



Nova Scotia
**MUNICIPAL
FINANCE
CORPORATION**

quarterly newsletter

Volume 1

September 2015

www.nsmfc.ca

Welcome to the first issue of the Municipal Finance Corporation Quarterly Newsletter. Our goal in producing the newsletter is to keep our clients informed. We will be promoting the various services we offer as well as any important deadlines that may be approaching.

As many of you already know, the main purpose of the Corporation is to provide low-cost, long-term capital financing for municipalities. Debentures are issued twice a year, once in the spring and once in the fall. But did you also know:

- We also offer short-term loans to clients who have completed their capital projects and are awaiting participation in the next debenture issue?
- The Corporation has a model that can help you to plan for financing your future capital needs, the Debt Affordability Model?
- We have 32 Best Practices that can be used to assist in updating the financial management policies of your municipality? Recently we have just completed assisting the

Town of Middleton in implementing seven core best practices.

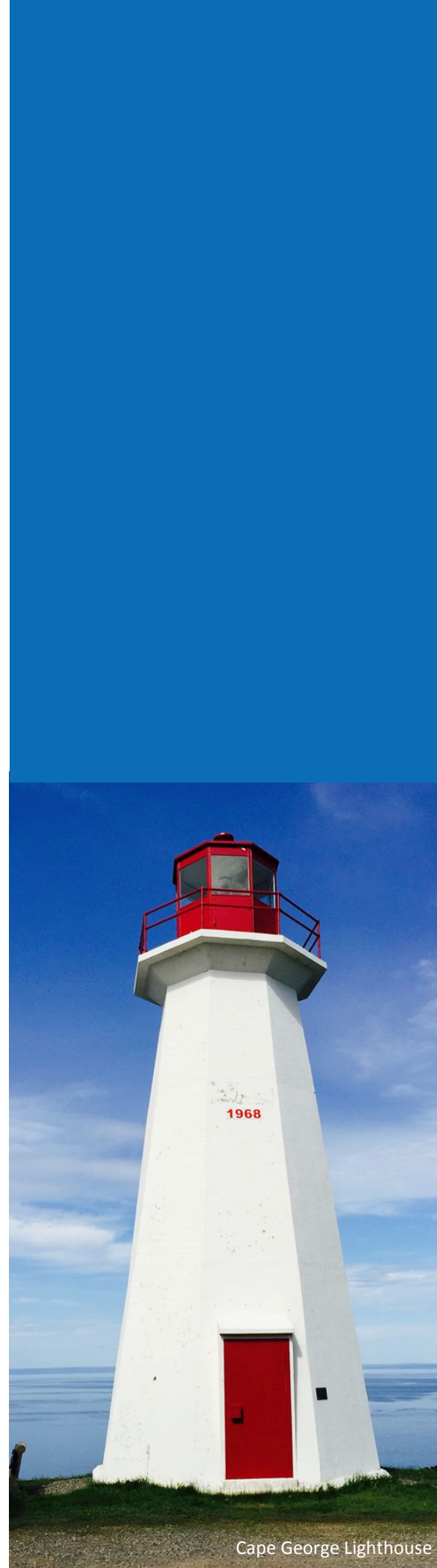
- The Corporation sponsors a municipal finance professional to attend the Government Finance Officers Association (GFOA) conference every year? It also supports the Municipal Finance Officer Workshops at AMA Conferences as well as a luncheon at the Fall UNSM Conference.

In striving to help improve financial management capacity in Nova Scotia municipalities, we are always seeking, reviewing and developing tools and programs to assist municipalities in making financial decisions.

If you have any suggestions as to areas you think we may be able to help, please do not hesitate to contact us. We are more than willing to assist.

Thank you for taking the time to read this newsletter.

Paul Wills—CPA, CMA
CEO/Treasurer





Town of Stellarton roundabout—financed by MFC.

MFC Best Practice Profile: Operating Reserve Level

In 2013, the Financial Management Best Practice Committee (FMBC) was reconvened to identify core financial best practices for municipalities in Nova Scotia. Appropriate Minimum Level of Operating Reserve and Accumulated Surplus was selected to be part of this group of essential best practices. The original recommended practice was developed by the GFOA. Some aspects of the practice have been revised by the FMBC for use by Nova Scotia municipal governments. The original GFOA recommended practice is Appropriate Level of Unrestricted Fund Balance in the General Fund, approved by GFOA Executive Board in 2002.

Purpose

The purpose of maintaining adequate levels of accumulated surplus and operating reserves is to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Accumulated surplus and operating reserves are a significant consideration in long-term financial planning and management.

Background

The operating fund accumulated surplus and the operating reserve refer to a fund balance that the council has available for contingencies and/or other purposes, defined by the council.

The operating fund accumulated surplus is intended to serve as a measure of the financial resources that have accumulated over a number of years. This surplus might be allocated or unallocated. Allocated accumulated surplus refers to a fund balance that the council has assigned a specific purpose, such as contingencies or appropriations in future years.

The fund balance, which includes operating fund accumulated surplus and the operating reserve, can be measured as a percentage of the regular general fund operating revenues, or as a certain number of months' operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a municipality's particular circumstances. Unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare the operating fund accumulated surplus to either revenues or expenditures, that decision should be followed consistently from period to period.

Unlike a capital reserve, which is required under legislation, the operating fund accumulated surplus and the operating reserve can be established at the discretion of council and are more flexible than a capital reserve. Municipalities are legally required to maintain a capital reserve fund according to the Municipal Government Act. Utilization of the capital reserve is also limited to certain areas. Unallocated operating fund accumulated surplus can be utilized for different kinds of contingencies that may arise.

An operating fund accumulated surplus and an operating reserve might generate debate between those who prefer that the municipality use the reserve for temporary tax cuts or increased provision of services and those who prefer a long-term stable tax rate and consistent level of service provision. Stability in tax rate and service delivery is important for long term financial planning. Fluctuating tax rates create uncertainty for both citizens and businesses.

There are optimal levels for the operating fund accumulated surplus and the operating reserve. Each municipality has to determine what those levels are, but there has to be a rationale behind the desired levels. Higher levels of operating fund accumulated surplus and operating reserve do not automatically mean better financial management.

What are the MFC best practices?

In 2003, MFC and the Association of Municipal Administrators of Nova Scotia (AMA) formed a joint committee to develop financial management best practices for municipalities in Nova Scotia.

The Committee used practices developed by the Government Finance Officers Association (GFOA) and adapted them to fit Nova Scotia's legislation and practices. Overall, 32 best practices were created to help support the financial health of municipalities in Nova Scotia.

The committee was re-established again in the summer of 2013 to revisit the best practices to determine which could be considered "core" or high priority. Of the 32

best practices, seven were determined to be core or high priority.

Best practices are proven and reliable techniques or methodologies. They can be simple or complex, but overall they are meant to be effective and efficient strategies for accomplishing a task.

MFC's best practices are designed to support good governance by promoting accountability, transparency, value for money, and risk management.

A typical best practice includes background information about why it is considered important, suggested resources from other organizations, and step-by-step guides for implementation.

They are not generic templates to download, take to Council and get approved. Some work must be done first to tailor them to your municipality's needs and context.

MFC can work directly with your staff to adapt the best practices into policies to suit your needs, from the research and writing involved in drafting policies to making presentations to council.

Contact Paul Wills to find out how we can work with you by calling (902) 424-4590 or emailing: Paul.Wills@novascotia.ca

Who We Are

As a Crown Corporation, MFC's powers and responsibilities are set out in the Municipal Finance Corporation Act (1979).

The Corporation is accountable to the legislature through the Minister of the Department of Municipal Affairs (DMA).

A Board of Directors appointed by the Governor-in-Council governs the Corporation. There are currently six directors on the Board: two members are senior provincial public servants, two members are appointed upon the recommendation of the UNSM, one member is appointed upon the recommendation of the AMA, and one member is appointed from the community-at-large.

The Corporation is completely self-funded. The Minister of DMA is required by legislation to approve the annual administration budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation.

Support staff and resources of the provincial Departments of Finance and Treasury Board and DMA have been provided to the Corporation. The Corporation also contracts with the Department of Justice for the provision of legal services.

The advice and assistance given by all three provincial departments is a valuable contribution to the operations of the Corporation.



The MFC Board of Directors

(From left-right) Chair Dan McDougall, Dawn Keizer, Councilor Marc Britney, Darrell Hiltz, Byron Rafuse, and Councilor Robert Thibault.

Fall 2015 Debenture Funding

The Nova Scotia Municipal Finance Corporation (MFC) is preparing for its 2015 fall debenture issue.

An example of a commitment letter can be found on our website at www.nsmfc.ca

- Pre-Approval of Debenture Issuance.

You may forward each of these documents to MFC as soon as they are ready. Please note that participation in the debenture process can only take place if the capital project is complete.

Visit our website at www.nsmfc.ca to learn more of the debenture process as well as view answers to some frequently asked questions.

If you have any specific questions on the debenture process, please contact Bob Audoux at (902) 424-7172 or Bob.Audoux@novascotia.ca

Municipalities and municipal enterprises requiring debenture funds from the MFC are requested to make a written commitment to our office this year by October 20.

The MFC has the ability to structure repayments and terms in a number of ways. If there are any special features that you would like to include in your borrowing, please identify them in your commitment letter.

The following documentation is required by the October 20 deadline:

- Temporary Borrowing Resolution approved by the Minister of Municipal Affairs;
- Letter of Commitment; and,

This letter of commitment binds the municipality to participate in the debenture issue. The letter must include the amount of the debenture funding required, the purpose of the borrowing, the term of the debenture, and the amortization period if it differs from the term.

Our Location

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Short Term Loan Program

In 2014, the Corporation secured a \$50 million line of credit from the NS Department of Finance and Treasury Board to facilitate requests from municipalities. Previously, the Corporation's reserve fund was used to provide short-term loans to clients that had completed capital projects and were awaiting participation in the next debenture issue. This change creates an opportunity for the municipal client to access low-interest, short-term loans; and for the Corporation to invest and earn more interest on its reserve fund. Interest is charged at 90 day Bankers' Acceptance plus 50 basis points (0.5%) calculated using the Canadian Dollar Offered Rate (CDOR).

Up-coming MFO Sessions

This year, the AMA Fall Conference will be taking place in Halifax at the Westin. On October 13th, the Department of Municipal Affairs (DMA) will be hosting the MFO Session in advance of the conference. The Corporation is proud to once again sponsor this informative session for municipal finance officers. If you have any topics you would like to see, please contact Tara Manuel at (902) 424-7452 or email: Tara.Manuel@novascotia.ca