

## Section 3.4

### Nova Scotia Municipal Finance Corporation

#### Introduction

##### *MFC Mission Statement:*

*To utilize credit enhancement and debt pooling techniques to meet clients approved funding requirements at the lowest possible cost.*

*This is achieved through the issuance of debentures. The Corporation pools municipal borrowing requirements which eliminate the need for individual municipalities to negotiate and administer their own debenture issues. Under the MFC arrangement, the debt issuance function remain in the public sector domain.*

#### Why the MFC?

The Nova Scotia Municipal Finance Corporation (MFC) was established by an Act of the Legislature of the Province of Nova Scotia in 1979 (*Municipal Finance Corporation Act, Chapter 301*). The MFC concept is widely used in Canadian provinces and American states as a cost effective, efficient means of raising long term debenture funds to finance municipal capital projects. Studies have shown that smaller municipalities with lower credit ratings receive the greatest interest savings from MFC participation and that all municipalities can benefit from savings in the cost of administration on outstanding debenture issues. In addition, two of the five Board of Directors are appointed based on the recommendation of the UNSM which ensures a strong municipal representation in the MFC.

#### Who must finance capital projects through the MFC?

The object of the Corporation is to provide financial assistance to its clients, which includes municipalities, municipal enterprises, school boards and hospitals (*MFC Act, S7*). All municipalities and municipal enterprises must finance their external capital requirements through the Corporation (*MGA Act, S91.2*). Schools and hospitals may finance through the MFC. Exceptions occur for capital projects funded directly by the Province of Nova Scotia (e.g., most school board capital projects), the Government of Canada, another municipality, certain municipal housing corporation loans and short term financing. Under current provincial policy, the Corporation funds municipal and

**What does the MFC have to offer?**

municipal enterprise capital projects and some school board and health authority projects.

The benefits (both in terms of interest rates and administration of issue expenses) of pooling individual municipal capital borrowing requirements would be lost if each municipality was to access the market directly. Furthermore, the MFC's Board of Directors includes members who are appointed on the recommendation of the UNSM, thus providing a strong representation from the municipalities. This ensures that policies and practices of the MFC take into consideration municipal concerns.

The MFC utilizes credit enhancement and debt-pooling techniques to meet clients' approved funding requirements at the lowest possible cost. The Corporation pools municipal borrowing requirements, which eliminate the need for individual municipalities to negotiate and administer their own debenture issues. Under the MFC arrangement, the debt issuance function remains in the public sector domain. There are four products and services that the MFC has to offer to its clients:

1. Long-term loans for capital infrastructure,
2. Short-Term Loan Program,
3. Bridge Financing Loan Program, and
4. Advice on loan features, term, and structure.

Other initiatives and policies where information can be obtained through the MFC are:

1. Pooled Leasing,
2. Provincial Standing Offers,
3. Provincial Stationery Stockroom, and
4. Early Loan Repayment Policy.

### **Long-Term Loans For Capital Infrastructure**

Pooled debenture issues are the most utilized product that the MFC offers its clients. The MFC regularly goes to market with two debenture issues each fiscal year, a spring issue and a fall issue. The MFC will consider stand-alone financing for large projects with special loan structure and term requirements.

**Debenture Issue Process**

The debenture issue process is initiated when the CEO of the MFC sends out letters regarding participation in an upcoming debenture issue. These letters are normally sent out in mid February and mid July of each year to all fifty-five municipalities in the province, plus municipal enterprises and incorporated villages. Interested clients are requested to provide a written letter of commitment in order to be included in the upcoming debenture issue. Exhibit #1 shows an example of the information required in a municipal letter of commitment, which is considered a binding agreement between MFC and the municipal organization, with respect to the amount and term.

**Exhibit #1:**

*Chief Executive Officer  
Nova Scotia Municipal Finance Corporation  
P.O. Box 850 Station "M"  
Halifax, N.S.*

*Dear \_\_\_\_\_:*

*Please accept this letter as a commitment by the **Council of the Municipality / Town/Village of XXXXX** to participate in the (Spring or Fall, state which one) Debenture Issue.*

*We would respectfully request funding in the amount of **\$XX,XXX** to provide long term financing for the **XXXXXX** capital project(s). We have enclosed the attached copies of the TBR(s) and pre-approval(s) for your files. We request a term of **X years** and an amortization period of **Y years** on this issue.*

*Respectfully yours,*

*Please note that the above letter of commitment from a village or municipal enterprise also requires a municipal guarantee before their request will be added to the upcoming MFC debenture issue (refer to sections 85 to 90 of the MGA).*

**When are you bound to the borrowing request?**

All written requests are forwarded to the Municipal Services Division of Service Nova Scotia and Municipal Relations, where each request is reviewed for credit quality and acceptability of purpose. The MFC and Municipal Services staff work together with the potential participants to confirm or determine the suitable term and structure of the loans requested. Once this review is finalized, it is sent to the Deputy Minister of Service Nova Scotia and Municipal Relations for approval.

MFC's present practice is to pool municipal debt requirements twice per year and issue debentures using the Provincial guarantee to provide credit enhancement and the lowest cost of funds. This is because in Canada, there is a direct relationship between a Province's financial position and the borrowing costs of the local governments due to Canada's Constitution, which has set the federal, provincial and municipal hierarchy of powers. Therefore, from the municipal investor's perspective, it requires a close look at the financial position of the host province, particularly where general obligation municipal bonds are concerned. By using the Nova Scotia Provincial guarantee and debt pooling techniques, the MFC can obtain low cost funding and increase the marketability of its debentures with municipal investors. The MFC requests the Provincial guarantee early in the fiscal year for the estimated municipal borrowing requirements for the year.

After the Deputy Minister approves the municipal borrowing summary, it goes to the MFC Board of Directors who pass a resolution outlining the borrowing parameters (e.g. amount, term, maximum price) and designate specific corporate officers to act as agents of the Corporation in negotiating the terms of a debenture issue with a selected group of lead managers (e.g. investment dealers). Once the MFC Board passes the borrowing parameter resolution the municipal participants are bound to their borrowing requests.

MFC officers and the lead managers will then work together and monitor the Canadian municipal bond market closely and observe when the market conditions are right to price the debenture issue. Under the terms of agreement with the Province of Nova Scotia, the Province has the right of first refusal to purchase the debenture issue, if the Province declines, the lead managers take the responsibility for selling the issue. The MFC would be guaranteed that the terms of the issue would be honoured and the risk would be born by the investment group. This is known as a "bought deal."

The MFC Board of Directors then meet to ratify the particulars of the issue and staff prepare the agreements between the MFC and its

provider of funds. The required debenture documentation between the MFC and participating municipalities is prepared and sent to the municipalities. Once completed and returned, the municipal debenture documents are forwarded for Ministerial approval.

At the time of pricing, an official closing date is set which allows time for documents to be prepared and approved. On the closing date, the MFC receives the proceeds from its debenture issue and deposits the loaned funds in the bank accounts of the municipalities participating in the issue.

The finalization of the debenture issue is the last step in the process that begins with the preparation and approval of municipal capital budgets, monitoring the completion of the capital projects, and ends with the long-term financing of capital projects. Municipalities are able to delegate the debt issuance function to an entity created to perform this function on their behalf. The investment dealers provide the required advice and/or access to the Canadian financial market. This results in competitive interest rates to the MFC because municipal securities provide a safe, credit worthy investment to potential lenders, and they emphasize income and a potential for capital gains through actively trading in a liquid secondary market.

**Debenture Issue  
Timetable**

**Exhibit #2: Debenture Issue (Approximate) Timetable**

- Start date – Letters regarding participation sent out by MFC.
- Week #6 – Letters of Municipal Commitment received from participants.
- Week #8 – Service Nova Scotia & Municipal Relations confirm borrowing requests.
- Week #9 – MFC’s Board of Directors’ set debenture limits/terms & assign officers to negotiate the Issue.
- Week #10 – The Issue is priced (subject to acceptable market conditions).
- Week #10 – Legal loan agreements sent to participating municipalities, villages, and municipal enterprises.
- Week #12 – Legal agreements received from participating municipalities, villages, and municipal enterprises.
- Week #13 - Debenture closing, funds received by MFC and on-loaned to municipal participants.

## The Short-Term Loan Program

This program is designed to help finance completed capital projects between debenture issues. The MFC Short-Term loan program is made available to the following borrowers:

- Nova Scotia municipalities
- schools
- hospitals
- villages, or
- municipal enterprises

for projects that qualify for debenture funding through the MFC.

Municipal clients applying under this program will have a *completed* capital project that requires long-term financing. The expectation is that the long-term financing will be acquired through the next MFC debenture issue.

**The interest rate is  
Prime less 1%**

The interest rate on the loan is calculated at the prime rate of interest less 1.00%, and the interest on the loan is paid semi-annually, or at maturity if the loan is for less than six months. The interest rate changes corresponds to changes in the prime interest rate.

A written request to participate in the Short-Term Loan program is required. The approval time period is relatively short because it involves only a single participant. The steps involved in requesting a short-term loan are as follows:

1. Telephone the MFC to discuss your interest in a short-term loan.
2. Send a written request to the MFC's C.E.O. requesting a short-term loan.
3. MFC will verify the capacity to borrow with the appropriate Municipal Services advisor.
4. A Temporary Borrowing Resolution (TBR) will either be confirmed or arranged.
5. MFC Board of Directors' will ratify the request for short-term borrowing.
6. Legal documentation is sent to the municipal client for proper signatures.

7. Funds are advanced to the municipal client.

## The “Bridge Financing” Program

### *Background*

The cost sharing arrangements under the current Canada-Nova Scotia Infrastructure program have resulted in situations where federal and provincial cost sharing to qualifying municipalities is spread over a period of time that exceeds the length of time required to complete the project. In these situations, the municipality is responsible for both the financing of its share of the capital project and arranging financing to cover the federal and provincial cost sharing that is due in future years. The costs of the bridge financing are not currently eligible for cost sharing under the Canada-Nova Scotia infrastructure program.

**What is bridge financing?**

There are a number of options available to municipalities that require bridge financing to cover the differences in timing between project expenditure and federal/provincial grant cash flows. These options include:

**When do you use bridge financing?**

1. **Using internal funds** - an excellent option where funds are available and bridge financing interest costs do not qualify for cost sharing. Not all municipalities have sufficient internal funds to self-interim finance.
2. **Borrowing from the municipality’s bank/financial institution** - a viable option dependent on the cost of borrowing which is a municipal expense.
3. **Participating in short-term maturities on MFC debenture issues** - a viable option depending on the competitiveness of the current debenture rates. There is less repayment flexibility under this option as the debentures maturities are on an annual (rather than monthly, weekly, daily) basis and may not match with the approximate timing of the capital contribution payments made under the infrastructure program. A combination of debenture and bank/MFC short-term loans can also be considered.
4. **Utilizing MFC short-term loan facility** - similar to option #2, interest rates would be the deciding factor.

## Bridge Financing pricing principles.

5. **Extending the project construction period** - a viable option depending on the contract terms with the contractor and the nature of the project. By extending the construction period, the handover date to the municipality by the contractor would allow more federal and provincial funding to be advanced to the municipality and therefore less funds to bridge finance.

### *The Program*

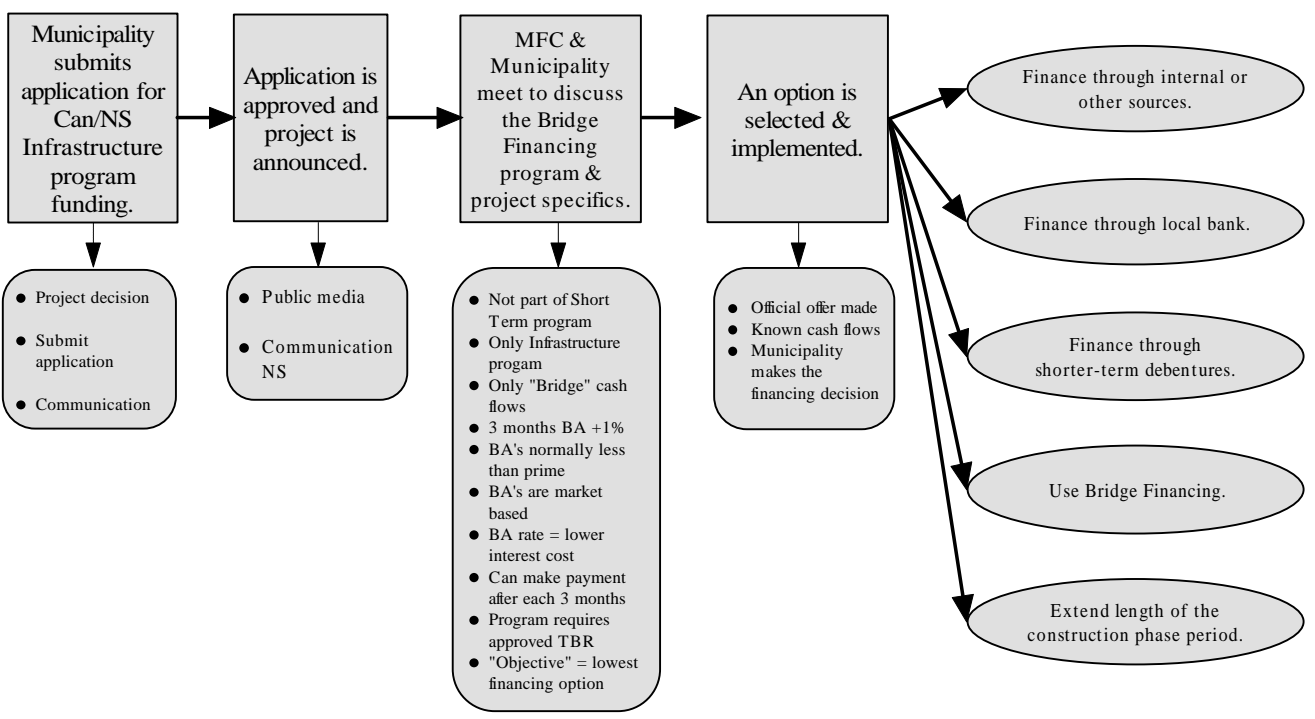
The “Bridge Financing” program’s pricing philosophy is that rates should be attractive to municipalities, and rates should be equal to or greater than the MFC’s incremental cost of funding for the program.

This program is in effect for a five-year period ending March 31 2006, to help municipalities Bridge Finance the federal and provincial funding share of the Canada-Nova Scotia Infrastructure program. All other short-term financing requests will be financed through the regular MFC short-term program. The pricing of this new short-term investment program will be established at the 3-month “bankers acceptances” plus 100 basis points (1%). Bankers Acceptances (BA’s) funding is a market-determined rate reflecting creditworthiness of Canadian Chartered Banks. Money market instruments are typically quoted at BA’s with a plus or minus margin. The BA option is preferred as funds can be raised at competitive rates that can result in benefits to municipal borrowers.

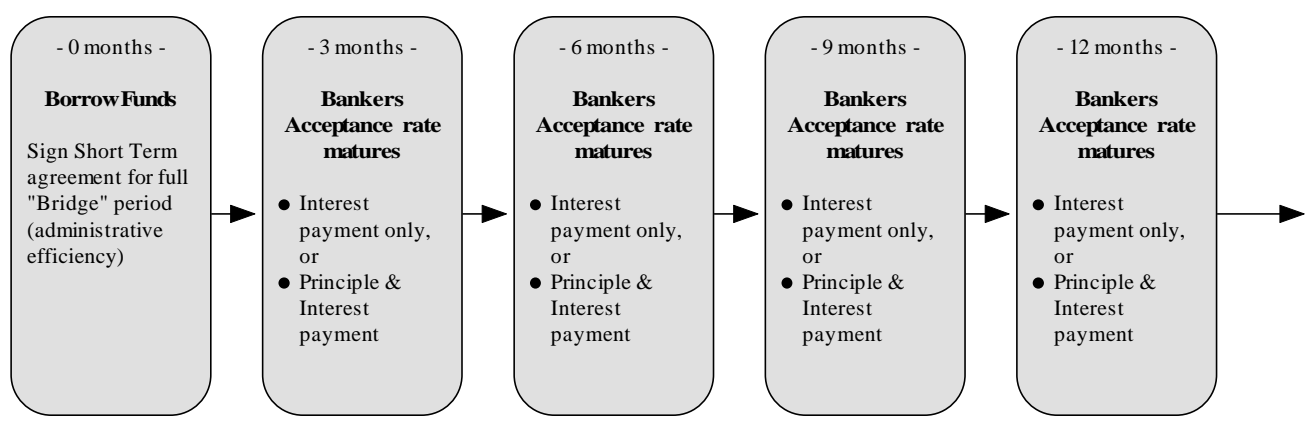
The interest rate charged to the municipality will be tied to these 3-month rates and terms. As each BA matures, the investments will be rolled over unless otherwise indicated by the municipality. Municipalities can, at the end of the BA period, pay all or a portion of their outstanding loan. Interest is due at each 3-month BA maturity, and *cannot be capitalized and rolled-over as part of the new loan.*

A Bridge Financing flow chart is provided on the next page.

**Exhibit #3: The "Bridge Financing" Flowchart**



**Exhibit #4 The Bridge Financing Loan Process Timeline**



- A) To qualify, a signed offer from the federal/provincial governments has already taken place (known "Bridge" amount).
- B) The project (or phase) must be completed.
- C) At each maturity date the MFC will automatically rollover the loan, unless otherwise notified.
- D) At any BA maturity date, a portion or all of the Principle and Interest owed may be paid out (at the borrower's discretion).

## **Advice on Loan Features, Term And Structure**

### *Alternative Payment Structures*

MFC staff can normally accommodate a client's request to structure a loan to their requirements. One such method is to vary the yearly principal repayments. For any number of reasons (grants, expected future cash windfall, etc), a municipal client may prefer not to enter into the normal straight serial or blended serial type repayment. The client may request, or seek the advice of MFC and Municipal Services staff concerning variations of the principal repayments. MFC has the flexibility to entertain such a request because the client's repayment is incorporated into the MFC's pooled debenture borrowing requirements.

A municipal client may finance for a shorter period than the project's amortization period in anticipation of accessing funds for early loan repayment, or to take advantage of the lower interest rates that are associated with the earlier years of a debenture issue. The risk associated with this method is the possibility of interest rates increasing when the loan matures requiring the project to be refinanced. Most municipal clients avoid this uncertainty by locking into rates as long as possible in order to know what their long-term debt servicing commitments will be.

In special circumstances, as in the case of homes for special care due to budgetary limits and cash flow management, an exact net proceeds amount is requested on behalf of a debenture participant. MFC staff works with the client to accommodate the request. The approach is to calculate the "gross" loan amount that would be required under the current bond market conditions at the time of the request. As the debenture issue gets close to being priced, updated current market conditions can be used to recalculate the gross loan required in order to arrive at the required net proceeds; this gross loan calculation would have to meet the client's approval and borrowing limits. Net proceeds are calculated as the total municipal loan, less the debenture discount, underwriting commissions, and expenses associated with the loan.

## **Pro-forma Amortization**

### ***Pro-forma Schedules***

The Pro-forma amortization schedule is another client service offered by the MFC. The definition of pro-forma is “a financial statement prepared to reflect a proposed change.” When municipal clients are analyzing a capital project, debt servicing cost is an important element in the decision making process. The MFC can prepare pro-forma amortization schedules for the municipal client to allow municipal staff to better understand the principal retirement, interest costs, and net proceeds associated with a given capital project.

### **Pooled Leasing and Standing Offers**

#### ***Background***

In 2000 a provincial/municipal/MFC committee determined there was sufficient municipal interest in a pooled leasing program for Nova Scotia municipalities. To further improve the economies of scale, school boards and the Provincial Transportation & Public Works (TPW) were included in this initiative.

In February 2001 TPW and MFC representatives met and it was decided to use the existing TPW leasing program for equipment through a lease financing standing offer as both could benefit from accessing a common source of financing. The TPW Public Sector Leasing program is with a chartered bank.

Issues unique to Municipal leases were identified, they include an approval process involving the Minister of Service Nova Scotia and Municipal Relations to lease financing training for local government employees; supplier buy-back options; and the financier’s comfort with individual municipal credits.

## **Program participation means municipal savings.**

From the MFC Pooled Leasing initiative, TPW representatives also offered to extend to municipal clients TPW’s other programs of standing offers and the stationery stockroom. TPW’s reasoning of having municipalities, villages, and municipal enterprises be active participants in these three programs is that the greater the volume of transactions, the greater the bargaining power of TPW to negotiate better pricing from vendors in all three programs.

This program is voluntary. The municipality or municipal enterprise negotiates with the vendor for the contract terms of the asset to be

leased (e.g. price, trade-in value, maintenance agreement, etc). The bank with the contract for the leasing program purchases the asset from the vendor after contract negotiations have been finalized. The minimum lease value under this program is \$10,000. Lease terms offered can be for 2, 3, 4, or 5 years and are based on annual fixed payments, paid in advance. The interest rate for the various lease terms is based on a spread using the associated Government of Canada bond (see the following chart). Any early payout would be based on the Net Present Value of the outstanding lease balance. The final buyout of the lease is for \$1, whereby a transfer of the asset ownership at end of lease is to the entity (therefore a capital lease).

<b>Term Option</b>	<b>Purchase Option</b>	<b>Spread Class 8 items</b>	<b>Spread for remaining items</b>
24 months	\$1.00	1.50%	1.25%
36 months	\$1.00	1.35%	1.10%
48 months	\$1.00	1.20%	0.95%
60 months	\$1.00	1.00%	0.75%

Class 8 assets are what Canada Customs and Revenue Agency defines as business assets. Examples of Class 8 assets are:

- furniture
- photocopiers
- fax machines
- telephones
- fixtures
- appliances
- machinery
- refrigeration equipment
- outdoor advertising signs
- tools over \$200

***Standing Offers***

All Nova Scotia provincial government departments and municipalities have access to the Provincial “Standing Offers.” There is free shipping on items purchased directly from the vendor, unless otherwise specified. Therefore, with the purchasing power of the Province, most municipalities should find these prices to be very competitive.

**Goods and Services at competitive prices.**

When making a purchase through the standing offer website, the municipality or municipal organization would deal directly with the vendor who holds the standing offer. To use the official website for Nova Scotia standing offers please call the Nova Scotia Municipal Finance Corporation at 902-424-7172 in order to obtain the required username and password (TPW stresses website security and limited access; recommend maximum of two municipal people having this information). Any items that are not currently found on this website can be requested through the MFC or your municipal advisor.

Photocopiers & fax machines are treated differently under the standing offer. In this case go through TPW for photocopiers and fax machines, contact the TPW Senior Buyer at 902-424-8089 for further details.

The standing offer details the outright purchase price of the unit and is based upon a 36-month lease term for photocopiers, and a one and a three-year lease term for fax machines. The leases that are offered by the vendor are based upon new equipment or re-manufactured for photocopiers, and only new equipment for fax machines. The vendor outlines the geographical area to which the offer applies and includes a list of their service points. The vendor will supply a brochure for each of the three models listed in their tender proposal, supplies buyout, lease extension information, and any extra specifications are shown on a piece-by-piece lease cost. Any unsatisfactory equipment will be replaced or removed at any time during the lease by the vendor, at no cost. Prices quoted by the vendor DO NOT include HST. TPW tenders a RFP every six months for photocopiers and fax machines.

### ***Stationery Stockroom***

The Provincial Stationery Stockroom is located at 6176 Young Street, Halifax. The Stationery Stockroom carries over 900 catalogued items and continues to add new products. The Stockroom is open to client suggestions, and if there is enough demand, it will be added to the product lines. The Stockroom tenders for the lowest priced goods/services, these savings are then passed on. The Stockroom carries brand name, high quality products. The Stockroom has 24 hour (Metro) to 48-hour (outside Metro) delivery service, with a delivery fee. Call 902-424-7663 for a catalogue or for further information.

## **The Early Loan Repayment Policy**

### ***Background***

The term and structure of all MFC debentures mirror the term and structure of the pooled loans provided for that by that debenture issue. From time to time a MFC client will inquire regarding the pay out of a loan before its maturity date because they may wish to refinance the loans at lower current market rates. Another reason may be that funds from another source, such as an operating surplus or the proceeds of the disposal of a municipal asset has become available.

### ***Policy Considerations:***

Two considerations were used in developing the MFC policy for the early retirement of a loan.

- MFC's interest in meeting client needs and accommodating their requests where possible.
- The early repayment of a loan by a client should not have a negative financial impact on the MFC.

### ***Policy***

- The MFC retains sole discretion, but will try to accommodate client requests for early loan repayments.
- Early repayments will normally be scheduled to coincide with an interest payment date.
- The amount of the loan repayment is the total of the principal outstanding, plus or minus the estimated allowance for any interest carry resulting from the loan being repaid, while the debentures issued to finance the loan are still outstanding. A "make whole" provision would provide for any difference in the actual and estimated negative carry provision.
- The MFC Board of Directors will ensure that the allowance for the interest carry is calculated separately for each request, in accordance with this policy.
- In cases where the MFC is able to repay its debenture obligations that correspond to the loan being repaid, there shall

be no need for a negative carry charge but any direct breakage costs associated with the MFC prepayment shall be paid by the MFC client.

- Requests for partial repayment of loans will not be considered.

## **Short and Long-Term Municipal Financing Strategies**

### *Short-term versus long-term interest rates*

It is inappropriate to compare short-term rates (prime) with long-term borrowing rates, as they represent different types of financing for different purposes. A short-term rate is a floating rate that is subject to change on a daily basis, whereas a long-term rate is fixed for a specified period. Generally the longer the term, the higher the interest rate because the investor is committing to a longer period of time at a fixed rate. A MFC debenture issue costs reflect a weighted average of borrowing costs for each debenture maturing. For example, a ten year MFC serial debenture issue has ten interest rates that when averaged, can appear to cost more than the short-term rates (prime) that are quoted by the various Canadian Chartered Banks. However, the 10 year MFC rate is fixed for the life of the loan. The current prime rate will change over the life of the loan and there is increased risk in using this alternative. The rates of a MFC debenture issue carry lower interest rates in the early years (that are comparable to prime), and as the further out in time that the debenture issue goes the bond market adjusts interest rates upward for this time risk factor.

A participant in a MFC debenture issue is not required to finance over the full ten-year debenture period. The participant can finance for a shorter time period than the project's amortization period thus taking advantage of the lower interest rates in the debenture issue's earlier years. Traditionally, municipalities have locked in rates for as long a period as possible because they want to know with certainty what their long-term debt service commitments will be. There are arguments on both sides of this debate. Municipalities financing for a period of ten-years or less can either borrow at short-term floating interest rates or long-term fixed interest rates. It is important when comparing MFC and bank rates that a comparable term is used. Short-term rates quoted by the Canadian Chartered Banks are normally lower but more volatile because the prime interest rate may change several times over the course of the financing period, based upon scheduled announcements

by the Bank of Canada. Long-term rates provide certainty with respect to future debt service costs.

***Straight serial versus blended serial debenture payments***

The MFC and Municipal Services staff work together in advising a municipal client/enterprise on structuring a debenture issue repayment. The two most common types of repayment structures used by municipal clients are straight serial and blended serial debentures. There are advantages and disadvantages to both of these types of repayment methods.

**Exhibit #5 – Straight serial vs. blended serial debenture payments**

<u>Date</u>	<b>Straight Serial Repayment</b>		<b>Blended Serial Repayment</b>		<u>Interest Savings</u>
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>	
15-Nov-2002	0.00	26,312.50	0.00	26,974.14	661.64
15-May-2003	100,000.00	26,312.50	75,300.00	26,974.14	661.64
15-Nov-2003	0.00	24,625.00	0.00	25,703.45	1,078.45
15-May-2004	100,000.00	24,625.00	79,900.00	25,703.45	1,078.45
15-Nov-2004	0.00	22,500.00	0.00	24,005.57	1,505.57
15-May-2005	100,000.00	22,500.00	84,800.00	24,005.57	1,505.57
15-Nov-2005	0.00	20,062.50	0.00	21,938.57	1,876.07
15-May-2006	100,000.00	20,062.50	90,100.00	21,938.57	1,876.07
15-Nov-2006	0.00	17,500.00	0.00	19,629.76	2,129.76
15-May-2007	100,000.00	17,500.00	95,600.00	19,629.76	2,129.76
15-Nov-2007	0.00	14,812.50	0.00	17,060.51	2,248.01
15-May-2008	100,000.00	14,812.50	101,500.00	17,060.51	2,248.01
15-Nov-2008	0.00	12,000.00	0.00	14,205.82	2,205.82
15-May-2009	100,000.00	12,000.00	107,800.00	14,205.82	2,205.82
15-Nov-2009	0.00	9,125.00	0.00	11,106.57	1,981.57
15-May-2010	100,000.00	9,125.00	114,500.00	11,106.57	1,981.57
15-Nov-2010	0.00	6,125.00	0.00	7,671.57	1,546.57
15-May-2011	100,000.00	6,125.00	121,500.00	7,671.57	1,546.57
15-Nov-2011	0.00	3,062.50	0.00	3,950.63	888.13
15-May-2012	100,000.00	3,062.50	129,000.00	3,950.63	888.13
	1,000,000.00	312,250.00	1,000,000.00	344,493.18	32,243.18

The most commonly used repayment method is the straight serial method where an equivalent amount of principal is repaid each year over the life of the loan. The main advantages to this type of repayment is that of the amount of interest expense paid each year decreases, and the total interest paid over the full term of the loan is minimized. A straight serial also frees up capacity for future borrowing more quickly than the blended payment structure. A potential disadvantage to this type of repayment is that more cash is required in the earlier years to service the loan.

The use of the blended serial method has the advantage of being able to have a relatively consistent yearly debt service payment. This method can be advantageous to those clients that have a fixed cash flow (e.g., Nursing homes receiving government subsidies, or smaller municipalities with large single projects). The disadvantage to this type of repayment is that the client would pay more in interest expense over the life of the debenture issue than with a straight serial type repayment.

The straight serial versus blended serial repayment methods can be better explained through the use of an example. Exhibit #5 (see previous page) shows the differences between the two methods. The exhibit example has used interest rates from an actual debenture issue. The applicable interest rates for this debenture issue were 3.375% to 6.125%, which resulted in a weighted average all-in interest cost for a ten-year straight serial amortization of 5.85%.

## **MFC Working for and with Nova Scotia's Municipalities**

### ***Strong municipal representation***

There is a strong municipal representation on MFC's Board of Directors. Two of the five members are appointed on the recommendation of the UNSM (*MFC Act, S4.2*), a reflection of the desire to have strong municipal representation in the affairs of the Corporation.

### ***The investment community***

As a specialist organization, the MFC is challenged to develop, maintain and demonstrate an expertise in local government capital finance. MFC staff work with the Corporation's lead managers and

## **Exploring innovation**

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. This close relationship has helped to identify evolving local government financial product needs and the optimum means of satisfying them. These meetings have improved MFC's responsiveness to trends and developments in municipal capital financing.

### ***Field visits***

The mandate of the MFC is to visit each Nova Scotia municipality, once in every three-year cycle. Field visits to the 55 municipalities of Nova Scotia and other clients is to assist the MFC in understanding client needs, and to gather feedback for new product development. Consultation with municipal officials on capital financing needs and the preferred features in the debentures issued through the MFC are normally the general topics of discussion. The MFC encourages municipalities to adopt and maintain a professional approach to capital project planning and finance, and field visits have proven the best approach to promoting this ideal. Responding to client needs in a timely fashion is enhanced through the field visits because ideas and concerns can be openly discussed. Through these discussions, the MFC can use this feedback to explore improved methods and products in meeting all of their client needs. Responding quickly to the information needs of municipalities and the investment community is another benefit to field visits.

### ***Financial innovation***

The MFC is very interested in the area of financial innovation and developing new products to meet the needs of our clients. The MFC will pursue this through consultation with our clients, the investment community, the public sector and through academic research. Currently, the areas of financial innovation that are being explored by the MFC relate to the fixed to floating rates, and lengthening the debenture term. Furthermore, the MFC welcomes comments or ideas on improving current services and expanding services.

**Start today,  
building towards  
your future.**

### ***Capital Planning***

MFC is a strong proponent of municipalities developing their own Capital Plan that identifies its priorities and time frame for undertaking capital projects and provides a financing plan for those projects. (see Section 6.2, **Capital Improvement Planning** of the *Local Government Resource Handbook*) Furthermore, having a Capital Plan in place is viewed favourably during the evaluation process of funding requests.

The cost of desired capital projects will usually substantially exceed available funds in most governments. Development of a capital improvement plan provides a framework for prioritizing projects and identifying funding needs and sources.

A process should exist for evaluating proposed capital projects and financing options, and developing a long-range capital improvement plan that integrates projects, time frames, and financing mechanisms. The plan, including both capital and operating costs, should project at least five years into the future and should be fully integrated into the government's overall financial plan. The process for developing the plan should allow ample opportunity for stakeholder involvement in prioritizing projects and review. The capital improvement plan should be included in a budget document, either in a single document describing both the operating and capital budgets or in a separate document describing the capital improvement plan and capital budget. The plan should be approved by the governing body.

The emphasis of this practice is on ensuring that proposed capital projects, their timing, and their financing best meet the government's policies and plans. The capital improvement plan should take into account overall affordability in terms of both capital and operating costs, community concerns, available alternatives, coordination with other projects (including projects being considered by other government bodies), impacts on services, beneficiaries of the project, and important community goals such as those related to economic development or the environment. The GFOA (Government Finance Officers Association) Distinguished Budget Presentation Award Program recommends documentation of the impact of proposed capital improvements on the operating budget. An evaluation of capital financing alternatives should address equity considerations, i.e. who will pay for the project in relation to who benefits from it. It should also consider whether the money will be available when needed, how costly the financing method is, whether a financing method is legally

permissible, and the administrative requirements associated with the financing option. In evaluating each funding option, the philosophy of the government regarding use of debt relative to pay-as-you-go and the acceptability of the financing method may also be considered. A government should consult its debt and other relevant policies when deciding how projects will be funded.

*(Source: GFOA website; Best Practices in Public Budgeting; Practice 9.6 - Develop a Capital Improvement Plan)*

### ***Customer Service***

The staff of MFC are committed to providing high quality customer service to all of its municipal clients. To speak to a member of the MFC staff about your financial needs, call one of the numbers listed below. Please visit the website at [www.gov.ns.ca/nsmfc](http://www.gov.ns.ca/nsmfc).

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