

Crown Corporation

B u s i n e s s P l a n s

for the fiscal year 2015–2016

Nova Scotia Municipal Finance Corporation

Business Plan 2015–2016

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Message from the Minister and the Chair

The Nova Scotia Municipal Finance Corporation (MFC) is a Crown corporation of the Province of Nova Scotia. The MFC was established by the Municipal Finance Corporation Act in 1979 and began business in January 1980. The Minister of Municipal Affairs is responsible for the corporation.

MFC's purpose is to provide the lowest cost of financing available to its clients, which include municipalities, municipal enterprises, school boards, and health authorities. In accordance with the Municipal Finance Corporation Act, all municipalities and municipal enterprises must finance their external capital requirements through the corporation. Currently, most school board and hospital capital expenditures are financed directly by the province.

In addition to its core mandate, MFC works directly with clients to support the sound financial management of Nova Scotia municipalities. Staff provides advice on the debenture process and securing temporary borrowing resolutions. The corporation has also developed tools, such as the Debt Affordability Model and Financial Management Best Practices, to help municipalities improve their financial planning and capacity. Finally, by using its biennial client surveys to measure the success of its programs and services – the results of which are reported in this business plan – the corporation is able to identify and respond to ongoing client needs. As throughout its 35 year history, MFC remains committed to fostering a client-focused approach.

The MFC is forecasting to have over \$815 million in debentures outstanding at March 31, 2015. New debenture issues in 2015–2016 are estimated to be approximately \$157 million, which will be balanced against debenture retirements of \$109 million.

The corporation is governed by a board of directors appointed by the Governor in Council. Legislation requires that two of the board members be appointed on the recommendation of the Union of Nova Scotia Municipalities (UNSM). An additional member of the board is appointed on the recommendation of the Association of Municipal Administrators of Nova Scotia (AMA). These appointments provide municipalities with an important voice on the MFC board. Four full-time staff members of the corporation are supported through staff and resources from the provincial Departments of Finance and Treasury Board, Justice, and Municipal Affairs.

The Honourable Mark Furey
Minister

Dan McDougall
Chair

Mission

To provide capital infrastructure financing to clients at the lowest available cost, within acceptable risk parameters, and to provide financial management advice and assistance to clients.

Planning Context

The Nova Scotia Municipal Finance Corporation (NSMFC) faces a number of challenges and opportunities in meeting its strategic goals in the upcoming year.

Ensure access to capital markets and the financial and administrative ability to meet municipal government demand for capital infrastructure funding.

Challenge:

- Global capital markets continue to face challenges, in this case the challenges presented by falling crude oil prices contributing to low inflation rates. Interest rates in Canada fell to historic lows in early 2015 and may remain low for some time to come. While these events appear to be beneficial to borrowers, this may pose challenges for municipalities to issue debt and have investors willing to purchase this debt at very low yields. Hence, municipalities may find wider credit spreads to their host province as investors show a preference for the large liquid benchmark issues of larger provinces.

Opportunity:

- The NSMFC continues to be able to borrow under the Province of Nova Scotia's provincial guarantee, which provides greater borrowing predictability and stability. The province's General Revenue Fund has purchased all NSMFC debt issues since 1998 and is expected to continue to do so in the future.

Maintain current knowledge of developments in municipal government capital finance.

Challenge:

- As a small organization, it is challenging to develop, maintain, and demonstrate expertise in municipal government.

Opportunity:

- NSMFC's new CEO began on December 1, 2014. As a former municipal advisor and municipal finance officer, Paul Wills brings extensive knowledge of municipal government and finance to the position.
- The position of Manager of Client Services was renamed to Policy Analyst. This change was made to better reflect the focus of the position.
- Professional development is a priority at MFC. Each of the four full-time staff attends courses or conferences annually to maintain expertise in their field.

Maintain financial self-sufficiency.

Challenge:

- The NSMFC must remain economically viable in both the short and long terms. This includes matching assets and liabilities to both amount and maturity and maintaining banking arrangements and credit facilities, credit risk, adequate reserves, and the ability to manage administration expenses within the corporation's budget.

Opportunity:

- The NSMFC remains stable, as it has for over 35 years. In addition, no client of the NSMFC has ever defaulted on a loan.
- The NSMFC now has access to a \$50 million line of credit from the Department of Finance and Treasury Board to fund its short-term loan program. This program was previously funded through the corporation's reserve fund. This change creates an opportunity for the municipal client, through low-interest loans, and for the corporation to invest and earn more interest on its reserve fund.

Identify client needs and respond to them.

Challenge:

- Municipalities in Nova Scotia must plan and finance their long-term capital infrastructure needs.

Opportunities:

- Opportunities exist to assist municipal governments in Nova Scotia with long-term capital planning and financing options.

- Opportunities also exist to work with local governments to achieve North American standards in municipal financial management capacity through the adoption of recommended practices. For example, the NSMFC worked with the Town of Middleton and the District of East Hants over the past year to implement core financial management best practices.
- Using the new \$50 million line of credit from the Department of Finance and Treasury Board to fund the short-term loan program will allow for greater capacity to help fund the cash flow requirements of municipalities between the completion of capital projects and the issuance of debentures.
- The NSMFC is exploring opportunities to utilize e-documents to streamline the debenture process.

The major risks to the corporation are reduced capital market receptiveness to smaller serial debt issues and the availability of human and financial resources needed to carry out its mandate. Some resources are directly under the control of the board, whereas others are provided by provincial departments. The NSMFC will continue to work with provincial departments to align both sets of priorities.

Strategic Goals

The NSMFC's strategic goals are designed to further municipal and departmental infrastructure objectives. Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are appealing places to live.

The following strategic goals have been developed to assist the NSMFC in meeting its mission and providing support for infrastructure, economic, and community priorities:

- Our clients will be provided with capital infrastructure financing at the lowest possible cost, within acceptable risk parameters, and their particular debt structure and timing needs will be met.
- Access to capital markets will be ensured through sound management of all financial aspects of the corporation, including credit risk and asset/liability management.
- Financial management knowledge in municipalities will be strengthened, and municipal capital project planning and financing will be promoted.

These goals are in line with the government priority of responsible fiscal management. Building and maintaining infrastructure creates jobs; allows local businesses to transport goods to market; connects Nova Scotians to vital services, employment, and education; and leads visitors to every corner of the province.

Core Business Areas

1. Providing flexible financing options at the lowest available cost

- Provide financing for clients' approved funding requirements by using pooled debenture issues and short-term loans.
- Facilitate and participate in loans to municipalities from financing sources

such as the Federation of Canadian Municipalities' Green Municipal Fund, where funding is available for projects meeting established criteria at below-market rates.

2. Ensuring access to capital markets

- Ensure that appropriate processes are in place for evaluating the creditworthiness of the loans made by the corporation.
- Ensure that the corporation's assets and liabilities are closely matched in both amount and maturity.
- Administer the corporation's financial resources prudently to ensure that the corporation's administrative expenses and reserve balances are within approved policies.

3. Helping build financial management and knowledge

- Partner with municipal clients, the Department of Municipal Affairs, and the Association of Municipal Administrators of Nova Scotia (AMA) on the topic of capital planning and finance.
- Develop programs and services geared toward enhancing our clients' knowledge of capital planning and financing. For example, partner with the Town of Middleton and the District of East Hants to implement core financial management best practices.
- Maintain links with the investment community, public sector finance practitioners, and academics, and carry out research as required to enable the corporation to respond to changing client needs.

Priorities for 2015–2016

The following details the actions, products, and services that the NSMFC intends to carry out in order to fulfill the corporation's mission and to meet its strategic goals.

1. Providing capital financing at the lowest available cost

- The NSMFC will provide low-cost financing by issuing pooled debentures for the approved amount required to meet municipal borrowing requirements and lending a similar amount to our clients. In 2015–2016 the new debenture issuances are expected to be approximately \$157 million, which is balanced against retirements of existing debentures of approximately \$109 million.
- Pooling of capital requirements allows the NSMFC to access capital markets and achieve pricing based on the Province of Nova Scotia credit spreads.
- The corporation will access its new \$50 million line of credit from the Department of Finance and Treasury Board to offer short-term financing for municipalities to help fund the cash flow requirements between the completion of capital projects and the issuance of debentures.
- The NSMFC will facilitate and participate in loans to municipalities from the Federation of Canadian Municipalities' Green Municipal Fund. Funding is available at below-market rates for projects meeting established criteria.

2. Ensuring access to capital markets

- Obtain verification of creditworthiness from the Department of Municipal Affairs (for municipal borrowers) prior to setting the parameters for pooled issues.
- Match the amount, term, and timing of NSMFC debentures with loans to municipalities.
- Manage the NSMFC's financial resources (budget and reserves) in accordance with policies established by the corporation's board of directors.

3. Helping build financial management and knowledge

- Sponsor and assist in planning training workshops aimed at enhancing the overall knowledge of municipal finance and budgeting for municipal staff and councillors.
- Offer training on the NSMFC's core best practices and research support to municipalities to promote effective and efficient financial management.
- Continue to promote the municipal use of the Debt Affordability Model, and provide technical support for municipal administrators. The Debt Affordability Model is a tool used by municipalities to help determine how much debt is too much debt to carry. The model can also be used by municipalities for multi-year budgeting and forecasting and analyzing revenue and expenditure options.
- Conduct research and analysis of what our municipal clients require to increase their infrastructure borrowing capacity, and for NSMFC to develop and tailor its programs and services accordingly.

- Work with the corporation's lead managers and other members of the investment community, staff of the Department of Finance and Treasury Board, other municipal finance corporations, and others involved in municipal capital financing to identify evolving municipal government financial needs and the optimum means of satisfying them.
- Assist the Department of Municipal Affairs in developing an asset management program for municipalities as required by federal gas tax regulations.

treatment plants, solid waste facilities, and water services that promote clean and healthy communities. Loans are also made to finance streets, buildings, recreation services, and the purchase and development of land. Improvements in each of these areas contribute to safer and healthier communities in Nova Scotia. By working with municipalities to develop recommended financial management practices, the NSMFC also contributes to the fiscal stability of Nova Scotia municipalities. These priorities support the priorities of the Department of Municipal Affairs as well as the oneNS Commission's *Now or Never* report.

Human Resource Strategy

Organizations with small staff are challenged when developing human resource strategies. Development and training opportunities are made available to existing staff to enable them to stay abreast of developments in the industry. The corporation's human resource strategy is aligned with the government resource strategy.

Link to Municipal and Departmental Priorities

The NSMFC contributes to the Department of Municipal Affairs' departmental priorities by helping to finance infrastructure projects that create economic opportunities and safe and sustainable communities. NSMFC loans are used to finance sewage

Budget Context

Nova Scotia Municipal Finance Corporation Administration Budget

	Estimate 2014-15 (\$ 000)	Forecast 2014-15 (\$ 000)	Estimate 2015-16 (\$ 000)
Total program expenses (gross current)	581.5	557.1	572.2
Net program expenses (net of recoveries)*	0.0	0.0	0.0
Salaries and benefits	385.0	398.8	387.7
Funded staff (gross FTEs)	4	4	4

* The NSMFC is completely self-funded. The costs of administration are covered through an administrative fee that is levied on all municipal loans and from interest revenue earned on investments.

NSMFC Statement of Financial Position March 31, 2014

Financial assets	(\$)
Cash and cash equivalents	6,684,214
Accrued interest receivable	9,973,919
HST receivable	152
Accounts receivable	5,513
Loans to municipal units	797,097,462
Total assets	813,761,260
Financial liabilities	
Accounts payable	51,009
Employee obligations	98,917
Accrued interest payable	9,964,606
Debentures	797,058,969
Total liabilities and equity	807,173,501
Net financial assets	6,587,759
Accumulated surplus	6,587,759

NSMFC Statement of Operations March 31, 2014

	Estimate 2014 (\$)	Actual 2014 (\$)
Revenue		
Interest on loans to units	32,773,177	31,823,718
Interest on short-term investments	67,377	74,733
Recovery of issue cost	571,054	389,566
Administration fee	888,159	474,685
Total revenue	34,299,767	32,762,702
Expenses		
Interest on debenture debt and short-term loans	32,771,198	31,821,744
Debenture issue expense	566,758	386,911
Administrative expense	557,815	523,357
Total expenses	33,895,771	32,732,012
Annual operating surplus (deficiency)	403,996	30,690
Accumulated surplus, beginning of year	6,557,069	6,557,069
Accumulated surplus, end of year	6,961,065	6,587,759

Outcomes and Performance Measures

Core Business Area 1 *Providing Capital Financing at the Lowest Available Cost*

Outcome	Measure	Data	Target: 2015–16	Target: 2016–17	Strategies to Achieve Target
NSMFC clients engage in capital infrastructure development using affordable, timely financing	Percentage of clients that agree the debenture terms and structure are flexible enough to meet their needs	96% (2015 client survey results)	95%	97%	Align debenture issues with the construction completion schedule and capital budgeting process. Improve application process by working with clients to ensure quick processing of debenture documents.
		88% (2015 client survey results)	95%	95%	Promote short-term financing program. Work with clients on financing options (payments and terms). Communicate financing options more effectively (i.e., through the website and consultations). Communicate NSMFC rates and products more effectively with clients (e.g., through the AMA list serve, consultations, and site visits).
Quality of credit loans	Procedures ensure creditworthiness of loans	Procedural guarantee allows the NSMFC to price off the Province of Nova Scotia spread	Regular review of loan procedures	Regular review of loan procedures	Maintain quality of portfolio
			Procedural guarantee allows the NSMFC to price off the Province of Nova Scotia spread	Maintain access to the provincial guarantee	Maintain access to the provincial guarantee

Core Business Area 2 *Ensuring Access to Capital Markets*

Outcome	Measure	Data	Target: 2015–16	Target: 2016–17	Strategies to Achieve Target
NSMFC clients contribute to the corporation's viability by consistently meeting repayment commitments	Client default rate	0%	0%	0%	<p>Ensure that all loans are creditworthy.</p> <p>Promote the Debt Affordability Model.</p> <p>Play a more active role in the creditworthiness procedure (Temporary Borrowing Resolutions).</p> <p>Participate with FRAM Committee in evaluating processes.</p> <p>Monitor loan payment process.</p>
	<p>Matching assets and liabilities</p> <p>Matching of aggregate amounts, terms, and timing of debentures and loans</p>	<p>Assets are closely matched to term and timing</p>	Maintain matching strategy	Maintain matching strategy	Match the term and timing of NSMFC debentures and loans to clients

Core Business Area 3 *Helping Build Financial Management Knowledge*

Outcome	Measure	Data	Target: 2015–16	Target: 2016–17	Strategies to Achieve Target
NSMFC clients are increasing their capacity to engage in good financial management practice	Percentage of municipal clients that have used the Debt Affordability Model	50% (2015 client survey results)	60%	60%	Work with clients to help them implement the Debt Affordability Model. Tailor Debt Affordability Model to better suit the needs of clients.
	Percentage of municipal clients that have used the Financial Management Best Practices	29% (2015 client survey results)	40%	50%	Work with clients to help them implement best practices of their choice. Implement Core Best Practices in Town of Middleton. Promote pilot
	Increased overall municipal finance knowledge among municipalities Attendance at NSMFC-sponsored Municipal Finance Workshops	65% (percentage of municipalities represented at workshops)	80%	80%	Assist in planning the agenda of the workshops. Promote the workshops more effectively to municipal staff and council members. Maintain the no-fee structure to attend the workshop.
	Percentage of municipal clients that are aware of NSMFC programs and services	85% (2015 client survey results)	95%	95%	Continue to update new website. Explore the use of web-based programs such as webinars. Use email to keep Directors of Finance informed about NSMFC's programs and services. Obtain greater exposure to municipal councils to promote programs and services. Develop new banner and pamphlet for promotion at UNSM and AMA conferences. Increase site visits by CEO.