



— NOVA SCOTIA —  
**MUNICIPAL FINANCE  
CORPORATION**

# Business Plan 2018-2019



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## Message from the Minister and the Chair

The Nova Scotia Municipal Finance Corporation is a Crown Corporation of the Province of Nova Scotia. The Corporation 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.

Since 1979, the Corporation has worked closely with clients to build healthy and vibrant communities. The Corporation's work touches the lives of all Nova Scotians. Over its 38-year history, it has helped municipalities make significant investments in the infrastructure we use and rely on every day; from fire services equipment to improve public safety, to wellness centres that support healthy communities, to facilities that provide clean drinking water for thousands of residents.

The Corporation is forecasting to have over \$774.9 million in debentures outstanding at March 31, 2018. New debenture issues in 2018–2019 are estimated to be approximately \$250.0 million, which will be balanced against debenture retirements of \$105.3 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. An additional member of the board is appointed on the recommendation of the Association of Municipal Administrators of Nova Scotia. These appointments provide municipalities with an important voice on the Corporation's 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.

Ensuring municipalities, both urban and rural, have modern infrastructure helps Nova Scotia to remain competitive and attract and retain residents and businesses. Though this mandate has not changed since the Corporation's inception and remains relevant today, the means through which it is achieved continues to evolve to reflect changing conditions.

The Honourable Derek Mombourquette  
Minister

Kelliann Dean  
Chair

## Mission

The purpose of the Nova Scotia Municipal Finance Corporation 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, the Corporation works directly with clients to support the sound financial management of Nova Scotia municipalities. Staff provides advice on the debenture process. Through the development of several tools and programs - the Debt Affordability Model, Financial Management Best Practices, a Mentoring Program, a High Interest Savings Account Program, and sponsorship of financial modules put on by the Association of Nova Scotia Municipal Administrators, the Corporation can assist 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 the 2017 survey, which are reported in this business plan, the Corporation can identify and respond to ongoing client needs. As throughout its 38-year history, the Corporation remains committed to fostering a client-focused approach.

## Planning Context

The Corporation 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:

- North American capital markets are generally experiencing rising interest rates on government debt, in part due to the recent actions taken on administered interest rates by the Federal Reserve Board in the United States and the Bank of Canada. Government of Canada 10-year yields have risen by over one percentage point in the past 18 months, with most of that increase having taken place over the past 12 months. However, interest rate on Government of Canada 10-year bonds remain well below the average experienced over the past 10 years. These low interest rates continue to be very beneficial to borrowers. Over the past year, liquidity in the municipal debt sector has improved, but still is an important factor in the investment decision process. Municipal credit spreads have maintained stable levels or improved somewhat compared to their host province over the past year.
- In the spring sitting of the House of Commons in 2017, the *Canada Infrastructure Bank Act* was passed

setting in motion its establishment. Based on the material that is known, the infrastructure bank can be used to fund infrastructure projects that are associated with a revenue stream. Currently, it is unknown what affect this will have on the Corporation's clients.

- Over the past two years, the Federal and Provincial governments have increased their portion of municipal infrastructure spending significantly thus causing a reduction in the long-term borrowings required by municipalities. The forecasted amount for 2018-2019 is seven times greater than three years ago indicating the amount of required long-term borrowings by municipalities may still be lower than anticipated.

#### Opportunity:

- The Corporation 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 the Corporation's 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 the Corporation. 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 Corporation 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 Corporation remains stable, as it has for over 38 years. In addition, no client of the Corporation has ever defaulted on a loan.
- The Corporation 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 our municipal clients to pay less interest with low interest loans.

## 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 Corporation has

worked with the County of Cumberland and the Town of Lockeport over the past year to implement some of the core financial management best practices.

- During 2017, the Corporation has established a high interest savings account program that will allow municipalities, who wish to participate, the opportunity to earn a higher rate of return on capital funds and reserves than what they would at their own financial institutions.
- Through the Corporation's Mentoring program, newly hired Directors of Finance can get the basic training needed to understand municipal government from a retired Municipal Director of Finance.
  - The Corporation sponsors two of the Association of Municipal Administrators of Nova Scotia Municipal Management Modules; one on finance for administrators, and one for elected officials.
- 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 Corporation has switched to utilizing e-documents to streamline the debenture process beginning with the Spring 2017 debenture issue. This change has helped 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 Corporation will continue to work with provincial departments to align both sets of priorities.

## Strategic Goals

The Corporation'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 Corporation 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 of Nova Scotia 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 2018–2019

The following details the actions, products, and services that the Corporation 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 Corporation 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 2018–19 the new debenture issuances are expected to be approximately \$250.0 million, which is balanced against retirements of existing debentures of approximately \$105.3 million.
- Pooling of capital requirements allows the Corporation 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 Corporation 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 the Corporation's debentures with loans to municipalities.
- Manage the Corporation'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 Corporation's core best practices and research support to municipalities to promote effective and efficient financial management.
- Continue to promote the 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.

- Continue to promote the Mentoring Program to municipalities who hire a new Director of Finance who lacks municipal experience. The intent of this program is to assist the new municipal Director of Finance become more accustomed to municipal government by speaking with a retired former Municipal Director of Finance to help understand the way municipalities function and operate.
- Conduct research and analysis of what our municipal clients require increasing their infrastructure borrowing capacity, and for the Corporation 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 Corporation contributes to the Department of Municipal Affairs' departmental priorities by helping to finance infrastructure projects that create economic opportunities and safe and sustainable communities. The Corporation's 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 Corporation 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 Nova Scotia Commission's *Now or Never* Report.

## Budget Context

### Nova Scotia Municipal Finance Corporation Administration Budget

	Estimate 2017-2018 (\$000)	Actual** 2017-2018 (\$000)	Estimate 2018-19 (\$000)
Total program expenses— (gross current)	463.0	422.5	492.3
Net program expenses— (net of recoveries) *	0.0	0.0	0.0
Salaries and benefits	307.3	299.0	322.9
Funded staff (gross FTEs)	3	3	3

\* The Corporation 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.

\*\* As of December 31, 2017

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**NSMFC Statement of Financial Position, March 31, 2017**

<b>Financial assets</b>	<b>(\$)</b>
Cash and cash equivalents	7,035,872
Accrued interest receivable	8,972,550
HST receivable	558
Accounts receivable	85
Loans to municipal units	797,415,572
<b>Total Assets</b>	<b>813,424,637</b>
<b>Financial liabilities</b>	
Accounts payable	50,581
Accrued interest payable	8,967,588
Employee obligations	86,195
Short-term loan due to PNS	332,700
Debentures	797,396,789
<b>Total liabilities and equity</b>	<b>806,833,853</b>
<b>Net financial assets</b>	<b>6,590,784</b>
<b>Accumulated surplus</b>	<b>6,590,784</b>

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### NSMFC Statement of Operations, year ended March 31, 2017

	Estimate 2017 (\$)	Actual 2017 (\$)
<b>Revenue</b>		
Interest on loans to units	28,777,024	28,714,109
Interest on short-term investments	45,031	59,236
Recovery of issue cost	377,618	281,798
Administration fee	442,089	337,932
<b>Total revenue</b>	<b>29,641,762</b>	<b>29,393,075</b>
<b>Expenses</b>		
Interest on debenture debt and short-term loans	28,775,604	28,719,686
Debenture issue expense	374,595	282,917
Administrative expense	475,029	425,483
<b>Total expenses</b>	<b>29,625,228</b>	<b>29,428,086</b>
<b>Annual operating surplus (deficiency)</b>	<b>16,534</b>	<b>(35,011)</b>
<b>Accumulated surplus, beginning of year</b>	<b>6,625,795</b>	<b>6,625,795</b>
<b>Accumulated surplus, end of year</b>	<b>6,642,329</b>	<b>6,590,784</b>

# Outcomes and Performance Measures

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

Outcome	Measure	Data	Target 2018-2019	Target 2019-2020	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)	97%	97%	<ul style="list-style-type: none"> <li>Align debenture issues with the construction completion schedule and capital budgeting process</li> <li>Improve application process by working with clients to ensure quick processing of debenture documents</li> </ul>
	Percentage of clients that agree the debenture terms and structure are flexible enough to meet their needs	97% (2017 client survey results)	97%	97%	<ul style="list-style-type: none"> <li>Promote short-term financing program</li> <li>Work with clients on financing options (payments and terms)</li> <li>Communicate financing options more effectively (e.g. through the website and consultations)</li> <li>Communicate the Corporation's rates and products more effectively with clients (e.g., through the AMA list server and consultations)</li> </ul>
	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"> <li>Maintain quality of portfolio</li> </ul>
	Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds	Provincial guarantee allows the Corporation 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"> <li>Promote profile of the Corporation's credit quality to maintain a strong relationship with government to ensure its support of the Provincial guarantee</li> </ul>

Core Business Area 2 – Ensuring Access to Capital Markets

Outcome	Measure	Data	Target 2018-2019	Target 2019-2020	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"> <li>• Ensure that all loans are creditworthy</li> <li>• Promote the Debt Affordability Model</li> <li>• Monitor loan payment process</li> </ul>
	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"> <li>• Match the term and timing of the Corporation's debentures and loans to clients</li> </ul>

Core Business Area 3 – Helping Build Financial Management Knowledge

Outcome	Measure	Data	Target 2018-2019	Target 2019-2020	Strategies to Achieve Target
The Corporation's 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"> <li>• Work with clients to help them implement the Debt Affordability Model</li> <li>• Tailor Debt Affordability Model to better suit the needs of clients</li> </ul>
The Corporation's 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"> <li>• Work with clients to help them implement best practices of their choice</li> </ul>
Increased overall municipal finance knowledge among municipalities	Attendance at the Corporation's sponsored Municipal Finance Workshops	42% (Percentage of municipalities who attended 2016 workshops)	80%	80%	<ul style="list-style-type: none"> <li>• Assist in planning the agenda of the workshops</li> <li>• Promote the workshops more effectively to municipal staff and council members</li> <li>• Maintain the no-fee structure to attend the workshop</li> </ul>
Increased knowledge of the Corporation's programs and services	Percentage of municipal clients that are aware of the Corporation's programs and services	81% (2017 client survey results)	95%	95%	<ul style="list-style-type: none"> <li>• Updated and revitalized website</li> <li>• Developed web-based programs, such as webinars</li> <li>• Quarterly newsletter sent to Councillors, CAOs and Directors of Finance</li> <li>• Use email to communicate with Directors of Finance to keep them informed about the Corporation's programs and services</li> <li>• Obtain greater exposure to municipal councils to promote programs and services</li> </ul>

