

# Operating Loan Policy

## Policy Statement

Nova Scotia Municipal Finance Corporation (MFC) will provide a temporary short-term loan (the “Loan”) to Regionals, Towns, Rural Municipalities and Villages for operating purposes.

A request for a Loan must be made by March 31, 2021, and municipalities must decide on a repayment term of:

- 36 months (3 years),
- 60 months (5 years) or;
- 84 months (7 years).

Once a decision has been made by the municipality on a repayment term, it is final and cannot be changed.

## Definitions

*Interest rate* means a fixed rate of:

- 1.1% per annum for a 3-year term
- 1.3% per annum for a 5-year term
- 1.7% per annum for a 7-year term

*Municipalities* means all Regionals, Towns, Rural municipalities and Villages that MFC has authority to loan funds to under the *Municipal Finance Corporation Act*.

## Policy Objective

- To provide short-term operating funding to Municipalities at the lowest possible cost during the Covid-19 pandemic crisis.

## Policy Principles

- Maintain the lowest possible cost of loans to Municipalities

- Ensure risk is minimized

## **Application**

Municipalities borrowing short-term funds from MFC will be required to sign a Loan Agreement.

MFC will sign a Line of Credit Agreement with the Department of Finance to allow for funding of MFC's short-term operating loan program.

## **Short-term Operating Loan**

The benefits to Municipalities that require short-term financing are: a competitive interest rate (cost savings) and repayment term flexibility. The use of the MFC facility is optional and may only be used when funds are needed as a result of the property tax revenue shortfalls caused by COVID-19.

## **Policy Considerations:**

- *Role of MFC* – Traditionally, the Board of Directors' of MFC have been cautious of the role of MFC versus that of the private sector. The role of MFC has traditionally been as a financier of capital projects, not a banking facility. But, due to property tax revenue shortfalls caused by COVID-19, the Board believes it is time for MFC to provide temporary assistance to Municipalities by providing the lowest possible cost for operating loans.
- *Impact on MFC Operations* - Administration costs will be covered through the MFC budget.
- *Line of Credit Requirements* – MFC will require an operating line of credit in excess of the currently available funds.

## **Policy:**

- MFC shall provide a short-term operating loan facility to Municipalities requesting financing assistance due to the property tax revenue shortfalls caused by COVID-19.

- Municipalities requesting financing assistance must do so by March 31, 2021.
- Notwithstanding any other provision of this Agreement, Municipalities shall repay:
  - for a three term, one third of the principal amount of the Loan to MFC on each anniversary date of the Loan, or, if the anniversary date is not a Business Day, on the Business Day preceding the anniversary date but, in no case, shall the Loan be repaid later than March 2024
  - for a five year term, one fifth of the principal amount of the Loan to MFC on each anniversary date of the Loan, or, if the anniversary date is not a Business Day, on the Business Day preceding the anniversary date but, in no case, shall the Loan be repaid later than March 2026
  - for a seven year term, one seventh of the principal amount of the Loan to MFC on each anniversary date of the Loan, or, if the anniversary date is not a Business Day, on the Business Day preceding the anniversary date but, in no case, shall the Loan be repaid later than March 2028
- Municipalities with a Loan may, in whole or in part, repay the Loan on interest payment dates, without penalty. Interest shall be paid semi-annually, with the first semi-annual payment occurring six months from the date of the Loan, with other semi-annual Interest payments occurring on the anniversary date of the Loan and continuing until the earlier of the date the Loan is repaid.
- Municipalities with a Loan may, in whole or in part, repay the Loan on interest payment dates, without penalty. Interest shall be paid semi-annually, with the first semi-annual payment occurring six months from the date of the Loan, with other semi-annual Interest payments occurring on the anniversary date of the Loan and continuing until the earlier of the date the Loan is repaid, or March 31, 2024.

### **Policy History**

Approved: May 1<sup>st</sup>, 2020

Revised: June 15<sup>th</sup>, 2020