The Context of Municipal Borrowing in Canada

David Amborski
School of Urban & Regional Planning
Ryerson University

Context Topics

- Capital Budgeting
- The rationale for municipal borrowing
- Why Canadian municipalities have good credit ratings
- Trends in borrowing: some indicators
- Alternatives to debt to fund infrastructure
- Key questions for discussion

Capital Budget/Forecast

- Municipalities prepare an annual capital budget
- Municipalities also prepare a multi-year (3 to 10 year) capital forecast
- The basis of the infrastructure in the forecast may reflect the official plan and/or a strategic plan

Operating Budget Links to Capital Expenditures

- Allocating a portion on operating expenditures for capital purposes ("pay-as-you go")
- Debt Service for debentures is an operating expenditure
- More Infrastructure may increase labour and maintenance costs (e.g. parks, arenas)
- Expenditure on infrastructure maintenance programs may prolong the economic life of asset

Rationales for Municipal Borrowing

- Significant infrastructure need due to both growth and replacement need
- Inability to pay for the infrastructure in one year
- Pay for the cost of services as the benefits flow over the life of the infrastructure (similar to paying a mortgage)

Sources for Capital Expenditures

- Grants (Provincial and Federal)
- Operating/Current Budget
- Reserve Funds (i.e. D C Funds)
- Reserves
- Borrowing i.e. debt via debentures

Why Canadian Municipalities Have Good Credit Ratings

- Strong Provincial regulation
- Generally good assessment bases/stable revenue
- Good Financial Management, Policies and Planning

Borrowing Restrictions Based on a Formula: Debt or Debt Service

Province	Restrictions
Nova Scotia	30% of own source revenues
New Brunswick	2% of assessed real property value:
Prince Edward Island	10% of the assessed value of real property
Ontario	Debt service can’t exceed 25% of revenue funds
Manitoba	Total debt, max 7% of municipal assessment, annual debt service max 20% annual revenue
Alberta	Debt Limit of 1.5 times revenue, Debt service limit of 0.25 times revenue.
Yukon	3% of the current assessed value of all property
Northwest Territories	Debt service must not exceed 20% of the municipalities revenues, for villages the maximum is 10%

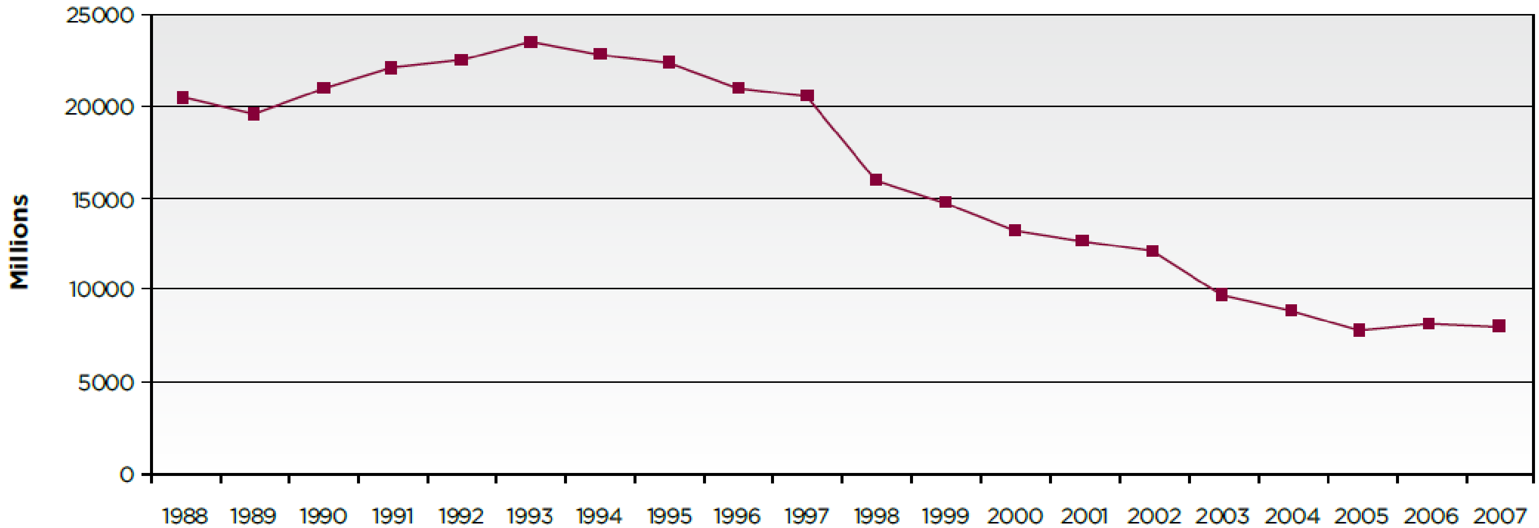
Borrowing Restrictions that Require Specific Approval

Province	Regulation
Newfoundland	None for Municipalities, Service Districts limits set by the Minister
Saskatchewan	Must be approved by the Saskatchewan Municipal Board.
British Columbia	Must be approved by Inspector of Municipalities, using formulae from Municipal Act.
Nunavut	Set by Ministerial Regulation

Trends in Debt Finance

- Debt Charges as a percentage of Operating Expenditures has been decreasing: 9.5% in 1988 vs. 3.3% in 2008 (The State of Canada's Municipalities and Communities 2012, FCM)
- Net Financial Debt (liabilities minus assets) for local governments has been decreasing

NET FINANCIAL DEBT FOR LOCAL GOVERNMENTS (MUNICIPALITIES AND SCHOOL BOARDS), CANADA, 1988–2007



SOURCE: STATISTICS CANADA, CANSIM TABLE 385-0014

Alternatives to Borrowing for Infrastructure

- Property Taxes
- Grants
- User Charges
- Development Charges

The Questions ?

- Should Canadian municipalities borrow more?
- If they do borrow more, what are the risks for municipalities, provinces and the Federal Government?
- If they do, what regulatory measures and financial approaches should be taken to ensure that borrowing is low cost and low risk?