



Administrative Report

Office of the Director of Financial Services/Treasurer

To: Warden Tom Bain and Members of County Council

**From: Sandra Zwiers
Director of Financial Services/Treasurer**

Date: February 7, 2018

Subject: Debt Repayment Limit

Report #: 2018-R002-FIN-0207-SZ

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 (MMA) must be updated by the municipal Treasurer to reflect new financial obligations. The repayment limit is being updated based on the Corporation's 2016 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, 2016 made to Erie Shores Hospice and Windsor Regional Hospital – Cornerstone of Caring.

Discussion

Annual Repayment Limit – Definition

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

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. A listing of the significant revenue sources excluded from the formula is 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

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

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 MMA, 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 – 2018 Annual Repayment Limit

The calculations contained in Appendix A are made in accordance with Ontario Regulation 403/02. The annual repayment limit of \$24,623,475 is based on the data contained in the County's FIR for the year ended December 31, 2016.

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.

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Debt Repayment Limit

It is important to note that the County Levy does not support the debt associated with the regional landfill (approximately \$2 million). Municipal waste tip fees are set to incorporate the repayment of this debt.

Residual Debt Capacity – County of Essex

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	306,862,925	260,861,445
15	255,583,250	224,268,493
10	190,135,947	172,944,984
5	106,606,761	100,961,109

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, 2016, relate to the pro rata share (50%) of the EWSWA Sun Life Debenture, to be paid entirely by user tip fees (\$65.9 Million).

The Corporation's long-term commitments as at December 31, 2016, included annual payments to Windsor Regional Hospital (Cornerstone of Caring - \$100,000) and Erie Shores Hospice (\$200,000).

Recommendation

For the information of Council.

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Respectfully Submitted

Sandra Zwiers

Originally Signed by

Sandra Zwiers, Director of Financial Services/Treasurer

Concurred With,

Robert Maisonville

Originally Signed by

Robert Maisonville, Chief Administrative Officer

Appendix No.	Title of Appendix
Appendix A	Annual Debt Repayment Limit