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 remains in the public sector domain.

Mun

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 Union of Nova Scotia Municipalities (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, villages, municipal enterprises, school boards and hospitals (*MFC Act, S7*). All municipalities, villages, and municipal enterprises must finance their external capital requirements through the Corporation through the issuance of a debenture (*MFC Act*, *S16(1) and S16(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 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:

What does the MFC have to offer?

1. Long-term loans for capital infrastructure,
2. Short-Term Loan Program,
3. Advice on loan features, term, and structure, and
4. Advice and assistance on developing financial policies and best practices.

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 Chief Executive Officer 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* ***<u>Council of the Municipality / Town/Village of XXXXX</u>*** *to participate in the (Spring or Fall, state which one) Debenture Issue.*
>
> *We would respectfully request funding in the amount of* ***<u>$XX,XXX</u>*** *to provide long term financing for the* ***<u>XXXXXX</u>*** *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* ***<u>X years</u>*** *and an amortization period of* ***<u>Y years</u>*** *on this issue.*
>
> *Respectfully yours,*

Mun

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

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, pursuant to the MGA. 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.

When are you bound to the borrowing request?

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."

Once it is determined a private or public issue, MFC staff will then 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.

Mun

Debenture Issue Timetable

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

Start date –	Letters regarding participation sent out by the 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 the 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 Nova Scotia borrowers:

- Municipalities,
- Schools,
- Hospitals,
- Villages,
- Municipal enterprises, or
- 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 Bank of Montreal 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. Contact the MFC to discuss your interest in a short-term loan.

2. Send a written request to the MFC's CEO 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.

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 the MFC and Municipal Services staff concerning variations of the principal repayments. The MFC has the flexibility to entertain such a request because the client's repayment is incorporated into the MFC's pooled debenture borrowing requirements.

Mun

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, underwriting commissions, and expenses associated with the loan.

Pro-forma Schedules

Pro-forma Amortization

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 Nova Scotia Economic Development, Procurement Services Division were included in this initiative.

The Procurement Services Division and MFC representatives agreed to use the existing Procurement Services leasing program for equipment through a lease financing standing offer, as both could benefit from accessing a common source of financing. The Public Sector Leasing program is with a chartered bank.

If a municipality chooses to use the municipal leases, they need to go through 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, the Procurement Services Division representatives also offered to extend other programs of standing offers and the stationery stockroom to municipal clients. The Procurement Services' 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 Procrement Services 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 or financial institution with the contract for the leasing program purchases the asset from the vendor after contract negotiations have been finalized. The minimum lease value under the current provincial 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 calculated using the Government of Canada Bond rate in effect on the date each lease commences plus margin (Basis Points) provided by the bank or financial institution (see chart below). 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).

Term Option	Purchase Option	Spread All Items
24 months	> = $1.00	1.90% (190 Basis Points)
36 months	> = $1.00	1.90% (190 Basis Points)
48 months	> = $1.00	1.65% (165 Basis Points)
60 months	> = $1.00	1.65% (165 Basis Points)

Mun

Standing Offers

Goods and Services at competitive prices

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.

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 contact the MFC in order to obtain the required username and password (Procurement Services 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 Procurement Services for photocopiers and fax machines, and visit http://www.gov.ns.ca/tenders 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. The leases that are offered by the vendor are based upon new equipment or re-manufactured for photocopiers. Fax machines can be purchased, but they are no longer leased or re-manufactured. The vendor outlines the geographical area that 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. Procurement Services tenders a RFP once a year 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. Visit http://www.gov.ns.ca/tenders 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 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.

1. MFC's interest in meeting client needs and accommodating their requests where possible.

2. The early repayment of a loan by a client should not have a negative financial impact on the MFC.

Policy

1. The MFC retains sole discretion, but will try to accommodate client requests for early loan repayments.

2. Early repayments will normally be scheduled to coincide with an interest payment date.

Mun

3. 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.

4. 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.

5. 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.

6. 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 fifteen year MFC serial debenture issue has fifteen 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 15 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 fifteen-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

	Straight Serial Repayment		Blended Serial Repayment		
Date	**Principle**	**Interest**	**Principle**	**Interest**	**Interest Savings**
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

Mun

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 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.

Mun

Financial innovation

Exploring 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 persue this through consultation with our clients, the investment community, the public sector and through academic research. The MFC welcomes comments or ideas on improving current services and expanding services.

Debt Affordability Model

Managing debt and future capital projects

The Debt Affordability Model is a financial tool that was developed in response to feedback received in the MFC Client Survey in 2004. Whether a municipality has long-term debt or not, the Debt Affordability Model will be a beneficial tool in achieving municipal financial objectives. The Model has been primarily used to determine the appropriate level of debt for a municiaplity, but it also has additional benefits such as multi-year budgeting, forecasting, and analyzing revenue and expenditure options.

The Debt Affordability Model includes the following details:

1. Municipal sustainability.
2. Proactive versus reactive approaches to emerging trends.
3. Reserve levels.
4. Stable long-term residential and commercial tax rates.
5. Budget tools.
6. How much debt is too much debt?
7. A plan to adjust your current level of debt.
8. Current and future capital infrastructure needs.
9. Prioritizing capital projects competing for scarce resources.
10. Timing of a capital project (do now or delay).
11. Financing a capital project (term, rates, sources of funds).
12. Building a long-term strategic plan, capital plan, or debt management plan.
13. Integration of the capital budget's impact on the operating budget.
14. How will today's decisions impact the current and future health of your municipality?
15. What would be the impact of a change in revenue or expenditure on financial health and long-term outlook?
16. What would be the impact if a major industry closes?
17. What is the future impact of inflation?
18. Apply a user/area rate or absorb costs in the existing tax rate?

This product is free of charge and one-on-one training can be provided. The Model has been updated to be PSAB compliant, and the updated database is available in Excel, Lotus, and Quattro-Pro formats.

Capital Planning

Start today, building towards your future

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.

Mun

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

Financial Management Capacity Building Committee

Become financially stronger

In 2003, the NSMFC partnered with the Association of Municipal Administrators of Nova Scotia to establish the Financial Management Capacity Building Committee (FMCBC). The FMCBC strives to help

Nova Scotia municipalities increase their financial strength and fiscal capacity. The FMCBC works specifically on developing best practices taken from the GFOA recommended practices, and designing them to be applicable to Nova Scotia municiaplities. The FMCBC is comprised of Directors of Finance, Treasurers, and Clerks from municipalities across Nova Scotia, as well as members from SNSMR and the MFC. To view the best practices completed by the FMCBC, please visit: http://www.gov.ns.ca/nsmfc/programs.htm or http://www.amans.ca/index.php/capacity-building-municipal-government-financial/view-category.html

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.

Dictionary

AMA	Association of Municipal Administrators
CEO	Chief Executive Officer
FMCBC	Financial Management Capacity Building Committee
GFOA	Government Finance Officers Association
MFC	Municipal Finance Corporation
MGA	Municipal Government Act
PSAB	Public Sector Accounting Board
RFP	Request For Proposal
SNSMR	Service Nova Scotia & Municipal Relations
TBR	Temporary Borrowing Resolution
UNSM	Union of Nova Scotia Municipalities
URB	Nova Scotia Utility & Review Board