



— NOVA SCOTIA —
**MUNICIPAL FINANCE
CORPORATION**

BUSINESS PLAN
2022-2023

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Message from the Minister and the Chair

Since its inception as a provincial Crown corporation in 1979, the Nova Scotia Municipal Finance Corporation has worked closely with clients to build healthy and vibrant communities. The Corporation's work touches the lives of all Nova Scotians.

Over its 42-year history, it has helped municipalities make significant investments in the infrastructure Nova Scotians use and rely on every day - from fire services equipment to improve public safety and wellness centres that support healthy communities to facilities that provide clean drinking water for thousands of residents.

The Corporation is governed by a Board of Directors appointed by the Governor in Council. Legislation requires that two of the board members be appointed on the recommendation of the Nova Scotia Federation of Municipalities. An additional member of the board is appointed on the recommendation of the Association of Municipal Administrators of Nova Scotia.

These appointments provide municipalities with an important voice on the Corporation's board. Three full-time staff members of the Corporation are supported through staff and resources from the provincial departments of Finance and Treasury Board, Justice, and Municipal Affairs and Housing.

The Corporation's mandate remains as relevant today as it was when first established, though the means through which it achieves its mandate continues to evolve to reflect changing economic and social conditions. Ensuring municipalities throughout the province have modern infrastructure helps attract and retain residents and businesses and helps Nova Scotia to remain competitive.

The Nova Scotia Municipal Finance Corporation will have \$757.8 million in debentures outstanding on March 31, 2022. New debenture issues in 2022-2023 are estimated to be approximately \$220.0 million, which will be balanced against debenture retirements of \$142.5 million.



The Honourable John Lohr
Minister



Mark A. Peck
Chair

MISSION

The purpose of the Nova Scotia Municipal Finance Corporation is to provide the lowest cost of financing available to its clients, which include municipalities, municipal enterprises, and health authorities. In accordance with the *Municipal Finance Corporation Act*, all municipalities and municipal enterprises must finance their external capital requirements through the Corporation. Currently, hospital capital expenditures are financed directly by the Province.

In addition to its core mandate, the Corporation works directly with clients to support the sound financial management of Nova Scotia municipalities. Staff provides advice on the debenture process. Through the development of several tools and programs - the Debt Affordability Model, Financial Management Best Practices, a Mentoring Program, a High Interest Savings Account Program, and sponsorship of financial modules delivered by the Association of Nova Scotia Municipal Administrators - the Corporation can help municipalities improve their financial planning and capacity. Finally, by using its biennial client surveys to measure the success of its programs and services, the Corporation can identify and respond to ongoing client needs. The results of the 2021 survey are reported in this business plan. As throughout its 42-year history, the Corporation remains committed to fostering a client-focused approach.

PLANNING CONTEXT

The Corporation faces both challenges and opportunities in meeting its strategic goals in the upcoming year.

Ensure access to capital markets and the financial and administrative ability to meet municipal government demand for capital infrastructure funding.

Challenges:

- Canadian capital markets experienced continued interest rate volatility throughout the 2021-22 fiscal year due to the ongoing global pandemic and the economic and fiscal fallout on governments, business, and individuals. Short-term interest rates remained at near zero levels throughout the 2021 calendar year and rose somewhat in early 2022 with financial markets expecting Central Banks to raise administered interest rates. The Bank of Canada, in early 2022, is expected by economists to increase administered interest rates throughout calendar year 2022 and into 2023. There is considerable variation in those expectations on actions of the Federal Reserve Board and Bank of Canada. At the same time, there is an expectation of the unwinding of the financial market support programs introduced at the onset of the pandemic. To date in fiscal year 2021-22, Government of Canada 10-year yields have risen considerably to average 1.46%, up from an average of 0.74% in fiscal year 2020-21. These interest rates on Government of Canada 10-year bonds remain relatively low by historical standards.
- The Nova Scotia Municipal Finance Corporation's cost of funds is largely based on the above noted Canada bond yields plus the Nova Scotia credit spread. While credit spreads on all provincial bonds rose considerably early in the pandemic, with the financial supports from the Bank of Canada and the Federal government, these credit spreads returned to pre-pandemic levels by the end of 2020 and have maintained these levels. These relatively low interest rates, a combination of low Canada bond yields and relatively small provincial credit spreads, continue to be very beneficial to provincial-based borrowers. Over the past number of months liquidity in the municipal debt sector has improved considerably along with the overall market. Municipal credit spreads, the cost to the Corporation relative to the Province of Nova Scotia, also improved further over the 2021-22 fiscal year. However, liquidity remains an important factor in

the investment decision process, and municipal debt continues to be viewed as providing less liquidity to investors.

Opportunity:

- The Corporation continues to be able to borrow under the Province of Nova Scotia's guarantee that provides greater borrowing predictability and stability. The province's General Revenue Fund has purchased all the Corporation's debt issues since 1998 and is anticipated to continue to do so in the future.

Maintaining current knowledge of developments in municipal government capital finance.

Challenge:

- As a small organization, it is challenging to develop, maintain, and demonstrate expertise in municipal government.

Opportunity:

- Professional development is a priority at the Corporation. Full time staff participate in courses and/or conferences annually to maintain expertise in their field.

Maintain financial self-sufficiency.

Challenge:

- The Corporation must remain economically viable in both the short and long terms. This includes matching assets and liabilities both to amount and maturity; maintaining banking arrangements and credit facilities, credit risk, adequate reserves; and the ability to manage administration expenses within the Corporation's budget.

Opportunity:

- The Corporation remains stable, as it has for over 42 years. In addition, no client of the Corporation has ever defaulted on a loan.
- The Corporation has access to a \$50 million line of credit from the Department of Finance and Treasury Board to fund its short-term loan program. This program was previously funded through the Corporation's reserve fund. This change creates an opportunity for our municipal clients to pay less interest with low interest loans.

Identify client needs and respond to them.

Challenge:

- Municipalities in Nova Scotia must plan and finance their long-term capital infrastructure needs.

Opportunity:

- Opportunities exist to assist municipal governments in Nova Scotia with long-term capital planning and financing options.
- Opportunities also exist to work with local governments to achieve North American standards in municipal financial management capacity through the adoption of best practices.
- The Corporation continues to promote its High Interest Savings Account Program that allows participating municipalities the opportunity to earn a higher rate of return on capital funds and reserves than what they would at their own financial institutions.
- Through the Corporation's Mentoring Program, newly hired Directors of Finance can get the basic training needed to understand municipal government from a retired Municipal Director of Finance.
- The Corporation sponsors two of the Association of Municipal Administrators of Nova Scotia Municipal Management modules; one on finance for administrators and one for elected officials.
- Using the \$50-million line of credit from the Department of Finance and Treasury Board to fund the short-term loan program will allow for greater capacity to help fund cash flow requirements of municipalities between the completion of capital projects and the issuance of debentures.
- The major risks to the Corporation are reduced capital market receptiveness to smaller serial debt issues and the availability of human and financial resources needed to carry out its mandate. Some resources are directly under the control of the board, whereas others are provided by provincial departments. The Corporation will continue to work with provincial departments to align both sets of priorities.

STRATEGIC GOALS

The Corporation's strategic goals are designed to further municipal and departmental infrastructure objectives. Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are appealing places to live.

The following strategic goals have been developed to assist the Corporation in meeting its mission, as well as provide support for infrastructure, economic, and community priorities:

- Our clients will be provided with capital infrastructure financing at the lowest possible cost, within acceptable risk parameters, and their debt structure and timing needs will be met.
- Access to capital markets will be ensured through sound management of all financial aspects of the Corporation, including credit risk and asset/liability management.
- Financial management knowledge in municipalities will be strengthened, and municipal capital project planning and financing will be promoted.

Building and maintaining infrastructure creates jobs; allows local businesses to transport goods to market; connects Nova Scotians to vital services, employment, and education; and leads visitors to every corner of the province.

CORE BUSINESS AREAS

1. *Providing flexible financing options at the lowest available cost.*

- Provide financing for clients' approved funding requirements by using pooled debenture issues and short-term loans.
- Facilitate and participate in loans to municipalities from financing sources such as the Federation of Canadian Municipalities Green Municipal Fund, where funding is available for projects meeting established criteria at below-market rates.

2. *Ensuring access to capital markets.*

- Ensure that appropriate processes are in place for evaluating the creditworthiness of the loans made by the Corporation.
- Ensure that the Corporation's assets and liabilities are closely matched in both amount and maturity.
- Administer the Corporation's financial resources prudently to ensure that the Corporation's administrative expenses and reserve balances are within approved policies.

3. *Helping build financial management and knowledge.*

- Partner with municipal clients, the Department of Municipal Affairs and Housing, and the Association of Municipal Administrators of Nova Scotia on the topic of capital planning and finance.
- Develop programs and services geared toward enhancing our clients' knowledge of capital planning and financing.
- Maintain links with the investment community, public sector finance practitioners, and academics, and carry out research as required to enable the Corporation to respond to changing client needs.

PRIORITIES 2022-2023

The following priorities detail the actions, products, and services the Corporation intends to carry out to fulfill its mission and meet its strategic goals.

1. Providing capital financing at the lowest available cost.

- The Corporation will provide low-cost financing by issuing pooled debentures for the approved amount required to meet municipal borrowing requirements and lending a similar amount to our clients. In 2022-23 the new debenture issuances are expected to be approximately \$220.0 million, which is balanced against retirements of existing debentures of \$142.5 million.
- Pooling of capital requirements allows the Corporation to access capital markets and achieve pricing based on the Province of Nova Scotia credit spreads.
- The Corporation will access its \$50 million line of credit from the Department of Finance and Treasury Board to offer short-term financing for municipalities to help fund the cash flow requirements between the completion of capital projects and the issuance of debentures.
- The Corporation will facilitate and participate in loans to municipalities from the Federation of Canadian Municipalities Green Municipal Fund. Funding is available at below-market rates for projects meeting established criteria.

2. Ensuring access to capital markets.

- Obtain the verification of creditworthiness of municipal borrowers from the Department of Municipal Affairs and Housing prior to setting the parameters for pooled issues.
- Match the amount, term, and timing of the Corporation's debentures with loans to municipalities.
- Manage the Corporation's financial resources (budget and reserves) in accordance with policies established by the

Corporation's Board of Directors.

3. *Helping build financial management and knowledge.*

- Sponsor and assist in planning workshops aimed at enhancing the overall knowledge of municipal finance and budgeting for municipal staff and councilors.
- Offer training and assistance on the Corporation's core best practices and research support to municipalities to promote effective and efficient financial management.
- Continue to promote the use of the Debt Affordability Model and provide technical support for municipal administrators. The Debt Affordability Model is a tool used by municipalities to help determine how much debt is too much debt to carry. The model can also be used by municipalities for multi-year budgeting and forecasting and analyzing revenue and expenditure options.
- Continue to promote the Mentoring Program to municipalities that hire a new Director of Finance with limited or no municipal experience. The program connects the new municipal Director of Finance with a retiree who previously held the position so the new director can gain a better understanding of the way municipalities function and operate.
- Conduct research and analysis of what our municipal clients require to increase their infrastructure borrowing capacity, and for the Corporation to develop and tailor its programs and services accordingly.
- Work with the Corporation's lead managers and other members of the investment community, staff of the Nova Scotia Department of Finance and Treasury Board, other municipal finance corporations, and others involved in municipal capital financing to identify evolving municipal government financial needs and the optimum means of satisfying those needs.

HUMAN RESOURCE STRATEGY

Organizations with small staff are challenged when developing human resource strategies. We will continue development and training opportunities, so staff stay abreast of developments in the industry.

LINK TO MUNICIPAL AND DEPARTMENTAL PRIORITIES

The Corporation contributes to the Department of Municipal Affairs and Housing priorities by helping to finance infrastructure projects that create economic opportunities and safe and sustainable communities. The Corporation's loans are used to finance sewage treatment plants, solid waste facilities, water services and wind farms that promote clean and healthy communities. Loans are also made to finance streets, buildings, recreation services, and the purchase and development of land. Improvements in each of these areas contribute to safer and healthier communities in Nova Scotia. By working with municipalities to develop recommended financial management practices, the Corporation also contributes to the fiscal stability of Nova Scotia municipalities. These priorities support the priorities of the Department of Municipal Affairs and Housing.

BUDGET CONTEXT

Nova Scotia Municipal Finance Corporation Administration Budget

| | Estimate 2021-2022 (\$000) | Forecast 2021-2022 (\$000) | Estimate 2022-23 (\$000) |
|--|----------------------------------|----------------------------------|--------------------------------|
| Total program expenses— (gross current) | <u>423.3</u> | <u>384.3</u> | <u>436.3</u> |
| Net program expenses— (net of recoveries) * | 0.0 | 0.0 | 0.0 |
| Salaries and benefits | 319.0 | 319.0 | 331.8 |
| Funded staff (gross FTEs) | 3 | 3 | 3 |

* The Corporation is completely self-funded. The costs of administration are covered through an administrative fee that is levied on all municipal loans and from interest revenue earned on investments.

*Nova Scotia Municipal Finance Corporation Statement of Financial
Position, March 31, 2021*

| | |
|--------------------------------------|------------------|
| Financial assets | (\$) |
| Cash and cash equivalents | 7,898,601 |
| Accrued interest receivable | 7,552,659 |
| HST receivable | 579 |
| Accounts receivable | 87 |
| Municipal operating loans receivable | 47,498,896 |
| Loans to municipal units | 703,493,580 |
| <hr/> | |
| Total Assets | 766,444,402 |
| <hr/> | |
| Financial liabilities | |
| Accounts payable | 55,409 |
| Accrued interest payable | 7,545,111 |
| Employee obligations | 46,649 |
| Short-term loan due to PNS | 1,128,945 |
| Municipal operating loans payable | 47,498,896 |
| Deposits | 33,049 |
| Due to municipal units | - |
| Debentures | 703,370,774 |
| <hr/> | |
| Total liabilities and equity | 759,678,833 |
| <hr/> | |
| Net financial assets | 6,765,569 |
| <hr/> | |
| Accumulated surplus | 6,765,569 |
| <hr/> | |

OUTCOMES AND PERFORMANCE MEASURES

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

| Outcome | Measure | Data | Target 2021-2022 | Target 2022-2023 | Strategies to Achieve Target |
|---|--|---|---|---|---|
| Provision of lowest available cost of financing to clients in a timely manner | Percentage of clients that are satisfied with the timing of debenture issues | 95% (2021 client survey results) | 97% | 97% | Align debenture issues with the construction completion schedule and capital budgeting process Improve application process by working with clients to ensure quick processing of debenture documents |
| | Percentage of clients that agree the debenture terms and structure are flexible enough to meet their needs | 94% (2021 client survey results) | 97% | 97% | Promote short-term financing program Work with clients on financing options (payments and terms) Communicate financing options more effectively (e.g., through the website and consultations) Communicate the Corporation's rates and products more effectively with clients (e.g., through the AMA list server and consultations) |
| | Quality of credit loans | Procedures ensure creditworthiness of loans | Regular review of loan procedures | Regular review of loan procedures | Maintain quality of portfolio |
| | Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds | Provincial guarantee allows the Corporation to price off the Province of Nova Scotia spread | Maintain access to the provincial guarantee | Maintain access to the provincial guarantee | Promote profile of the Corporation's credit quality to maintain a strong relationship with government to ensure its support of the provincial guarantee |

Core Business Area 2 – Ensuring Access to Capital Markets

| Outcome | Measure | Data | Target 2021-2022 | Target 2022-2023 | Strategies to Achieve Target |
|--|---|---|----------------------------|----------------------------|---|
| A sustainable source of funding is available from clients to ensure the operational viability of the Corporation | Client default rate | 0% | 0% | 0% | <p>Ensure that all loans are creditworthy</p> <p>Promote the Debt Affordability Model</p> <p>Monitor loan payment process</p> |
| | Matching assets and liabilities Matching of aggregate amounts, terms, and timing of debentures and loans | Assets are closely matched to term and timing | Maintain matching strategy | Maintain matching strategy | Match the term and timing of the Corporation's debentures and loans to clients |

Core Business Area 3 – Helping Build Financial Management Knowledge

| Outcome | Measure | Data | Target 2021-2022 | Target 2022-2023 | Strategies to Achieve Target |
|--|--|--|--|------------------|---|
| The Corporation's client use or are awareness of the Debt Affordability Model | Percentage of municipal clients that have used or are aware of the Debt Affordability Model | 84% (2021 client survey results) | 60% (Previously measure was strictly use of the model) | 90% | Work with clients to help them implement the Debt Affordability Model Tailor Debt Affordability Model to better suit the needs of clients |
| The Corporation's client use or awareness of the Financial Management Best Practices | Percentage of municipal clients that have used or are aware of the Financial Management Best Practices | 90% (2021 client survey results) | 40% (Previously measure was strictly use of the best practices) | 95% | Work with clients to help them implement best practices of their choice |
| Increased overall municipal finance knowledge among municipalities | Attendance at the Corporation's sponsored Municipal Finance Workshops | 65% (Percentage of municipalities who attended 2021 workshop) | 80% | 80% | Assist in planning the agenda of the workshops Promote the workshops more effectively to municipal staff Maintain the no-fee structure to attend the workshop |
| Increased knowledge of the Corporation's programs and services | Percentage of municipal clients that are aware of the Corporation's programs and services | 84% (2021 client survey results) | 95% | 95% | Update and revitalize website Develop web-based programs, such as webinars Quarterly newsletter sent to Councilors, CAOs and Directors of Finance Use email to communicate with Directors of Finance to keep them informed about the Corporation's programs and services Obtain greater exposure to municipal councils to promote programs and services |



— NOVA SCOTIA —
**MUNICIPAL FINANCE
CORPORATION**



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