



## **Administrative Report**

### **Office of the Director, Financial Services/Treasurer**

**To:** Warden McNamara and Members of Essex County Council

**From:** Sandra Zwiers, MAcc, CPA, CA  
Director, Financial Services/Treasurer

**Date:** Wednesday, April 06, 2022

**Subject:** 2022 Annual Repayment Limit

**Report #:** 2022-0406-FIN-R03-SZ

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#### **Purpose**

To report the Corporation's residual debt capacity and annual debt repayment limit in accordance with Ontario Regulation 403/02 of the Municipal Act.

#### **Background**

A municipality may undertake financial obligations that extend beyond the term of council, without requesting approval of the Ontario Municipal Board (OMB), provided its annual repayment limit is not exceeded. The relevant regulation affords municipalities more responsibility for their own finances and facilitates financial planning.

The annual repayment limit set by the Ministry of Municipal Affairs and Housing (MMAH) must be updated by the municipal Treasurer to reflect new financial obligations. The repayment limit is being updated based on the Corporation's 2020 Financial Information Return (FIR) and includes financing of the Essex-Windsor Solid Waste Authority (EWSWA) landfill development costs and the annual component of longer-term commitments in place as at December 31, 2020 made to Erie Shores Hospice. In addition to obligations accrued for in the Corporation's consolidated financial statements, the Corporation entered into a Loan Guarantee with TD Bank in January of 2021, on behalf of Southwestern Integrated Fibre Technology Inc. (SWIFT) for the Corporation's \$2,342,000 share of its Phase 3 connectivity project. The 2022 Annual Repayment Limit has been updated for this guarantee as well.

## **Discussion**

### **Annual Repayment Limit – Definition**

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The annual repayment limit is simply a statement of the maximum dollar amount a municipality may commit to payments relating to debt and financial obligations before it must obtain OMB approval.

A municipality may borrow and undertake financial obligations that extend beyond the term of the present council without OMB approval, provided the municipality does not exceed its prescribed annual repayment limit.

### **Annual Repayment Limit – Calculation**

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The formula for calculating the annual repayment limit is based on the principle that annual payments relating to debt and financial obligations should not total more than 25% of own-source revenues of the municipality.

Own-source revenues principally exclude revenues related to transfer payments from senior governments, revenues from other municipalities and reserve contributions. Significant revenue sources excluded from the formula are as follows:

- Grants from the Government of Ontario or Canada or other municipalities;
- Revenue received under agreement with the Government of Ontario, for the purpose of repaying principal and interest of long-term debt or meeting financial obligations of the municipality;
- Revenue received from the sale of land;
- Contributions from a reserve, reserve fund or capital fund;
- Revenues for downtown revitalization programs;
- Fees for tile drainage and shoreline assistance;
- Revenue from another municipality or school board in respect of borrowing by the municipality for exclusive purposes of the other municipality or school board.

The product of this calculation should be viewed simply for what it represents, namely an indication of the maximum dollar amount a municipality can commit to debt service annually without seeking prior OMB

approval. Consequently, it should not be permitted to displace existing debt management practices, nor alter patterns of prudent financial management.

### **Conditions for OMB Approval**

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A municipality may seek OMB project approval if it is nearing the prescribed limit as a precautionary measure.

A municipality must seek OMB project approval if the cost of the obligation will put the municipality over its annual repayment limit.

### **Updating the Annual Repayment Limit**

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Council will continue to authorize debt and financial commitments by by-law.

Before authorizing debt or long-term financial commitments, the Council is required to have the Treasurer update the annual repayment limit. Using the annual repayment limit calculation by the MMAH, the Treasurer will add or subtract estimated annual payments for long-term debt and financial obligations assumed or discharged since the end of the fiscal year used by the Ministry in its calculations.

The estimated annual payments would include, in addition to debt charges relating to long-term debt, all payments or undertakings regarding long-term capital leases, contingent liabilities and other financial agreements.

### **County of Essex – 2022 Annual Repayment Limit**

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The calculations contained in Appendix A are made in accordance with Ontario Regulation 403/02. The annual repayment limit of \$28,217,631 (\$26,967,024 – 2021) is based on the data contained in the County's FIR for the year ended December 31, 2020 and the subsequent execution of the SWIFT Loan Guarantee in January 2021.

**No adjustments have been made at this time related to the future funding obligations for the New Windsor Essex Hospital System (NWEHS). This funding commitment has been incorporated into the annual budget levy through planned reserve contributions. The impact of any potential debt financing of this commitment will be incorporated into future annual repayment limit calculations once that determination has been made.**

It is important to note that the County Levy does not support the debt associated with the regional landfill (approximately \$28.4 million). Municipal waste tip fees are set to incorporate the repayment of this debt.

## **Residual Debt Capacity – County of Essex**

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Based on the revised annual debt repayment limit and assuming various amortization periods and an interest rate of 5% and 7% per annum, the annual debt repayment limit could support additional long-term borrowing as highlighted in **Table 1**.

**Table 1**

Years	5%	7%
20	351,654,053	298,937,985
15	292,889,360	257,003,757
10	217,889,067	198,188,832
5	122,167,575	115,697,858

As the interest rate decreases, debt capacity increases. Similarly, debt capacity increases as the amortization period is lengthened. However, the longer the amortization period, the greater the ultimate cost to the County.

The Corporation's outstanding debt obligations, as at December 31, 2020, relate to the pro rata share (50%) of the EWSWA Sun Life Debenture, to be paid entirely by user tip fees (\$58.53 Million).

The Corporation's long-term commitments as at December 31, 2020, included annual payments to Erie Shores Hospice of \$200,000 and SWIFT Loan Guarantee commitment of \$2,342,000.

### **Financial Implications**

The Corporation's fiscally responsible, long-term planning approach to capital initiatives has resulted in little to no reliance on debt financing. Not only has this maximized the spending impact of each tax dollar, it also contributes to the Corporation's consistently strong credit rating.

### **Consultations**

N/A

### **Recommendation**

That Essex County Council receive the 2022 Annual Repayment Limit report for information.

## Approvals

Respectfully Submitted,

*Sandra Zwiers*

Sandra Zwiers, MAcc, CPA, CA, Director, Financial Services/Treasurer

Concurred With,

*Mike Galloway*

Mike Galloway, MBA, CMO, Chief Administrative Officer

<b>Appendix Number</b>	<b>Title</b>
A	2022 Annual Repayment Limit