



2005:B7

MEMORANDUM TO: Directors of Education

FROM: Nancy Naylor
Assistant Deputy Minister
Business and Finance Division

DATE: August 30, 2005

SUBJECT: **Short-term Financing for Stage 1 of Good Places to Learn**

I am writing further to Memorandum 2005:B5 of June 16th, to provide you with an update on the short-term financing arrangements for school boards that the Government has recently secured from financial institutions.

In March 2005, as part of Stage 1 of Good Places to Learn (GPTL), we asked boards to use short-term financing to fund their urgent and high needs priority projects undertaken over the summer and the 2005-06 school year, with the Government covering boards' interest costs until such time as Stage 1 commitments could be consolidated into a long-term financing vehicle.

As part of this approach, the Ministry established 2.75% as the target short-term interest rate that boards should be seeking to finance the cost of Stage 1 projects. To help limit financing charges for boards, we undertook to provide assistance in the event that boards were unable to reach the target rate through their own credit arrangements.

Working under the auspices of the joint government and school board task force on capital financing, the Ministry of Education and the Ontario Financing Authority invited seven financial institutions to submit proposals for providing short-term financing of Stage 1 Good Places to Learn. All proposals confirmed that the loans would be available to all school boards, that on the strength of the Province's GPTL commitments, the loans would be unsecured, that there would be no administrative fees, and that school boards would not be required to transfer any of their other banking business in order to qualify for the proposed financing arrangement.

Of the seven proposals, the National Bank of Canada's financing rate was the most favourable, with a proposed rate of Bankers' Acceptance (BA) based on market conditions at the time of issuance plus 13 basis points for a one-, two- or three-month term.

For GPTL short-term interest charges incurred over the summer, the Government will continue to pay boards' actual cost of borrowing, with the exception of those funds borrowed internally from reserves, where the Ministry will apply today's one-month BA rate of 2.69%.

However, as of September 1, 2005, where a board documents it has entered into a short-term financing arrangement based on the National Bank of Canada's financing rate or lower, the actual interest costs will be recognized for funding. Where a board has chosen to not take advantage of this financing rate, its interest costs will be recognized for funding at the three-month BA rate plus 13 basis points at that time. Funds borrowed internally from reserves or other cash will be recognized for funding at today's one-month BA rate of 2.69%. Any interest costs in excess of the rates identified above will be borne by the board.

Over the next month, boards are expected to arrange for financing at the target rate that has been secured by the Government or, at a lower rate where possible. Boards will have the flexibility to approach any financial institution and to negotiate terms and conditions of their choice. The Ministry will be seeking an amendment to the 2005-06 grant regulation to effect this new financing arrangement.

Boards will be required to report on their GPTL short-term financing arrangements in their 2005-06 Revised Estimates package. Information regarding the contacts at each financial institution as well as the details of each institution's rate proposal is available through your board's Ministry Finance Officer.

If you require further details please contact Wayne Burtnyk, Director, Transfer Payments & Financial Reporting Branch at 416-325-2034 or by e-mail at wayne.burtnyk@edu.gov.on.ca

The Government has shown its commitment to entering into partnerships that yield positive results for our students. This new partnership between the Government, the school boards, and Ontario financial institutions, is another example of how meaningful partnerships are working to make our schools better places to learn for our students.



Signed for

Nancy Naylor
Assistant Deputy Minister
Business and Finance Division

cc: Senior Business Officials