

**Nova Scotia
Municipal Finance Corporation**

**Business Plan
2007-2008**

Nova Scotia Municipal Finance Corporation

2007 - 2008 Business Plan

Table of Contents

	Page Number
Message from the Minister and the Chair	3
Mission	4
Planning context	4
Link to the Corporate Path	
Strategic goals	6
Core business areas	6
A) Capital financing at lowest available cost Performance measures	
B) Prudent financial management Performance measures	
C) Building financial management knowledge Performance measures	
Priorities for the 2007-08 fiscal year	13
A) Capital financing at lowest available cost	
B) Prudent financial management	
C) Building financial management knowledge	
Human Resource Strategy	15
Budget Context Chart	15
Balance Sheet (Audited) of the Corporation (as at March 31, 2006)	16
Statement of Revenue, Expenses and Reserve Fund (Audited) (year ended March 31, 2006)	17

Message from the Minister and the Chair

As the Minister of Service Nova Scotia and Municipal Relations I am the Minister responsible for the Nova Scotia Municipal Finance Corporation. The Nova Scotia Municipal Finance Corporation (NSMFC) is a crown corporation of the Province of Nova Scotia. The NSMFC was established by the Municipal Finance Corporation Act of the Legislature of the Province of Nova Scotia in 1979 and began business in January 1980.

The Corporation's purpose is to provide the lowest available cost financing to its clients, which includes municipalities, municipal enterprises, school boards and hospitals. 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. The Municipal Finance Corporation concept is widely used in Canadian provinces as a cost effective, efficient means of raising long term debenture funds to finance municipal capital projects.

The NSMFC is forecast to have over six hundred and forty-two million dollars (\$642 M) in debentures outstanding at March 31, 2007. New debenture issues in 2007-2008 are estimated to be in the range of one hundred million dollars (\$100 M) which will be balanced against debenture retirements of ninety three million dollars (\$93 M) in 2007-2008.

The Corporation is governed by a Board of Directors appointed by the Governor-in-Council. Legislation requires that forty percent of the Board be appointed on the recommendation of the Union of Nova Scotia Municipalities. Four full time staff of the Corporation are supported through staff and resources from the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.

In July 2004 the NSMFC conducted a survey of its clients seeking feedback on whether or not the NSMFC was fulfilling its mandate and meeting its clients' needs as well as seeking input on the direction municipalities would like the NSMFC take in the future. The results of that survey reaffirmed that the NSMFC is meeting its core business of providing the lowest available cost of financing for municipal infrastructure projects and supported the direction that the NSMFC is moving toward - which is the development of programs and models that help build financial management knowledge in municipal governments. The results from the survey are used as baseline data for a number of the performance measures and outcomes detailed in the business plan. Clients will be surveyed again in 2008.

Honourable Jamie Muir
Minister

Greg Keefe, CMA
Chair

Mission Statement:

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

Planning Context:

The Corporation faces a number of challenges and opportunities in meeting its strategic goals in the upcoming year.

- The NSMFC must ensure it has access to capital markets and that it has the financial and administrative ability to meet municipal government demand for capital infrastructure funding.
- Keeping abreast of developments in municipal government capital finance. As a specialist organization, the NSMFC is challenged to develop, maintain and demonstrate expertise in municipal government capital finance.
- Maintaining financial self sufficiency. In order to meet its mandate, the Corporation must remain economically viable in both the short and long term. This includes a matching of 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 its budget.
- Identifying client needs and responding to them. Opportunities exist to assist municipal governments in Nova Scotia with long term capital planning and financing options. There is also an opportunity to work with local governments to achieve North American standards in municipal financial management capacity through the adoption of recommended practices and meeting professional standards in budget presentation and reporting.
- Opportunity to develop partnerships with organizations such as the Federation of Canadian Municipalities to provide a conduit for low-cost loans for clients.

The major risk to the Corporation is 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 these provincial departments to align both sets of priorities.

Link to the Corporate Path:

The corporate path is a process of identifying government priorities and direction and linking them with the business planning process. Nova Scotia's corporate path focuses on creating winning conditions, seizing new economic opportunities and building for individuals, families and communities. The winning conditions targeted are a globally competitive business climate, workforce and infrastructure. Priority economic targets are leadership roles in information technology, R & D & Innovation and the green economy. The building targets call for healthy, active Nova Scotians, accessible services, and safe and vibrant communities.

The NSMFC's contributions to the Corporate Path priorities are in the area of infrastructure objectives, which contribute to the creation of economic opportunities and building safe and vibrant communities. NSMFC loans are used to finance sewage treatment plants, solid waste facilities and water services which promote clean and healthy communities. Loans are made to finance streets, buildings, recreation services and the purchase and development of land, all of which contribute to vibrant competitive communities. By working with municipalities to develop recommended financial management practices and adopt North American standards in budget presentation and financial reporting, the NSMFC contributes to the development of a globally competitive mindset.

Strategic Goals:

The NSMFC's strategic goals are designed to assist the Government in its corporate path priorities in the area of infrastructure objectives, which contribute to the creation of economic opportunities and building safe and vibrant communities. Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are attractive places to live.

The following strategic goals have been developed to assist the NSMFC in meeting its mission of providing the lowest available cost of financing for municipal capital infrastructure and long term financial planning, and support the Provincial Government's infrastructure, economic and community priorities.

- To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters and to meet their particular debt structure and timing needs.
- Ensure access to capital markets through prudent management of all financial aspects of the Corporation, which includes credit risk and asset/liability management.
- To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.

Core Business Areas:

A. Providing capital financing at the lowest available cost

- Provide financing for clients' approved funding requirements through the issuance of pooled debentures. Pooling of capital requirements allows the NSMFC to issue debentures in capital markets at rates lower than if single issues were placed for clients.
- Provide financing options for clients through the short term loan and bridge financing programs.
- Facilitate and participate in loans to municipalities from financing sources such as the Federation of Canadian Municipalities Green Fund where funding is available for projects meeting established criteria at below market rates.
- Develop and review policies regarding the Corporation's use of financial innovation techniques and instruments.

Nova Scotia Municipal Finance Corporation

Core Business area: Providing capital financing at lowest available cost					
OUTCOME	MEASURE	DATA Base 2004 survey results form base line data)	TARGET 2007-2008	TARGET 2009-2010	Strategic actions to achieve target
To provide the lowest available cost of financing to clients in a timely manner	Percentage of clients that are satisfied with the timing and processing of debenture issues Regional Municipalities Rural Municipalities Towns	50% 75% 89%	100% 90% 90%	100% 95% 95%	Monitor alignment of debenture issues with the construction completion schedule and capital budgeting process
	Percentage of clients that agree that the debenture terms and structure are flexible enough to meet their needs Regional Municipalities Rural Municipalities Towns	50% 56% 89%	100% 80% 90%	100% 90% 95%	Promote short term financing program. Work with municipal units on financing options (payments and term). Communication of options through the use of web page and consultations Use AMA (Association of Municipal Administrators NS) list service to provide information to clients
Lowest available cost of financing for clients	Quality of credit loans. Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds	Procedures ensure credit worthiness of loans. Provincial guarantee allows the MFC to price off the PNS spread	Regular review of loan procedures Maintain access to the provincial guarantee	Regular review of loan procedures Maintain access to the provincial guarantee	Maintain quality of portfolio, promote profile of NSMFC credit quality to maintain strong relationship with government to ensure its support of provincial guarantee

B. Prudent financial management of the Corporation to ensure access to capital markets

- To ensure that an acceptable process is in place for evaluating the credit worthiness of the loans made by the Corporation.
- To ensure the Corporation's assets and liabilities are closely matched in both amount and maturity.
- Prudent administration of the Corporation's financial resources to ensure that the Corporation's administrative expenses and reserve balances are within approved policies.

Nova Scotia Municipal Finance Corporation

Core Business Area: Prudent financial management for the Corporation's resources to ensure access to capital markets					
OUTCOME (intermediate or inter-mediate)	MEASURE (outcome-based; quality, efficiency/productivity, cost-effectiveness)	DATA (survey results form % baseline data)	TARGET 2007/2008	TARGET 2009-2010	Strategic actions to achieve target
Ensure a sustainable source of funding is available for financing requests from clients and to ensure the operational viability of the Corporation	Client default rate. Default is defines as failing to make a principal or interest payment within five days of the due date	0	0	0	Ensure that all loans are credit worthy Monitor credit worthiness procedures and loan payment processes
	Matching of assets and liabilities. Matching of aggregate amounts, terms and timing of debentures and loans	Assets and liabilities are closely matched to term and timing	Maintain matching strategy	Maintain matching strategy	Match the term and timing of NSMFC debentures and loans to clients
	Adoption of a risk management strategy	n/a	Plan adopted	Monitor Plan	Review and revise plan as necessary

- C. To help build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long term strategic approach to capital project planning and finance.
- To partner with municipal clients, Service Nova Scotia and Municipal Relations and the Association of Municipal Administrators (AMA) on the topic of capital planning and finance through the identification of relevant professional association resources.
 - To develop best practises and models to help build financial management knowledge in municipal government.
 - 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.

Nova Scotia Municipal Finance Corporation

Core Business Area: To help build financial management knowledge by encouraging municipal government to adopt and maintain a professional approach to capital project planning and finance.

OUTCOME (intermediate or inter-mediate)	MEASURE (outcome-based; quality, efficiency/productivity, cost-effectiveness)	DATA (2004 survey results form % baseline data)	TARGET 2007-2008	TARGET 2009-2010	STRATEGIES to achieve target
Use of recommended practices in financial management decision making	Increased awareness of recommended practices for financial management. Based primarily on GFOA programs	30% of clients are aware of knowledge building programs offered by the NSMFC	Post recommended best practices and information on municipal international financial standard awards on the website	80% awareness level	Regular communication with clients on the work NSMFC is involved in through AMA regional meetings and conferences and MFC web page partnerships One-on-one calls and field visits to clients to offer advice and assistance AMA Newsletter
Increased financial management knowledge in municipal units	Broader access to financial resources - efficient use of resources and building of networks among financial administrators		Nova Scotia municipalities participate in GFOA budget and reporting awards	Two Nova Scotia municipalities receive GFOA awards	Exposure to conferences that develop and promote recommended practices in financial management Continue to offer financial assistance in sponsoring municipal attendance at annual GFOA (Government Finance Officers Association) conferences Active participation in joint committees with AMA

Nova Scotia Municipal Finance Corporation

Core business area: To help build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long term strategic approach to capital project planning and finance

OUTCOME (intermediate or intermediate)	MEASURE (outcome-based; quality, efficiency/productivity, cost-effectiveness)	DATA (2004 survey results form % base line data)	TARGET 2007/2008	TARGET 2009-2010	Strategic actions to achieve target
NSMFC client awareness of new financial products and features that may help municipal units	Percentage of municipal units that are aware of and satisfied with products offered by NSMFC. Regional Municipalities (3) Rural Municipalities (21) Towns (31)	100% (3) 75% (15) 89% (27)	100% (3) 90% (19) 95% (29)	100% (3) 95% (20) 98% (30)	Regular communication with clients on the programs that NSMFC is offering through AMA regional meetings and conferences and MFC web page One-on-one calls and visits to clients to offer advice and assistance
Development and implementation of products and services to respond to client needs	Effective programs directed at clients needs	Request for program development: Long term planning models Enhanced financial management practices Innovative financing programs Educational programs	Development of programs that meet client needs including developing 10 recommended practices and implementing ten RPS Nine units implement CIP Two units adopt debt affordability model Two units participate in educational sponsorship program	Develop 10 Implement 20 (Cumulative) All 55 units 3 units 2 units	Continue partnering with AMA, municipal units and SNSMR Promote debt affordability and capital investment plan (CIP) models Maintain links with professional associations Work with FCM on financing opportunities for municipal projects Work with SNSMR on new infrastructure projects (NRIF) that would benefit municipalities and MFC's

Priorities for Fiscal 2007-2008

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

- A. Provide capital financing at the lowest available cost
- By issuing pooled debentures for the approved amount required to meet municipal borrowing requirements and lending a similar amount to municipal units and enterprises. New debenture issuance is expected to be in the one hundred million dollar range (\$100 m), this is balanced against retirements of existing debenture in 2007-2008 of approximately ninety three million (\$93 M).
 - Pooling of capital requirements allows the NSMFC to access capital markets and achieve pricing based off the Province of Nova Scotia spread.
 - Facilitate and participate in loans to municipalities from the Federation of Canadian Municipalities Green Fund where funding is available for projects meeting established criteria at below market rates.
- B. Prudent financial management of the Corporation to ensure access to capital markets
- Obtain verification of credit worthiness from the Department of Service Nova Scotia and Municipal Relations (for municipal borrowers) prior to setting the parameters for pooled issues.
 - Match the amount, term and timing of NSMFC debentures and loans to units.
 - Management of the NSMFC's financial resources (budget and reserves) as per policies established by the Corporation's Board of Directors.
- C. To help build municipalities financial management knowledge by encouraging municipal governments to develop and maintain a long term strategic approach to capital project planning and finance.
- Continue to provide a leadership role in the Financial Management Capacity Building Committee initiative to promote financial and budgeting policies to municipal governments in Nova Scotia.
 - Develop a marketing and promotion strategy to encourage municipal adoption of practices recommended by professional bodies.

Priorities....(cont'd.)

- Promote the municipal use of the Debt Affordability Model and provide technical support for municipal administrators. The Debt Affordability model is a tool for use by municipal councils to help answer the question of how much debt is too much debt for their municipal unit. The model can also be used by municipalities for multi-year budgeting and forecasting and analysing revenue and expenditure options.
- Establish committees, as required by the Board, to study the merits of new products and services and alternate ways to meet municipal capital borrowing requirements.
- Promote the implementation of the capital investment planning model (CIP) in pilot municipalities through presentations and working with pilot municipalities.
- Work with the Corporation's lead managers and other members of the investment community, staff of the Nova Scotia Department of Finance, 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 complements are challenged when developing human resource strategies, particularly in the area of succession planning, as the skills requirements for the Corporation's positions are diverse. The board's strategy has been to develop and retain existing staff and to build capacity by involving other civil servants in the operation of the MFC through corporate officer positions and secondment opportunities. 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.

Budget Context Chart for 2007-2008

Nova Scotia Municipal Finance Corporation Estimated Budget Expenditures			
	2006-07 Estimate	2006-07 Forecast	2007-08 Budget
	\$ Thousands		
Total Program Expenses - Gross Current	391.8	382.2	525.1
Net Program Expenses - Net of Recoveries* (see note below)	0.0	0.0	0.0
Salaries and Benefits - Gross	306.4	294.5	348.4
Funded Staff (FTE'S) - Gross	4	3.5	4

* Note: 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 short term investments.

Nova Scotia Municipal Finance Corporation Balance Sheet
(as at March 31, 2006)
(Audited)

ASSETS

Current Assets:

Cash	\$ 21,820
Short term investments at cost	5,301,366
Accrued interest receivable	9,883,629
Other receivables	673
Principal due within one year on loans to units	87,451,864

Long-term Assets:

Loans to units	621,331,159
Less principal included in current assets	(87,451,864)

Deferred Charges:

Discount on debenture debt	2,388,291
Less accumulated amortization	(1,847,055)

Total Assets

\$ 637,079,883

Liabilities and Equity

Current Liabilities:

Accounts payable	\$ 32,413
Due to municipal units	140,402
Accrued interest payable	9,851,847
Principal due within one year on debenture debt	87,177,723

Employee obligations	80,520
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Long-term Debt:

Debentures payable	621,069,953
Less principal included in current liabilities	(87,177,723)

Deferred Credits:

Discount on loans to units	2,381,966
Less accumulated amortization	(1,844,595)

Equity

Reserve Fund	5,367,377
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Total Liabilities and Equity

\$ 637,079,883

Nova Scotia Municipal Finance Corporation
Statement of Revenue, Expenses and Reserve Fund
(year ended March 31, 2006)
(Audited)

Revenue

Interest on loans to units	\$ 32,778,611
Amortization of discount on loans to units	188,299
Interest on short term investments	163,390
Debenture expense recoveries and reserve fees	<u>761,563</u>
Total Revenue	<u>33,891,863</u>

Expenses

Interest on debenture debt and short term loans	32,763,270
Amortization of discount on debenture debt	188,917
Debenture issue expense	367,209
Administrative expense	<u>282,552</u>
Total Expenses	<u>33,601,948</u>

Net Revenue 289,915

Reserve Fund, Beginning of Year 5,077,462

Reserve Fund, End of Year \$ 5,367,377