



— NOVA SCOTIA —
**MUNICIPAL FINANCE
CORPORATION**

Business Plan 2017-2018

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Message from the Minister and the Chair

The Nova Scotia Municipal Finance Corporation (NSMFC) 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.

NSMFC'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, NSMFC 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 Corporation can identify and respond to ongoing client needs. As throughout its 37-year history, NSMFC remains committed to fostering a client-focused approach.

The NSMFC is forecasting to have over \$797.4 million in debentures outstanding at March 31, 2017. New debenture issues in 2017–2018 are estimated to be approximately \$129.6 million, which will be balanced against debenture retirements of \$106.0 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 NSMFC board. Three 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 Derek Mombourquette
Minister

Kelliann Dean
Chair

Mission

The purpose of the NSMFC 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, NSMFC 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 (DAM) 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 can identify and respond to ongoing client needs. As throughout its 37-year history, NSMFC remains committed to fostering a client-focused approach.

Planning Context

The NSMFC faces several 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

Challenges:

- Global capital markets continue to face challenges surrounding the prospects for global economic growth in an uncertain political environment. Interest rates in Canada remain at near historic lows and may remain low in Canada for some time to come. While these events have been very beneficial to borrowers, this trend continues to pose challenges for municipalities to issue debt and have investors willing to purchase this debt at very low yields. Over the past year, liquidity has taken on an increased importance in the investment decision process. Hence, municipalities may find wider credit spreads to their host province.
- In the fall sitting of the House of Commons, the federal government announced its intention to establish an infrastructure bank to help fund major construction projects across the country. Currently, there is little detail on how this program will work, or what affect it will have on NSMFC clients. Details will be in the federal spring 2017 budget.

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.

Maintaining 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:

- Professional development is a priority at NSMFC. Each of the three full time staff attends courses and/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 both to amount and maturity; 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 more than 37 years. In addition, no client of the NSMFC has ever defaulted on a loan.

- The NSMFC 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 both 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 District of Barrington and the Town of Lockeport over the past year to implement some of the core financial management best practices.
- Using the \$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 has switched to utilizing e-documents to streamline the debenture process beginning with the Spring 2017 debenture issue. This change will help reduce courier and mail charges for both our clients and the Corporation.

- 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 as well as to provide 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 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.

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 on the topic of capital planning and finance.
- Develop programs and services geared toward enhancing our clients' knowledge of capital planning and financing.
- 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 2017–2018

The following details the actions, products, and services that the NSMFC intends to carry out 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 2017–18 the new debenture issuances are expected to be approximately \$129.6 million, which is balanced against retirements of existing debentures of approximately \$106 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 \$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 councilors.
- Offer training and assistance 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 Nova Scotia 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.

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.

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 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 One NS Commission's *Now or Never* Report.

Budget Context

Nova Scotia Municipal Finance Corporation Administration Budget

	Estimate 2016-2017 (\$000)	Forecast 2016-2017 (\$000)	Estimate 2017-18 (\$000)
Total program expenses— (gross current)	475.0	453.8	463.0
Net program expenses— (net of recoveries) *	0.0	0.0	0.0
Salaries and benefits	297.8	298.5	307.3
Funded staff (gross FTEs)	3	3	3

* 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, 2016

Financial assets	(\$)
Cash and cash equivalents	7,431,903
Accrued interest receivable	9,505,829
HST receivable	119
Accounts receivable	113
Loans to municipal units	818,925,540
Total Assets	835,863,504
Financial liabilities	
Accounts payable	59,176
Accrued interest payable	9,500,866
Employee obligations	86,195
Short-term loan due to PNS	690,887
Debentures	818,900,585
Total liabilities and equity	829,237,709
Net financial assets	6,625,795
Accumulated surplus	6,625,795

NSMFC Statement of Operations, year ended March 31, 2016

Revenue	Estimate 2016 (\$)	Actual 2016 (\$)
Interest on loans to units	30,707,117	29,875,213
Interest on short-term investments	88,855	55,609
Recovery of issue cost	404,000	352,122
Administration fee	480,000	450,562
Total revenue	31,679,972	30,733,506
Expenses		
Interest on debenture debt and short-term loans	30,705,504	29,877,359
Debenture issue expense	404,104	351,918
Administrative expense	572,150	454,952
Total expenses	31,681,758	30,684,229
Annual operating surplus (deficiency)	(1,786)	49,277
Accumulated surplus, beginning of year	6,576,518	6,576,518
Accumulated surplus, end of year	6,574,732	6,625,795

Outcomes and Performance Measures

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

Outcome	Measure	Data	Target 2017-2018	Target 2018-2019	Strategies to Achieve Target
Provision of lowest available cost of financing to clients in a timely manner	Percentage of clients that are satisfied with the timing of debenture issues	97% (2017 client survey results)	96%	97%	<ul style="list-style-type: none"> 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
	Percentage of clients that agree the debenture terms and structure are flexible enough to meet their needs	97% (2017 client survey results)	95%	97%	<ul style="list-style-type: none"> Promote short-term financing program Work with clients on financing options (payments and terms) Communicate financing options more effectively (e.g. through the website and consultations) Communicate NSMFC rates and products more effectively with clients (e.g., through the AMA list server and consultations)
	Quality of credit loans	Procedures ensure creditworthiness of loans	Regular review of loan procedures	Regular review of loan procedures	<ul style="list-style-type: none"> Maintain quality of portfolio
	Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds	Provincial 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	<ul style="list-style-type: none"> Promote profile of NSMFC credit quality to maintain a strong relationship with government to ensure its support of the Provincial guarantee

Core Business Area 2 – Ensuring Access to Capital Markets

Outcome	Measure	Data	Target 2017-2018	Target 2018-2019	Strategies to Achieve Target
A sustainable source of funding is available from clients to ensure the operational viability of the Corporation	Client default rate	0%	0%	0%	<ul style="list-style-type: none"> • Ensure that all loans are creditworthy • Promote the Debt Affordability Model • Monitor loan payment process
	Matching assets and liabilities Matching of aggregate amounts, terms, and timing of debentures and loans	Assets are closely matched to term and timing	Maintain matching strategy	Maintain matching strategy	<ul style="list-style-type: none"> • 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 2017-2018	Target 2018-2019	Strategies to Achieve Target
NSMFC client use of the Debt Affordability Model	Percentage of municipal clients that have used the Debt Affordability Model	47% (2017 client survey results)	60%	60%	<ul style="list-style-type: none"> • Work with clients to help them implement the Debt Affordability Model • Tailor Debt Affordability Model to better suit the needs of clients
NSMFC client use of the Financial Management Best Practices	Percentage of municipal clients that have used the Financial Management Best Practices	34% (2017 client survey results)	40%	40%	<ul style="list-style-type: none"> • Work with clients to help them implement best practices of their choice
Increased overall municipal finance knowledge among municipalities	Attendance at NSMFC-sponsored Municipal Finance Workshops	42% (Percentage of municipalities who attended 2016 workshops)	80%	80%	<ul style="list-style-type: none"> • 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
Increased knowledge of NSMFC programs and services	Percentage of municipal clients that are aware of NSMFC programs and services	81% (2017 client survey results)	95%	95%	<ul style="list-style-type: none"> • Updated and revitalized website • Developed web-based programs, such as webinars • Quarterly newsletter sent to Councillors, CAOs and Directors of Finance • Use email to communicate with Directors of Finance to keep them informed about NSMFC's programs and services • Obtain greater exposure to municipal councils to promote programs and services

