



FINANCE DEPARTMENT REPORT

Report number : F-19-2023

Subject : Annual Repayment Limit Update

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WHAT IS THE ARL?

The Annual Repayment Limit (ARL) is the maximum amount of principal and interest that a municipality can repay each year. These payments can be tied to long-term debt or other long-term financial commitments.

HOW IS THE ARL CALCULATED?

For The Nation, the ARL is set at 25% of our annual own-source revenues less annual existing debt repayments.

Own-source revenue examples are property taxes, user fees, and investment income.

It is important to note that the ARL calculation is based on the FIR submitted for two years prior. Thus, for example, the ARL for 2023 would be based on the 2021 FIR and so the 2021 own-source revenue.

WHY IS THE ARL IMPORTANT?

The ARL is important because it determines how much more debt the municipality can take on. Because the allowable debt load is limited and because loans are usually not short, it must be managed carefully considering possible future debt to meet capital demands. This will therefore impact the consideration of other sources of revenue to “make ends meet”.

WHERE DOES THE NATION’S ARL STAND NOW?

As presented in Appendix 1, the 2023 ARL was \$3,492,783. This means that the municipality could sustain an additional \$3.4 million in debt repayments for that year. During 2023, two major loans were taken out and a third is in the process of being taken. An updated calculation of the ARL with known loans is shown below:

Municipalité de la Nation		
Annual Repayment Limit Update		
At September 30, 2023		
Estimated ARL, as per MMAH confirmation		3,492,783
Less: Principal & interest payments on new loans taken out in 2023:		
Loan for watermain	1,003,626	
Loan for lagoon upgrade	807,901	
Loan for sports complex (estimated)	773,776	2,585,303
Remaining ARL, at October 2023		907,480

For illustrative purposes, this limit has been extrapolated to various loan terms with a rate of 6%:

FOR ILLUSTRATIVE PURPOSES ONLY:	
Total loan room (est at 6%, 20 yrs)	10,408,736
Total loan room (est at 6%, 15 yrs)	8,813,681
Total loan room (est at 6%, 10 yrs)	6,679,139
Total loan room (est at 6%, 5 yrs)	3,822,640

As per the 2022 budget, two additional loans were to be taken – Indian Creek twin culverts and Pont Touchette. If these are added to the calculation, we end at:

Municipalité de la Nation		
Annual Repayment Limit Update		
At September 30, 2023		
Estimated ARL, as per MMAH confirmation		3,492,783
Less: Principal & interest payments on new loans taken out in 2023:		
Loan for watermain	1,003,625	
Loan for lagoon upgrade	807,901	
Loan for sports complex (estimated)	773,776	2,585,302
Remaining ARL, at October 2023		907,481
Loans remaining to obtain in 2023, as budgeted		
Indian Creek Rd Twin Culverts	51,210	
Pont Touchette	105,226	156,436
Remaining ARL after all 2023 loans taken out		751,045

Again for illustrative purposes, this limit has been extrapolated to various loan terms with a rate of 6%:

FOR ILLUSTRATIVE PURPOSES ONLY:	
Total loan room (est at 6%, 20 yrs)	8,614,424
Total loan room (est at 6%, 15 yrs)	7,294,333
Total loan room (est at 6%, 10 yrs)	5,527,754
Total loan room (est at 6%, 5 yrs)	3,163,673

FINAL CONSIDERATIONS

The ARL will change every year based on the change in revenues and the additions or terminations of debt. Thus, the calculation is reviewed yearly with an updated limit provided by MMAH for the year in progress.

It is important to note that the ARL calculation is based on the FIR submitted for two years prior. Thus, for example, the ARL for 2023 would be based on the 2021 FIR and so the 2021 own-source revenue. Thus, even though there might be growth, the increase in revenues won't be reflected in the ARL until two years later.

As a rule of thumb, it is ideal that the ARL does not exceed 20% of net revenue (rather than the 25% allowed). This ensures that the municipality has a "cushion" in case of emergencies and a manageable debt load.

The ARL and our current position are important to keep in mind as we head into budget season. Since our borrowing power is limited, loans must be carefully considered prior to being taken and other options for financing such as alternative revenue sources must be evaluated as well.

Finally, since the ARL is based on interest and principal repayments, the next few years will be difficult ones because high interest rates mean larger payments which means the limit is attained faster and the borrowing power is lessened, as shown in the comparison below:

Repayment limit	\$ 751,045	
		<u>Increase in borrowing power</u>
Loan room (6%, 20 yrs)	\$ 8,614,427	
VS		\$ 745,254
Loan room (5%, 20 yrs)	\$ 9,359,681	
VS		\$ 847,266
Loan room (4%, 20 yrs)	\$ 10,206,947	
VS		\$ 966,706
Loan room (3%, 20 yrs)	\$ 11,173,653	
		\$ 2,559,226

ATTACHMENTS:

Appendix 1 – 2023 Annual Repayment Limit

Appendix 2 – ARL Guide (provided to municipalities by MMAH)

Appendix 3 – Current loans

RECOMMENDATION:

It is recommended that Council accept the report updating them on the ARL and its position on September 30, 2023.

APPENDIX 1

2023 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

MMAH CODE:	67614		
MUNID:	02011		
MUNICIPALITY:	The Nation M		
UPPER TIER:	Prescott and Russell UCo		
REPAYMENT LIMIT:		\$	3,492,783

The repayment limit has been calculated based on data contained in the 2021 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2021 to commit to payments relating to debt and financial obligation. Prior to the authorization by Council of a long term debt or financial obligation, this limit must be adjusted by the Treasurer in the prescribed manner. The limit is effective January 01, 2023

FOR ILLUSTRATION PURPOSES ONLY,

The additional long-term borrowing which a municipality could undertake over a 5-year, a 10-year, a 15-year and a 20-year period is shown.

If the municipalities could borrow at 5% or 7% annually, the annual repayment limits shown above would allow it to undertake additional long-term borrowing as follows:

5% Interest Rate			
(a)	20 years @ 5% p.a.	\$	43,527,793
(a)	15 years @ 5% p.a.	\$	36,253,891
(a)	10 years @ 5% p.a.	\$	26,970,343
(a)	5 years @ 5% p.a.	\$	15,121,921
7% Interest Rate			
(a)	20 years @ 7% p.a.	\$	37,002,590
(a)	15 years @ 7% p.a.	\$	31,811,965
(a)	10 years @ 7% p.a.	\$	24,531,844
(a)	5 years @ 7% p.a.	\$	14,321,099

DETERMINATION OF ANNUAL DEBT REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403/02)

MUNICIPALITY:

The Nation M

MMAH CODE:

67614

Debt Charges for the Current Year

		1 \$
0210	Principal (SLC 74 3099 01)	973,422
0220	Interest (SLC 74 3099 02)	340,617
0299	Subtotal	1,314,039
0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01)	0
9910	Total Debt Charges	1,314,039

Amounts Recovered from Unconsolidated Entities

		1 \$
1010	Electricity - Principal (SLC 74 3030 01)	0
1020	Electricity - Interest (SLC 74 3030 02)	0
1030	Gas - Principal (SLC 74 3040 01)	0
1040	Gas - Interest (SLC 74 3040 02)	0
1050	Telephone - Principal (SLC 74 3050 01)	0
1060	Telephone - Interest (SLC 74 3050 02)	0
1099	Subtotal	0
1410	Debt Charges for Tile Drainage/Shoreline Assistance (SLC 74 3015 01 + SLC 74 3015 02)	36,372
1411	Provincial Grant funding for repayment of long term debt (SLC 74 3120 01 + SLC 74 3120 02)	0
1412	Lump sum (balloon) repayments of long term debt (SLC 74 3110 01 + SLC 74 3110 02)	0
1420	Total Debt Charges to be Excluded	36,372
9920	Net Debt Charges	1,277,667

		1 \$
1610	Total Revenue (SLC 10 9910 01)	23,058,603
Excluded Revenue Amounts		
2010	Fees for Tile Drainage / Shoreline Assistance (SLC 12 1850 04)	5,810
2210	Ontario Grants, including Grants for Tangible Capital Assets (SLC 10 0699 01 + SLC 10 0810 01 + SLC 10 0815 01)	1,799,298
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01)	1,170,929
2225	Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01)	0
2226	Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01)	0
2230	Revenue from other municipalities including revenue for Tangible Capital Assets (SLC 10 1098 01 + SLC 10 1099 01)	504,787
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01)	27,841
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01)	468,139
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01)	0
2252	Donated Tangible Capital Assets (SLC 53 0610 01)	0
2253	Other Deferred revenue earned (SLC 10 1814 01)	0
2254	Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01)	0
2255	Other Revenue (SLC 10 1890 01 + SLC 10 1891 01 + SLC 10 1892 01 + SLC 10 1893 01 + SLC 10 1894 01 + SLC 10 1895 01 + SLC 10 1896 01 + SLC 10 1897 01 + SLC 10 1898 01)	0
2299	Subtotal	3,976,804
2410	Fees and Revenue for Joint Local Boards for Homes for the Aged	0
2610	Net Revenues	19,081,799
2620	25% of Net Revenues	4,770,450
9930	ESTIMATED ANNUAL REPAYMENT LIMIT	3,492,783
	(25% of Net Revenues less Net Debt Charges)	

* SLC denotes Schedule, Line Column.

APPENDIX 2

Annual Repayment Limit

What is the Annual Repayment Limit?

The Annual Repayment Limit (ARL) may be generally summarized as the maximum amount that a municipality in Ontario can pay each year (without first going to the Local Planning Appeal Tribunal) in principal and interest payments for its long-term debt and other long-term financial commitments.

For most municipalities (not including Toronto) the ARL is set at 25 percent of their annual own-source revenues (such as property taxes, user fees and investment income), less their annual existing long-term debt service costs and payments for other long-term financial obligations. Municipalities may only exceed their ARL with the prior approval of the Local Planning Appeal Tribunal (LPAT).

For more information about the ARL, please see O. Reg. 403/02 (Debt and Financial Obligation Limits) on <https://www.ontario.ca/laws/regulation/020403>.

Role of the Ministry of Municipal Affairs and Housing

The Ministry of Municipal Affairs and Housing issues an updated ARL statement to municipalities once a year. The ARL statement is typically sent to each municipality at the beginning of the calendar year and reflects the most recent financial information submitted by the municipality in its Financial Information Return (FIR), available on <https://efis.fma.csc.gov.on.ca/fir/>

How Does the Ministry Calculate the ARL? *

The calculation of the ARL involves a number of steps. The ministry first determines the municipality's annual own-source revenue from sources such as property taxes, user fees and investment income. The ministry then calculates the amount that is 25 percent of the municipality's annual own-source revenue. Finally, the ministry subtracts the municipality's annual existing debt service costs and payments for other long-term financial obligations from the 25 percent figure to arrive at the ARL.

The ministry calculates 25 percent of the municipality's annual own-source revenue:



The ministry subtracts municipal debt and other financial obligations to determine the ARL:



For details on specific municipalities, please see

<https://efis.fma.csc.gov.on.ca/fir/index.php/reports-and-dashboards/annual-repayment-limits/>

**For illustrative purposes only*

Role of Municipalities

Municipalities in Ontario are responsible for ensuring that they do not exceed their ARL. When a municipality proposes long-term borrowing (or other long-term financial obligation), the municipal treasurer is responsible for updating the limit provided by the ministry. The treasurer must determine if there is capacity within the municipality's ARL to undertake the planned borrowing.

Local Planning Appeal Tribunal (LPAT)

Applications and appeals in relation to a range of matters are brought before the LPAT (formerly known as the Ontario Municipal Board). In cases where municipalities intend to borrow or commit to amounts above their updated ARL, they must first seek the approval of the LPAT. Learn more at <http://elto.gov.on.ca/tribunals/lpat>.

APPENDIX 3

LIST OF CURRENT LOANS

CREDITOR	LOAN NAME	LOAN AMOUNT	INTEREST RATE	LOAN END YEAR	ANNUAL REPAYMENT
Desjardins	Limoges Industrial Park Landowners	27,307.86	3.81%	2023	6,101
Desjardins	Limoges Industrial Park Growth	41,275.23	3.81%	2023	7,702
Infrastructure Ontario	Road Fleet 2013	675,000.00	3.15%	2023	79,214
Infrastructure Ontario	Road Fleet 2014	374,000.00	1.95%	2025	41,195
Desjardins	St-Isidore Water	1,124,702.23	3.04%	2029	138,992
Infrastructure Ontario	Calypso Road and Park loan #1 (W&S)	3,214,047.00	4.17%	2030	238,502
Infrastructure Ontario	Salt Dome	325,000.00	2.36%	2030	25,749
Infrastructure Ontario	Forest Park Sewer Landowners	1,127,772.73	4.46%	2031	85,815
Infrastructure Ontario	Forest Park Sewer Growth	476,310.76	4.46%	2031	36,244
Infrastructure Ontario	Calypso Growth loan #2 (W&S)	1,195,681.58	4.46%	2031	90,982
Infrastructure Ontario	St Isidore Arena Expansion	586,370.00	3.33%	2032	40,392
Infrastructure Ontario	Limoges Fire Hall	1,450,000.00	3.53%	2037	87,788
Infrastructure Ontario	Innovation Garage 2019	2,900,000.00	2.71%	2039	187,987
NEW LOANS 2023					
Desjardins	Limoges Water	12,822,116.00	4.86%	2043	1,003,625
Desjardins	Limoges Sewer	9,999,999.00	4.86%	2043	807,901
Desjardins	Complexe	10,033,032.00	5.77%	2043	773,776