

Green Municipal Fund™:
Loans and Grants for
Capital Projects

Post-Approval
Process for Capital
Projects

Federation of Canadian Municipalities
24 Clarence Street
Ottawa, Ontario
K1N 5P3

www.sustainablecommunities.fcm.ca
Tel.: 613-241-5221
Fax: 613-244-1515



Building tomorrow, today.

FCM | Centre for Sustainable
Community Development

Green Municipal Fund: Loans and Grants for Capital Projects, Post-Approval Process for Capital Projects

Copyright © Federation of Canadian Municipalities, 2008. All rights reserved.

March 2008

The application forms and other documents for the Green Municipal Fund are available in English on the FCM Centre for Sustainable Community Development website at www.sustainablecommunities.fcm.ca.

Les formulaires et autres documents pour le Fonds municipal vert sont disponibles en français sur le site Web du Centre pour le développement des collectivités viables de la FCM www.collectivitesviables.fcm.ca.

TABLE OF CONTENTS

INTRODUCTION----- 4

1. The Green Municipal Fund----- 4

2. About this document ----- 4

FINAL CONTRACT ----- 5

3. The contracting process----- 5

TERM SHEETS----- 6

4. What is a term sheet? ----- 6

5. Who receives a term sheet?----- 6

6. What is the purpose of a term sheet?----- 6

LOAN AGREEMENTS ----- 6

7. About loan agreements ----- 6

8. What contractual conditions must the loan recipient meet? ----- 7

9. What are the GMF project reporting requirements?----- 7

MUNICIPAL BORROWING RESTRICTIONS ----- 7

10. What are municipal borrowing restrictions?----- 7

11. What types of borrowing restrictions are placed on municipalities?----- 8

12. Can FCM help municipalities comply with these restrictions? ----- 9

GRANT AGREEMENTS ----- 9

13. About grant agreements----- 9

14. Do the statutory borrowing restrictions apply to grants?----- 9

15. What contractual conditions must the grant recipient meet?----- 9

SCHEDULE A – SAMPLE TERM SHEET ----- 10

INTRODUCTION

1. The Green Municipal Fund

The Government of Canada endowed the Federation of Canadian Municipalities (FCM) with \$550 million to establish the Green Municipal Fund™ (GMF) to provide a long-term, sustainable source of financing for municipal governments and their partners.

The Fund provides low-interest loans and grants, builds capacity, and shares knowledge to support municipal governments and their partners in developing communities that are more environmentally, socially and economically sustainable. Funding is allocated to capital projects and studies in six sectors of municipal activity: brownfields, energy, planning, transportation, waste and water. To ensure the greatest possible impact, GMF invests in the best examples of municipal leadership in sustainable development — examples that can be replicated in other communities.

GMF is managed by the FCM Centre for Sustainable Community Development (CSCD). For more information, see the FCM Centre for Sustainable Community Development website at www.sustainablecommunities.fcm.ca.

2. About this document

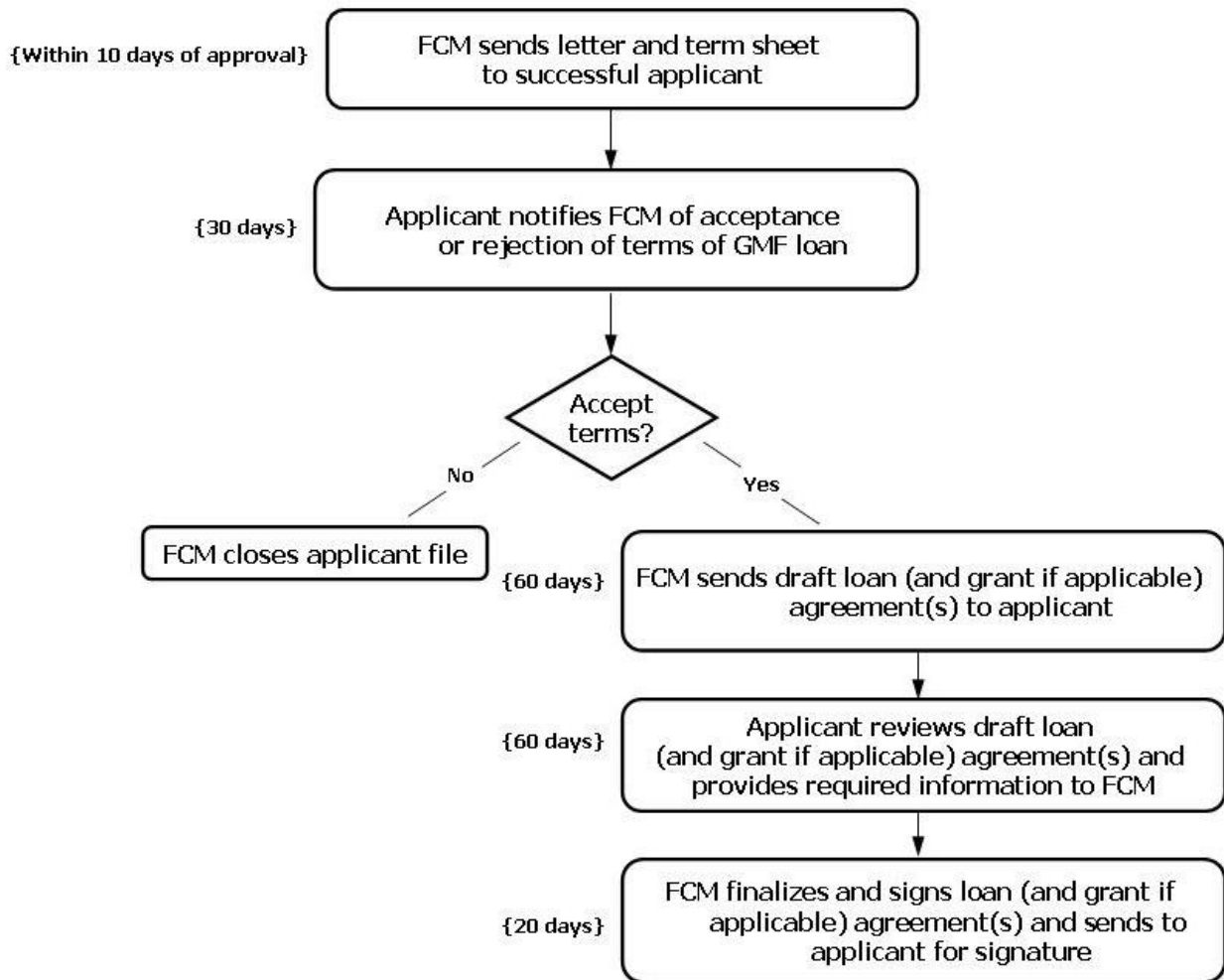
This document explains the process through which FCM funds capital projects supported by GMF, from the time that an application is approved for project funding to the disbursement of the funds to the municipal government. It also highlights the statutory borrowing restrictions that are placed on some municipal governments, and provides basic information about the terms that are contained in the term sheets and loan agreements that FCM executes with funding recipients.

For information on the application process in each of the GMF sectors, or to obtain a copy of the *Application Guidelines*, please visit the FCM Centre for Sustainable Community Development website at www.sustainablecommunities.fcm.ca.

FINAL CONTRACT

3. The contracting process

A signed final contract between FCM and the applicant is required for projects that are approved for funding by the FCM Board of Directors. FCM and the successful applicant¹ follow the steps below to achieve this objective. The timelines are provided as a general guideline. Special agreements may take longer to prepare and negotiate.



¹ Some municipal governments that are located in certain provinces and territories can only borrow money through their regional municipality, municipal finance authority or municipal finance corporation. In those cases, FCM will involve the applicable organization in the funding process. The organization will receive the draft agreement, provide any required information needed to finalize the agreement, and sign the final agreement.

TERM SHEETS

4. What is a term sheet?

A term sheet is a short document that outlines the key conditions under which the loan will be administered. By agreeing to the terms contained in the term sheet, the funding recipient confirms its intention to enter into a loan agreement with FCM that will include the key terms contained in the term sheet as well as other terms.

The term sheet is not a binding contract; it does not oblige FCM to give, or the recipient to accept, GMF funding according to the terms stated in the term sheet. Either FCM or the recipient can walk away from the transaction. However, once the loan agreement is signed, neither party can walk away from the transaction without the mutual agreement of all parties; each party is legally bound by the terms of the loan agreement. Please refer to Schedule A for a typical term sheet used by FCM.

5. Who receives a term sheet?

Applicants whose project proposals are approved for funding by the FCM Board of Directors will receive a term sheet. Applicants will only receive a term sheet for their loan. Applicants approved for a grant will not receive a term sheet for their grant.

6. What is the purpose of a term sheet?

Term sheets save time and effort by enabling FCM and the funding recipient to agree in principle on the terms of the loan. The conditions stated in the term sheet are the key terms that will be included in the loan agreement. If the recipient does not agree with the terms of the term sheet, the recipient should decline the funding at this time. The draft loan agreement will only contain the same terms stated in the term sheet (as well as other terms); it is best not to proceed to this stage if the key terms are not acceptable to the funding recipient. Applicants should ensure that their legal and financial staff review and approve the term sheet before accepting its conditions.

LOAN AGREEMENTS

7. About loan agreements

All applicants that accept the conditions stated in the term sheet will be required to execute a loan agreement with FCM. In accordance with the agreement established between FCM and the Government of Canada, all funding recipients must report on the environmental benefits and lessons learned from the implementation of their GMF-funded project.

8. What contractual conditions must the loan recipient meet?

FCM loan agreements contain all of the conditions the funding recipient must meet before obtaining the loan funds. A sample loan agreement is also available from the FCM Centre for Sustainable Community Development website at <www.sustainablecommunities.fcm.ca>. The FCM loan agreement may include clauses that differ from the sample agreement. FCM may modify, remove or add some clauses for many reasons, such as municipal borrowing restrictions (see section 10).

9. What are the GMF project reporting requirements?

GMF funding is conditional on submitting three reports, which must be prepared by a third-party consultant:

- **Project Progress Report:** The Project Progress Report is a brief report that provides updates on the project and project management, as well as any lessons learned to date. FCM will ask for such a report on a yearly basis if the project implementation takes longer than 1 year from the date of signature of the Agreement or if there are significant delays to the anticipated Project Completion Date. You need to submit this report within 30 days of its request by FCM.
- **Project Completion Report:** The Project Completion Report describes the project, the context in which it was undertaken, the project team, the implementation of the project, the budget and financing, the benefits of the project, lessons learned, and publicity and photos. As the title indicates, this report is required at the completion of the project.
- **Environmental Results Report:** The Environmental Results Report demonstrates that the environmental benefits anticipated for the project have been achieved. The content of the report varies for each sector. This report is required within the verification period following the completion of the project.

For more information about the reporting requirements for each sector, please refer to the *Writers Guidelines for Project Completion Reports* and to the *Environmental Results Report* available on the FCM Centre for Sustainable Community Development website at <www.sustainablecommunities.fcm.ca>.

MUNICIPAL BORROWING RESTRICTIONS

10. What are municipal borrowing restrictions?

Some provinces and territories restrict the type of funds to which municipal governments may have access and the procedures through which they may be borrowed. These restrictions are found in the provincial and territorial statutes that apply to municipalities (usually in the provincial or territorial *Municipal Act*).

11. What types of borrowing restrictions are placed on municipalities?

Provincial and territorial statutes place various types of borrowing restrictions on municipalities. **Please consult with your legal counsel to ensure that you borrow funds in a manner that complies with the provincial or territorial statutes applicable to your municipal government.** The following are examples of some of the main borrowing restrictions faced by municipalities across Canada with respect to long-term debt.

11.1 Municipal finance authority or municipal finance corporation

Municipalities located in certain provinces are required to borrow money through a central borrowing agency for their province called the municipal finance authority or municipal finance corporation. In those cases, FCM executes a loan agreement with both the municipality and the municipal finance authority or municipal finance corporation. This requirement typically applies to borrowers from British Columbia, New Brunswick and Nova Scotia.

11.2 Lower-tier municipalities

Lower-tier municipalities located in certain provinces are required to borrow money through their regional municipality. In those cases, FCM lends money, earmarked for the lower-tier municipality, to the regional municipality, which then gives the money to the lower-tier municipality. FCM will execute a loan agreement with both the lower-tier municipality and the regional municipality. This requirement typically applies to borrowers from Ontario.

11.3 Bylaw

Municipalities located in certain provinces and territories must pass a bylaw to authorize loans. This requirement typically applies to borrowers from most provinces and territories.

11.4 Municipal debentures

Municipalities located in certain provinces cannot sign a simple long-term loan agreement with a lender and obtain the loan funds. Instead, they must issue municipal debentures in exchange for the loan funds. This requirement typically applies to borrowers from Ontario, New Brunswick, and Nova Scotia.

A municipal debenture is an unsecured long-term debt instrument. While borrowers must normally pledge an asset as collateral to borrow money, municipalities are able to borrow money through municipal debentures without pledging any assets because of their credit worthiness. A municipal debenture is similar to a house mortgage in that it is a debt that is repaid over a long period of time according to a fixed payment schedule. However, in the case of municipal debentures, the payments are fixed over the entire loan period and do not need to be renegotiated.

11.5 Other restrictions

There are many other requirements that must be met by certain municipalities that wish to incur long-term debt, including registering the bylaw at the land registry office, obtaining the approval of the qualified voters, obtaining ministerial approval and borrowing only from a list of prescribed lenders.

12. Can FCM help municipalities comply with these restrictions?

FCM strives to provide a turnkey service to municipalities approved for funding by making available various loan agreements tailored to meet the differing provincial and territorial statutory borrowing restrictions. However, the municipality subject to the provincial or territorial statutes is ultimately responsible for ensuring its compliance with them. Therefore, FCM recommends that municipalities that are approved for funding consult their legal counsel to ensure that they comply with the statutory requirements regarding funding placed by provincial and territorial statutes.

GRANT AGREEMENTS

13. About grant agreements

Some applicants receive funding in the form of a grant as well as funding in the form of a loan. Applicants that are also receiving a grant will be required to execute a grant agreement with FCM. The FCM grant agreement is very similar in format and scope to the FCM loan agreement.

14. Do the statutory borrowing restrictions apply to grants?

FCM is not aware of any provincial or territorial statutes that place restrictions on municipalities regarding the type of grant they may receive or the procedure for obtaining them.

15. What contractual conditions must the grant recipient meet?

Like FCM loan agreements, FCM grant agreements contain all of the conditions the funding recipient must meet before obtaining the grant funds. The conditions in the grant agreement are very similar to those in the FCM loan agreement. Some of the most important conditions include the requirement for the municipal government to submit certain information and reports to FCM within a specified period of time.

SCHEDULE A – SAMPLE TERM SHEET

NOTICE

The FCM term sheet that you will receive may include sections that differ from the ones included in this sample term sheet. FCM may modify, remove or add clauses to accommodate municipal borrowing restrictions, to indicate specific sector requirements (brownfields, energy, transportation, waste, water), to reflect the fact that the funding recipient is not a municipal government, or for other reasons. This sample term sheet is provided for general reference only.

This sample term sheet includes conditions for a loan to a municipal government. It includes semi-annual interest and principal payments, with an option for monthly interest and annual principal payments.

Borrower:	The municipality of _____ (The Borrower)
Project Description:	General project description, scope and elements financed by FCM.
Loan Amount and Environmental Benefit:	<p>1. For XXX, (General Classification) the lesser of:</p> <ul style="list-style-type: none"> - \$ _____, - up to 25 % of eligible project costs <p>2. For XXX, (Superior Classification) the lesser of:</p> <ul style="list-style-type: none"> - \$ _____, - up to 50% of eligible project costs <p>3. For XXX, (Exceptional Classification) the lesser of:</p> <ul style="list-style-type: none"> - \$ _____, - up to 80% of eligible project costs (grant component not to exceed 50% of eligible project costs).
Disbursements:	One disbursement, at project completion.
Last Availability Date:	_____ based upon project execution plan.
Term of Loan:	Up to _____ years.
First Repayment Date:	The earlier of _____ date or 6 months after disbursement.
Prepayment:	The principal amount of the loan may be prepaid, in whole or

- in part, at any time on 30 days prior written notice and payment of a prepayment fee equal to 3% of the principal amount being prepaid.
- Amortization:** ____ equal semi-annual or ____ equal annual installments over ____ years.
- Interest Rate:** Fixed rate based on Government of Canada bond rate for the same maturity or duration, quoted by the Bank of Canada at time of advance minus XX%. Interest is accrued and payable semiannually (or monthly) in arrears. Post maturity interest will be the Interest Rate plus 2%.
- Security:** The Loan will be a direct obligation of the Borrower and will not be subordinate to other obligations of the municipality.
- Conditions Precedent to Advance:**
- (i) There is a signed Loan Agreement between the municipality and FCM.
 - (ii) The Borrower has provided evidence, satisfactory to FCM, of completing the project as outlined in the Application submission.
 - (iii) The Borrower has provided third party verification, satisfactory to FCM, of the environmental benefit outlined in the Loan Amount section.
 - (iv) The Borrower has provided confirmation, satisfactory to FCM, that the balance of project funding is in place by municipal funds (and other sources, if applicable), for costs not covered by FCM.
 - (v) The Borrower has provided confirmation, satisfactory to FCM that no material adverse changes have occurred with the project since GMF's receipt of the Borrower's proposal.
 - (vi) The Borrower has provided confirmation, satisfactory to FCM, that both the project and the acceptance of the loan are in accordance with:
 - Applicable provincial legislation
 - The municipality's ability to borrow.
- Affirmative Covenants:**
- The Borrower continues to be in compliance with provincial debt servicing legislation.
 - The Borrower shall have established/ appointed a project manager for the project to monitor and implement the project.
 - The municipality and the project manager shall comply with applicable environmental legislation.
 - Immediately advise FCM of any developments that might materially adversely affect the success of the project.
 - Maintain at all times a ratio of Debt Service to Total Revenues of not more than 25 per cent. Definition of the ratio will be specified in the Loan Agreement.

- The Borrower is required to report on the progress performance of the project and provide calculation of key financial ratios defined as financial covenants;
- by 90 days after the end of completed audit for the borrower's fiscal year provide FCM with a copy of its audited financial statements for the past financial year; calculation of financial ratios for the half year period of the financial year and certified by the relevant person from finance and budget department;
- By 31 January of each year, provide FCM calculations of projected ratios as at the end of the borrower's fiscal year.

Negative Covenants:

- The Borrower shall not:
 - (i) use the proceeds of the Loan for expenditures that are not Eligible costs;
 - (ii) Incur debt whereby the above mentioned ratio is impaired based on an annual reporting.

Event of Default:

- Any breach of the Loan covenants would be deemed an event of default and would be subject to immediate remedy.
- The Borrower has not achieved the outlined the environmental benefit described in the Loan Amount section of this Term Sheet and evidenced by third party verification.
- Non-payment of principal or interest as due.

Default Remedies:

- Demand full repayment of the Loan Amount and Interest.

This term sheet is a **summary** of the principal terms and conditions proposed for the financing described herein, **all of which are subject to change and final approval** by the Federation of Canadian Municipalities (FCM) and to the execution of appropriate legal documentation. **This document does not constitute a legally binding agreement under any applicable law.**