR” REVENUES ARE POLITICALLY SECURE?

Question	Revenue Sources
Which First Nation revenues are potentially subject to reduced shares?	<ul style="list-style-type: none"> <li>• GST revenues</li> <li>• Resource sharing</li> <li>• Gaming revenue sharing</li> <li>• Excise sharing</li> </ul>
Which First Nation revenues are potentially subject to transfer offsets?	<ul style="list-style-type: none"> <li>• Virtually <i>everything</i></li> </ul>
Which First Nation revenues are potentially subject to revenue caps?	<ul style="list-style-type: none"> <li>• Sales tax</li> </ul>
Which First Nation revenues are potentially subject to conditions?	<ul style="list-style-type: none"> <li>• Add revenues from list above</li> </ul>
Which First Nation revenues are subject to another governments jurisdiction?	<ul style="list-style-type: none"> <li>• Resource sales</li> <li>• Property Tax</li> <li>• Business Activity Tax</li> <li>• Add revenues from list above</li> </ul>

# WHAT ARE NOT SUBJECT TO POTENTIAL CLAW BACKS?

Direct tax collected from Members on TSL?

Capital transfers?

Interest on capital transfers?

Sale of land?

Sale of resources from TSL?

# WHAT ARE THE FEDERAL GOVERNMENT'S OBLIGATIONS?

229. In negotiating financial transfer agreements, the parties shall take into account the following:

- a. one-time implementation costs, in the first financial transfer agreement;
- b. costs to operate government;
- c. the desirability of reasonably stable, predictable and flexible funding arrangements;
- d. levels of support provided by governments;
- e. the jurisdictions of, and authorities, obligations, programs and services assumed, or to be assumed, during the duration of the particular funding agreement;
- f. own source revenue capacity;
- g. the efficiency and cost-effectiveness of the proposed arrangements, including issues related to the size, location and accessibility of the First Nation; and
- h. levels of support provided to other First Nations by government.

# REPORT CARD: COMPARING RESOURCES AVAILABLE TO INDIGENOUS GOVERNMENTS

- In 2010, all government spending per resident in Toronto was estimated to be \$24,000 (including federal, provincial and municipal funding sources), while all programs and infrastructure for residents on nearby reserve amounted to \$11,355 per capita. (Land, 2011)
- K-12 Education – \$2,000 to \$3,000 less per pupil for an on-reserve student population of 110,000 (Martin Initiative).
- Ontario government estimates that closing the funding gap between provincial schools and on-reserve schools requires an additional \$100-million for Ontario alone.
- January 26, 2016 Canadian Human Rights Commission finds Canada discriminated with respect to funding available for child welfare (up to 30% less).

# CHECKLIST FOR ASSESSING A FISCAL OFFER

- **Revenues**

- Does it make “your” revenues more politically secure from “offsets, caps, adjustments in revenue sharing”

- **Expenditures and Services**

- Does it make clearer, what is “solely” your responsibility and what is “solely” their responsibility?
- Does it remove the federal government from involvement in some areas?
- Does it allow you to make services more responsive to local information.
- Does it reduce federal-provincial disputes over funding and responsibility.

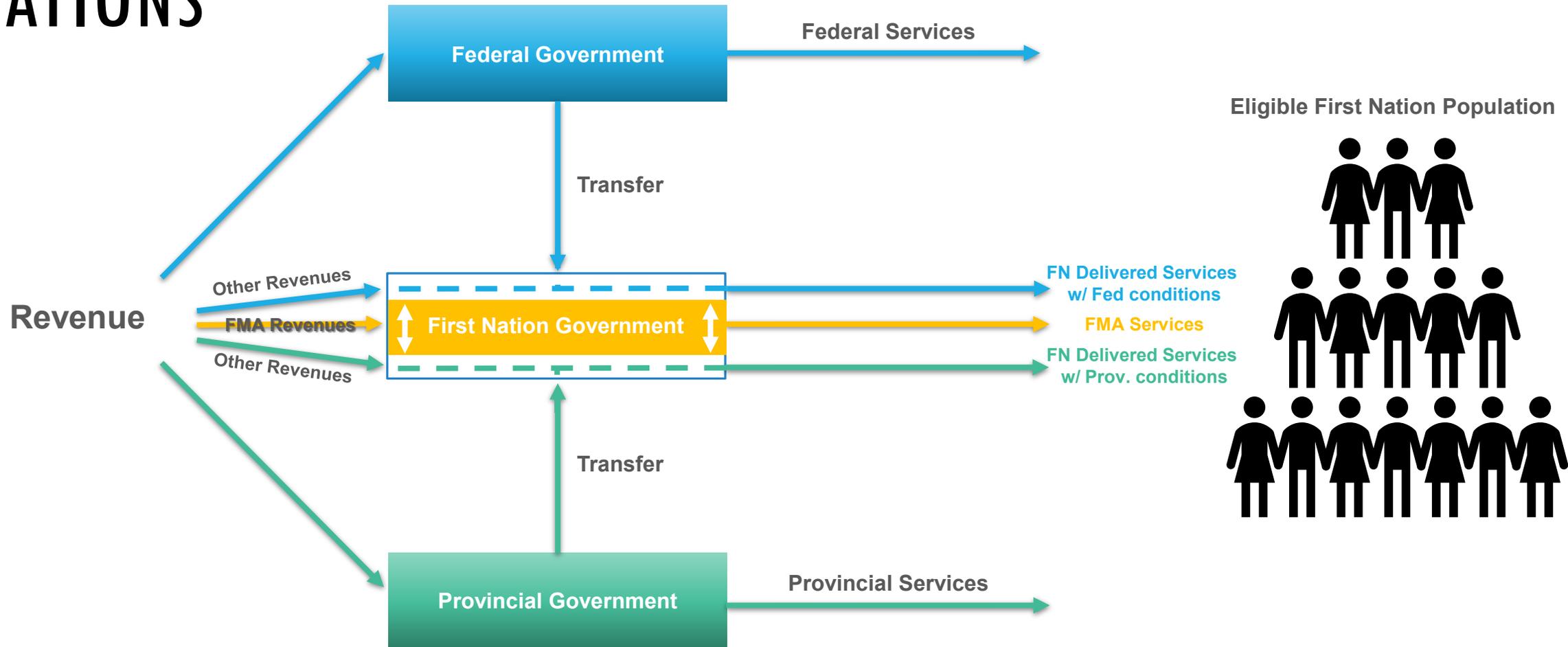
- **Transfers**

- Does it make it more clear what transfer fund and how they are determined?
- Does it reduce the discretion of funding officers?

# HOW CAN WE IMPROVE FISCAL OFFERS?

Make the First Nations Fiscal Management Act (FMA) an option under modern Treaty and Self-Government.

# FMA CREATES A “PROVINCIAL” MODEL FOR FIRST NATIONS



# FMA ACCOUNT

## **Your revenues.**

- No unilateral caps.
- No transfer offsets.
- No unilateral changes in shares.

## **Your services.**

- No federal conditions.
- No federal reporting requirements.
- No “joint priority setting”

# WHAT INTERESTS OF OTHER GOVERNMENTS ARE SERVED?

- Demonstrate a reduction in federal involvement and oversight
- Some federal-provincial issues can be resolved at the local level
- Clearing tax holes
- Improved transparency and accountability
- Reduction in infrastructure and service liabilities
- Improved First Nation economies

# WHERE DO WE START?

1. First Nations Fiscal Management Act should be a Treaty option.
2. Expansion of FMA revenue options, which could include the following:
  - I. FACT (Fuel, Alcohol, Cannabis and Tobacco excise tax sharing)
  - II. FNGST
  - III. First Nation Resource Charge
  - IV. Income Tax

# WHERE DO WE START? (CONTINUED)

3. Support expanded First Nation institutions:
  - First Nations Infrastructure Institute (FNII)
  - First Nations Statistical Institute
  - First Nations Organization for Economic Development
  - Expanded First Nations Tax Commission
  - Expanded First Nations Financial Management Board

THANK YOU



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