

Administrative Report



MUNICIPALITÉ DE
CASSELMAN
MUNICIPALITY

Title: Update on the annual repayment limit and funding strategy for future major projects

Report Number: FIN-5-2025

Date: May 20, 2025

Supporting Documents:

Schedule A: 2025 Annual Repayment Limit (ARL)

Schedule B: Updated repayment Limit

Schedule C: Possible Financial Strategy

Submitted By: Simon Thibeault, Treasurer

Recommendation(s)

That Council acknowledges the reception of administrative report FIN-5-2025; and

Accept to allocate the 2026 grant under the Ontario Community Infrastructure Fund to finance the remaining costs of the Main Pumping Station 1 Upgrade project.

Recommandation(s)

Que le Conseil accuse réception du rapport administratif FIN-5-2025; et

Alloue la subvention de 2026 dans le cadre du Fonds ontarien pour l'infrastructure communautaire afin de financer le solde des travaux de la station de pompage principale 1.

Objective

- Inform Council of the municipality's current financial situation and outline possible funding options for the 1 Industriel project.
 - Obtain direction from Council regarding which project(s) should proceed and how they will be funded.
 - Provide Council with an updated Annual Repayment Limit (ARL) for 2025.
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Analysis

Before presenting the financial situation of the municipality, the council should be informed of the upcoming projects that could be impacted by the decision to proceed with the 1 Industriel.

Future major projects:

The administration has identified three major projects that will likely require debt financing in the near future. These three projects are detailed as follows:

1. Main Pumping Station Upgrade (PS1) (6.02 M)

SPS No. 1 is currently operating beyond its capacity. The nominal capacity of SPS No. 1 will be upgraded in a phased approach, with Phase 1 increasing the capacity from 118 L/s to 236 L/s to meet the demand for the next 10 years and beyond. This cost assumes that no new building construction is required. The work will include completing the necessary design, expansion, and upgrades to the pumping station, doubling the discharge pipe to the lagoons, and installing a new screen.

During the budgeting process, this project was evaluated at \$5.5 million. The project is currently in the tendering phase, so the final numbers are not yet available. However, the latest estimate from our engineering firm is \$6,020,000.

2. 1 Industriel - Town Hall Modernization (5.7 M)

In 2022, the municipality acquired a new building to address growing needs for space and accessibility. This city hall modernization project aims to adapt the building to current municipal standards, optimizing workspaces for municipal employees, enhancing public reception, and ensuring universal accessibility.

The OPS-5-2025 report, item no. 10.1.3 of the May 20 agenda, fully explain the details of this project. The total anticipated cost is \$5,696,099, including some contingency. The Municipality also filed a Statement of Claim to recover the costs of the water infiltration which can reduce the overall cost if the Municipality is successful.

3. Increase the Water and Wastewater Capacity (8.3 M)

3.1 Water

With the current outstanding developments, the municipality has already committed most of its hydraulic capacities and needs to expand the water and wastewater capacity to approve further developments that are already on standby. The Water and Wastewater Infrastructure Master Plan identified several potential solutions, all of which came with significant costs. In an effort to find a more practical and cost-effective alternative as a phased approach/interim solution, a new project—proposing the addition of a supplemental packaged membrane filtration system to increase the water capacity by 1,000 m³/day while maximizing the existing infrastructure in place—will be presented to Council on June 10. Key information about this project are as follows:

Cost: \$5,835,000 which include plenty of contingency (\$1.3M) and two year of cost escalation at 5% each to represent the cost of the year 2027.

This investment would provide water capacity for the forecasted growth for the next 10 years according to the Water and Wastewater Infrastructure Master Plan – Report 1.

A projected timeline for this process would be as follows:

Year	January	February	March	April	May	June	July	August	September	October	November	December
2025			ENVIRONMENTAL ASSESSMENT									
2026	DETAIL DESIGN								TENDER			
2027	CONSTRUCTION											

This phased approach/interim solution would generate approximately 700 additional housing units in the Municipality.

The new packaged membrane filtration system would include green sand filters which are state-of-the-art technology to filter manganese from the water. Hence, this phased approach/interim solution would act as a pilot project to evaluate the effectiveness of the green sand filters to treat the difficult and unpredictable water of the South Nation River.

3.2 Wastewater

The project also depends on increasing the capacity of the sewer system, as both water and sewer capacity need to be expanded to support continued municipal development. It is important to note that the municipality is still in discussions with the MECP regarding its request to include a continuous discharge, which would ultimately allow for greater sewer capacity. This project is still in its early stages, and additional information must be gathered; however, municipal staff is working towards a phased approach that would significantly reduce infrastructure investments in the short-term. The Water and Wastewater Infrastructure Master Plan 2024 had initially set the required investment at \$9M to increase the wastewater capacity for the next 25 years, however, with the phased approach, the estimated cost would be reduced to \$2,500,000 in order to obtain a continuous discharge. The majority of those costs will be necessary for when we expand the wastewater treatment capacity for the full 25-year growth forecast in the master plan, so the future investment of \$9M is expected to decrease. The short-term solution would increase the wastewater treatment capacity by 700 to 1,000 cubic meters per day, which is in synch with the phased approach/interim solution for the drinking water.

The following is a list of items that are expected to be required for the phased approach:

Item	Description
New UV System	Required for year-round discharge.
New Chamber / New Building / Building Expansion	Required to house the new UV system.
Process Modifications	New piping and valves to retrofit the UV system within the existing process.
Participation in the TPM Program	Not anticipated to be required for a Phase 1 Upgrade. To be confirmed based on discussions with MECP and SNC.
Veolia-Driven Upgrades: <ul style="list-style-type: none"> Baffles in Cells A and B Connection b/w Cell A and the MBBR Upgrade blowers New high-pressure cleaning system for existing disc filter Hubgrade Assist 	Based on discussions with Veolia to accommodate Phase 1 upgrades.
Associated Civil and Electrical Works	Works required to accommodate the proposed works.
Engineering Effort	Anticipated design and contract administration fees.

Financial situation:

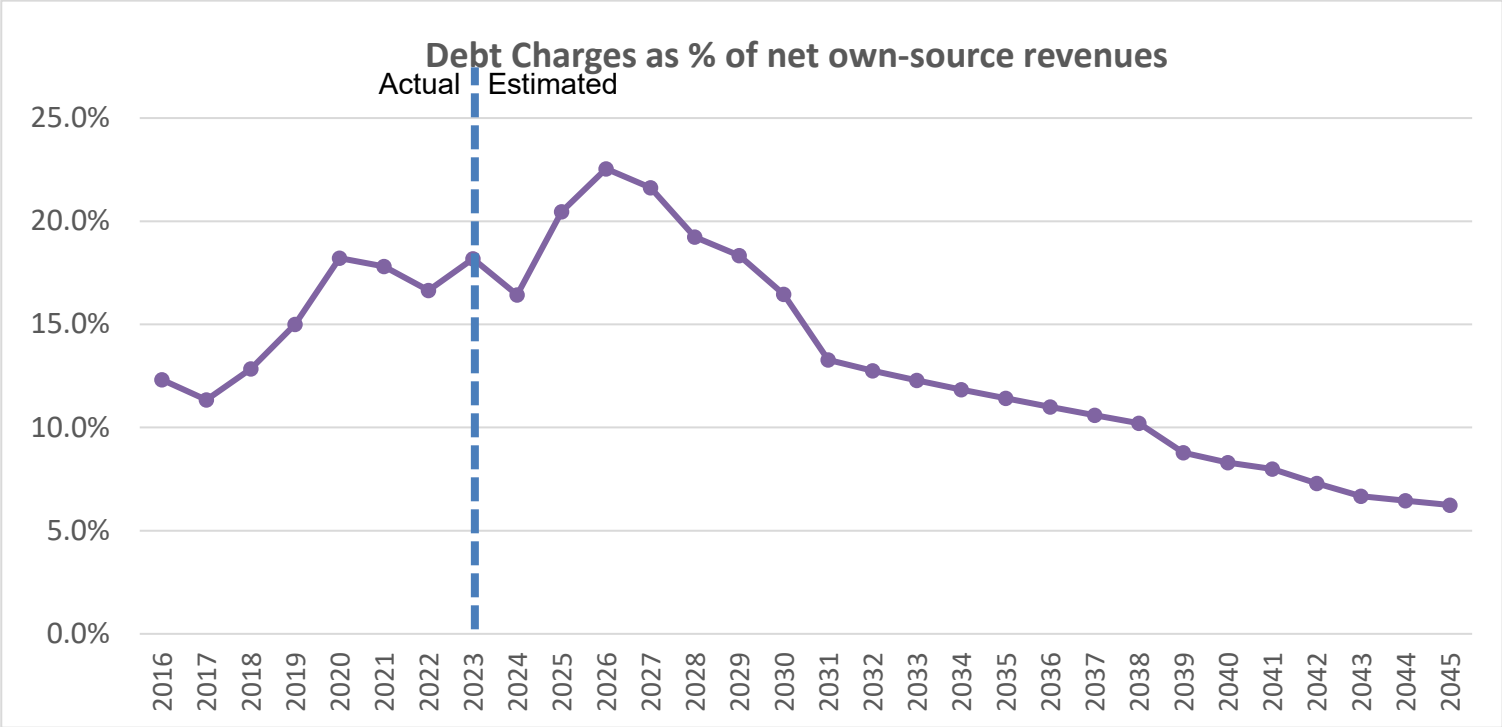
The long-term situation of the municipality is currently difficult to estimate, as the municipality is growing very rapidly. The construction boom in 2020 and 2021 allowed the municipality to increase its annual revenue from \$7.2 million in 2021 to \$10.3 million in 2024. With a major housing project and three phases of subdivisions in development, construction activity is bound to continue — but may be halted for various uncontrollable situations (housing market downturns, interest rates hikes, builders encountering financial difficulties etc) . It's important to note that the municipality cannot begin collecting property taxes until new homes are built and sold to final owners, a process that can take several years, thus impacting the projections the municipality can realistically make.

The municipality will also seek grants for the water and wastewater projects described above. To this date, staff has submitted a grant application under the Canadian Housing Infrastructure Fund (CHIF) for an amount of \$3,010,000, which represents 50% of the eligible cost and is in the process to write another grant application under the Health and Safety Water Stream (HSWS) from the provincial government for an amount of \$4,454,000, which represents 75% of eligible cost. In the event the Municipality is successful in securing funding under the two programs, it will seek to have 100% of the eligible costs covered with grants. However, since we have not received confirmation of funding from either the federal or provincial governments as of this date, this potential support cannot be included in the municipality's future revenue projections.

The municipality must include the full loan amount at the beginning of the project as both capital and interest in order to reserve the necessary space within its debt limit. In practice, the loan will begin as a line of credit, with the municipality paying interest only on the amounts drawn at that time. Repayment of the loan principal will begin at the completion of each project.

Finally, the analysis was conducted using a 5% interest rate. As mentioned earlier, the loan will begin as a line of credit, and it may take up to one year to finalize. During this period, the interest rate could fluctuate. Although the municipality is currently able to borrow at a rate of 4.65%, a 5% rate was used as a buffer.

If we add \$11.7 million in debt at a 5% interest rate over 30 years, with payments in capital and interest starting in June 2025, and no additional construction is added to the municipality, we will face the following situation:



The peak will occur in 2026, with 22.5% of the municipality's revenues allocated to debt servicing. Additionally, the municipality will have sufficient capacity to fund the third project in 2028. As previously mentioned, this scenario is conservative because it does not account for any grants, additional development, and assumes the loan is closed at the beginning of the works rather than at the end. This analysis is ultimately intended to give the council a clear idea of when there will be enough room within the debt limit to undertake the third project.

Annual Repayment Limit (ARL):

Although the previous conservative analysis shows that the municipality would have enough room under the ARL limit, it must also comply with Regulation 403/02, which is even more restrictive than the scenario presented. The regulation states:

Before authorizing any specific work or class of work or any increase in expenditure for a previously authorized specific work or class of work that would require a long-term debt [...], the council of the municipality shall have its treasurer calculate an updated limit using the most recent debt and financial obligation limit determined by the Ministry. O. Reg. 403/02, s. 4 (1).

The current obligation limit determined by the Ministry is presented in Schedule A. While regulations allow the Treasurer to update the Annual Repayment Limit (ARL), the only modification the municipality is required to make to the ARL pertains to construction loans. Specifically, the municipality must include the unpaid portion of the principal, as these loans are currently interest-only. The updated ARL is presented in Schedule B. The updated version of the ARL has a debt repayment limit of \$737,425, which will allow the municipality to take out a loan of \$11,447,399 at a 5% interest rate with a 30-year amortization period.

Compared to the previous analysis, the 2025 debt limit is based on the municipality's 2023 Financial Information Return (FIR). According to the FIR, the municipality's revenues in 2023 were \$9,504,353, while the 2025 budget projects revenues of \$10,413,493, which will provide additional room under the debt limit. Additionally, the limit assumes that the full amount of the loan is drawn as of January 1 of the year, even if the loan has not actually been taken at that time.

Alternative Funding:

The municipality cannot borrow more than \$11,447,399, which won't be sufficient to fund two of the three major projects in 2025. Therefore, the municipality will need to explore alternative funding sources to cover the shortfall.

The Main Pumping Station Upgrade could partially be funded through the Ontario Community Infrastructure Fund (OCIF) allocation that the municipality is expected to receive in 2026. The 2026 OCIF amount can be estimated at a minimum of 85% of the 2025 allocation, which is \$448,465. Additionally, the municipality has an amount of \$352,026 in the sewer reserve as of December 2024.

As of December 2023, the municipality had a \$1.8 million surplus. The administration does not anticipate significant changes to the surplus in 2024. These funds could be used to help finance the 1 Industriel.

A possible strategy is outlined in Schedule C.

Since the loan will not be finalized before 2026, the municipality will have the opportunity to revise its financial strategy in the meantime. However, Ontario Regulation 403/02 requires that a financial strategy be in place before the project can be approved.

Conclusion:

If Council decides to proceed with both the 1 Industriel project and the Main Pumping Station No.1 in 2025,

the following items will need to be considered:

- Identifying which project, if any, could be deferred until 2028 at the latest (if growth projections materialize as planned, the Municipality may be in a position to follow the determined schedule for the water and wastewater projects)
- Determining the portion of the Annual Repayment Limit (ARL) to be utilized in 2025
- Deciding whether the 2026 OCIF funding will be allocated to the Main Pumping Station

Finally, moving forward with the Main Pumping Station No.1 and the 1 Industriel projects would increase the municipality's vulnerability to rising interest rates. Additionally, cost fluctuations could make securing the necessary funding more challenging. In the event of an unforeseen adverse circumstance, the municipality could find itself in a financially vulnerable position. Similarly, postponing a project to a future date exposes the Municipality to the same risk of increasing costs and interest rates.

Loan:

If the municipality wants to proceed with both projects, it will need to secure two new lines of credit to finance them, as the current financial situation does not allow the municipality to fund these projects without external financing. The by-laws to authorize bank loan agreements are identified in sections 11.1 and 11.2 of the agenda.

Infrastructure Ontario:

The administration contacted Infrastructure Ontario to understand the process for increasing the amount of the municipality's existing loan. The response was that the municipality would need to apply for a new loan. This process takes approximately 10 to 12 weeks, and a municipal by-law is required to initiate it. If the municipality chooses to proceed with Infrastructure Ontario, the project will need to wait until approval is received. Ideally, the existing loan for the 1 Industriel project should be transferred to another financial institution.

National Bank:

The municipal contact at the National Bank does not see any obstacles and will recommend the financing to their Credit Committee. However, they will require a by-law to process the request, and the approval should take approximately one week. The rates they provided are pending Credit Committee approval.

Desjardins Credit Union:

The administration also contacted Desjardins to obtain a rate, they had not responded at the time of writing this report.

Rates :

Institution	Term	25 year amortization	30 year amortization
National Bank	5 years	4.61%	4.65%
Infrastructure Ontario	-	4.65%	4.73%
Desjardins Credit Union	5 years		

These are the rates applicable at the time the loan is closed, as of May 14. They are subject to change depending on when the project is completed and when the credit line is converted into a loan. These rates are provided to assist in choosing between the different financial institutions.

The recommendation is to proceed with both loans through the National Bank, as the term is shorter than with Infrastructure Ontario, and the municipality will not have to pause the project for several weeks.

Financial Impact

Details	Approved Budget	Actual expenses to this date	Projected Expenses for this project	Variance
-	0.00	0.00	0.00	0.00

References

- Ontario Regulation 403/02
- By-Law 2024-58: by-law that approved the 2025 budget.
- This report aligns with the Infrastructure pillar of the Strategic Plan, specifically supporting the following strategic actions:
 - Implement solutions that align with our long-term aspirations (Establish and optimize efficient system for water distribution)
 - Establish a new Municipal Hall
 - Find appropriate funding sources to upgrade and enhance our infrastructure to enable sustainable growth and economic development

Other Options

- Council can elect to remove or delay major project.
- Council can propose an alternative to the recommendation.
- Council can delay the decision to a future meeting.

Approval

Yves Morrissette, Chief Administrative Officer

