



**Municipal Affairs and Housing
Office of the Minister**

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March 28, 2024

Dear Mayors and Wardens:

I am pleased to inform you that a significant milestone has been reached for our province and all municipalities. As of today, March 28, the new Service Exchange Agreement has been signed. [Historic Investment in Municipalities | Government of Nova Scotia News Releases](#)

Under this agreement, which comes into effect on April 1, 2024, the Province will be making a historical annual investment of \$82 million. This is a \$52-million increase from the \$30 million in funding through the annual Municipal Financial Capacity Grant.

The collaborative spirit and dedication exhibited by both the Province and municipalities over nearly two years of discussions have culminated in this agreement. It truly represents a comprehensive understanding of the evolving needs and aspirations of Nova Scotians, furthering the prosperity of our communities. As we move forward, I encourage you to review the details of the Service Exchange Agreement attached.

Thank you for your continued dedication to serving your communities. Together, we will continue to make meaningful strides towards growth and well-being for all Nova Scotians.

Sincerely,

A handwritten signature in blue ink, appearing to read "John A. Lohr".

Honourable John A. Lohr
Minister of Municipal Affairs and Housing

c: Chief Administrative Officers

Attached: Memorandum of Understanding



Memorandum of Understanding

Between

The Province of Nova Scotia

and

Nova Scotia Federation of Municipalities
("the Parties")

This Memorandum of Understanding (MOU) will establish a clear understanding of roles and responsibilities between the provincial and municipal levels of government with respect to service delivery and will provide the details that will form the relationship between the Parties.

The Parties understand the value of working collaboratively for the betterment of Nova Scotians and commit to working together to address the challenges and opportunities that face our province.

The Parties recognize that many of the services provided to Nova Scotians are shared responsibilities, which only emphasises the necessity for evidence-based decision making, meaningful collaboration, and a modern lens to be used when addressing challenges and opportunities as they arise.

Guiding Principles:

The two parties agree to the following guiding principles when approaching the work of this Memorandum:

Respect: the two parties recognize the deep commitment each has to the citizens of Nova Scotia and agree to adhere to the tenants of respectful dialogue and meaningful engagement during negotiations and ongoing work.

Accountability: the two parties agree to take responsibility for the work outlined within this agreement and to comply with the principles and agreements therein.

Transparency: the two parties agree, where feasible, greater transparency should be sought in the joint work of this memorandum.

Communication: the two parties agree, where feasible, to update NSFAM members when points of progress or impasse are reached.

Modern and forward thinking: the two parties agree to use a forward thinking and evidence-based approach when approaching current and future challenges.

Pertinent connections: the two parties agree to focus on identifying pertinent connections, such as changes to the *Municipal Government Act*, that would support changes to this memorandum, or vice versa.

Holistic Approach: the two parties agree to use a holistic approach when outlining recommendations and services associated with funding.



Progress and Review:

The two parties agree to review and amend this agreement, if necessary, every 5 years.

The two parties agree to review and amend the attached Schedule A, as necessary.

The two parties agree to provide a progress update on the agreement and attached Schedule A, on a biannual basis.

The two parties agree that an advisory body will continue to support this work with new members being added as determined by the NSFM and municipal election cycle.

Communications:

With regard to the content of this agreement, the two parties agree to only communicate publicly in a joint release format. No independent releases shall be distributed.

Consultation and 12 months' notice:

The two parties agree to adhere to the following sections of the *Municipal Government Act*:

Requirement to consult with Union

518 The Minister shall consult with the executive of the Union of Nova Scotia Municipalities respecting any proposed amendment to this Act. 1998, c. 18, s. 518.

Requirement to notify Union

519 (1) The Minister shall notify the Union of Nova Scotia Municipalities at least one year prior to the effective date of any legislation, regulation or administrative action undertaken by or on behalf of the Government of the Province that would have the effect of decreasing the revenue received by municipalities in Nova Scotia or increasing the required expenditures of municipalities in Nova Scotia.

(2) Subsection (1) does not apply with respect to any legislation, regulation or administrative action applying to the Province generally and not mainly to municipalities. 1998, c. 18, s. 519.

Other Agreements:

The service exchange terms of this MOU will operate in addition to the service exchange terms of 1995 Service Exchange Agreement between the parties, except where this agreement expressly indicates that it is a replacement of the 1995 service exchange term for that matter.

Meetings:

The two parties agree to meet biannually in the Spring and Fall to discuss current and shared priorities.

The two parties agree that the NSFM and Province of Nova Scotia must each agree that an issue be adopted before it is formally added to this memorandum.



Background:

The 1995 Service Exchange Agreement was created to define the scope of services delivered by provincial and municipal governments. The intent of the agreement was to develop a provincial-municipal partnership that allocated services in a fair, clear, and financially viable manner. The landscape of provincial and municipal responsibilities has drastically changed over the last twenty-seven years and concerns have been expressed regarding whether the Service Exchange Agreement was still meeting its intended targets.

In 1997, pressure to change and review the Service Exchange Agreement was sought by NSFM (then the Union of Nova Scotia Municipalities). This triggered the Municipal-Provincial Roles & Responsibilities Review in 1998. With the review ongoing, an MOU between the Province and NSFM initiated short and long-term changes to the Service Exchange Agreement. Immediately following the signing of the MOU, the Province assumed the maintenance of bridges, and municipal contributions to social services became phased out over a 5-year period.

As the Province and municipalities continued to work under the Service Exchange, reports including the Towns Task Force Report (2012), the Fiscal Review (2013), and the Nova Scotia Commission on Building a New Economy (2014), identified gaps related to provincial/municipal services and a need for structural reform.

In 2021, the Government of Nova Scotia prioritized the Service Exchange Agreement and mandated that it be renegotiated with specific focus on the Municipal Financial Capacity Grant and Roads. As a result, the NSFM has established an advisory committee to collaborate with DMAH in the renegotiation of the Service Exchange Agreement. The NSFM advisory committee is composed of representatives from NSFM, the Association of Municipal Administrators of Nova Scotia (AMANS) and 10 government representatives made up of rural, urban, and regional municipalities.

The vision of the advisory committee is to collaborate with the DMAH using a modern, forward-thinking approach. The focus will be on current priorities as well as priorities from past negotiations and reviews. The advisory committee has the capacity to provide direction to the DMAH based on feedback from a membership-wide survey—and to advance the general interest of all municipalities. That said, the advisory committee is not a decision-making body. Following the committees' discussions with the DMAH, proposals will go for consultation to the NSFM membership. The Provincial government maintains the final decision.

The objective for both parties is multifold: work toward goals of fiscal sustainability; rationalized expenditure responsibilities; and municipal modernization. NSFM and DMAH both recognize the need for greater cooperation in working together.

Whereas the Parties are committed to achieving healthy, sustainable, and vibrant communities in Nova Scotia.

And whereas the Parties to this MOU share a commitment to working in partnership to efficiently deliver services to Nova Scotians.

And whereas there is a commitment to working together to review all provincial, municipal, and shared services.

And whereas the parties recognize, for the betterment of the province, that there are shared responsibilities as well as individual responsibilities.

And whereas the two parties agree components of the Memorandum need to be reviewed and updated in a current day context.

And whereas the Department of Municipal Affairs and Housing (DMAH) has been directed by mandate letter to negotiate a new, comprehensive Memorandum of Understanding (MOU) between the Province and NSFM.

Therefore, the Parties agree to enter into this MOU as outlined below by provincial department:



Municipal Affairs and Housing

1. Municipal Financial Capacity Grant:

The MFCG, formally known as the Equalization Grant, is an unconditional grant calculated by a formula set out under the *Municipal Grants Act* which attempts to measure a municipality's cost to deliver a set of municipal services against its ability to pay for those services. The formula generates a per dwelling unit grant based on a calculation of need relative to ability to pay.

Up to, and including fiscal 2020-21, grant allocations have been frozen at the 2014-15 levels. The Ministerial Mandate letter included the following item "Double the equalization payment for the first year, until a new Memorandum of Understanding can be reached." In accordance with that Mandate, additional funding, based on current allocations, was provided in 2021-22 while efforts to renegotiate a Memorandum of Understanding between the Province and the municipalities began.

Main components of the Modernized MFCG

There are four main components to MFCG – need, ability to pay, entitlement and capping entitlement.

Need is calculated for each municipality by multiplying the prior year's estimated operating expenditure per prior year's dwelling unit (DU) for its class (the unitized expenditure rate) by the current number of dwelling units in a municipality to arrive at the derived standardized expenditure for a municipality (or calculated "need"). In this instance, the unitized expenditure rate is defined as the average estimated operating cost per dwelling unit to provide a set of services as per the *Municipal Grants Act regulations*. There are two classes of municipalities for the purposes of calculating MFCG. Class I is comprised of regional municipalities and towns and Class II is comprised of counties and district municipalities.

Ability to pay is determined by taking the class residential standard rate and multiplying by the residential uniform assessment for the municipality and adding to the product of the class commercial standard rate multiplied by the commercial uniform assessment for the municipality.

Entitlement is related to the municipality receiving the grant. If the calculation of the municipality's need exceeds their ability to pay, then they are entitled to a grant.

Capping the entitlement may be required to prorate funding if the total entitlement for all municipal units is greater than the funds available – budget.

Highlight of updates to the MFCG

The MOU negotiations identified that there were a number of issues with the existing MFCG formula – the need to modernize the standard expenditures (now unitized expenditures) and the need to reflect the differences in residential and commercial tax rates. As a result of the issues identified, the below updates are proposed to the MFCG:

- Modernizing the unitized expenditures in the MFCG to be more reflective of the increasing pressures on municipalities to adhere to evolving regulations and standards and meet the evolving needs of the residents they serve. The below table highlights the changes to the unitized expenditures in the MFCG formula:



Expenditure	Current Model	Proposed Revision
General Government Services	Excluded	Include 50% of expenditures under this category, but exclude valuation allowances
Protective Services	Includes all but interest charges on long-term and short-term debt	Include 100%
Transportation Services	Excludes Public Transit and interest charges on long- and short-term debt	Include 100%
Environmental Health Services	Includes 50% of total but excludes interest charges on long- and short-term debt	Include 100%
Recreation & Cultural Services	Excluded	Include 50%
Public Health Services	Excluded	Continue to exclude
Environmental Development Services	Excluded	Include 100%

- It is recommended by the SERMGAR committee that the expenditures are reviewed on an ongoing basis to be continuously reflective of the existing needs for a municipality.
- As a result of the revised definition in unitized expenditures, the cost per DU increases for each class. The increase in unitized expenditure rate from the existing MFCG model to the updated MFCG model, for Class I and Class II, are \$1,610 to \$2,718 and \$725 to \$1,273, respectively.
- The SERMGAR committee agreed the current funding model is not reflective of the differences between residential and commercial tax rates and the ability to raise taxes from these different groups. The modernized formula has been updated to derive a class standard residential and standard commercial rate. The standard residential rates for Class I and Class II are 1.255% and 0.822%, respectively; the standard commercial rates for Class I and Class II are 1.5% and 0.9301%, respectively.
- The current and updated funding model has two categories for municipalities – Class I (Regional and Towns) and Class II (Rural municipalities). For initial implementation of the updated model, there is no intent to change these classifications. However, through discussions with the SERMGAR committee, it was determined that a review would be required for those municipalities engaging in municipal modernization to determine if changes in class structure would be required. These discussions will be part of Schedule A.
- References to the calculation of the MFCG will be removed from the *Municipal Grants Act* and placed in regulations. Per the *Municipal Government Act*, any changes to the MFCG program impacting the calculation would require 12 months' notice.

An evaluation of the updated funding model will begin after five fiscal years. This evaluation will take place to determine the effectiveness of the model. Over this five-year implementation period, there is no intention to change the funding amount to be allocated through the new model. As a result, once the updated funding model is implemented, the funding distribution would be frozen for a period of five fiscal years. Freezing this amount will allow municipalities to make long-term plans around this predetermined amount.



2. Towns Foundation Grant:

The Towns Foundation Grant of \$1.5 million will continue for the next five years, at which time it will be reviewed and potentially reallocated pursuant to the outcome of the review.

3. Corrections:

This service exchange term replaces the service exchange term for corrections in the 1995 Service Exchange Agreement.

The Province agrees to be responsible for the costs associated with corrections, with no contributions from municipalities.

4. Obsolete Schools:

The Province agrees to assume ownership of the pre-1981 obsolete schools. Municipalities will be given the first right of offer to purchase schools from the Province at a negotiated price.

5. Housing Handover Agreements:

The Province agrees to be responsible for the annual costs associated with public housing, with no contributions from municipalities.

6. HST Offset Grant:

The HST Offset Grant will continue for the next five years, at which time it will be reviewed and potentially reallocated pursuant to the outcome of the review.

7. Application-based Infrastructure Program:

The Department of Municipal Affairs and Housing agrees to the development of a \$15,000,000 application-based infrastructure program. This funding can be leveraged by municipalities as their portion of any cost shared infrastructure program. The program will focus on projects supporting provincial priorities. Funding will be comprised of \$15 million provincial funding.

Department of Public Works

1. Roads

Roads throughout the province, both municipally and provincially-owned, are deteriorating at a greater rate in which they can be maintained. The intention behind the below Roads aspect, is to create options for the Province and municipalities to work collaboratively together to help address road conditions and benefiting motorists in the movement of people and goods throughout Nova Scotia.

It is recognized that the provincial trunks and routes primarily run through many town boundaries and are the responsibility of the towns and former towns to maintain. It is also recognized that there are a number of provincially-owned roads that municipalities are interested in upkeeping and maintaining for the purposes of their communities. The intention behind the Roads negotiation at the MOU table is to recognize the vital role towns play in managing and upkeeping provincial routes.

The purpose of this Roads Program is to recognize that Towns and former towns currently have a responsibility for trunks and routes, which run through their municipal unit, that are a part of the provincial network system. It is recommended that a program be developed that would apply to all trunks, routes and collectors within towns and former towns that can be eligible for a 50-50 cost shared for repaving only. Towns and former towns with trunks, routes and collectors running through their boundaries would submit roads to Public Works (PW) wishing to be repaved in a prioritized manner. PW would then select which towns and former towns from a prioritized list using a scoring system, which includes condition, traffic volumes and how it



supports the provincial network. No town or former town could be approved for more than one project, per fiscal, unless there are an insufficient number of submissions.

There are 387.1 kilometers (km) eligible for the program. There is an assumption made that it would cost \$475,000 per km to repave the trunks, routes, and collectors. It is suggested that the lifecycle is for 15 years, leaving \$12,258,000 to be allocated annually towards repaving trunks, routes and collectors at a 50-50 cost share with municipalities – \$6,129,000. If the entire funds were used, it is estimated that 25 kms could be repaved in one year.

2. Provincially Owned Buildings

The Department of Public Works agrees to seek municipal input on the location of schools, hospitals, and any new provincial builds/leases.

Duration:

This MOU is at-will and may be modified by mutual consent of authorized officials from the Province of Nova Scotia and the Nova Scotia Federation of Municipalities. This MOU shall become effective on April 1, 2024, upon signature by the authorized officials from the Province of Nova Scotia and the Nova Scotia Federation of Municipalities and will remain in effect until modified or terminated by any one of the partners by mutual consent. In the absence of mutual agreement by the authorized officials from the Province of Nova Scotia and the Nova Scotia Federation of Municipalities this MOU shall remain in force.

Dispute Resolution:

If a dispute arises out of, or in connection with this Contract, the parties agree to meet to pursue resolution through negotiation or other appropriate dispute resolution processes.

Contact Information:

Province of Nova Scotia
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President
1809 Barrington St, Halifax, NS
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Honourable John Lohr
Minister of Municipal Affairs and Housing

Date: *March 28/2024*

Mayor Carolyn Boliver-Getson
President of the Nova Scotia Federation of Municipalities

Date: *March 28/2024*



Schedule A – Long Term Discussions:

The parties commit to reviewing and modernizing the below listed items with the review process beginning after the 2024 municipal election.

Department of Justice

The Province agrees to engage in good-faith discussions with the Nova Scotia Federation of Municipalities respecting policing governance and structure in Nova Scotia to identify common concerns and examine the existing policing model(s) and its impact on municipalities.

Department of Municipal Affairs and Housing

The Department of Municipal Affairs and Housing agrees to engage in good-faith discussions with the advisory body respecting:

- Exploration of Classes (Class I and Class II) under the MFCG formula to determine if an updated definition is required to capture the impacts of municipal modernization. (e.g., If municipal modernization creates a situation where 15% or more of the Uniform Assessment is derived from “urban” communities, the modernized municipality would be deemed Class I.) Municipal Financial Capacity Grant continued review based on class work. Fire and Emergency services governance and structure
- Municipal Contributions
- Grants in lieu
- Increased tax tools
- The creation of a program for municipal regionalization
- Roads Program for G, H, I and J class roads

Department of Public Works

The Department of Public Works agrees to engage in good-faith discussions with the advisory body respecting:

- Municipal speed limits
- Public Transit (i.e. electrification, rapid transit, depots etc.)
- Community Transit Boundaries

Department of Education and Early Childhood Development

The Department of Education and Early Childhood Development agrees to engage in good-faith discussions with advisory body respecting:

- The Municipal Education Tax Rate