



Nechako-Kitamaat Development Fund Society

- Business Plan -

2004 – 2005

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NKDF BUSINESS PLAN

2004-2005 NKDF Business Plan

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EXECUTIVE SUMMARY

In the year since the performance review, the Nechako-Kitamaat Development Fund Society made significant changes to its programs and investment area boundaries while implementing all the recommendations made by former Minister Thorpe and his staff. Grant approvals topped \$1 million and administration costs were only 7% of that amount, lower than they have ever been.

For the year ahead, the board of directors will work with Minister Les and his staff to continue in the direction set by the review. This 2004-2005 Business Plan explains how the directors will continue to keep program uptake at a high level while respecting government policy.

- There will be no subsidies to business nor loans to business.
- There will be clear performance goals and measurements for the Society (such as grant spending targets and administration costs staying below 10%) and for funded projects (such as numbers of jobs created, barriers removed, and investment attracted.).
- The NKDF investment area will remain the same size, while we remain open to partnering in larger regional projects.
- The Society will continue to be involved in project development, both by the manager giving assistance and by a special grant fund for project development.
- The Society will invest significant time orienting the seven new directors appointed in the last year, and the two new directors expected early in 2005, ensuring a smooth transition from the old to the new board.
- The Society will be reviewing and revising its funding guidelines to respond to concerns raised by community members and board members.
- The Society will be seeking legal advice this year as to how to improve the wording of the contribution agreements and contractor agreements.
- The Society will be considering how to use its new web-site to play a larger role as a hub of community economic development information for Northern BC.
- The Society requests a \$300,000 appropriation from the BC Investment Management Corporation be transferred to the Society before the end of the fiscal year.

1.0 INTRODUCTION

1.1 Mandate

The Nechako-Kitamaat Development Fund (NKDF) Society's mandate is:

To support sustainable economic activity in northern communities affected by the Kitimat-Kemano project and by the creation of the Nechako Reservoir. NKDF spends the income from its long-term investments on programs and projects that meet each community's goals for economic development and community stability.

1.2 Background of the Fund

In 1997, as part of a resolution of legal issues surrounding the cancellation of the Kemano Completion Project in northwestern British Columbia, the government of British Columbia and Alcan Inc. each contributed \$7.5 million to create the BC-Alcan Northern Development Fund. The *BC-Alcan Northern Development Fund Act* was passed, setting up a legal structure for the Fund.

Following advice from a regional advisory board, the NKDF Society was incorporated on August 18, 1999 with a mandate as set out above. The Minister for Small Business and Economic Development appoints board members to represent the communities of the Nechako-Kitamaat area.

1.3 How and Where the Fund Invests

Any legally incorporated non-profit organization or community government in BC is eligible to apply for funding from the NKDFS.

The investment area for the NKDF is normally limited to those communities with evidence of impacts from Alcan's Nechako Reservoir and Kemano power project. Eligible applicants are local governments and legally incorporated non-profit organizations. We encourage applications from the following communities:

District of Vanderhoof	Stellat'en First Nation	Skin Tye Band
Saik'uz First Nation	Village of Burns Lake	Cheslatta Carrier Nation
Fort Fraser	Ootsa Lake	Kitamaat Village
Nadleh Whut'en Band	Burns Lake Band	
Village of Fraser Lake	Nee Tahi Buhn Band	

Applications may be accepted from other areas of Northwestern BC, provided the listed communities receive direct economic benefits from the project and demonstrate their support for the project.

1.4 Nechako-Kitamaat Development Fund Society Guiding Principles

These principles have been updated to reflect the results of the performance review completed in 2003:

COMMUNITY ECONOMIC DEVELOPMENT	The NKDF will invest in community economic development projects and/or programs that are supported by the community, as long as they do not subsidize private business.
JOB CREATION & ENHANCEMENT	Creating new jobs and enhancing existing jobs are priorities of the NKDF.
SUSTAINABLE EMPLOYMENT	A priority of the Fund will be to support long term employment - both full time and seasonal.
COMMUNITY INTERRELATIONSHIPS	The Fund recognizes the value of interrelationships between communities. Consideration will be given to proposals from outside the Nechako Region and Kitamaat Village if they demonstrate a benefit to those areas.
CLEAR AND ACCESSIBLE	The Fund will have policies and programs that are accessible with clearly defined evaluation criteria.
FIRST NATIONS' PARTICIPATION	First Nations' participation in the Fund will not prejudice the First Nation land claim process.
LOCAL CONTROL	The majority of NKDF directors will reside in the investment area. The board will determine the ongoing management of the Fund consistent with provincial government policy.
BENEFITTING FUND	The Fund is intended to create benefits through sustainable community economic development. It is not intended to be compensation for those who believe themselves to have been negatively affected by the Kitimat-Kemano Project, the creation of the Nechako Reservoir or the cancellation of the Kemano Completion Project.
COOPERATIVE VENTURES	The Fund can be utilized in cooperative ventures along with other funding sources.
NO DUPLICATION	The Fund will not duplicate but may augment existing economic development programs.
WORKING FUND	\$5 million from the original \$15 million Fund is in a working fund to invest in current grant programs.
LEGACY FUND	\$10 million from the original \$15 million Fund is in a legacy fund, which will be invested to reach \$15 million. * Income from this \$15 million will finance activities into the future.

* Fund investments are managed by the British Columbia Investment Management Corporation. Monies of the Northern Development Fund – to be used in support of the programs of the NKDF Society – are in investment vehicles that are generally conservative but that also provide some opportunities for growth.

2.0 MANAGEMENT STRUCTURE

2.1 Managing the Society's Operations and Projects

The manager is responsible for overseeing the operations of the Society, and takes direction from the Chair between board meetings. The manager's detailed job description is in Appendix B, sections 7.3- 7.4.

2.2 Managing the Society's Finances

The Chair, the Secretary-Treasurer and the manager will have signing authority on chequing accounts for administration and grants, on term deposits and on the investments held with Phillips, Hager and North. The balance of the Northern Development Fund is held and managed by the British Columbia Investment Management Corporation.

Chequing accounts are interest-bearing in local credit unions, with amounts surplus to 90-day requirements to be invested in higher-earning but cashable term deposits. All cheques require two signers.

The manager will maintain all NKDF financial records on a monthly basis using Quickbooks and the board will appoint an accounting firm at each Annual General Meeting to perform an independent review of year-end finances. The firm chosen to conduct the annual reviews since the Society's incorporation is Edmison Mehr of Smithers, BC.

A Finance Committee (convened as required) develops and reviews investment policies and select investment vehicles in a competitive process to ensure NKDF funds are invested conservatively and with the best rates of return possible. The board will provide input to and final approval for these decisions. The board will receive quarterly reports from investment firms and review them regularly for compliance with the investment policy.

The only private investment firm still holding NKDF funds is Phillips, Hager & North (PHN), selected in August 2001 to be the investment manager for \$2 million of the \$2.5 million transfer from the BCIMC. In response to the results of the performance review, the board passed a motion at the March 2003 board meeting to shorten the investment time frame on PHN-managed funds to 2 to 3 years from the previous long term horizon. Accordingly, PHN fund managers have already moved half of the Society's funds to money market vehicles and are preparing for liquidation of the fund within 2 years.

2.3 Managing the Society's meetings and decision-making procedures

The board holds bi-monthly meetings, with additional meetings or conference calls as required. Meetings will be rotated throughout the communities in the investment area, with parts of each meeting open to the public. The decision-making method is consensus. (For more details, see Appendix B, Policies and Procedures)

This year, due to the expiry of terms of long-standing board members, we are facing an unprecedented turn-over of directors. By February of 2005, none of the original board members will remain, and the majority of directors will have had only one or two years of service. In order to manage the transition smoothly, we will have 2 days of extra meetings this year for orientation, training and policy discussion.

Public accountability is created by:

Allowing delegations and visitors to portions of each board meeting.

Making decision records publicly available upon request.

Having a representative of the provincial government at each board meeting and maintaining communication between the manager and this representative between meetings regarding significant issues as they arise.

Providing an Annual Report to the funding partners (the Provincial Government, Alcan and the public), both by distributing individual copies on request and by posting it on the Society's web page. www.nkdf.org

Preparing an annual Business Plan with performance measures and targets, also to be available to the public on the web page.

Having a public process for selecting board members, consisting of two weeks of advertising in local papers, and sending an invitation to all local, municipal and aboriginal governments to nominate directors to the board whenever a vacancy occurs. All candidates are then ranked according to objective criteria listed in the director's job description and sent to the Provincial Government for consideration.

2.4 Managing evaluation of the Society's operations and programs

Measuring the Society's performance goals will be done annually. There will continue to be an annual internal evaluation of NKDF operations and programs by the end of March with results to be summarized in the Annual Report. The Society Chair will lead the evaluation with participation from the board and manager. The evaluation will be based on the following:

- What is working well?
- What is not working well?
- Are we achieving the goals stated in the year's business plan?

- If not, what obstacles are we encountering and how might they be removed?

The annual report will evaluate the adherence to the Guiding Principles and accomplishments in funding economic development projects.

There will be an annual evaluation of management services, three months prior to contract expiry (October 31st). The Chair will lead the evaluation, with participation from the board and manager. The evaluation will be based on the contract deliverables, with each deliverable being reviewed according to the following:

- Was each deliverable completed as expected?
- If not, how did the outcome differ from expected?
- What can we learn from our experiences?
- What is working well?
- What is not working well?
- How can we improve our administration?
- What can we do about those obstacles?
- What can we do to make improvements or changes?

The board had planned a more extensive independent evaluation of the Society's programs following the third year of operations, but the performance review in 2002-2003 precluded the need for this activity. The Society will reconsider the need for another such extensive review in the 2005-2006 fiscal year.

2.5 Managing the Society's Communications

The manager develops and implements a communications strategy, using media releases, a web-site (www.nkdf.org) and by direct contact with local, provincial and federal agencies. This strategy has six goals:

- a) To create an identifiable regional image for the Nechako-Kitamaat Development Fund Society and its funding partners, the Provincial Government and Alcan;
- b) To inform prospective applicants about the Fund, its purpose, priorities and how to apply for funding;
- c) To inform related agencies / individuals about the economic development projects financed by the Fund;
- d) To raise and maintain the profile of the board members in their home communities and throughout the Fund area;
- e) To comply with provincial government reporting requirements;
- f) To track and evaluate the effectiveness of all communications.

3.0 PROGRAM ADMINISTRATION

The ratio of administration costs to the value of grants approved has been dropping dramatically since the start-up of the grants program. This past year, as we hit the \$1 million grants target, administration fell well below 10% of grants approved, and we intend to meet that goal again. This ratio is consistent with performance targets of similar funding organizations, such as the Columbia Basin Trust and the Gwaii Trust.

3.1 Business Loan Program

The former business loan program has been cancelled. While the program is no longer offering any new loans, principal and interest amounts are still receivable from the lending partners, the Community Futures Development Corporations of Stuart-Nechako (Vanderhoof) and 16/37 (Terrace/Kitimat).

The repaid principal and interest will be used to support the Society's grant and administration programs. The outstanding principal receivable as of April 1, 2004 is \$108,251, all to be repaid over the next three years.

3.2 Community Grant Programs

It is the Society's goal this year to approve \$1 million annually in community grants to qualified proponents. This goal was exceeded in the 2003-2004 fiscal year. In order to preserve the fund's perpetuity, this target may have to be reduced in future years. For further information on this factor, please see section 5 on page 11.

This success can be attributed to several steps:

- 1) We have expanded the direct investment area to include Burns Lake and Fraser Lake, increasing the number of communities directly eligible for funding.
- 2) We have responded to the communities' request for assistance in developing proposals by allocating more of the manager's time and setting up a special program allowing us to share the cost of hiring professional assistance. This removes barriers faced by less experienced proponents
- 3) We have improved awareness of the fund over time with repeated visits to and correspondence with the communities in the investment area.

Based on current enquiries to the Society, the board anticipates a continued high demand for grants. In addition to the policy changes noted above, the board has instructed the manager to take several further steps to seek out new economic development opportunities for the Fund. For example, the manager monitors local newspapers for other funding announcements and invites the proponents to apply for matching funds from the NKDF. The manager also speaks directly to managers of other funding sources to discover emerging projects, such as the Softwood Initiative program delivered by Community

Futures Development Corporations, creating ongoing opportunities to leverage NKDF funds.

Grants will be awarded to a range of community economic development projects in a timely and fair manner, based on evaluation criteria provided in the guidelines. The manager will evaluate the proposals using the review tool (see next page), giving the proponents every reasonable opportunity to revise the proposal before the final deadline.

Grants criteria will be reviewed at the first board meeting of the fiscal year, to respond to concerns raised over the past few years about clarity, consistency and fairness. We will discuss the merits of setting limits on certain kinds of projects (e.g. recreational or social) and explore new categories of funding to respond to emerging needs in the area.

At the same meeting, directors will discuss ways of measuring outcomes of funded projects. This will assist internal or external evaluators to determine the return on investments made to NKDF-sponsored programs.

Cheques will be issued only after both parties sign a legally binding contribution agreement, spelling out the terms and conditions of project evaluation, proponent reporting and NKDF funding. This contribution agreement is being revised this year to include performance measures and to be more consistent with the legal documents in other provincial programs. The manager or a sub-contractor approved by the board will evaluate all funded projects before releasing a final 10% value of the grant to ensure that the project meets the terms of the contribution agreement.

The entire grant program will be evaluated annually before the end the fiscal year with results to be summarized in the Annual Report. The evaluation will cover:

- How many, what types and what dollar value of projects were approved and actually funded?
- How many proposals were rejected and why?
- Were the overall results/benefits achieved or not achieved?
- If anticipated results were not achieved, what happened? What can we learn?
- Did we achieve regionally equitable distribution?
- Is the reporting/communications from successful applicants adequate?
- Have the funded projects met the Guiding Principles and Mandate of the Society?
- If not, what happened? What can we learn? Should the Guiding Principles and Mandate be refined to reflect emerging needs in the investment area?
- Has anyone complained about a grant because it appeared to be subsidizing a business, or for any other reason? If so, what adjustments need to be made, if any?
- What can we do to improve program delivery and effectiveness?

For more information on the grants program, see Appendix C, Program Guidelines.

Proposal Evaluation Tool (*confidential when complete*)

(Completed by the manager and attached to each proposal to assist the board in its deliberations.)

- 1. Project benefits / strengths**
- 2. Project weaknesses / risks**
- 3. Communications opportunities for NKDF**
- 4. How does this address regional equity?**
- 5. Linkages with other agencies' funding**
- 6. Other considerations:** (e.g. links to other projects or strategies, previous planning in a community, current issues, catalyst for other activities, proponent history, etc.)

Priority Area	Yes	No	Indicator
Did the Society assist with project development?			Type and amount of director / manager support
Does the project subsidize business?			No competitive advantage to one firm or individual over another.
Does the project have measurable outcomes?			See specific indicators below
Does the project create new long-term jobs?			# of jobs: Direct & indirect Seasonal/ Full-time / part-time
Does the project help community acquire investment?			Description - what and how? Dollar estimate Potential results and spin-offs
Does the project increase competitiveness of business sector?			Description - how? Dollar estimate Potential results and spin-offs
Does the project help to remove constraints to development?			What constraints? Dollar estimate Potential results and spin-offs
Does the project help to promote economic activity?			What activity - new / augment existing? Dollar estimate Potential results and spin-offs
Does the project create social benefits?			Long-term benefits: Short term benefits:
Does the project build community capacity?			For what? Dollar estimate Potential results and spin-offs
Is the project sustainable?			Long-term plan included? Realistic projections? Potential impact

Options for Board Consideration:

1. Do not fund. (Describe the up and downsides of this option)
2. Fund as requested. (Describe up and downsides to this option)
3. Fund with conditions.

3.3 Community Legacy Fund Program

In 1998, after lengthy consultation with the community, the Advisory Board recommended that a permanent Northern Development Fund, which is sustained through investment, will fund programs and projects with goals of economic development and community stability.

The Advisory Board recommended that the \$15 million Northern Development Fund be managed through two pathways:

1) \$10 million becomes a legacy fund, invested on a long term horizon to protect the purchasing power of \$15 million in 1999 dollars. The Legacy Fund is solely managed by the British Columbia Investment Management Corporation.

2) The remaining \$5 million would serve as the operating fund for the Society. To date, \$4.4 million has been transferred to the Society. We are proposing that the \$300,000 appropriation made this year in the government’s budget process be transferred during this fiscal year towards meeting the original \$5 million goal.

4.0 2004-2005 FISCAL PLAN

The board has set a target of approving \$1 million for community economic development grants in the region this year. The market value of funds remaining in the Society’s accounts as of April 1, 2004, was \$3,406,959 including the value of outstanding loans receivable from the former business loans program. The total spending expected during the 2004-2005 fiscal year is \$1,515,349.

Table 1 summarizes the spending plan for 2004-2005

Item	2004-2005 Projected Expenses	2004-2005 Projected Investment Income	2004-2005 Net Income
Administration Costs	\$ 91,183	\$ 109,777	
Prior Year Grant Program Commitments	\$ 724,166		
New Grant Program Commitments (less estimated \$300,000 carry forward to 2005-2006)	\$ 690,000		
Project Development Assistance	\$ 10,000		
Loan Program Receivable		\$ 33,873	
TOTAL	\$1,515,349	\$ 143,650	-\$1,371,699

For more detail on expenses, see Appendix A, 2004-2005 Budget Projections.

5.0 FIVE YEAR FISCAL PLAN

The Fund was established with the purpose of benefiting communities in the investment area for as long as the Alcan-Kemano power project continued to affect the region.

To meet that objective, the board of directors has to balance two “bottom lines” in their spending strategy: one bottom line is to invest in and support current economic development activities in the investment area and the other is to establish an economic development Legacy Fund in perpetuity. This five-year plan represents a compromise between the needs of the area for immediate investment and the need to honour the principle of perpetuity established by the Advisory Board.

The goal for this year’s grant program is to continue awarding \$1 million in new grants for community projects, knowing that this is not sustainable in future years unless income on investment accounts increases dramatically. As a result, the board intends to taper off grant spending in future years by \$100,000 increments to \$900,000 and then to \$800,000 if necessary to further protect the Fund against inflation (see Table 3 below).

This plan will be reviewed on an annual basis to incorporate new information on operating account interest rates and rates of earnings on British Columbia Investment Management Corporation investments. As rates change, the spending plan can shift accordingly to maintain at least a \$15 million balance (ideally in 1999 equivalent dollars).

We are proposing that the \$300,000 appropriation made this year in the government’s budget process be transferred during this fiscal year, and that regular annual payments be made to provide clarity and predictability for the BCIMC fund managers.

Table 2: 5 Year Plan (assuming annual \$300,000 transfers from BCIMC)

	2004-05	2005-06	2006-07	2007-08	2008-09
Opening balance NKDF assets	\$3,406,959	\$2,303,488	\$1,687,628	\$1,154,133	\$604,299
Transfers from BCIMC	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Prior Year Grant Commitments	-\$724,166	-\$300,000	-\$300,000	-\$300,000	-\$300,000
New Grant Expenditures	-\$700,000	-\$600,000	-\$500,000	-\$500,000	-\$500,000
Administration	-\$91,183	-\$90,000	-\$85,000	-\$80,000	-\$80,000
Investment income assumption	4%	4%	4%	4%	4%
NKDF earnings	\$111,878	\$74,140	\$51,505	\$30,165	\$22,172
Closing balance NKDF funds	\$2,303,488	\$1,687,628	\$1,154,133	\$604,299	\$46,470
Opening balance BCIMC	\$13,949,178	\$14,207,145	\$14,475,431	\$14,754,448	\$15,044,626
Investment income assumption	4%	4%	4%	4%	4%
BCIMC earnings	\$557,967	\$568,286	\$579,017	\$590,178	\$601,785
Transfers from BCIMC to NKDF	-\$300,000	-\$300,000	-\$300,000	-\$300,000	-\$300,000
Closing balance BCIMC funds	\$14,207,145	\$14,475,431	\$14,754,448	\$15,044,626	\$15,346,411
Total BCIMC / NKDF Assets	\$16,510,634	\$16,163,059	\$15,908,581	\$15,648,925	\$15,392,882