

HALIFAX

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Item No. 11.1.5
Halifax Regional Council
July 7, 2020

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY:

Original Signed by 

Jerry Blackwood, Acting Chief Administrative Officer

DATE: May 8, 2020

SUBJECT: Authorization to Borrow up to \$130M from Municipal Finance Corporation

ORIGIN

The COVID-19 pandemic has created unprecedented economic uncertainty and financial hardship for many residents and businesses. The Municipality relies on revenue generated by transit, parking, recreation programming and property taxes to deliver services to customers. COVID-19 has resulted in revenue loss and uncertainty around if these revenue streams will resume. As a result, it is necessary for the Municipality to borrow funds to ensure sufficient liquidity is available to continue to meet obligations. Staff are proposing to access an operating loan program offered through Nova Scotia Municipal Finance Corporation (MFC) to offset cashflow pressure the Municipality is facing.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter (HRM Charter)

107 The Municipality may borrow to cover the annual current expenditure of the Municipality that has been authorized by the Council, but the borrowing must not exceed fifty per cent of the combined total of the taxes levied by the Municipality for the previous fiscal year and the amounts received, or to be received, by the Municipality from Her Majesty in right of Canada or in right of the Province or from an agency of Her Majesty.

RECOMMENDATION

It is recommended that Halifax Regional Council approve a Temporary Borrowing Resolution for an amount not to exceed \$130,000,000 from Nova Scotia Municipal Finance Corporation (MFC), for a term not to exceed five years and an interest rate not to exceed 1.3%, to assist with liquidity resulting from COVID-19.

BACKGROUND

The COVID pandemic has created unprecedented economic hardship and disruption to Municipal revenue streams. As a result, the Municipality is predicting a disruption to cashflow that will necessitate borrowing to cover the shortfall.

Cashflow Pressure

The social distancing requirements enacted in response to COVID have resulted in a revenue loss in areas such as transit, recreation and parking. The revenue lost from these services is unlikely to be recouped when activities resume post-COVID. To compensate for this lost revenue HRM staff presented a recast budget to Regional Council for approval on June 9, 2020. The budget gap from the March 24th budget to the June 9th recast budget was \$73M. made up of budget reductions and reduced capital from operating.

Determination of Potential Tax Revenue Shortfall

HRM's main revenue stream is property tax, which accounts for approximately 82% of Municipal revenues. HRM's cashflow is impacted if residents and businesses do not have the funds to pay their taxes when they come due. The taxes will eventually be paid, either by the customer or recovered via the tax sale process but that delay means HRM may not have cash in our bank accounts to pay for other obligations as they come due. Property tax is a lienable charge which means if it remains unpaid the Municipality can recoup the amounts owing via the tax sale process.

Ordinarily, the Municipality has sufficient liquidity to cover its obligations, even though there are always a number of properties in arrears and in various stages of the tax sale process. The COVID pandemic has created a unique situation because of the magnitude of arrears expected. Of the interim bill due June 1, 2020, approximately 10% remains uncollected at the time of writing this report. It is probable that many impacted customers will also struggle to pay their final October tax bill, which will further strain the Municipality's liquidity position. The risk is that if the taxes remain unpaid the Municipality will not have sufficient liquidity to cover outstanding obligations as they come due. The FAM&ICT, Revenue Division has a dedicated team of professionals who work diligently with customers to create payment arrangements to help customers avoid the tax sale process. It's important to note that although the tax sale process is available as a means to recoup tax arrears, it is always staff's goal to work with customers to help them to stay in their home or maintain their place of business.

On April 28, 2020, the Nova Scotia Provincial Government announced a loan program designed to provide Municipalities with access to liquidity. The loan program was the result of collaboration between the Province, the Nova Scotia Federation of Municipalities and the Association of Municipal Administrators. The total available under the loan program is \$380M, at the time HRM estimated it would need \$188M.

The loan is available through the Municipal Finance Corporation (MFC), carries an interest rate of 1.3% and must be repaid by the Municipality within five years, or such other date determined by MFC. Principal payments are to be made in five installments and Municipalities must repay the first interest portion of the loan within six months. There is an option to pay the principal portion on the anniversary of the loan, which allows for an accelerated repayment. There are no other early repayment options available.

DISCUSSION

Staff have continued to monitor the municipalities cashflow on a daily basis. On June 23, 2020 the amount of outstanding taxes was \$36.1M of this \$19.3M is residential, \$14.9M is commercial and the remaining \$1.9M is mixed or other. The traditional monthly burn rate for cash in HRM was in the range of \$100M per month. With COVID-19 we are seeing reduced cash outflow due to savings associated with lower costs due to reduced operating schedules for transit and facilities.

Based on the tax revenue received and reduced cash outflow staff have revised their estimated short-term loan amount from \$188M to a maximum of \$130M. COVID will create longer term structural issues. There is a very real chance the 2021 assessment base will decline, and other revenue streams will continue to be compromised. Staff continue to monitor cashflow and currently estimate the borrowing required to bridge short term liquidity requirements is \$130M.

FINANCIAL IMPLICATIONS

Municipalities participating in the loan program have until March 31, 2021 to access the funds, and may make multiple draws under this program, as long as there is funding available in the loan program HRM has the ability to repay the loan early on the anniversary date in the event all of the funds are not required. The table below shows the interest over the term of the loan and the annual amount to be repaid, assuming no prepayments.

	5 year loan
Interest Rate	1.3%
Interest Cost Over Loan Term	\$ 5.1M
Annual Debt Service (i.e. total amount repaid each year)	\$27.0M

RISK CONSIDERATION

As noted in the Discussion section, the biggest risk to HRM is insufficient liquidity if tax payments are not collected and revenue sources do not resume in a timely manner. HRM relies heavily on the revenue generated by property taxes. The COVID-19 pandemic has already impacted other HRM revenues, as HRM has temporarily suspended transit fares. As well, HRM cannot generate recreation revenue while recreation centres and programs are suspended. The extent to which HRM can rely on potential funding from other levels of government is unknown at this time. HRM requires funds to be able to continue to provide essential municipal services, including police and fire services.

COMMUNITY ENGAGEMENT

N/A

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

Council could choose not to authorize the borrowing. This is not recommended because doing so may jeopardize HRM's ability to pay obligations as they come due, which directly impacts municipal services, customers and vendors.

ATTACHMENTS

Schedule A: Borrowing Resolution

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Renée Towns, Manager of Revenue, Treasurer 902-293-7983

**NOVA SCOTIA MUNICIPAL FINANCE CORPORATION
SHORT-TERM OPERATING LOAN
RESOLUTION AS ADOPTED BY COUNCIL**

WHEREAS the Municipal Finance Corporation is offering a temporary short-term operating loan to clients who are experiencing cash flow challenges for the 2020-21 fiscal year due to the impact of COVID-19; and,

WHEREAS in accordance with the policy of the Municipal Finance Corporation, the Council of [redacted] has deemed it necessary and expedient to seek approval from the Minister of Municipal Affairs and Housing to take part in this short-term operating loan program offered by the Municipal Finance Corporation; and

WHEREAS pursuant to Section 107 of the *Halifax Regional Municipality Charter*, a Municipality may borrow to cover the annual current expenditures to an amount not to exceed fifty per cent of the combined total of the taxes levied by the Municipality for the previous year and the amounts to be received by the provincial and federal governments; and

WHEREAS the summary amounts and descriptions of the cash flow impact of COVID-19 on the Municipality are contained in Schedules 'A' and 'B' (attached) to support analysis by the Department of Municipal Affairs and Housing and the Municipality shall provide officials from the Department of Municipal Affairs and Housing with reports and information deemed necessary to support this request;

BE IT THEREFORE RESOLVED

THAT subject to the approval of the Minister of Municipal Affairs and Housing, the Council of [redacted] borrow a sum or sums not exceeding [redacted] Dollars (\$ [redacted]) for the purposes set out above;

THAT the sum be borrowed for a period not exceeding Sixty (60) Months and an interest rate not exceeding 1.3%, from the date of withdrawal from the Municipal Finance Corporation;

THAT the borrowing will be under the terms and conditions of the agreement as determined by the Municipal Finance Corporation.

THIS IS TO CERTIFY that the foregoing is a true copy of a resolution read and duly passed at a meeting of the Council held on the [redacted] day of [redacted] 2020.

GIVEN under the hands of the Clerk and under the seal of the Municipality this [redacted] day of [redacted] 2020.

Clerk

* please ensure the impression of the common seal is clear and visible upon scanning

**NOVA SCOTIA MUNICIPAL FINANCE CORPORATION
SHORT-TERM OPERATING LOAN
RESOLUTION AS ADOPTED BY COUNCIL**

SCHEDULE 'A'

Summary Information

Summary of basis for loan request i.e. ½ of estimated shortfall; remainder of estimated shortfall, or additional estimated shortfall

Information regarding estimated shortfall

- Relevant factor used in the estimate

- Source of relevant factor

- Consideration of changes in previous factors

- Outline assumptions used

If applicable, updated estimated shortfall including changes in factors or assumptions

**NOVA SCOTIA MUNICIPAL FINANCE CORPORATION
SHORT-TERM OPERATING LOAN
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SCHEDULE 'B'

Municipal Program Information

** Please Note: if any of the items below do not apply to your Municipality, please indicate by writing "nil" or "does not apply" in the space provided*

- Interest rate anticipated to be charged by the municipality

- Administration fee anticipated to be charged by the municipality

- Anticipated term of program (i.e. 30 months)

- Anticipated lump sum payment or semi-annual payments

- If there are any program variances, please note the variance and rationale *(for example, if the loan term or interest rate is different for property type)*

Financial Information, please include with the submission of the resolution the following

- Most recent non-consolidated financial statements available

OR

- If after Sept 30th, audited financial statements and Financial Information Return (FIR)