

# The High Cost of Per Capita Distributions



Presented by:

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# S. Kelly Rodgers, CFA

- Kelly Rodgers is a consultant with over 30 years experience in the investment, trust and financial services industries
- Chartered Financial Analyst charterholder since 1989
- Bachelor of Arts, Economics Western University
- Has advised First Nations and Metis communities across Canada for more than 20 years
  - Trust and investment framework development
  - Trustee Selection
  - Investment Manager selection
- Volunteer commitments include currently Vice Chair Finance and Investment Committee Anishnawbe Health Foundation

# Leilani Wilson Walkush

- Senior Consultant with Breakwater Investment Group, an independent Registered Investment Advisor firm
- Earned a Bachelor of Science degree in Financial Counseling and Planning from Purdue University
- Earned a Bachelor of Administration degree in Business Management from the University of Alaska Southeast
- Worked with Sealaska Corporation for almost four years, in communications
- Spent four years with Denali Advisors, an Alaska Native-owned asset management firm
- Spent a year as an independent consultant, and then four years as a Financial Advisor with Merrill Lynch / Bank of America
- Have served Tribal clients across the country, with a focus on providing financial literacy
- A shareholder Sealaska Corporation, and Goldbelt, Inc. (Alaska Native Corporations)
  - Currently a Board of Director for Goldbelt, Inc.
- An enrolled member of the Central Council of Tlingit and Haida Indian Tribes of Alaska
  - Currently a Board Member for the Tlingit Haida Tribal Business Corporation
- Member of Champagne and Aishihik First Nations
- Office of Special Trustee Advisory Board member
  - Appointed by the Special Trustee and vetted by the White House
- Advisory Board Member for The Indigenous Institute

# Today's topic

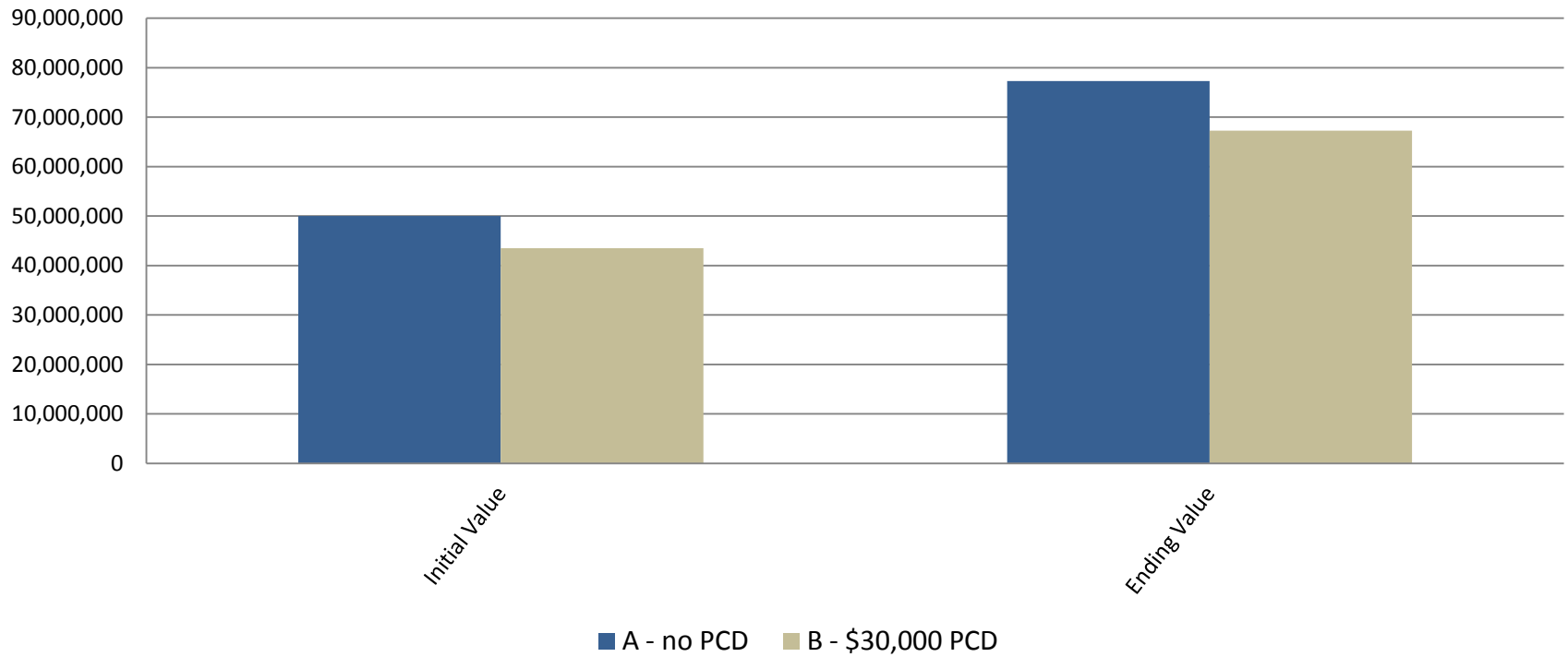
- Elected Leadership deals with the issue of Per Capita Distributions
  - When settling a Land Claim
  - When negotiating an Impact Benefit Agreement
  - When receiving Resource or Gaming Revenue
- We will share some tools that can assist in making decisions
  - How much, if any?
  - When should Minor's receive it?
  - How to apply a strategic framework

# The Financial Implications

- Example
  - \$50 million Settlement
  - 500 Members
  - PCD of \$30,000 per member (Total Amount \$15 million)
  - Assume 1% annual operating cost of Trust
  
- How much does a PCD really cost?
  - The amount paid out      +
  - Foregone earnings        +
  - = Total Cost

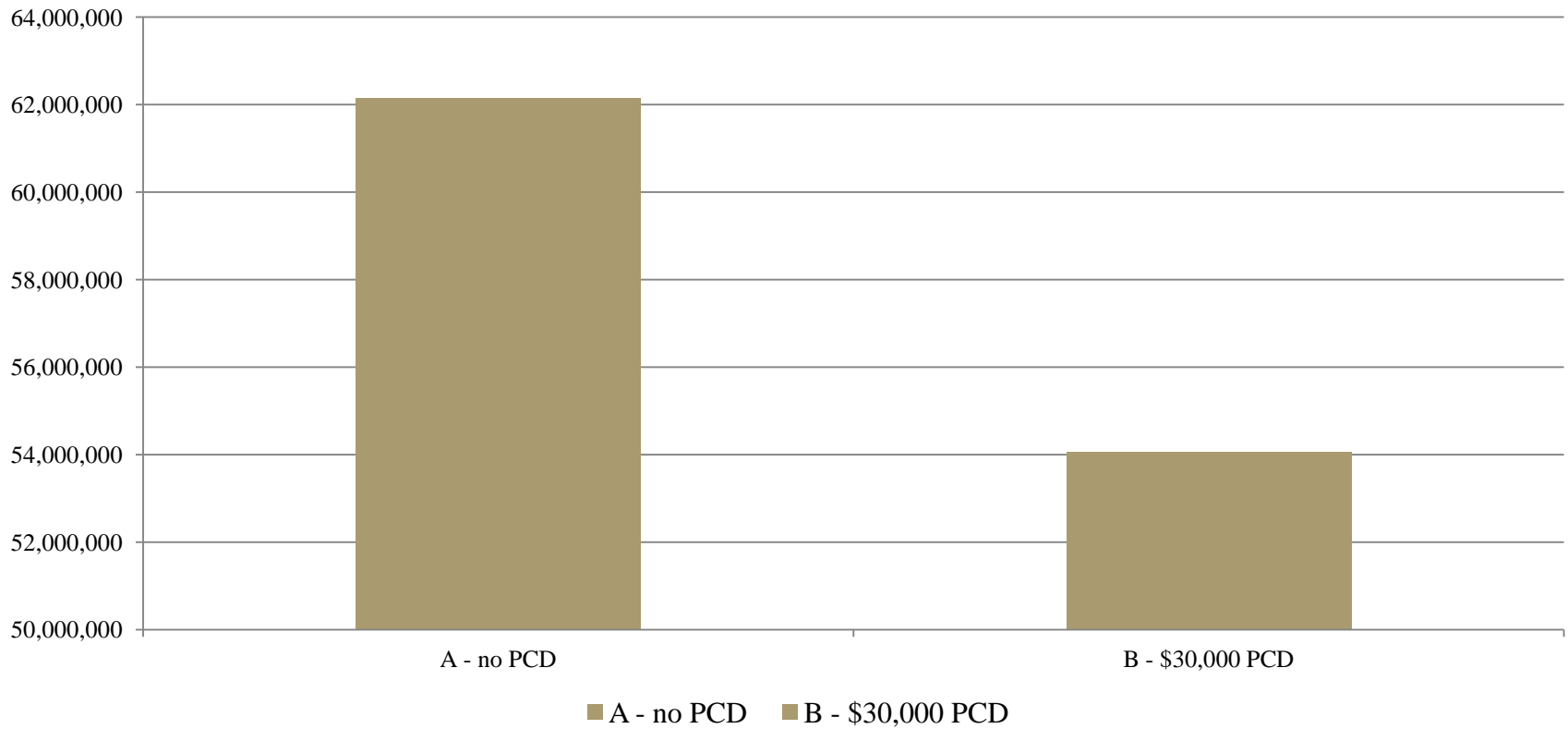
# Investment Returns – 6% Return with 3% annual spending

## 25 Years invested at 6% with 3% Annual Spending



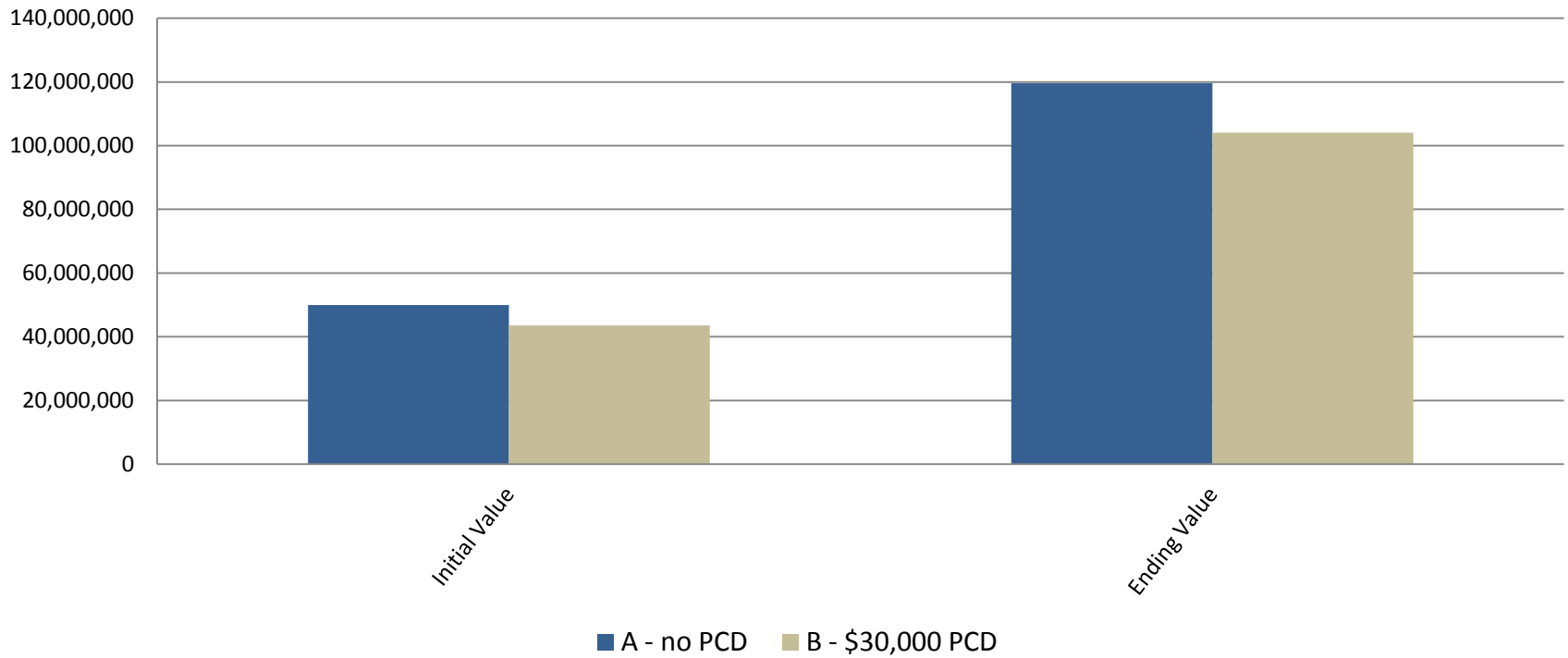
# 25 Year Cumulative Annual Spending

## Cummulative Spending 25 Years



# 50 Years Investment Returns – 6% Return and 3% Annual Spending

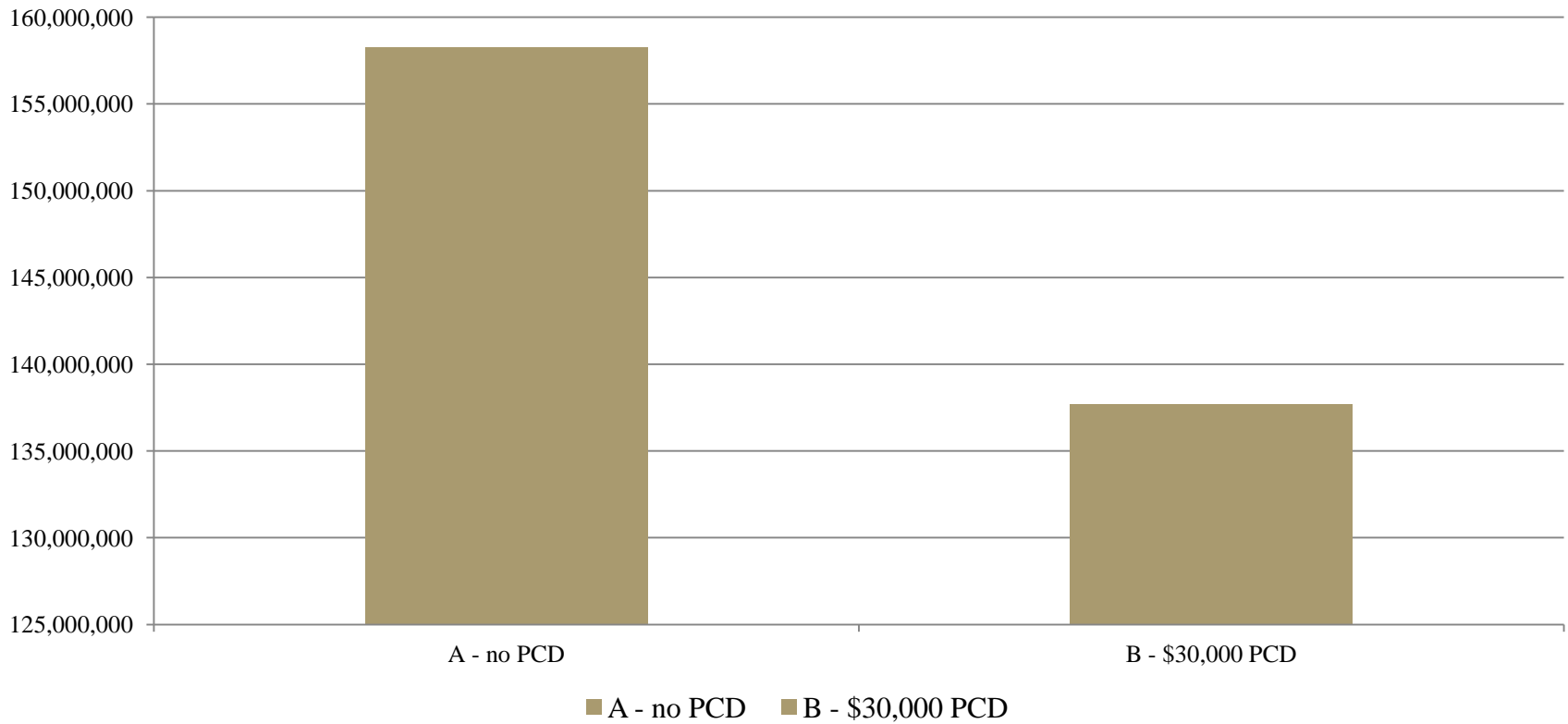
**50 Years invested at 6% with  
3% Annual Spending**





# 50 Year Cumulative Annual Spending

## Cummulative Spending 50 Years



# It adds up – in addition to the initial \$15 million

<b>Opportunity Cost of PCD</b>	<b>25 Years</b>	<b>50 Years</b>
<b>Wealth</b>	\$10,054,045	\$15,551,357
<b>Cumulative Spending</b>	\$8,077,375	\$20,571,264

What about the non financial aspects?

# U.S. Tribal Economic Landscape

- 567 Federally-recognized Tribes in US
- of those, 200+ operate casinos
- of those, 73 currently provide some type of per capita
- all surveys/studies show Native Americans are below fellow citizens in terms of:
  - Education
  - Income
  - Charitable Receipts
- Financial literacy and leadership skills can play a critical role in helping individuals and communities achieve their goals/dreams in the future.

# Per Capita Distributions – Decision Making Arguments in favour of PCDs

- Helping members meet urgent current needs
- Shifting the decision-making about the uses of the funds to individual citizens
- Avoiding the perceived waste in government operations
- Acting as an equalizer, with everyone treated equally whether they are on or off reserve, in power or out of power
- Keeping the size of government from spiraling out of control
- PCDs can be an effective policy tool

# Per Capita Distributions – Decision Making

## Arguments against PCDs

- PCDs replace one form of dependency (on the federal government) with another form (on the Tribal government)
- Citizens need jobs, education, healthcare, and homes – not cash
- PCDs have become a growing source of conflict over membership and a potential incentive for disenrollment
- The future is uncertain, so Tribes should invest in a manner that will diversify the tribal economy and generate sustainable revenue streams, especially if the current wealth is related to one activity (such as gaming or resource revenue)

# Per Capita Distributions – Decision Making

## Arguments against PCDs, continued

- PCDs place strains on Tribal enterprises with insufficient reinvestment to grow the enterprise and create more jobs and opportunities
- Wealth can be shared in many ways, such as better schools, expanded post-secondary education funding, better healthcare, better infrastructure, better homes, and a stronger nation
- PCDs can fail to produce long-term benefits for families and may have a negative impact on means-tested government programs
- Nations can invest tax-free (if properly structured by competent experts) while members may be taxed, depending on the nature of the PCD

# Poverty Reduction Results from the Pacific Northwest Tribes between 2000 and 2010

- In 2001 combined gaming revenue was just over \$1 billion, and by 2010 it had grown to over \$2.6 billion. The cumulative total was almost \$19 billion.
- 10 out of 17 Tribes with PCDs (58.8%) experienced increased poverty during the period.
- 2 of 7 Tribes with no PCDs (28.5%) experience increased poverty during the period.
- The overall poverty rate in the Regions Tribes increased from 25% to 29% over the period.

“Sovereignty, Economic Development, and Human Security in Native American Nations,” W. Gregory Guedel - Doctor of Philosophy degree from the University of Washington



# Strategic Dimensions in per Capita Decisions And Examples of Possible Revenue Use

	<b>INDIVIDUAL</b>	<b>COLLECTIVE</b>
<b>PRESENT</b>	<ul style="list-style-type: none"> <li>➤ Per Capita Payments</li> <li>➤ Post Secondary Education Support</li> <li>➤ Loans to citizens</li> <li>➤ Subsidizing utility bills</li> </ul>	<ul style="list-style-type: none"> <li>➤ Support for Tribal Government operations</li> <li>➤ Increased funding for social programs</li> <li>➤ Litigation support</li> </ul>
<b>FUTURE</b>	<ul style="list-style-type: none"> <li>➤ College scholarships</li> <li>➤ Trust funds for minors</li> <li>➤ Savings accounts for citizens</li> <li>➤ Grants for home purchase down payments</li> </ul>	<ul style="list-style-type: none"> <li>➤ College scholarships</li> <li>➤ Diversifying the Tribal economy</li> <li>➤ Long-term investment</li> <li>➤ Land acquisition</li> <li>➤ Litigation support</li> </ul>

From a distribution at the National Congress of American Indians Convention, November 2007: Per Capita Distributions of American Indian Tribal Revenues – A Preliminary Discussion of Policy Considerations.

# Financial Benefits of Higher Education – an Individual & Collective Benefit

Education Level	Average Salary*	10 years	20 years	30 years	40 years
No HS diploma	\$20,724	\$207,240	\$414,480	\$621,720	\$828,960
High School diploma	\$34,373	\$343,730	\$687,460	\$1,031,190	\$1,374,920
4-year degree	\$62,188	\$621,880	\$1,243,760	\$1,865,640	\$2,487,520
Advanced degree	\$95,309	\$953,090	\$1,906,180	\$2,859,270	\$3,812,360

40 hours per week = 2,080 hours per year.  
40 years = 83,200 hours worked!

No HS diploma ~ \$10/hr.  
4-year degree ~ \$30/hr.

HS diploma ~ \$17/hr.  
Advanced degree ~ \$46/hr.

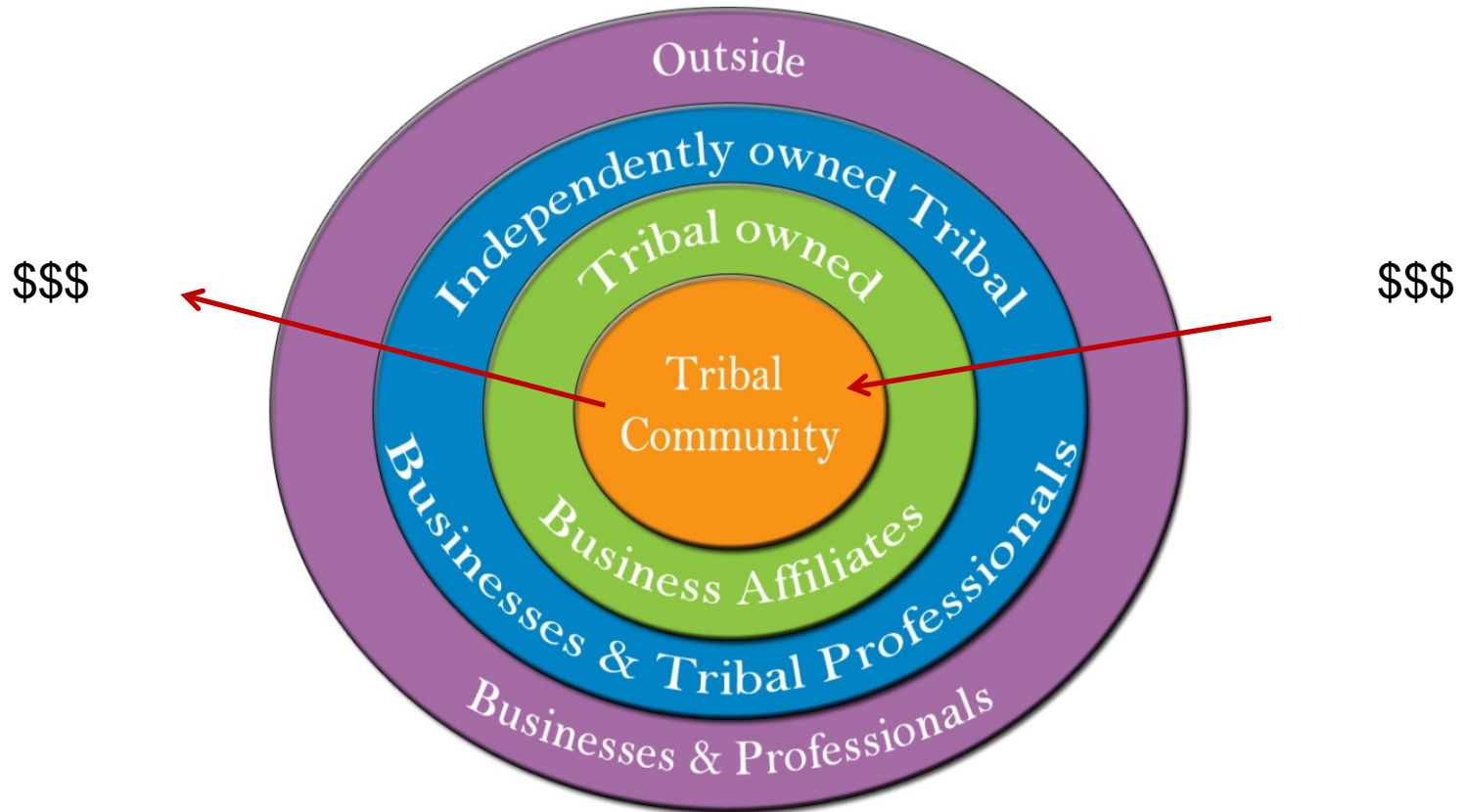
US Census Bureau  
median household  
income \$53,482  
(2010-2014).

\* Figures from National Endowment for Financial Education. From BNC, FNDI.

# Other Ways To Think About Benefits

- What are the other benefits we want our members to have?
  - Improved health outcomes, both physical and mental
  - Healthy communities with appropriate physical infrastructure
  - Strong cultures and language
- How do we pay for these benefits?
  - Would \$33 million for a community of 500 (earlier example) over 25 years help fund these goals?

# Circles of Wealth in Tribal Communities



# Financial Issues Affect Most Everything

- Personally
- Relationships
- Community
- Businesses

Health, Education, Economic Development, Housing, Lands, Government, Legal, and more!

# For Additional Information, Contact:

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