Calculating Debt and Debt Service Limits

Municipal debt and debt service limits are established pursuant to section 271 of the Municipal Government Act (MGA) and Alberta Regulation #375/94. The most commonly asked questions regarding calculating and interpreting this regulation are answered below.

1. Why are debt and debt service limits prescribed for municipalities?

When the MGA was passed, the Local Authorities Board, which previously approved most municipal borrowings, ceased to exist. The provincial role in the municipal borrowing process was then virtually eliminated. The prescribed limits were established in order to provide a benchmark, or a basic guideline amount. When a municipality reaches the prescribed limit, it must seek approval from the Minister of Municipal Affairs before proceeding with any further borrowing. If approval is given, it is still up to the lender to determine the municipality’s creditworthiness.

2. What are the consequences of exceeding the regulated limits?

According to the MGA, councillors can be held liable for voting in favour of borrowing amounts in excess of the limits. Guidelines are in place for municipalities that wish to apply to the Minister for approval to borrow over the limits. Please refer to Information Bulletin No. 21/95.
3. What does the term “revenue” refer to?

Section 3 of the regulation states that revenue is “the total revenue reported in the last audited annual financial statement of the municipality prepared before the calculation time, less transfers from the governments of Alberta and Canada for the purposes of a capital property reported in that statement if those transfers are included in the total revenue”. The annual financial statements must be prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants for municipal governments. The recommendations are included in the Public Sector Accounting and Auditing Board (PSAAB) handbook. Consequently, the definition of revenue must follow the PSAAB recommendations.

4. Are amounts that the municipality collects for requisitions included as revenue for purposes of calculating the limits?

According to the PSAAB recommendations, funds that the municipality collects on behalf of others are not revenue. Revenue and expenditure statements should report property tax revenue net of requisition amounts. Consequently, any receipts related to requisitions are not considered as revenue for debt limit calculation purposes.

5. Are the limits based strictly on revenue?

The regulation specifies that in calculating revenue for debt and debt service limits, any principal amounts outstanding pursuant to section 265 of the MGA must be deducted from the total revenue amount. Section 265 provides the authority for a municipality to make loans to a non-profit organization or to one of its controlled corporations.

6. Can capital revenue be considered as part of the calculation amount?

Capital revenue may be included in the calculation to the extent that the amounts represent a true revenue item according to PSAAB’s definition. For example, a transfer between funds is not a revenue item, but interest earned by the capital fund or proceeds generated from the sale of a capital asset qualify as revenue items in the capital fund.
7. **Should provincial and federal grants be deducted from the revenue calculation?**

According to the regulation, and based on the PSAAB recommendations regarding the definition of revenue, provincial and federal grants received for a capital purpose must be excluded from the calculation, including conditional or unconditional grant amounts. However, provincial and federal grants received for operating purposes may be included in the calculation of revenue.

8. **Is long-term debt the only amount to include when disclosing the actual debt and debt service compared to the regulated limits?**

The regulation defines debt as borrowings made by the municipality. As a result, this would include both short and long-term borrowing. Funds borrowed both for operating and for capital purposes must be included.

9. **What source of information is used to calculate the debt limits?**

According to the regulation, the figures used should be those reported in the last audited financial statement, including the underlying records where necessary, prepared before the calculation time. If you are calculating the 1995 debt limit, use the 1995 annual audited financial statement figures.

10. **If the municipality chooses to make an early pay-out of long-term debt does the amount of the actual debt service cost that must be disclosed increase?**

The amount of actual debt service cost that should be disclosed is described in section 5(1) of the regulation as the amount of principal and interest that the municipality is required to pay in the 12 months following the calculation of the limits. If a municipality opts to make an early pay-out of debt, the amount of actual debt servicing to be disclosed does not increase.

If you require any assistance with debt and debt service limits, please consult with your auditor or contact Financial Advisory Services at 427-2225.

**Note:** This is an interpretation only. For specific legal advice, please consult your own legal counsel.