Municipal Debenture Process

Introduction

The *Municipal Government Act* requires the provincial approval of municipal capital borrowing because if a municipality is unable to finance its debt, the Province is responsible to assume the municipality's principal and interest payments. Long-term municipal capital borrowing is secured through the Nova Scotia Municipal Finance Corporation (MFC) and a provincial guarantee.

The Deputy Minister for Service Nova Scotia and Municipal Relations, signs the debenture certificate indicating that the proper checks have been performed as to the municipal authority to borrow and that the municipality has the financial capacity to repay the loan. These checks are performed by the Department's staff and provide the due diligence to limit the exposure of the Province if a borrowing was challenged in a court of law. Without the current process performed by Department staff, the Deputy Minister's certificate could not be issued. This could result in high debenture issue costs and the possibility of a successful legal challenge to a borrowing.

The purpose of this section is to provide Nova Scotia municipalities and their municipal enterprises (e.g., water and power utilities, nursing homes, fire departments, recreation facilities, etc.) with the proper steps and information required to secure long-term capital financing.

The Process

The Process: *Process Time-line:*

Municipality submits their capital budget	➤	Submit annually, no deadline
TBR requested by Municipality	➤	1 week to do verification and to process TBR request.
SNSMR performs debt capacity verification	➤	
SNSMR sends TBR to Municipality	➤	Reviewed by municipal staff and adopted at the next council meeting. (No definite time frame.)
Municipality adopts TBR. Send signed & sealed TBR to SNSMR.	➤	
Minister Approves TBR	➤	Time frame depends on Minister's availability
NSMFC debenture Funding	➤	Spring & Fall; Up to 13 weeks

Legislative guidelines

The debenture process has many steps, from a municipality deciding to start a project or acquire an asset to the process of issuing debentures for the long-term financing of that project or asset. The *Municipal Government Act (MGA)* sets out the legislative requirements that a municipality must follow when it comes to municipal finances.

The Municipal Government Act lists the items a municipal council can spend money in the areas of general operations, grants, capital, and other expenditures *(MGA, S65)*. The MGA provides a council the legislative authority to borrow for capital purposes *(MGA, S66).*

The process starts with a decision by the municipal council to undertake a capital project and ends with the municipality securing long-term financing from either their local financial institution or the MFC. The municipality must first forward to the Department their *approved capital budget* (see Section 6.2 - Capital Improvement Planning). A capital budget lists the capital items needed by the municipality and indicates which items will require long-term financing. The Municipal Government Act *(MGA, S87)* states that no municipal borrowing limits will be established, or municipal borrowing approved in a fiscal year without the annual filing of their three-year capital budget.

Temporary Borrowing Resolution Stage
Before a municipality begins a capital project, a request is sent to the Municipal Advisor for a *Temporary Borrowing Resolution* (TBR). The TBR is a legal document that the municipality will use to secure short-term financing from their local financial institution before long-term financing is put in place for the project. The Municipal Advisor will perform a preliminary investigation on this request to make sure that the following conditions are met (the primary check is a debt ratio calculation):

✓	15% debt load. Water (including water lines) and electrical utilities are not included as part of the 15% debt load.
✓	Borrowing purpose meets MGA Sections 65, 66, and 423 for villages.
✓	A current year Capital Budget has been received by and is on file with the Department.
✓	For water and electrical utilities, URB approval is required. Final approval by the Minister is still required.

The Department's official policy for a municipality's debt service ratio limit is 30% of property tax and other own-source revenues; the 15% debt service ratio is used by the Advisor as a measuring device to help avoid municipalities reaching or exceeding the 30% policy guideline. The Municipal Government Act *(MGA, S88.4)* states that if a municipality enters into a lease, lease agreement, or commitment in excess of $100,000 and is longer than one year, it requires the approval of the Minister. For the 15% debt load calculation, items covered in MGA, S88.4 are included as part of this calculation.

The Municipal Advisor will forward the municipality's TBR request to the Financial Services Clerk (the "Clerk"). The Clerk will then prepare the TBR form based on the provided information. The type of TBR that is prepared is dependent upon the information that is given; exhibit #1 shows the various types of Resolutions. When preparing the TBR, the Clerk checks for the proper capital purpose as outlined in MGA, S65 for towns, municipalities, and regional municipalities and MGA, S423 for villages. With this information, the Debt Ratio

Schedule is updated with the projected new debt to ensure that the municipality will still remain within the 15% debt load ("unwritten") guideline. Once the Municipal Advisor is satisfied with the information contained in the TBR, it is mailed to the municipality.

The municipal council will approve the TBR and provide the proper authorized signatures and municipal seal. The municipality will then return the TBR form to the Department for final processing and the Minister's approval. When received, the Advisor will forward the document for the required signatures. Once the TBR is signed, it is returned to the Clerk who will prepare the letter of acknowledgment and send two copies of the resolution to the municipality; one copy for the municipality's files, and one for the municipality's financial institution.

Resolutions examples

Exhibit #1: Types of Resolutions

New

1) Regular
2) With schedule (Multi-purpose)
3) With repayment schedule (Number of years)
4) Village
5) Fire Commission
6) Guarantee - Debenture Issue - Villages
7) Guarantee - for fire departments
8) Refinancing
9) Nursing Homes (with Municipal guarantee)
10) Loan to Fire Commission/Department

Renewal

1) Same amount
2) Decreased amount
3) Increased amount
4) Renewal with multi-purpose

Expired

1) Same amount
2) Increased amount
3) Expired with second renewal and decreased amount

Debenture Issue Stage

The debenture stage of the process is the final stage where municipalities are putting the required long-term capital financing in place for their completed projects. For long-term capital financing of ten years or more, the municipalities are legislated to borrow through the MFC (MGA, S91.2).

When the MFC goes to market with two debenture issues each fiscal year, a spring issue and a fall issue, letters are sent out to all fifty-five municipalities in the province, as well as municipal enterprises and incorporated villages. Interested clients are requested to provide a written letter of commitment (exhibit #2) in order to be included in the upcoming debenture issue.

The verification process is very important in the debenture issue process; without a TBR in place, a municipality does not have the authority to borrow. A verification is performed for a TBR to ensure that each of the participating units have the proper borrowing authority to issue their debentures. If through this verification process it is discovered that there is no TBR in place for a particular municipality or that the TBR has expired, the Municipal Advisor is notified. It is then the responsibility of the Municipal Advisor to follow up with the municipality to get the TBR in place for the upcoming borrowing.

The MFC Administrative Assistant will prepare the loan documents from the various required sources of information. When the loan documents are prepared, they will be proof read to verify that the information is correct before the documents are sent to the participants.

The signed and sealed documents are returned by the municipality to the MFC. The MFC Administrative Assistant forwards the Issuing Resolution and the debenture documents to the Deputy Minister and Minister for 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 debenture proceeds and deposits the loaned funds in the bank accounts of the issue's participating municipalities.

Role of the NS Municipal Finance Corporation

The role of the NS Municipal Finance Corporation (MFC) is 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 eliminates the need for individual municipalities to negotiate and administer their own debenture issues. 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.
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.

The MFC was incorporated in order to save the municipalities of Nova Scotia, and their municipal enterprises, interest and issue costs when issuing debentures for capital projects. The MFC has achieved this by pricing its debentures from the creditworthiness of the Government of Canada bonds, and not prime which is a floating rate that is subject to change on a daily basis. The rates of a MFC debenture issue carry lower interest rates that in the early years are generally lower than the stated prime interest rate at the municipality's financial institution.

MFC staff can normally accommodate a client's request to structure a loan to their requirements. 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 requests because the client's repayment is incorporated into the MFC's pooled debenture borrowing requirements.

As a specialist organization, the MFC is challenged to develop, maintain and demonstrate an expertise in local government capital finance. MFC staff have identified evolving local government financial product needs and have improved MFC's responsiveness to these trends and developments in municipal capital financing.

For more detailed information on the Nova Scotia Municipal Finance Corporation, refer to Section 3.4 of the Local Government Resource Handbook.

Municipal Commitment Letter

Pooled debenture issues are the most utilized product that the MFC offers its clients. The MFC will consider stand-alone financing for large projects with special loan structure and term requirements.

The debenture issue process is initiated when the CEO of the MFC sends out letters regarding participation in an upcoming debenture issue. These letters, which include a blank "Pre-approval of debenture subject to interest rate" form, are normally sent out in mid February and mid July of each year. The "Pre-approval of debenture subject to interest rate" form states an upper interest rate limit in order to give the

The MFC requires:
1) Commitment letter.
2) Reference your TBR(s).
3) Copy of Pre-approval(s).

MFC flexibility for movements in the bond market. The "Pre-approval of debenture subject to interest rate" form is not an interest rate quote for monies borrowed. Interested clients are requested to provide a written letter of commitment in order to be included in the upcoming debenture issue. Exhibit #2 shows an example of the information required in a municipal letter of commitment. ***This letter is considered a binding agreement between MFC and the municipal organization, with respect to the amount and term.***

Please note that the 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).

Exhibit #2-Commitment Letter

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,

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.