Review of the Regulatory Environment of Municipal Capital Borrowing

ICURR Intergovernmental Committee on Urban and Regional Research
Comité intergouvernemental de recherches urbaines et régionales CIRUR

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by

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ICURR Press
Toronto, Ontario

Published by ICURR Press
150 Eglinton Avenue East, Suite 301
Toronto, Ontario, CANADA M4P 1E8
Telephone: (416) 973-5629
Fax: (416) 973-1375

First Edition: January, 1998

Edited by Joan Campbell, with the assistance of John Slatcher and Wayne Berry

Amborski, David P., 1949-
Review of the regulatory environment of municipal capital borrowing

Canadian Cataloguing in Publication Data

Includes bibliographical references.
Includes some text also in French.
ISBN 1-895469-732

1. Municipal finance—Law and legislation—Canada.
Provincial-local fiscal relations—Canada. I. Title.

HJ9350.A423 1999 343.71’037 C99-901104-9

Table of Contents

List of Figures and Tables

Figures

Tables

Acknowledgements

The author would like to thank and acknowledge the assistance of the ICURR staff in the preparation of this report. ICURR's research director, Claude Marchand, who provided input especially in the formulation of the project, was very supportive throughout the study. Michael Afar was very helpful in terms of providing library research support and identifying documents and databases that were related to the research topic.

Gratitude must also be expressed to Dan Rae, Secretary of New Brunswick's Municipal Capital Borrowing Board. His agency has a great interest in this study and consequently he provided significant input in the formulative stages of the proposal, including the development of the questions for the provincial survey.

A special thanks must be given to Ryan Windle who served as my research assistant for this study. His commitment, diligence, and hard work are greatly appreciated. His work contributed significantly to the final report.

Finally, it is necessary to thank all of those members of the provincial and municipal governments who took the time to fill out the questionnaires, compile background documentation, and answer questions through interviews. Their contributions were essential to the success of this report.

Author's Biography

David Amborski holds graduate degrees in Economics and Urban and Regional Planning from the University of Toronto. He is currently a professor in the School of Urban and Regional Planning at Ryerson Polytechnic University where he has taught for over twenty years. His research and consulting interests are in the areas where economics and urban planning interface, especially in the area of municipal finance. He has written a number of articles, papers, and consulting reports related to development charges, municipal budgeting, fiscal impact analysis, and infrastructure finance/planning.

In addition, he has delivered a number seminars for "in career" local government officials and politicians. After the past two municipal elections in Ontario he lead seminars for new councillors throughout the province sponsored by the Ontario Municipal Management Board and the Association of Municipalities of Ontario. Internationally he has given seminars in Mexico, Brazil, China, and the Baltic States where he is currently involved in a fiscal decentralization study for Lithuania. He is also a member of the Canadian Advisory Board for the CIDA funded, Canadian Bureau for International Education delivered, Ukrainian Public Service Reform Project.

Executive Summary

The Objectives, and Method

In recent years there has been a trend in provincial governments across Canada to alter their relationships with their constituent municipalities in two ways. The first trend has been to devolve certain services and/or responsibilities to local government units. The second related approach has been the deregulation of provincial control over municipal activities. The latter has been evident in a number of land use planning matters as well as changes in regulations related to financial management. For both of these areas of local government activity, there appears to be a reduction in the amount of "red tape" or complexity of documentation in the regulatory approval process. In some cases, the formal approval of a municipal action by some provincial agency has been replaced by a guideline or standard which municipalities are obliged to follow.

This report focuses on the second of these trends, i.e., reduced regulation, and on the second of the identified areas of municipal activity: financial management. More specifically, the report will focus on provincial regulation of municipal capital borrowing. The study has two general objectives:

1) To determine whether or not the existing arrangements, procedures, and regulations relative to municipal capital borrowing are appropriate given current interest in redefining the roles and responsibilities of provincial and municipal governments in Canada. This is taking place within the context of certain areas of disentanglement and streamlining of the regulatory environment.

2) To assess whether the above regulatory process is supportive or a hindrance to municipal infrastructure planning and the development of multi-year capital budgets.

In order to address the objectives that have been identified, it was first necessary to undertake a review of the literature to determine the current structure in the provinces regarding the regulation of municipal capital borrowing. In addition to understanding the current situation, it was also necessary to determine if any theoretical literature exists that could provide a standard against which current practice or changes to current practice could be measured. This literature review required not only searching academic texts and journals, but also examining provincial legislation and government reports regarding the topic.

In addition to and connected to the literature review, surveys were undertaken of both provinces and a selected number of municipalities across Canada. The purpose of the provincial surveys was threefold: first, to identify any additional provincial reports or legislative changes that were not identified in the initial literature review; second, to identify any recent or proposed changes in the province's regulation of municipal capital borrowing; and finally to assess the respondents' view about the current process. The municipal surveys were undertaken to assess the municipal view toward the existing regulatory process, and to find out if a range of practices or tools that facilitate capital financial planning is currently being used by the municipalities surveyed. The municipal surveys were important to provide a perspective on the current regulatory process from those being regulated in addition to the perspective of the regulatory ministry or agency. In a number of cases, interviews were used to gather detailed or additional information regarding the provinces' or municipalities' positions.

The provincial survey was sent to all of the provinces and the two territories. In some cases there were multiple agencies or persons that needed to respond to the surveys. There were split responsibilities depending on the size/type of municipality or split responsibility for various types of regulations.

Ultimately, direct information was obtained from all of the provinces and territories included in the survey.

As the response of the municipalities to the regulations was not the primary objective of the study, it was necessary to select a representative sample of municipalities from across the country. The decision was made to include at least one municipality from each province/territory and to focus on the capital cities and large municipalities. Consequently, 18 municipalities were ultimately included in the sample with more than one city being included from several provinces. In total, 18 municipalities were sent surveys or contacted for interviews with a final total of 14 responding. The focus was on the capitals and large cities because these larger and more important cities would most likely feel the direct effects of provincial regulation of capital borrowing. Consequently, they are in the best position among the municipalities to comment on these regulations. Furthermore, it is anticipated that the large municipalities in a province would use approaches to infrastructure planning, multi-year capital forecasts and maintenance management programs.

Provincial Regulations

The study identified that, as anticipated in all provinces and territories, there was some type of provincial regulation regarding the issuance of local government debt. However, the type of regulation and how it is applied varied from province to province. In most cases it was embodied in some form of provincial legislation/regulation with some provinces having multiple pieces of legislation that controlled the activity. In some instances the different legislative acts pertained to different types or specific municipalities within the provinces. In one province, Manitoba, there are three separate acts that regulate municipal capital borrowing.

There are various approaches to the regulation of municipal capital borrowing ranging from approval being required by two provincial bodies, or one provincial body, to approval only being required if the borrowing supersedes an identified provincial debt indicator. There are also some provinces that provide a greater role for the public regarding municipal debt. In some cases public approval is required via a referendum, in others the public may collect signatures from a certain percentage of the voters to rescind an announcement to issue debt, and other provinces require public announcements of meetings where debt will be approved to allow for public input.

The most typical approach among the provinces is to have approval of a minister required for a municipality to enter capital debt. Nine of the twelve provinces and territories require some form of ministerial approval for most municipalities. Only Ontario, P.E.I., and Saskatchewan do not fall into this category. However, each of these provinces do have some other approval requirements. Saskatchewan requires approval of a Board, P.E.I. requires citizen approval, and Ontario requires board approval if its debt limit guidelines are exceeded. Newfoundland, Nova Scotia, and New Brunswick have a dual approval process by the minister and a board. Half of the provinces have debt restrictions that are not universal in terms of applying to all of their municipalities. Some have restrictions that are differentiated by municipality size or type, for example, P.E.I., Saskatchewan, and the Northwest Territories. Others, such as Manitoba, Alberta, and British Columbia, may differentiate for a major city. Most provinces require municipalities to prepare multi-year capital plans (eight of the twelve provinces). Where they are not required, municipalities are encouraged to prepare them.

With regard to the public being informed of municipal borrowing or having the opportunity for input into the decision, there tends to be general disclosure of the intent to borrow across the provinces.
Seven of the twelve provinces/territories indicate that they advertise the intent to undertake municipal debt. All of the others except Newfoundland, where it is not advertised, have discretion but appear to

often advertise impending borrowing. Where the borrowing is advertised, the approach to any input from the public regarding the borrowing is not always clearly stated. However, in three of the jurisdictions, Prince Edward Island, Quebec, and the Northwest Territories, actual ratepayer approval of the borrowing is required under some circumstances. In two other provinces, Alberta and British Columbia, there is the potential to petition borrowing decisions by a given percentage of the voters.

Municipal Response

As the selected municipalities that were surveyed tended to be the larger cities in the various provinces, it is not surprising that the respondents prepared multi-year capital forecasts. Also, the majority of the cities reported that they undertake some form of infrastructure planning, have infrastructure maintenance programs, and have infrastructure renewal programs. The majority of the cities (ten of the thirteen responding) did not identify the current provincial debt regulations as being overly restrictive. Slightly more than half of the responding municipalities anticipate undertaking some new initiatives in the area of infrastructure planning, maintenance, and/or renewal programs.

Conclusion

It appears that although at least the larger municipalities do not find the current regulations for municipal capital borrowing overly restrictive, there is a trend of decreasing provincial regulation both generally and related to capital borrowing. Following this general trend in deregulation a number of the provinces have moved toward the application of a guideline which, if a municipality desires to surpass, provincial approval is required. Examples of this may be found in Ontario, Manitoba, and Alberta, all of whom required approval of a regulatory board for municipal debt at some previous point in time. Also both Nova Scotia and New Brunswick are moving toward less onerous regulatory systems. These approaches appear to be appropriate for today's fiscally responsible municipalities.

The general requirement for municipalities to prepare mult-year capital plans as part of the provincial regulatory requirements appears to have set a structure that supports municipalities undertaking infrastructure planning as well as maintenance and renewal programs. In addition, the surveyed municipalities indicated a willingness to make improvements in these areas. Although these approaches may not be totally attributed to the existing provincial regulations regarding municipal capital borrowing, the requirements for capital forecasts and requisite justifications to ministers and boards for capital borrowing certainly provide an impetus for good capital planning in municipalities.

Chapter 1

Introduction: The Issue, Method, and the Setting

Introduction

In recent years there has been a trend in provincial governments across Canada to alter their relationships with their constituent municipalities in two ways. The first trend has been to devolve certain services and/or responsibilities to local government units. The second related approach has been the deregulation of provincial control over municipal activities. The latter has been evident in a number of land use planning matters as well regulations related to financial management. For both of these areas of local government activity, there appears to be a reduction in the amount of "red tape" or complexity of documentation in the regulatory approval process. In some cases, the formal approval of a municipal action by some provincial agency has been replaced by a guideline or standard that municipalities are obliged to follow.

This report focuses on the second of these trends, that is, reduced regulation, and on the second of the identified areas of municipal activity: financial management. More specifically, the report will focus on provincial regulation of municipal capital borrowing. The study has two general objectives:

1) To determine whether or not the existing arrangements, procedures and regulations relative to municipal capital borrowing are appropriate given current interest in redefining the roles and responsibilities of provincial and municipal governments in Canada. This is taking place within the context of certain areas of disentanglement and streamlining of the regulatory environment.

2) To assess whether the above regulatory process is supportive or a hindrance to municipal infrastructure planning and the development of multi-year capital budgets.

In order to address the first objective a substantial amount of information had to be obtained regarding the regulatory approaches that have been used in various provinces, recent changes to the approach in the provinces, and changes in the regulatory environment that have been proposed or are being considered. In this way it is possible to ascertain whether changes have been made to municipal capital borrowing regulations that are consistent with the regulatory trends in the municipal sector. The mere presence of change is not sufficient to conclude that those existing regulations are appropriate. A determination of the appropriateness of some specific provinces' regulations can only be made when comparing them to the regulations in other provinces, and obtaining feedback regarding regulations from provincial and municipal officials.

A range of characteristics and issues regarding each province's regulatory system must be assessed. These dimensions include the nature of the provincial authority that regulates capital borrowing, the processes or guidelines that must be followed for approval, the formal legislative framework that must be followed, how any approval process varies for different types or sizes of municipalities, and a range of more detailed questions. The complete list of questions is provided in the provincial survey in Appendix A.

In addressing the second objective, it is important to determine if a number of financial management tools are utilized and/or encouraged to be used by provincial governments in at least the larger cities in various provinces. These tools or instruments include the existence of infrastructure planning documents, municipal maintenance or renewal programs, and the use of multi-year capital forecasts. In the case of municipalities applying some of these financial management/planning tools, requirements may be placed on them by provincial regulation. In other cases, guidelines may be imposed that, if met, will facilitate approvals for capital borrowing or the receiving of provincial grants. In other cases, these activities may simply be encouraged by the province.

Method

In order to address the objectives that have been identified, it was first necessary to undertake a review of the literature to determine the current structure in the provinces regarding the regulation of municipal capital borrowing. In addition to understanding the current situation, it was also necessary to determine if any theoretical literature exists that could provide a standard against which current practice or changes to current practice could be measured. This literature review required not only searching academic texts and journals, but also examining provincial legislation and government reports regarding the topic.

In addition to and somewhat connected to the literature review, surveys were undertaken of both provinces and a selected number of municipalities across Canada. The purpose of the provincial surveys was threefold: first, to identify any additional provincial reports or legislative changes that were not identified in the initial literature review; second, to identify any recent or proposed changes in the province's regulation of municipal capital borrowing; and finally to assess the respondents' view about the current process. The municipal surveys were undertaken to assess the municipal view toward the existing regulatory process, and to find out if a range of practices or tools that facilitate capital financial planning are currently being used by the municipalities surveyed. The municipal surveys were important to provide a perspective on the current regulatory process from those being regulated in addition to the perspective of the regulatory ministry or agency. In a number of cases, interviews were used to gather detailed or additional information regarding the provinces' or municipalities' positions.

The provincial survey was sent to all of the provinces and the two territories. Prior to sending the surveys calls were made to contacts identified by ICURR in order to determine who the appropriate agency and person(s) were to respond to the questionnaire. In some cases there were multiple agencies or persons that needed to respond to the surveys. There were split responsibilities depending on the size/type of municipality or split responsibility for various types of regulations. Ultimately, direct information was obtained from all of the provinces and territories included in the survey.

As the response of the municipalities to the regulations was not the primary objective of the study, it was necessary to select a representative sample of municipalities from across the country. The decision was made to include at least one municipality from each province/territory and to focus on the capital cities and large municipalities. Consequently, 18 municipalities were ultimately included in the sample with more than one city being included from several provinces. In total, 18 municipalities were sent surveys or contacted for interviews with a final total of 14 responding. The focus was on the capitals and large cities because these larger and more important cities would most likely feel the direct effects of provincial regulation of capital borrowing. Consequently, they are in the best position among the municipalities to comment on these regulations. Furthermore, it is anticipated that the large municipalities in a province would use approaches to infrastructure planning, multi-year capital forecasts, and maintenance management programs.

The Setting

As indicated earlier, a literature review was undertaken in an attempt to identify any existing theoretical basis for the regulation of municipal capital borrowing, and to establish the existing approaches to regulating municipal capital borrowing by the provinces. In examining the literature there is no strong theoretical basis for either the rationale or structure of municipalities undertaking capital borrowing. For example, a report produced in Ontario in 1967 provides a textbook approach to a number of components in local government finance. This document does not provide any insight into any relevant theoretical literature (Ontario Committee on Taxation, 1967, Volume II). More recently, Kitchen indicates that the literature regarding municipal capital budgeting is very scant. (Kitchen, 1984) The literature or documents that exist consist of government reports, studies, guidelines, or newsletters in the various provinces. This information tends to be directed toward providing information to municipal officials regarding how to undertake the capital budgeting process, the process of obtaining approval for or how to issue debt, or activities associated with these functions. Since the publication of Kitchen's work, the same trend has persisted. Any literature or documents relevant to the topic have generally been government-initiated in the various provinces. Those relevant to this study will be included in the province-by-province analysis in the next section of the report.

Despite the paucity of theoretical literature regarding the issue, there is a rationale for governments undertaking capital borrowing. There are several principles that can be identified and should be applied to municipalities in undertaking capital borrowing. These principles may be derived from general applications of various types of budgeting, and from the various rules, regulations, and guidelines that have been used by the provinces. However, prior to stating these principles it is useful to identify the rationale for governments entering into debt to finance capital facilities. The rationale for any level of government to enter into debt through capital borrowing is quite simple. Basically governments cannot afford to pay for all capital facilities that they require at the time they are constructed. This arises due to the lumpy investment nature of capital facilities in that they require large capital outlays for facilities that may provide a flow of benefits to the community over a number of years, i.e., the economic life of the facility. The ways in which governments are able to undertake these expenditures are to enter into debt by issuing bonds or debentures which are then repaid over a number of years.

The key principles that may be derived from current practice are as follows:

1) the borrowing unit of government must have the ability to repay the loan,
2) the cumulative debt burden should not be excessive, and
3) the length of time for the loan repayment should not exceed the economic life of the asset, i.e., the period of time over which the benefits will flow to the community.

Although these principles are interrelated, it is useful to discuss each one separately. The first of these principles, the ability to repay the loan, suggests that the government must have revenue sources that have some degree of certainty in generating enough revenue to repay the loan. This implies own source revenue over which the municipality has some control, and if possible some potential for growth of the revenue source. There is a natural check in this principle in that lending institutions and potential investors in bonds would not lend money to government units that are not considered to be capable of meeting this principle. Furthermore, bond rating agencies such as the Canadian Bond Rating Service, Standard and Poor, and Moody's serve the function of aiding investors in knowing whether this and other principles are being met. The second principle, excessive debt burden, is related to the first in that it also reflects ability to pay. However, it goes beyond the issue of having own source income and suggests that the cumulative debt should not be overly burdensome to the point where debt or other obligations cannot be met. Governments will continue to have operating expenditures that are needed to provide services.

Consequently, governments, like individuals, should not have excessive cumulative debts. It is also important for government officials to remember that additional capital expenditures will also lead to additional expenditures in the operating budget. If additional, not replacement, capital facilities are provided in a community, it is important to consider that these new facilities may have both staffing requirements as well as operating and maintenance costs associated with them. For example, new fire halls or libraries require additional staff. New buildings require heat and lighting costs to be incurred. New parks must be maintained.

The third principle, matching the timing of costs and benefits, simply makes good economic planning sense. This principle is operationalized by ensuring that the repayment period for a bond to finance an asset does not exceed the conservative expected economic life of the asset. If this principle is followed, the capital asset will be fully paid for prior to it being necessary to replace it. This is clearly preferable to the other alternative where after an asset is no longer serviceable or providing benefits it requires replacement. This would lead to the unenviable position whereby the replacement asset would also have to be paid for at the same time payment is still being made for a defunct asset. This approach would unnecessarily place additional stress on budget resources.

Although these three principles are rational and are used to establish guidelines and regulations by a number of provinces, they are not necessarily used or adhered to by all governments or government agencies across Canada. As will be discussed in describing the provincial regulation of municipalities, the regulations based on these principles tend to apply to municipalities, but they may not guide the practice of the federal and provincial governments and their related agencies, boards, and commissions. The resulting impact is that municipalities across Canada often have better control of their debt than do senior governments.

In order to obtain an understanding of the magnitude and impact of municipal debt in the provinces across Canada, Table 1 displays data regarding municipal debt charges both in terms of the total amount of the charges and as a percentage of total municipal expenditures. The table shows this data for two points in time, 1983 and 1993. Debt charges refer to municipal expenditures for the purpose of repaying the principal and interest on money borrowed through the use of bonds. The data indicate a significant range of debt charges as a percentage of local expenditures across the provinces ranging, for 1993, from a high of 18.9 percent in Newfoundland to low of 2.2 percent in Ontario. Clearly, Newfoundland is an extreme as the next highest percentage is 9.7 percent in Quebec.

Table 1 - Debt Charges as a Percentage of Local Government Expenditures

	1983			1993	
PROVINCE	DEBT CHARGES	% OF TOTAL EXPEN.	PER CAPITA DEBT CHARGES	DEBT CHARGES	% OF TOTAL EXPEN.
Newfoundland	$40,358,000	18.6	$71	$73,058,000	18.9
Prince Edward Island	$5,459,000	5.9	$44	$13,804,000	8.3
Nova Scotia	$58,757,000	5.4	$69	$64,171,000	3.3
New Brunswick	$36,197,000	12.3	$52	$35,618,000	6.4
Quebec	$990,243,000	10.7	$154	$1,613,135,000	9.7
Ontario	$505,767,000	3.6	$59	$729,788,000	2.2
Manitoba	$100,747,000	6.8	$98	$154,392,000	6.0
Saskatchewan	$53,074,000	3.5	$55	$56,532,000	2.6
Alberta	$582,285,000	10.5	$260	$713,683,000	8.7
British Columbia	$443,810,000	11.3	$162	$675,553,000	8.7
Northwest Territories	$1,918,000	3.1	$83	$5,369,000	3.1
Yukon Territory	$1,751,000	9.2	$38	$1,160,000	2.4

Source: Information in the table is calculated from data in the Canadian Tax Foundation's *Finances of the Nation*, 1995, Tables 17.8 and 17.9.

By displaying data for two points in time, 1983 and 1993, it is possible to assess if debt charges as a percentage of total expenditures has been increasing or decreasing in importance as an expenditure item in local government. The data show that in all provinces the percentage has decreased over this period except for Newfoundland and Prince Edward Island. Of the two provinces that experienced increases, the magnitude of the increase was only significant in Prince Edward Island, from 5.9 to 8.3 percent. Of the provinces in which decreases were experienced, the largest decreases were exhibited in the Yukon Territory, 9.2 to 2.4 percent, and New Brunswick, 12.3 to 6.4 percent. It is important to remember that this data is an aggregate municipal figure and that there may be significant variations among municipalities within a province.[1]

Given that the composition of expenditures may clearly change over a ten-year period as well as the course of revenues for the expenditures, it is also useful to examine debt charges on a per capita basis. The data indicate that per capita debt charges increased in eight of the jurisdictions, remained approximately the same in two, and decreased in two jurisdictions. Of those eight that had expenditure increases, there were only very large increases in Newfoundland and Prince Edward Island. The figures in the table are not adjusted for inflation and therefore tend to overstate the real per capita increases.

The report is organized in the following way. The next section of the report reviews the provincial findings based on the survey responses, interviews, and recent reports and legislation in the various provinces. A description is provided for each province and territory A comparative analysis of the provinces is provided in the third section. The key variables or attributes of the provincial regulatory systems identified in the surveys are compared. The next section, Chapter 4, presents the information obtained from the municipal surveys and interviews. Finally, the last section summarizes the findings and draws conclusions regarding trends in provincial regulation of municipal borrowing, an evaluation of current approaches, and expectations of future changes in this policy area.

[1] As indicated in the source to Table 1, the information in the table was calculated based on data in the Canadian Tax Foundation's *Finances of the Nation*, 1995 (Tables 17.8 and 17.9). This provided for comparisons across provinces using the same basic data. However, two provinces have suggested that they have different numbers for some of the items listed in the table. For example New Brunswick has indicated that municipalities budgeted for $50,406,007 of debt service in 1993 resulting in a debt service cost ratio of 13.6%. Quebec also indicated that their data has some different numbers in it resulting in a 1993 debt service cost ratio of 19.6%. These discrepancies reflect variations between various items being included or differences between estimates and actuals. Table 1 does permit comparisons across provinces using common data approaches for all provinces.

Chapter 2

Provincial Regulations for Municipal Capital Borrowing

Existing Provincial Regulations on Municipal Capital Borrowing

This section of the report will describe the current structures of the provincial regulation of municipal capital borrowing in each province/territory. Each province and territory will be described separately in terms of the characteristics of the regulatory environment that have been identified through the survey, interviews, and literature that has been acquired. The information to be discussed includes the regulations required to borrow; the board, department or agency who may be required to approve the borrowing; the structure of the approval entity; the legislative basis of the regulatory controls; any perceived problems or difficulties with the current process; and recent, proposed, or soon to be considered changes to the regulatory environment. The level of detail provided for the jurisdictions is somewhat unbalanced, with significant detail being provided for some provinces while other descriptions reflecting the more simple response provided by the surveys and/or interviews. This variation reflects the variation in available literature and documentation available, especially regarding the history of changes in the regulatory environment.

Newfoundland

In Newfoundland, the authorization for municipal capital projects is the responsibility of the Provincial Cabinet. Its decision is based on recommendations from the interdepartmental Municipal Capital Projects Board that reviews all requests for capital works. Cabinet approval is required in order to obtain official government guarantees. These guarantees for bank loans are issued by the Minister of Finance, while the approvals to borrow are issued by the Minister of Municipal and Provincial Affairs. This structure, which includes participants from a broad range of provincial agencies, is established under the Municipal Grants Act and the Municipalities Act.

The Municipal Capital Projects Board consists of nine members representing five different Provincial departments. It consists of five members from the Department of Municipal and Provincial Affairs, one member from the Department of the Environment, one member from the Department of Works, Services and Transportation, one member from the Department of Health, and one member from the Department of Fisheries and Agrifoods. As the Board members are provincial employees they are already paid for their work and receive no additional compensation. In order to apply for authority to borrow, a municipality must submit its annual five-year capital plan for review by the Board, which will ultimately lead to a decision by Cabinet. This process relates to projects for which a government guarantee is being requested. For projects not requiring a government guarantee Cabinet approval is not necessary. In these cases the Minister of Municipal and Provincial Affairs (MPA) has the authority to issue the necessary approvals to borrow.

There are several types of restrictions that are operative on the amount of capital borrowing that will be undertaken in a given year. These restrictions are more directly related to approvals than to any guideline specific to municipal finance or debt capacity indicators. Capital borrowing for major projects such as water and sewer systems is restricted to the amount of funding (if any) which the Province approves and guarantees each year. Capital borrowing for smaller items, such as a pickup truck, is restricted to the amount of the approval to borrow issued by the minister of MPA. Also, some larger municipalities restrict their debt charges to a certain percentage of revenues. The process for approval is the same for all municipalities. They do apply for and must receive approval to borrow for specific assets. Municipalities can expect a turnaround time of six to nine months to receive authority to borrow for capital works requiring a government guarantee. The Board meets two or three times a year to review requests for authority to borrow. Any costs incurred by the Board are not recovered from municipalities.

Once authority to borrow is obtained, municipalities must agree in writing to accept the funding on a cost shared basis stipulated by the Department of Municipal and Provincial Affairs. This condition is established by cabinet during the approval process for capital works. Long-term financing is generally obtained from the Newfoundland Municipal Financing Corporation, a crown corporation established for the purpose of selling provincially guaranteed debentures, recently serial debentures, and using the proceeds to purchase municipal debentures. However, municipalities are free to borrow on their own from a financial institution provided there is no government guarantee required. When borrowing is to take place there is no requirement for a public hearing or advertising. If municipalities desire to pay off their long-term debt early, they are permitted to do so provided they are prepared to pay an appropriate penalty, and provided they do not request a government guarantee for any bank loan that they may use.

With regard to changes in the regulations related to municipal capital borrowing, there has been little change in recent years. In June 1996, the Municipal Grants Act ceased to exist. This, however, did not result in a significant change as the provisions of the Act have been re-enacted in the form of policy of the Department of Municipal and Provincial Affairs.

Prince Edward Island

On Prince Edward Island, presumably due to the small size and lack of bureaucratic complexity required for smaller government units, capital borrowing is not a complicated issue for municipalities. They do not have to receive borrowing approval from an authorizing agency to borrow for capital projects. Borrowing procedures and restrictions are outlined in the Acts that give municipalities their municipal powers. Currently there are three such Acts in effect; the Charlottetown Area Municipalities Act, for the City of Charlottetown and the Towns of Stratford and Cornwall; the City of Summerside Act for that city; and the Municipalities Act for the remaining seventy-one municipalities.

Under the Municipalities Act, councils may issue debentures to raise money to provide services identified in the Act as being the responsibility of municipalities. Councils may not borrow money for capital expenditure unless the proposed borrowing is approved by the residents at the annual meeting or a special meeting called for that purpose. Councils are restricted in that they may not borrow money for capital expenditure if the borrowing results in increasing the debt to the municipality in an amount in excess of 10 percent of the current assessed value of real property in the municipality. The 10 percent regulation may be exceeded in exceptional circumstances, but only with the approval of the minister.

The Charlottetown Area Municipalities Act is more restrictive, but it does not require the citizens to approve the issuing of debentures. This Act indicates that council may not borrow money for capital purposes if the result of the new debt would be to raise the debt of the city to an amout in excess of 5 percent of the current assessed value of real property. Only for special projects or in exceptional circumstances may this regulation be exceeded with the permission of the Lieutenant Governor in Council. The exact same regulations and conditions apply in the City of Summerside Act.

There is no indication that there is any discontent or problems with the current regulations. Consequently, there is no expectation that any changes will be proposed in the near future.

Nova Scotia

Currently changes are being considered to the regulations in approval of municipal capital financing in response to the final report of the Capital Planning and Financing Processes Committee. Key recommendations of this report will be described after the existing regulatory system is described. In the Province of Nova Scotia ministerial approval is required for municipalities to obtain authority for municipal capital borrowing. The legislative basis of this power is the Municipal Affairs Act with various other rules and policies being set out in the Municipal Accounting and Reporting manual. The process for obtaining the authority to borrow begins with the submission of a capital budget. At this point when a specific project is identified council will request the preparation of and approve a temporary borrowing resolution. The next step would be to submit the documentation to the minister to approve a long-term borrowing resolution.

Once submitted to the minister, the following guidelines are used in reviewing the application:

1) A municipality’s existing and projected gross debt service costs should not exceed 30 percent of property tax and other own source revenues. Other debt service charges are attributable to the property tax base and should be included in the 30 percent figure. For debt charge projection purposes, a 20-year amortization should be used unless the useful life of the asset being funded is for a shorter period of time.

2) The Minister may make adjustments for the federal or provincial debt charge service cost share when applying guideline 1.

3) All borrowing is to be approved on a project by project basis.

4) When requested a municipal unit shall submit a schedule of debt charge and own source revenue projections and ratios prior to the Minister’s approval of capital borrowing.

5) Only those units that are financially independent are permitted to borrow for capital purposes.

6) In the event that a unit wishes to proceed with a project that will result in exceeding guideline 1, that unit may conduct a plebiscite to request voter approval to proceed with a project. The Minister will not be bound by the plebiscite but take it into account when making his decision.

7) Exceptions to the above guidelines can be made in cases where a municipality is legally required to undertake a project. Any debt service cost excesses should be eliminated as soon as possible through the postponement of other capital works until the debt service guidelines are not exceeded. (Nova Scotia Department of Municipal Affairs, 1992)

The process for approval is virtually the same for all municipalities as outlined above with a few minor variances. For example, proposed borrowing must be advertised by villages while it is discretionary for other municipalities. Borrowing is undertaken through the issuance of debentures based on authority for specific assets. Early repayment is not permitted for these debentures. The long-term financing is arranged through the Nova Scotia Municipal Finance Corporation.

Municipalities are required to prepare a three-year capital budget in a format prescribed by the Province. The format prescribed by the Province was recently adopted in response to recommendations made in a final report that reviewed the Province’s capital planning and financing processes. (Capital Planning and Financing Processes Committee, 1995) There are not currently any additional initiatives related to infrastructure planning or maintenance.

With regard to changes in the current system of regulating municipal capital borrowing, a committee was established to review this topic that resulted in several interesting reports. The first report examined issues and options related to optimal debt capacity for local governments. (Department of Municipal Affairs, 1994) It provided input into the recommendations in the Final Report of the Capital Planning and Financing Processes Committee. Of the committee's six recommendations, the Province has indicated that the following three are being considered for adoption:

1) That the Minister prescribe a borrowing limit mandating the submission of a comprehensive debt policy for those municipal units with debt service ratios in excess of 10 percent. All debt policies will be subject to the approval by the Minister of Municipal Affairs.

2) That the Department initiate a feasibility study concerning the sale of community bonds by municipal units in Nova Scotia; and

3) That depending upon the results of this study, the Municipal Finance Corporation Act be amended to allow the sale of such bonds by municipal units in Nova Scotia. (Capital Planning and Financing Committee, 1995)

New Brunswick

The legislative basis of regulation regarding municipal capital borrowing in New Brunswick is the Municipal Capital Borrowing Act, which was approved in 1963. Until recently, there has not been any in-depth review of the Act. Other acts that contain relevant regulations related to this activity are the New Brunswick Municipal Finance Corporation Act, the Municipal Debentures Act, and the Municipalities Act. In addition to these acts there are several important regulations including Regulations 84-21 and 84-113 pertaining to the Municipal Capital Borrowing Act and Regulation 82-241 pertaining to the Municipal Debentures Act. In 1995 a review of the Municipalities Act was initiated by the Minister of Municipalities, Culture, and Housing. A committee comprised of government officials and members of the three municipal associations was given the mandate to examine municipal financial administration and therefore also to review the Municipal Capital Borrowing Act. This review resulted in a number of recommendations to change the regulations regarding municipal capital borrowing. (New Brunswick, Department of Municipalities, Culture, and Housing, 1996)

Approval for municipalities to undertake capital borrowing must be obtained from both the Municipal Capital Borrowing Board and the Minister of Municipalities, Culture, and Housing. In addition to the above noted acts and regulations, the Board has issued a guide which sets out several important policies regarding the definition of capital assets, amortization periods, and maximum debt cost ratios. (New Brunswick Department of Municipalities, Culture, and Housing, 1994) The Board itself is comprised of six members all of whom are provincial government employees. Consequently, they receive no additional compensation beyond their basic government salary. The composition of the Board consists of three members representing the Department of Municipalities, Culture, and Housing; and one member each from the Department of the Environment, Department of Finance, and Office of the Comptroller. Board meetings are required to be held on the second Monday of each month from September through June. The Chair of the Board is the Deputy Minister of the Department of Municipalities, Culture, and Housing, who may, by regulation, call special hearings if they are necessary.

The process to obtain authority to borrow for a municipal capital project is outlined in Figure 1. Following the outline, the eight steps in the process are described in greater detail.

Figure 1 - Process to Obtain Authority to Borrow for a Capital Project - *The Case of New Brunswick*

STEP 1 - COUNCIL RESOLUTION

- Council officially records its approval of financing arrangements

STEP 2 - ADVERTISEMENT

- Notice of Hearing is prepared for publication for two consecutive issues of local paper, and
- One issue of the Royal Gazette

STEP 3 - APPLICATION TO THE MUNICIPAL CAPITAL BORROWING BOARD

The following information must accompany an application:

I. Resolution of Council
II. Project Description
III. Capital Budget (optional but recommended)
IV. Capital Plan (optional but recommended)
V. Debt profile and budget estimates
VI. Disposition of outstanding authority
VII. Confirmations

STEP 4 - DATES OF PUBLIC HEARING PUBLISHED

- Twice in local paper, once in The Royal Gazette

STEP 5 - PUBLIC HEARINGS

STEP 6 - MINISTERIAL APPROVAL

- Minister of Municipalities, Culture, and Housing approves authorizations granted by Board

STEP 7 - INTERIM FINANCING

- Ministerial order is used to obtain interim financing to begin project

STEP 8 - LONG-TERM FINANCING

- Financing arrangements made with New Brunswick Municipal Finance Corporation when project is complete

Step 1: Council Resolution
After a municipal council has decided to undertake a project for which it requires borrowing, it is necessary to officially record its approval of the financing by adopting an appropriate resolution. The resolution must be certified and sealed with the municipal seal prior to being forwarded to the Secretary of the Municipal Capital Borrowing Board.

Step 2: Advertisement
As part of the application to the Municipal Capital Borrowing Board a specific form must be filled out that, once vetted by the secretary of the Board, is returned to the municipality for placement in a local newspaper. This "notice of hearing form" indicates the time, location, and date of hearing. After the notice appears in a newspaper, the pages of the advertisement must be submitted to the secretary of the Board as evidence of local advertising. The Board will publish the notice of hearing in the Royal Gazette approximately two weeks prior to the hearing. In this notice it is important that the purpose for the proposed borrowing is clearly indicated. Only in cases where borrowing for a capital expense in which the total sum shall be repaid within three years by Federal or Provincial grants is advertising not required.

Step 3: Application to the Municipal Capital Borrowing Board
Applications submitted to the Board must include the following information:

a) a sealed copy of the resolution of council;
b) description of the project including a clear indication of the service for which the project is being undertaken in accordance with the following categories: General Government, Protective, Transportation, Environmental Health, Environmental Development, and Recreation and Cultural Services. A breakdown according to the object of expenditures is also necessary, i.e. land, building, engineering structures, etc. If the borrowing is for the acquisition of an asset, additional information about the land, buildings, and furnishing of the assets must be included;
c) the capital budget for the year in question, indicating both the source and application of funds;
d) an updated five-year capital plan is highly recommended;
e) the existing debt profile and budget estimates. This information on the percentage increase in these areas will help to form the basis of the Board's decision;
f) all outstanding authority to borrow that has already been approved and to indicate the year in which the long-term financing will be undertaken; and
g) confirmations regarding grants from the appropriate granting authority, technical approval for water and sewer projects, and cost sharing where this is to occur in conjunction with local service districts.

Step 4: Dates for Public Hearings Published
As indicated earlier, it is required that this information be published twice in a local newspaper and once in The Royal Gazette.

Step 5: Public Hearings
The Municipal Capital Borrowing Board holds a public hearing on the advertised date, where the application is reviewed by the Board and is either accepted or rejected.

Step 6: Ministerial Approval
If the borrowing is accepted by the Board, its decision must be approved by the Minister of Municipalities, Culture, and Housing before a municipality may proceed with its projects.

Step 7: Interim Financing
Once the Ministerial order has been received, a municipality may obtain interim financing from a lending institution in order to begin the project. The rate of interest for this loan will be negotiated but is not permitted to exceed the chartered banks' prime lending rate.

Step 8: Long-term Financing
Once the project is completed and the final costs are established, arrangements for long-term financing are made with the New Brunswick Municipal Financing Corporation. This corporation has been established for the purpose of issuing debentures for municipalities as well as their approved agencies and corporations. The Corporation loans money to municipalities at the same rate of interest obtained by the Corporation. By having this provincial agency act collectively on behalf of the municipalities they obtain significant savings on borrowing costs. The Corporation normally undertakes two debenture issues each year.

Central to the process is the role that the Board plays and the policies that it has related to the approval of capital borrowing. Several universal restrictions are applied by the Board:

1) The maximum debt cost ratio is 20 percent,
2) The maximum annual borrowing is 2 percent of the assessed value of real property unless a plebiscite has been held where 60 percent or more of those voting are in favour of the proposed borrowing,
3) The maximum cumulative borrowing is 6 percent of the assessed value of real property, and
4) Capital borrowing for the provision of sewer and water facilities or electrical facilities is not considered as money borrowed and is therefore exempt from these restrictions.

Once the hearing is held, a final decision is generally obtained within two weeks. When this is combined with the requirement to advertise for the public hearing one month before the hearing, the total approval time is approximately six weeks. There is no cost to the municipality for issuing Board authorizations to borrow for capital expenditures. The Municipal Finance Corporation, however, levies a small fee for administrative and issuance costs associated with municipal debenture issues, which is deducted from the proceeds transferred to municipalities. Expenses include such items as discounts, placement fees, and an administrative levy, and, if the issue is sold to the Province's sinking and trust funds, a fair pricing opinion. The Province reports that on average these fees amount to 1-2 percent of the total issue.

The one municipality that is an exception to the general components of the process is Saint John. It is not required to seek authority to borrow from the Municipal Capital Borrowing Board. It may apply to the Corporation for long-term financing without going through the approval process. However, in addition to applying for long-term financing from the Board, it is limited in other sources of long-term financing to the Province of New Brunswick or the Government of Canada.

Debentures are used as the financial instrument for long-term debt. While applications are made for specific assets, approval is granted by municipal service. For example, Protective Services includes fire, police, ambulance, emergency measures, inspection, and animal control. A typical authorization would approve borrowing for an amount not exceeding $50,000 for Protective Services for a term not exceeding five years. The intent of the authorization is for the specific asset for which authorization was sought. The legislation does permit municipalities to apply for a change of purpose for a specific authorization if they require it. Municipalities are not allowed early repayment. However, if a municipality requests financing options within the term of their debenture, an opportunity to pay down the outstanding principal is available at the time of refinancing.

The Municipal Capital Borrowing Act defines capital expense as an expenditure for a tangible asset that confers a benefit on a municipality for a period exceeding one year. It also defines those expenditures that are considered to be related to the purchase or construction of a tangible asset. The Province strongly recommends that municipalities prepare five-year capital plans in addition to the annual capital budget. Occasionally, the Board has required a municipality to prepare such a plan. This encouragement is supported in the “Guide to Municipal Borrowing” that demonstrates how to prepare a capital plan. (New Brunswick, Department of Municipalities, Culture, and Housing, 1994)

The recent Provincial review of the municipal capital borrowing process examined a number of options that might be used to streamline the approval process by reducing the number of approvals that the Board would have to deal with and at the same time maintain the fiscal integrity of New Brunswick municipalities. A number of options were discussed including extending the Saint John exemption to all cities or perhaps even a wider range of municipalities.

A second option would be the use of thresholds to streamline the process by not requiring approval for municipalities that have exisiting debt measures falling below certain thresholds. It is suggested that the approval authority could be amended for those municipalities that have a low debt cost ratio, a median tax rate, and have demonstrated fiscal responsibility. An analysis of historic levels of these thresholds are presented to demonstrate the number of municipalities affected by using various thresholds. A third option is the exception approach where an exception to the approval process is granted if the debt cost ratio is not near the Board’s recommended 20 percent level, and the impact of the additional borrowing on the tax rate is minimal. The final option is referred to as the annual capital budget method whereby municipalities would submit their approved capital budget to the province along with their operating budget. In addition, they would publish their capital plan in the newspaper. The Province would then use all of these documents to assess the debt capacity and expenditures submitted in the capital budget. The significance of the review and the options discussed is that all of them appear to have the objective of streamlining the process, being more flexible, and providing more local autonomy provided fiscal administrative capability is demonstrated.

Quebec

Quebec legislation governing local governments makes provision for different ways of financing capital expenditures. There are three ways of approaching long-term borrowing: borrowing bylaw, financial commitment, and working capital.

Borrowing Bylaw

According to Quebec municipal legislation, a municipal council may adopt a bylaw to obtain the monies required to undertake upgrading projects or new construction within its jurisdiction. The council must receive approval from those persons eligible to vote and from the Ministry of Municipal Affairs so that the borrowing bylaw becomes a public document and is implemented. When legal procedures are in order, the bylaw can then be applied. Only a new bylaw can negate or modify the one already in place. Quebec municipalities must receive approval from those persons authorized to vote with the exception of the cities of Montreal and Quebec.

Financial Commitment

A municipality may commit its credit for a period of five years or more. The municipality must first obtain the approval of the Ministry of Municipal Affairs except in the case of an agreement on the payment of professional wages, a labour contract, or an intermunicipal agreement. The Ministry of Municipal Affairs may require that the resolution or bylaw setting out the credit guarantee be put to a public vote. The financial commitment authorized by a municipality for capital expenditures must be included in the municipality's debt servicing.

Working Capital

The Quebec Cities and Towns Act and the Quebec Municipal Code allow a municipal council to create a working capital fund or to increase the amount of same. In this regard, the municipality must adopt a bylaw to allocate to the accumulated surplus of the administrative fund or a part of it, levy a special tax created for that purpose, or use both methods at the same time. The amount of the working capital may not exceed 10 percent of the credits allowed for in the municipal budget of the current year. The municipal council may, through resolution, borrow from this fund for the purposed of capital expenditures. This loan bears no interest and must be repaid within five years. The monies borrowed from the working capital are also included in the municipalities' debt servicing and must be reimbursed to the terms set out in the municipal legislation in Quebec.

Approval will be obtained only after detailed analysis is undertaken by legal and financial analysts in the ministry. If there are no problems with the bylaw or its impacts, these analysts will give a positive recommendation to the minister. When the project is completed and the long-term financing is to be put in place by debentures, the issue does not have to be approved if the "public calling for bids" procedure is used. The legislative basis for the structure of the process is embodied in the Cities and Town Act and the Municipal Debt and Borrowing Act.

There are regulations and guidelines that are applied to the approval decision by the Minister and his analysts. For example, borrowing can only take place for purposes or activities that are specified in the legislation. Furthermore, there are regulations regarding such issues as the term of the debenture debt, i.e. maximum twenty years. Also, in determining whether additional debt is appropriate for a specific municipality, criteria based on ratios of key financial data are used. These ratios include the ratio of indebtedness to a standardized valuation of wealth; and the ratio of debt payments (interest and capital) to total expenditures. Once a bylaw is submitted to the ministry for approval, it takes approximately twenty days before the final approval is given.

Basically the process for obtaining borrowing approval is the same for all municipalities in Quebec. The only variation is for some large cities such as Montreal, Quebec, and Laval, which have some overriding regulations specific to their charter. There may, for example, be some minor adjustment in what are acceptable ratios for municipalities with larger budgets.

The borrowing authority is given on specific assets with the term of the debenture being related to the economic life of the asset. Borrowing is undertaken through the issuance of debentures. After a borrowing bylaw is adopted and approval is obtained from the Minister, a public notice, i.e. call for tenders, is mailed to all underwriters of municipal debentures. Municipalities may therefore issue their own debentures, or ask the Ministry of Municipal Affairs to do the calling for tenders on their behalf. If municipalities wish to issue debentures on the foreign market, they must deal through the Ministry of Municipal Affairs as the Province controls all transactions on the foreign market.

Three-year capital plans must be completed by all municipalities. The Province specifies some of the information that must be included in these plans, such as the specific object of expenditure as well as the amount and the instrument that will be used for long-term financing. Until recently (1996) these plans were required to be submitted to the Minister. With regard to infrastructure planning and maintenance, the Province has initiated financial programs to help municipalities to renew water and sewer systems.

Other than municipalities no longer being required to submit their capital plans to the Province, there are no significant recent changes in the provincial regulation of municipal borrowing. However, municipalities want the Provincial government to get out of the approval business. They argue that they are administratively responsible enough to manage their capital expenditures program without asking the Province for specific approval to borrow.

Ontario

During the 1990s Ontario has experienced changes in the municipal capital borrowing regulations that have streamlined the approval process within certain parameters or regulations determined by the Province. Municipalities in Ontario no longer require formal approval from a board or minister to borrow for capital expenditures. They are permitted to approve their own capital expenditures and borrowing provided that they are within their respective borrowing limits prescribed by the Province. However, the basic institutional framework for approvals is similar to what has been in place for over fifty years. This suggests the prime actor when approvals are required over this period continues to be the Ontario Municipal Board (OMB). However, with the recent changes there has been an expanded role for the Ministry of Municipal Affairs and Housing. An examination of municipal debt limits in the 1930s and the changes in the early 1990s is provided in a useful paper by Tassonyi. (Tassonyi, 1994)

The Ontario Municipal Board is an independent, quasi-judicial administrative tribunal that is established and governed by the Ontario Municipal Board Act. Both the number of members and appointments to the Board are the responsibility of the Lieutenant Governor in Council. Currently there are over thirty members of the Board who meet as often as required. With over eight hundred municipalities in Ontario, Board members’ work is a full-time commitment. Its principal responsibility is to hold public hearings on appeals of urban planning decisions made by municipalities. In addition, throughout its history it has also had responsibility for approval of municipalities issuing debt for capital facilities. This role has been reduced since 1993, when new regulations established that OMB approval is only required for capital borrowing when municipalities wish to exceed its established borrowing limit.

Despite this reduced role it is useful to review the role of the OMB in the 1980s in order to provide a contrast to the current practice that was put in place with the changes in 1993-94. The practice of the Board in the 1980s was to issue an information bulletin that described how it approached the process for approving the issuance of municipal debt. There was an attempt to establish an approval framework that would address the differences in fiscal and administrative capacity among Ontario’s municipalities. The Board established annual quotas for capital expenditures for those municipalities that normally submitted applications to the OMB. This was obviously undertaken for the large and high growth municipalities such as Metro Toronto, the various regional governments, separated municipalities, as well as some districts such as Muskoka, and counties such as Oxford. The basis of these quotas was data provided by the municipalities’ Financial Information Return that they are required to submit to the Province on an annual basis.

In 1987, the OMB established a guideline that was viewed as being reasonably stringent. The central component of the guideline was that not more than 20 percent of total revenue fund expenditures applicable to its own operations should be committed to capital formation. (Ontario Municipal Board, 1987) This is in contrast to earlier guidelines adopted by the board whereby guidelines were related to a percentage of the equalized assessment which existed in each municipality. These earlier guidelines were less understandable and proved to be less useful as the percentage of total revenue obtained from non tax sources began to grow. Other reasons such as interest rate fluctuations and other economic conditions were also cited as part of the need to change the guideline.

To operationalize the 1987 guideline, a more complex set of calculations was required whereby any existing debt charges from outstanding commitments were netted out of the calculation. This would provide what was remaining to service new debt commitments. Having established the remaining annual revenue fund expenditures available for debt service, this needed to be translated into current year actual capital expenditures. This was achieved by capitalizing this expected stream of expenditures over a twenty year period. From this resulting debt capacity, the current applications for a municipality that had been approved or received would be deducted to establish the balance of debt capacity outstanding.

It was possible to obtain approval for expenditures beyond the established debt capacity for high growth municipalities where projects were required to service future development. However, these municipalities were required to submit additional information to the Board. This included "pro forma" estimates that would indicate future flows of revenue resulting from the projected growth. In addition, other information that the board would take into consideration prior to making a decision included:

1) debt per household as compared to the Provincial average debt per household,
2) the trend of tax arrears as a percentage of the current levy,
3) total taxes and charges as a percentage of average household income as compared to the same percentage of similar municipalities,
4) total taxes and charges as a percentage of total household income as compared to the same percentage in similar municipalities,
5) the Board's general knowledge of conditions in the municipality,
6) the financial position of the municipality in general by reviewing its audited financial statements, and
7) capital budgets/forecasts. (Ontario Municipal Board, 1987)

As identified by the discussion above, power has been given to the OMB to approve municipal capital borrowing. This suggests that one of the relevant pieces of legislation in the regulatory structure is the Ontario Municipal Board Act. However, even more important is the Municipal Act and the most recent regulations regarding municipal capital borrowing that relate to that Act. These include Ontario Regulations 799/94 and 640/93. Although those regulations define the current state of municipal capital borrowing, there were some changes at the end of the last decade and early in this decade that are important to understand as part of the transition from the full OMB approval of the mid-eighties to the guideline approach with less reliance on Board approval, which reflects the current status.

Towards the end of the 1980s, concern began to develop around the need to renew existing infrastructure and to provide new infrastructure for growth and economic development purposes. With a growing provincial debt, the Province was unwilling to continually increase capital grants for a number of infrastructure items such as roads. The Province was also anticipating that the municipalities could bear a larger burden of operating costs for infrastructure. The 1989 Provincial Budget Paper E, "Municipal Government Finance," attempted to demonstrate why municipalities could bear a larger burden for infrastructure through capital debt financing. Municipalities in Ontario tended to be fiscally responsible and after the period of high interest rates in the early 1980s many municipalities attempted to rely as much as possible on "pay as you go" financing. Consequently the budget paper was able to show that municipalities tended to have relatively low debt levels relative to established guidelines and measures. The conclusion was that municipalities had the fiscal capacity to sustain additional debt and that they should therefore be the level of government to support infrastructure enhancements.

A committee was established entitled the Working Committee on Municipal Debt Issuance and Investment Policy that was comprised of representatives of the Association of Ontario Municipalities, the Ministries of Treasury and Economics and Municipal Affairs, and the Investment Dealers Association. The committees' mandate was to undertake an extensive review of both borrowing and the investing powers of municipalities. Ultimately recommendations were made in four areas: controls on borrowing powers, controls on investment powers, costly OMB requirements on selected applications, and changes to terms, definitions, and unclear legislative positions.

The recommendations of this committee lead to legislative change by the government in the areas of borrowing and investment powers. Bill 165 was passed in 1992. It gave new powers to the municipalities as of 1 January 1993. These powers included the ability of municipalities to undertake capital financial borrowing without OMB approval provided that a prescribed debt limit was not exceeded. This legislative change provided more discretion to municipalities, enabling them to act more quickly as they no longer required the four to six week approval process of the OMB with all the requisite paper work. It also gave additional responsibility to the Ministry of Municipal Affairs in calculating the debt limit for each municipality. The calculation to be undertaken by the Ministry is similar to the one previously used by the Board in approving municipal debt issuance. Essentially the formula was that annual payments relating to debt and financial obligations should not be greater then 20 percent of revenue fund expenditures.

The reduction of regulatory red tape of having projects approved on an individual basis creates efficiency and cost savings on both the parts of municipalities and the Province while effectively maintaining the same guideline that was in effect for some time. The results are less municipal staff time in preparation of Board submissions, less delays in undertaking the borrowing, and a reduction in the case load and time commitment of the OMB. Outside of the area of municipal borrowing approval there was a general concern regarding the case load of the OMB. Consequently, the reduced role of the OMB is consistent with attempts to address the problem regarding the caseload and backlog at the OMB.

Although the changes were welcomed and generally viewed as being progressive by all parties, some concerns were raised regarding the use of the long-standing guideline. The use of this guideline does not take into account the fact that all revenues are not within the control of the municipality. The most significant example of this is provincial conditional grants. Also, as expenditures increase, there is an automatic increase in the debt capacity of the municipality. These concerns lead to revisions in the regulations that came into effect 1 January 1995. The new regulations do not alter the municipalities' general ability to borrow and undertake financial obligations that extend beyond the term of the present council without OMB approval, but rather alter the calculation of the debt limit for this power. The revised formula for the calculation of debt limits is now that the debt limit for a municipality may not exceed 25 percent of revenue fund revenues, i.e. Ontario Regulation 799/94. This eliminates weaknesses in the old calculation by focusing the municipalities' ability to meet debt obligations based on their own source revenue.

In addition to the decentralization of decisions regarding debt, the reforms of the 1990s also increase municipal flexibility in issuing debentures in terms of the types of issuing instruments, including non-Canadian currency, and the method of repaying the debt. It is important to note that the same restrictions pertain to all municipalities in the Province. However, each municipality has a specific debt limit calculated by the Ministry of Municipal Affairs. If any municipality wishes to exceed this limit, it must apply to the OMB for the authority to undertake additional borrowing. The types of reasons the OMB might consider valid for giving permission to exceed the limit relate to high growth or potential environmental or health hazards. If an application is made to the OMB, the projected processing time has been identified as between six weeks and six months. The OMB is permitted to charge fees to municipalities. However, current practice is to charge only a filing cost which the Province reports over the past three years has covered only approximately 10 percent of total costs.

For the purposes of borrowing, capital is generally defined as any undertaking the cost of which or a portion of the cost of which is to be raised in a year or years beyond the term for which council was elected or is to be financed by the issue of debentures. In Ontario, debt is issued through the use of debentures which are in the form of general obligation debentures. Early repayment of the debentures is permitted if it is provided for in the original debenture bylaw. Prior to issuing debentures municipalities must pass a bylaw to issue the debenture. However, they are not obligated to advertise to the public that they intend to issue a debenture. Some municipalities may choose to call for tenders for an issue and consequently may advertise in a newspaper. Others may choose to issue debentures through fiscal agents, negotiated sales arrangements, or over-the-counter sales.

With regard to municipalities undertaking capital financial planning, the Province encourages this activity but does not formally require it. Municipalities are encouraged to prepare five-year capital plans to complement their annual capital budgets. However, there is no requirement for multi-year capital forecasts. In addition, the Province, through the Ministries of Environment and Energy, Transportation, Northern Mines and Development, and Municipal Affairs and Housing, has provided both financial and technical assistance to encourage infrastructure planning, as well as maintenance and renewal programs.

In conclusion, the regulation of municipal capital borrowing in Ontario has been streamlined and made more flexible for municipalities in recent years. The move has been to the use of guidelines to provide borrowing limits rather than requiring formal approval from the OMB each time debentures are to be issued. Under the current structure OMB approval is only required if the debt limits are to be exceeded. In addition to more local discretion, the Ministry of Municipal Affairs and Housing now has an expanded role in calculating the debt capacity for each municipality annually. There may be some municipalities who view the current regulatory environment as not flexible enough to respond in a timely manner to the ever changing conditions in the capital and financial markets. This concern reflects the need to have regular reviews of the existing rules and trends in the markets in order to make adaptive changes.

Manitoba

The are three primary acts that regulate municipal capital borrowing in Manitoba, The Municipal Act, the Municipal Board Act, and the City of Winnipeg Act. For municipalities other than the City of Winnipeg, it is the first of these, the Municipal Act, that sets out the procedures for obtaining authority and creating bylaws for capital borrowing both in a general sense and for local improvements. This legislation indicates that all capital borrowing bylaws require the approval of the Municipal Board. This Board is similar to the OMB in Ontario in that it is described as a quasi-judicial tribunal, and in addition to approving municipal capital debt, it make decisions regarding planning and assessment appeals.

The Board is currently composed of 25 part-time members appointed by Order-in-Council, plus one full time chairperson. These Board members, appointed by the government, are citizens who usually have some municipal experience. The Board meets as a three-person panel on almost a daily basis. The turnaround time when authorization is requested at the Board is professed to be generally within ten days. The Board members are paid on a per diem or per meeting rate. Members receive compensation at between $139 to $199 per day, while the rates for the chairperson would be slightly higher.

The Municipal Board must become involved in the approval of capital debt by municipalities when the financing of a project requires the recovery of costs over a period of years. This means essentially any bylaw of a municipality that provides for the borrowing of money not repayable within the year it is borrowed requires the Board's approval. The Municipal Act specifies that the Board becomes involved in the process only after the municipality has proposed a bylaw for debt which has had first reading and the municipality has advertised that a debt bylaw will be passed. It is at this point the Board becomes involved. The Board has the ultimate responsibility to limit the debenture debt of a municipality.

If in response to the advertising an objection is made to the bylaw, a public hearing is held by the Board. This hearing provides public scrutiny with regard to the costs of the project and how taxpayers will be affected by incurring the additional debt. Objectors have the opportunity to voice their concerns and proponents will have the opportunity to speak in support of the expenditure. In addition to weighing the public input into the process, councils are required to submit to the Board certain prescribed information including a five-year capital forecast. In addition to the proposed bylaw, they must submit an “application for bylaw approval” form which provides certain financial information. The Board will also have access to financial data prepared by the Municipal Advisory & Financial Services Branch of the Department of Rural Development to help inform its decision. When considering a borrowing bylaw, the board is bound by Section 64 of the Municipal Board Act which states:

“In dealing with an application the board shall consider
(a) the nature of the work, undertaking, or proposed project;
(b) the necessity or expediency thereof;
(c) the financial position of the local authority; and
(d) any other relevant matter;
and may refuse the application or require the local authority to vary the application, or may grant the application in whole or in part, or subject to conditions.” An interesting condition that the Act specifically states the Board may apply is to require that a municipality submit a borrowing bylaw for the sanction of its ratepayers or electors by taking a vote.

In considering the above issues, the Board policy identifies a set of criteria or indicators that may be developed from the requested information to help guide the decision. These tend to relate to the data that is submitted on the forms that the municipality must submit. One indicator that is similar to ones used by agencies in a number of other provinces is the “Use of Ratios as Criteria.” Two ratios are identified to be considered by the Board. The first is a ratio of authorized debt to municipal assessment. A ratio below the 7 percent range is considered within the normal range. A second ratio that they deem to be less reliable, i.e. more variable, is the ratio of debt charges to current revenue. In this case a ratio in the 20 percent range may be used as a guide. The Board is cautioned not to use these arbitrarily as there may be cases where higher or lower ratios may be acceptable. The Board is advised to examine these ratios in conjunction with the data on population trends presumably to give special consideration to high growth areas. Once all the evidence and data have been considered, a decision is made and an order is issued by the Board.

There is no cost recovery for the expenses of the Board other than the municipality paying a filing fee to the Board and possibly debenture fees if the Province is involved in their issuance. Long-term debt is issued through the use of annuity type debentures. These debentures may either be sold locally, sold through the office of the Department of Finance of the Province, or by investment by the municipalities.

The approach and regulations described above are applied uniformly to all municipalities in Manitoba except Winnipeg. The City of Winnipeg is required to apply to the Minister of Finance for authorization once they have first reading of a borrowing bylaw. The minister has the discretion of seeking the advice and recommendations of the Municipal Board regarding the application. However, to date this option has not been exercised. The requirements for obtaining the authority to borrow are set out in the City of Winnipeg Act. The minister shall consider the City’s financial position and may refuse the application, approve it in all or in part subject to conditions. No debt limits are established by the minister. The onus is on the City of Winnipeg to demonstrate its capacity to assume additional debt. Generally, the minister’s decision is received within one month of the City making an application.

The City of Winnipeg Act requires that the City Council adopt a five-year capital expenditure program in addition to the annual capital budget. The program must be prepared in the form prescribed by the Minister of Urban Affairs and two copies must be forwarded to the minister upon adoption. With regard to infrastructure planning and renewal, the Province committed $96 million under the Urban Capital Projects Allocation for the 1991-1996 period with $40 million being specifically targeted to infrastructure renewal projects. In addition, the Province had established for Winnipeg the Manitoba/Winnipeg Community Revitalization Program. Between 1985-96 the Province committed $1.2 million, as its 50 percent to this cost shared program, towards revitalization of several areas of the City.

The approach in Manitoba is one in which there is a highly regulated process with Board approval as a central feature. The only exception to this approach is for the largest City, Winnipeg. With respect to Winnipeg, the Province intends to introduce amendments to the City of Winnipeg Act to give the City greater flexibility in the area of debenture financing. These amendments will permit the City to enter into agreements to:

1) convert fixed interest rates on debt to floating rates,
2) convert funds borrowed in foreign currency to Canadian dollars,
3) look to foreign exchange rate for debt to be repaid in the future, and
4) convert floating rates to fixed interest rates.

It appears that the regulatory approach for other municipalities has been in place for some time, is stable, and is unlikely to be revised in the near future.

Saskatchewan

Municipal capital borrowing in Saskatchewan requires the authorization of the Saskatchewan Municipal Board (SMB), except for the four largest cities. There are three pieces of legislation that are relevant to the regulation; The Municipal Board Act, The Urban Municipality Act, and The Rural Municipality Act. Amendments to the Urban Municipality Act in 1995 permitted large municipalities to borrow without each debenture issue being approved by the SMB provided that they are within the established debt limits. The Municipal Board Act sets out the operation and composition of the Board. Currently, there are four full-time members and over thirty part-time members. In addition to approving municipal borrowing, the Board also hears appeals regarding planning and assessment matters. They generally meet as a two person Board and may meet as frequently as daily on financial matters.

The Board has a number of policies which it follows in assessing whether or not to approve debt for municipal capital purposes. Some of the items taken into account include the position that the period of indebtedness should not exceed the lifetime of the work being undertaken. The Board considers the individual economic and assessment bases on which the loan can be supported relative to the present and anticipated economic conditions in the community. As a general guide the Board considers a debt level of 15 percent of taxable assessment as the upper limit of debt unless special circumstances suggest otherwise. Each jurisdiction has its debt level established relative to its own overall financial position. The current level of services is taken into account and the ability to support them. Mill rate increases may be proposed to support the debt incurred. Any outstanding long-term financial commitments must be considered. The Board may advise the municipalities about the probable impact of approving the proposed loan on the ability to assume further indebtedness.

Under the Urban Municipality Act, municipalities may obtain approval to borrow within a debt limit specified by the Saskatchewan Municipal Board. This provides some administrative flexibility for these municipalities in that they do not have to seek approval for each debenture to be issued. Municipalities that are governed by The Rural Municipality Act do not have the same flexibility. They must apply for approval to issue debt for each specific activity after they have passed first reading of a bylaw to issue debt. In approving these bylaws the Board may impose conditions on the municipality. The Board may also require the municipality to submit the bylaw to a vote by the citizens. This has been seldom used. However, if this action is required and the vote is not to pass the bylaw, the Board shall not approve the bylaw.

As part of the process, proposed borrowing is advertised by the Municipal Board in the Provincial Gazette. In terms of cost recovery or fees for the approvals issued by the Board, this is limited and occurs through fees, filing fees, and debenture amortization fees. Once a municipality applies to the Board for authorization, the response time is generally less than two weeks for authorization and bylaw approval.

Municipalities may enter into long-term debt through debentures, bank loans, lease agreements, or other types of promissory notes. However, when issuing debentures they may be either sold to the public or to the Municipal Financing Corporation of Saskatchewan. Once debentures are issued, municipalities are permitted early repayment on some types of debentures subject to Municipal Board approval.

The Province requires all municipalities under the Urban Municipality Act to prepare and adopt a five-year capital works plan annually. After it is approved by council, a copy must be submitted to the Minister in a form approved by him or her. There are no other initiatives identified which attempt to encourage infrastructure planning or maintenance programs.

As previously stated there were some changes to the regulations for larger cities in 1995. There do not appear to be any other initiatives for change or review at this time and relatively few perceived problems are identified by the Province.

Alberta

There have been significant changes in legislation related to municipal borrowing in Alberta as the new Municipal Government Act took effect in January 1995. Prior to this change certain municipal borrowing bylaws were reviewed by the Local Authorities Board (LAB), that reported to the Minister of Municipal Affairs. Under the old system, after bylaws were certified by the LAB, the municipality could access funds either from the Alberta Municipal Financing Corporation (AMFC) or from another lender.

With the new legislation, the role of the Province has been mostly eliminated, and responsibility for borrowing rests with the municipality. The exception to local autonomy is when a municipality exceeds the debt or debt service limits established by the Province under an Alberta regulation. If the limits are or will be exceeded, the municipality must seek pre-approval to borrow from the Minister of Municipal Affairs.

The process is such that municipalities authorize borrowing for capital expenditures through borrowing bylaws provided they are within the specified debt limits. Provincial approvals will only be required if the debt or debt service limits have been or will be exceeded. In addition to the control under the new legislation, regulations are also used to regulate this activity (Alberta Regulation No.375/94). The process of review for approval if the debt limits are to be exceeded is that a staff member for the ministry reviews the file and then makes a recommendation to the Minister regarding whether to approve or deny the application. In more complex situations, the municipality may be directed to seek the services of an outside consultant to assure the Minister of the advisability of extending limits. A regulation is used to establish debt and debt service limits. The regulation provides a formula based on revenue as calculated in the most recently audited financial statements. Revenue is adjusted to exclude grants from the federal or provincial governments. The principal outstanding on any loans to not-for-profits or controlled corporations is also deducted from revenue before calculating the limits. The debt limit is 1.5 times revenue and the debt service limit is .25 times the revenue. The exceptions to this guideline are for the cities of Edmonton and Calgary, where the limits are increased to 2.0 and .35 times respectively.

The Municipal Government Act designates that each council must adopt a capital budget for each calendar year. Municipalities are encouraged to prepare long-range capital plans, but this is not a legislative requirement. The AMFC may require a municipality to provide a three- to five-year capital plan as part of its lending approval process. The Minister may also require a municipality to provide a capital plan. Examples of when this might happen are: (1) in cases where a municipality applies for approval to exceed the debt limit, or (2) if there are concerns over the financial health management of the municipality. Additional informational may be required by the Minister, including project details, estimates of any additional annual revenues, expected costs and cost savings resulting from the project, estimates and sources of funds planned for meeting the additional debt obligations, estimates of sources of funds for supporting the project, a copy of the borrowing bylaw that has passed first reading, and the long-range capital plan. The time frame for a decision on these applications depends on the complexity of the application. Generally, approval for extending the debt limit will only be in emergency or extraordinary situations. The intent is to keep the basic discretion within the municipality.

The public must be informed as the borrowing bylaw or resolution must be advertised as specified in the Municipal Government Act. It can also be subject to petition. This means the electors in the municipality have 15 days from the end of the advertisement to gather a petition from a minimum of 10 percent of the population to force the municipality to have a public vote on the bylaw.

Borrowing is generally undertaken through debentures, which are most often obtained through the Alberta Municipal Financing Corporation (AMFC). This is a Crown corporation set up in the 1950s to allow municipalities to borrow at fixed rates for extended periods. Municipalities may, however, borrow from other lenders. The AMFC Board must approve the debt that they finance. The Board has nine members and meets five or six times per year.

In addition to the requirement of an annual capital budget and the encouragement of preparing longer range capital plans, some attention has been given to infrastructure improvement programs. Alberta Transportation and Utilities has developed a series of infrastructure grant programs to address that particular sector.

Despite the recent comprehensive changes which provide significant local autonomy in undertaking borrowing for municipal capital purposes, there are several areas of concern. Municipalities would like to have the option to repay all long-term debt early without penalty. They wish to, if possible, pay off longer term debentures that have relatively high interest rates. Also, in direct response to the borrowing reform, concern has been raised about the length of time the borrowing process takes under the new regulations. The delays relate to the requirement to advertise all borrowing bylaws and the required waiting period for petitions to be followed before funds may be obtained.

British Columbia

In British Columbia long-term borrowing bylaws require the approval of the Inspector of Municipalities. The Inspector is appointed by an Order-in-Council and is an employee of the Ministry of Municipal Affairs and Housing. The authority of the position is spelled out in the Municipal Act. As the City of Vancouver has its existence based on the Vancouver Charter, it is exempt from the approval of the Inspector.

In order to obtain the approval, council must initiate a borrowing authorization bylaw and pass third reading. At that point the bylaw, along with any necessary supporting information, is submitted to the inspector for approval. There is also the need for a referendum as the legislation requires this approval for long-term borrowing. An exception to the required referendum is for long-term borrowing for water, sewage and drainage facilities, or facilities which are funded in part by the federal government. Borrowing for these projects require 2/3 approval of council but then must be advertised for thirty days and may be adopted directly only if less than 1/20 of the electors petition council for a referendum.

In approving borrowing, the Inspector is guided by formulae in the Municipal Act that are used to calculate the borrowing power limits for municipalities. Municipalities may not exceed their borrowing power without the express approval of the Inspector. The formula is more generous for cities, districts, and towns than for villages. The Inspector will consider, in addition to the borrowing power, the municipalities' financial capacity to repay the debt and whether the project is included in the municipalities' capital expenditure program. By legislation, municipalities are required to prepare a five-year capital plan. The usual turnaround time for approval is three to four weeks.

Long-term financing is then obtained through the Municipal Finance Authority of British Columbia via the municipalities' regional district. All of the previously stated approvals must be in place as well as approval of the regional district. The Authority issues debentures as the financing instrument with the potential to pay off obligations early only when debentures are being rolled over to different time payback periods.

In addition to the requirement that municipalities prepare five-year Capital Expenditure Plans, the other support for infrastructure renewal is in the provision of various infrastructure grants.

A number of concerns with the current system have been identified. First, the formula for borrowing is considered to be too generous. Very few municipalities are close to the limit. Second, all borrowing bylaws should not require the approval of the Inspector. Third, local governments find the assent, i.e. citizen voting requirements too onerous. Finally, the borrowing terms are too inflexible. Although there is no formal review of the borrowing regulations in process, there is some expectation that in the longer run some of these concerns will be addressed in changing trends toward deregulation. There is a need, for example, to provide greater flexibility in the regulations to permit opportunities such as public-private partnerships.

Northwest Territories

In the Northwest Territories, by legislation, all long-term borrowing must be approved by the Minister of Municipal and Community Affairs and in most cases by the ratepayers. The exception to ratepayer approval may be granted when the project is not a local improvement and general revenues are not being used to finance the project. The legislative basis of the above requirements is the Cities, Towns and Villages Act. The legislative regulations indicate that long-term borrowing may not exceed:

a) in the case of a City or Town, 20 percent, and,
b) in the case of a village, 10 percent

of the total current assessed value of all property in the municipality. In addition to these requirements, the application and associated bylaws are reviewed. The process itself does not vary by municipality and generally takes about two weeks to complete.

Any long-term borrowing that is financed by the Government must be approved by the “Debenture Review Committee.” This committee is comprised of two members from the Department of Finance and two from the Department of Municipal and Community Affairs. As these members are government employees, they receive no additional compensation. The committee meets as required based on municipal requests. The decisions that it makes are guided by the governments’ financial administrative manual directive, “Loans to Municipalities.”

Debentures are used as the instrument for issuing long-term debt. Borrowing requests are all processed in the same manner as general rather than on specific assets. Early payment of debentures is permitted but it is subject to prepayment fees.

Legislation requires that all municipalities must prepare an annual capital budget. In addition the Government of the Northwest Territories prepares a five-year capital budget that includes all municipal needs. In the Northwest Territories a significant number of communities are non taxed based and subsequently cannot undertake long-term borrowing. Consequently, their capital projects are funded through the Territories’ five-year capital budget. Each project is presented to the legislature with other estimates in the Territories’ budget. With regard to other infrastructure concerns, the Departments of Municipal and Community Affairs, Public Works and Services, and Transportation, as well as the Northwest Territories Housing Corporation, all have developed detailed asset management systems.

One problem that has been identified is that borrowing is restricted in that it can only come from the Federal Government, a province, territory, or a bank. This is considered too restrictive. This restriction may be removed. An amendment was proposed to provide more flexibility and has passed second reading. This change is part of the review of borrowing authority that is currently being undertaken as part of the territory’s municipal legislative review.

Yukon

The legislation which controls municipal capital borrowing in the Yukon is the Municipal Act. Authorization to borrow requires approval from the minister of Municipal Affairs in that he or she is required to sign the municipal bylaw that permits the borrowing to occur. In some cases taxpayers’ assent may be required in order to undertake borrowing for capital purposes. The process for a borrowing bylaw is that it must pass two readings, at which time it is sent to the minister for approval and signing.

The borrowing limits set by the Municipal Act relate to both the total debt for a municipality and the additional debt incurred in a given year. The Act states that the total principal amount of debt that a municipality may owe at any one time shall not exceed 2 percent of the current assessed value of all real property within the municipality. Furthermore, it states that the total amount that a municipality may borrow in one year shall not exceed one quarter of one percent of the current assessed value of all real property. The above total and annual limits may be exceeded if taxpayer assent is obtained for the bylaw that authorizes spending in excess of the limit. Taxpayer assent is achieved through a voting procedure as specified in the Municipal Act. These restrictions and procedures must be followed by all municipalities in the Yukon. In cases where taxpayer assent is not required, the turnaround time for receiving the minister’s approval prior to the third reading is approximately six weeks.

Long-term debt is secured by issuing debentures. The debentures are not for specific assets but rather are municipally backed instruments. The Government of the Yukon has been the direct lender to all but one municipal request in the past 15 years. In the one case the Yukon Government facilitated a long-term debenture for a municipality from the Canada Pension Fund. Early re-payment of Government of Yukon debentures is permitted. The Yukon Government will allow this, or renegotiate a debenture.

Under the Municipal Act municipalities are required to pass a bylaw by May 15th each year outlining a capital expenditure program for a period of at least five years showing expenditure estimates. With regard to infrastructure or maintenance programs, there is a provision for the Yukon Government to provide extraordinary funding on a project by project basis when infrastructure projects expense exceeds one and one-half times the comprehensive grant in a given fiscal year.

Changes may be considered to the municipal debt regulations and process as the entire Municipal Act is currently under review. Some municipalities have complained that the debt limit is too low. Some municipalities have wanted more freedom to borrow in the open market. However, historically the Yukon Government has offered the lowest rates and easiest terms to renegotiate. Finally, the requirement of ministerial approval of all borrowing bylaws has been questioned.

Chapter 3

Comparison Of the Key Borrowing Characteristics

The purpose of this section of the report is to compare the results of the provincial surveys and interviews with regard to some of the key variables regarding provincial control of municipal capital borrowing. Not all of the questions will be compared but only those that are considered to be the most significant or interesting.

Who Approves Borrowing ?

As indicated in Table 2, one of the key questions is whether capital borrowing must be approved at the provincial level in addition to any approval required at the municipal level of government. As is demonstrated in Table 2, the most common approach among the provinces, nine in total, is to require the minister to approve the capital debt. Furthermore, three of these provinces, Newfoundland, New Brunswick, and Manitoba, also require the approval of the respective board in the process. However, two provincial approvals are not required in Manitoba. Rather, legislation requires the City of Winnipeg to obtain approval from the minister while all other municipalities must obtain approval from the Manitoba Municipal Board. Alberta requires ministerial approval only if additional borrowing will exceed the stated debt limit for municipalities.

In examining which provinces require the approval of some form of board, the response is somewhat lower in that five of the provinces indicate that the approval of some form of board is required prior to undertaking capital borrowing. In Ontario however, board approval is only required if the specified debt limits are exceeded. If a municipality is below the specified level, no approval is required. In the case of the other provinces, however, board approval is typically required except where specific cities are exempt. Cities are exempt for the board approval process in both Manitoba and Saskatchewan. In Manitoba, the City of Winnipeg is exempt, while in Saskatoon the four largest cities are exempt. In Saskatchewan the exemption appears to be a decision based on the size and capability of the four largest cities while in Manitoba it arises due to the legislative basis of Winnipeg, the City of Winnipeg Act.

Table 2 - Who Approves Municipal Borrowing?

PROVINCE	MINISTER	BOARD
Newfoundland	✔	✔
Nova Scotia	✔	
New Brunswick	✔	✔
Prince Edward Island	N/A	N/A
Quebec		
Ontario		✔
Manitoba	✔	✔
Saskatchewan		✔
Alberta	✔	
British Columbia	✔	
Yukon Territory	✔	
Northwest Territories	✔	

One jurisdiction, Prince Edward Island, requires neither approval of the minister nor a special board. Prince Edward Island does not have these approvals due to its small size and lack of need for complex approvals. The restrictions imposed are embodied in three Acts that regulate municipalities.

There appears to be a trend toward reducing the need for approval, or as many approvals, by provincial bodies when municipalities desire to borrow for the purpose of capital facilities. Alberta and Ontario appear to be leading the way in this change with no provincial approval being required provided debt does not exceed the debt limit. Ontario has also reduced the regulatory approval process by permitting municipalities to borrow without board approval provided their debt is within the identified provincial guidelines. A number of other provinces have reported that they have completed or are in the process of reviewing their regulations regarding municipal capital borrowing, and they are anticipating some form of change that requires less bureaucratic control or approval.

The Structure of Approval Boards

As shown in Table 3, there appear to be two different groupings of boards in terms of both their composition and size. There are those boards that are smaller, Newfoundland (9) and New Brunswick (6), and comprised of provincial public servants. The second type of boards are those that are larger, with 30-plus members, and comprised of appointed members. These members who are appointed, in some cases on a part-time basis, generally have a background and experience in local government.

The east coast model for boards, i.e., Newfoundland and New Brunswick, not only has a different composition but also has a narrower range of functions associated with it. These boards tend to function within the expertise of the public servants and do not play a role in terms of adjudicating appeals from citizens or other actors regarding municipal decisions. The central Canada model for boards, i.e. Ontario, Manitoba, and Saskatchewan, has a much broader mandate than simply approving municipal capital borrowing. These boards have the additional mandate of hearing appeals regarding municipal planning decisions and in some cases property tax appeals. Consequently, a greater number of members are required due to the larger case load as well as the greater range of expertise required. Also, due to the nature of the appeals, appointees from the public may have better credibility from a public perspective.

Table 3 - The Structure of Approval Boards

PROVINCE	# OF MEMBERS	COMPOSITION
Newfoundland	9	5 Municipal and Provincial Affairs 1 Dept. of Environment 1 Dept. of Works, Services and Transportation 1 Dept. of Health 1 Dept. of Fisheries and Agrifoods
Nova Scotia	N/A	N/A
New Brunswick	6	3 Culture and Housing 1 Dept. of Environment 1 Dept. of Finance 1 Office of Comptroller
Prince Edward Island	N/A	N/A
Quebec	N/A	N/A
Ontario	30+	Appointed Officials

Manitoba	26	Appointed Officials
Saskatchewan	34+	Appointed Officials (4 Full-time, 30 Part-time); 2 members make up a quorum for decision making
Alberta	N/A	N/A
British Columbia	N/A	N/A
Yukon Territory	N/A	N/A
Northwest Territories	N/A	N/A

Restrictions on Capital Borrowing

There are many components to the restrictions on capital borrowing in each of the provinces. The details of these restrictions were described in the previous section of the report. At this point it is useful to compare several key elements regarding the way in which these restrictions are structured. Consequently, the comparison will focus on whether or not the regulations are universal to all municipalities in a province, and the nature of the guidelines or regulations for capital borrowing by municipalities.

In examining the restrictions across the province, it is useful to determine how many provinces/territories have regulations that pertain universally to all municipalities within the province, and how many have regulations that are differentiated by municipality type in any way. As indicated in Table 4, exactly half (six) of the jurisdictions have universal regulations. The other half have non-universal regulations which vary by a number of factors. In both British Columbia and Manitoba, one municipality comes under a different set of regulations – Vancouver and Winnipeg. In Saskatchewan, the four largest municipalities have a different set of regulations. Alberta has higher debt service limits and debt limits for Edmonton and Calgary than other municipalities in the province. In Prince Edward Island, there are three separate acts that govern municipalities with each one having some separate regulations regarding capital borrowing. Finally, the Northwest Territories have different approaches for cities and towns as compared to villages.

The second important variable to include in the comparison is the limits that are established for capital borrowing. Where limits are established for municipal capital borrowing these limits may be applied in either one of two ways. In one case they will be used as decision criteria for the approving board or ministry. Borrowing will only be approved if it is within the established limit. The second way in which limits are imposed is that they there is a level, specifically some ratio type of measure, below which municipalities may borrow without receiving authority. If a municipality wishes to enter into debt that exceeds that limit, approval of the authority is necessary. Once again these two applications of debt limits are essentially divided among the jurisdictions evenly. Those that use the borrowing limits as guidelines to approve municipal debt include Newfoundland, Nova Scotia, New Brunswick, Quebec, Manitoba, and Saskatchewan. Jurisdictions that allow spending up to a reasonable limit and then require approval if they desire to exceed it also number six. They include Prince Edward Island, Nova Scotia, New Brunswick, Quebec, the Yukon, and the Northwest Territories.

The limits that are established are expressed relative to one of two variables, or in some cases, limits are expressed relative to both variables. The first approach is to limit debt relative to some percentage of the assessed value of property in the jurisdiction. This approach is difficult to compare across jurisdictions unless the assessment relative to market value is known. A variation of this approach is to limit annual debt accumulations to a smaller percentage of assessment. The second approach is to set the limit relative to debt service where debt service shall not exceed some percentage of operating revenues. Two variations to this approach are applied: debt service as a percentage of total operating revenues, and debt service as a percentage of own source revenues. As previously indicated some jurisdictions apply multiple guidelines that incorporate measures based on both variables.

Table 4 - Nature of Restrictions That Limit Capital Borrowing

PROVINCE	RESTRICTIONS
Newfoundland	Universal Borrowing for major projects restricted to the amount which province approves and guarantees Borrowing for smaller items restricted to the amount of the Approval To Borrow issued by the Minister of MPA Some larger municipalities restrict annual debt charges to a certain percentage of revenues
Nova Scotia	Universal Existing and projected gross debt service costs should not exceed 30% of property tax and other own source revenues Only financially independent units may borrow
New Brunswick	Universal Maximum debt cost ratio of 20% policy Maximum annual borrowing of 2% of assessed value of real property Maximum cumulative borrowing of 6% of assessed value of real property
Prince Edward Island	Non-Universal 3 Local Government Acts Borrowing for capital expenditure cannot result in an increase of debt of the municipality to an amount in excess of 10% of the current assessed value of real property/or 5% of assessed value
Quebec	Universal Legislation defines purposes for which borrowing is allowed Borrowing Criteria: - ratio of indebtedness/standardized valuation of wealth - ratio of interest+capital payment/total expenditures
Ontario	Universal Municipalities cannot use more than 25% of their own source revenues for servicing debt and long-term financial commitments
Manitoba	Non-Universal Winnipeg is treated differently Board criteria: - maximum 7% debt to assessment - maximum 20% debt charges to current revenue
Saskatchewan	Non-Universal Depend on municipal status, borrowing purpose and financial health of mun. Urban Mun. - Temp. debt not to exceed sum of revenues from taxes and prov. or fed. grants. Long-term debt not to exceed amount authorized by SMB Rural Mun. - Temp. and long-term debt not to exceed amount of taxes levied in preceding year
Alberta	Non-Universal Debt limit is 1.5 times revenue, debt service limit is .25 times revenue Calgary and Edmonton - debt limit is 2.0 times revenue, debt service limit is .35 times revenue
British Columbia	Non-Universal Formula used to calculate “borrowing power” limit. Limit not to be exceeded without approval from Inspector Formula more generous to Cities, Districts, and Towns than Villages
Yukon Territory	Universal Amount of debt a municipality may owe cannot exceed 2% of current assessed value of real property Total amount a municipality may borrow in any fiscal year cannot exceed 1/4 of 1% of the current assessed value of real property
Northwest Territories	Non – Universal City or Town - borrowing cannot exceed 20% of assessed value of all property Village - borrowing cannot exceed 10% of assessed value of all property

Municipal Capital Plans

The issue of encouraging or requiring multi-year municipal capital plans is important in that it helps municipalities to plan and smooth out the pattern of their capital expenditures and borrowing requirements. In addition, it provides a first step toward municipalities undertaking infrastructure planning. Table 5 shows whether municipalities are required or encouraged to prepare these plans in each of the provinces and territories across Canada. It also shows the time frame that is required for these plans.

All jurisdictions except Prince Edward Island either require or encourage the use of capital plans in their municipalities. Of those eleven jurisdictions eight actually require the preparation of capital plans and three encourage them. Most of the required capital plans are for a five-year time horizon while the remaining are for a three-year period. It is only in Alberta where the plan is encouraged that a range from three to five-years has been given.

It is useful to point out that in addition to the mere existence of the plans, it would be desirable to examine the form and content of what is required and/or encouraged in the plan or the actual content of the plans. This analysis, however, is beyond the scope of this report.

Table 5 - Municipal Capital Plans

PROVINCE	REQUIRED	ENCOURAGED	# OF YEARS
Newfoundland	✔		5 years
Nova Scotia	✔		3 years
New Brunswick		✔	5 years
Prince Edward Island	No	No	N/A
Quebec	✔		3 years
Ontario		✔	5 years
Manitoba	✔		5 years
Saskatchewan	✔		5 years
Alberta		✔	3-5 years
British Columbia	✔		5 years
Yukon Territory	✔		5 years
Northwest Territories	✔		5 years

Public Input in the Municipal Capital Borrowing Process

There are two ways in which public input into the municipal capital borrowing process may arise. First, there may be a requirement that the municipality or the approval authority advertise the fact that an application has been made to borrow for a capital project and a decision on the application will be made at some specific meeting. The purpose of the advertisement may be to invite members of the public to participate in the meeting where the decision will be made after citizens have had the opportunity to voice their opinion. The second way in which public input may arise is through the requirement that citizens must vote if a municipality is to borrow money for capital purposes, or if they are to borrow above some provincially determined debt limit.

Table 6 indicates these types of requirements that exist in the provinces and territories across Canada. With regard to advertising the borrowing, most jurisdictions require it, others may advertise at their discretion, and one, Newfoundland, indicated that it is not required. Seven of the remaining jurisdictions require either the municipality or the provincial government agency involved in the approval to be required to advertise. The four remaining jurisdictions give discretion to the municipalities regarding whether they wish to advertise or not, with one exception. The exception is Nova Scotia, which allows discretion on the part of its cities. However, it requires that all villages advertise if they are planning to undertake any borrowing for capital purposes.

With regard to the public input for capital borrowing via some form of voting procedure, four provinces or territories have a procedure in place where this must or may be undertaken as part of the process. Those jurisdictions included in this group are Prince Edward Island, Alberta, British Columbia, and the Northwest Territories. Price Edward Island has several acts regulating borrowing. Municipalities under the jurisdiction of the Municipalities Act must approve proposed borrowing at an annual or special meeting. In Alberta, borrowing bylaws may be petitioned by at least 10% of the voters within 15 days of a bylaw passage. If they get the requisite number of people to sign, a vote would have to be taken. British Columbia has a 30-day period over which if 5% of the electors sign a petition, a referendum on the borrowing bylaw can be called. Finally, in the Northwest Territories borrowing must be approved by the ratepayers.

Table 6 - Is Proposed Borrowing Advertised for Public Input?

PROVINCE	ADVERTISED	PUBLIC INPUT
Newfoundland	No	No
Nova Scotia	Discretionary Mandatory if borrowing done by village	Discretionar Mandatory for villages
New Brunswick	Yes - Required by regulation	Yes, public hearing
Prince Edward Island	Yes Municipal Act requires it	Yes, ratepayer approval
Quebec	Yes Municipal Secretary-Treasurer issues Public Notice	Yes, some bylaws require taxpayer approval
Ontario	Discretionary	No
Manitoba	Discretionary City of Winnipeg debentures may be advertised by its fiscal agents	No
Saskatchewan	Yes Municipal Board places ad	Only as would any other bylaw of council
Alberta	Yes Required by Municipal Government Act (MGA)	Yes, potential for petition by 10% of voters
British Columbia	Yes Required by Municipal Act	Yes, potential for petition by 5% of voters
Yukon Territory	Discretionary Advertised at discretion of Council	Yes
Northwest Territories	Yes, Loan Authority Act	Yes, ratepayer approval

Processing Time for Borrowing Approval

One of the concerns that municipalities have with regard to the requirement of obtaining approval for capital borrowing is the time frame or length of time it takes to ultimately receive approval to issue debt, or to proceed to the provincial agency that will issue debt on behalf of the municipality. As indicated in Table 7, the approval time varies significantly across the provinces from two weeks to nine months. However, the majority of the jurisdictions process the requests in less than six weeks. In fact it is only Newfoundland and Ontario that have time frames that might extend six to nine months.

A question might be raised regarding the reason for this significant variation. It might be thought to exist due to the requirement of both ministerial and board approval, the heavy case load for a specific agency in a province, or the complexity of the information required for the decision and the approval process. In the case of Newfoundland, two approvals are required, and the long time frame identified referred to works that require a government guarantee. Presumably this additional requirement may add time to the process. In Ontario the time delay is in all probability related to the case load at the approving Ontario Municipal Board. This board undertakes a wide arrray of functions, and backlogs at this board are well known to people in Ontario who require its use on various issues. Furthermore, board approval is only required when borrowing is required above the established, rather generous, debt limits.

Outside of these two exceptions, the time frame for approvals could be viewed as being quite acceptable. As most people would consider two to six weeks a reasonable time frame, this area does not appear to provide a specific problem for municipalities.

Table 7 - Approval Time After Request

PROVINCE	TIME FRAME
Newfoundland	6 - 9 months (for works requiring government guarantee)
Nova Scotia	2 - 4 weeks
New Brunswick	6 weeks
Prince Edward Island	N/A
Quebec	20 days
Ontario	6 weeks - 6 months
Manitoba	4 weeks
Saskatchewan	< 2 weeks
Alberta	N/A
British Columbia	3 - 4 weeks
Yukon Territory	6 weeks
Northwest Territories	2 weeks

Provincial Reform of Municipal Capital Borrowing

A final aspect for comparison relates not to a specific question in the survey but rather to information obtained from the general set of responses to the survey. This relates to simply the status of reform in the provinces and territories. Three groupings of municipalities may be identified: those that have completed substantial reform, those that have begun or are contemplating reform, and those that have had the status quo in place for a reasonable time.

Those that have completed substantial reform are Alberta and Ontario. In both of these cases the reforms have lead to less red tape and some form of deregulation in that guidelines are given and then if municipalities stay within the guidelines no board or ministerial approval is required. The second group is those that are either currently undertaking reform or are about to undertake reform. The provinces that fit into this second group include New Brunswick, Nova Scotia, and the Northwest Territories.

The final grouping of provinces and territories are those that appear willing to accept the status quo. Provinces in this grouping include Newefoundland, Price Edward Island, Quebec, Manitoba, Saskatchwan, British Columbia, and the Yukon.

Chapter 4

Response of Selected Municipalities to Provincial Borrowing Regulation

Introduction

A comprehensive review of the regulatory environment of municipal capital borrowing includes a discussion of both provincial and municipal perspectives. An earlier section of this report examined the provincial regulatory framework surrounding municipal capital borrowing. The purpose of this section is to address the second objective of this project. As stated earlier, the second objective is to assess whether the regulatory process is supportive or a hindrance to municipal infrastructure planning and the development of multi-year capital budgets.

To answer this question selected representatives of Canadian municipalities (at least one from every province) were surveyed. The municipalities selected to be surveyed were Calgary, Alberta; Charlottetown, Prince Edward Island; Edmonton, Alberta; Halifax, Nova Scotia; Metropolitan Toronto, Ontario; Montreal, Quebec; Ottawa, Ontario; Quebec City, Quebec; Regina, Saskatchewan; Saskatoon, Saskatchewan; Saint John, New Brunswick; St. John's, Newfoundland; Toronto, Ontario; Vancouver, British Columbia; Victoria, British Columbia; Whitehorse, Yukon Territory; Winnipeg, Manitoba; and Yellowknife, Northwest Territories. Of those municipalities that were sent surveys only five did not respond. They were Charlottetown, Ottawa, Saint John, the City of Toronto, and Victoria. Issues addressed in the survey included the existence of formal programs and policies regarding infrastructure planning, maintenance, and renewal; provincial requirements regarding capital budgets; the effect of provincial legislation and/or regulation on the use of debt to finance each municipality's capital budget; and the size, format, and process of capital budgets in the various municipalities. A complete list of questions is provided in the Municipal Survey in Appendix B.

Although the survey responses are not representative of all municipalities because only selected larger municipalities were surveyed, they do provide some indication of the existing situation in a number of Canadian cities. The responses also provide individual opinions on the actual effect of provincial regulations on infrastructure planning and capital budgeting. In the next section, key responses and opinions obtained through the survey are discussed in some detail.

What the Municipalities Said

The survey asked 12 specific questions. One of the questions asked was: what was the size of your 1996 capital budget? This is a very important question to ask as it provides insight into the size of the municipality, its general characteristics and its financial commitments and responsibilities. As you can see from Table 8 municipalities vary greatly with respect to the size of their capital budgets. The range is from just under $8 million in St. John's to almost $900 million in Metro Toronto. Each municipality was also asked what percentage of that capital budget is typically funded by debt issuance or borrowing. Again from Table 8 it is evident that the municipalities vary. Calgary is quite low with only 5 percent. Edmonton and Toronto are somewhat higher at 20 percent and 30 percent respectively. Both municipalities surveyed in Quebec, Montreal and Quebec City, are high with 95 percent and 80 percent respectively. Saskatoon and St. John's are very low at 0 percent borrowed. Vancouver, like Montreal and Quebec City, is high at
85 percent. Whitehorse is low at 10 percent. Winnipeg and Halifax are in the middle at 50 percent and

55 percent respectively. Finally, Yellowknife and Regina reported that only 20 percent of their capital budgets are funded by debt issuance.

Table 8 - 1996 Capital Budget and Percentage from Debt Issuance

CITY	1996 CAPITAL BUDGET (in millions of dollars)	PERCENTAGE FROM DEBT ISSUANCE (%)
Calgary	175,000,000	5
Edmonton	218,490,000	20
Halifax	63,206,000	55
Metro Toronto	858,931,000	30
Montreal	214,000,000	95
Quebec City	34,000,000	80
Regina	32,246,000	20
Saskatoon	39,000,000	0
St. John’s	7,200,000	0
Vancouver	67,906,000	85
Whitehorse	16,907,930	10
Winnipeg	128,341,000	50 (5-year average)
Yellowknife	8,200,000	20

A second question that provided information regarding the characteristics of each municipality enquired whether municipalities prepared a Multi-Year Capital Forecast and if so for how many years? The second part of this question asked if the Capital Forecast is required by the province, and what instrument specified this requirement – legislation, regulation or policy? The answers are summarized in Table 9.

Table 9 - Preparation of Multi-Year Capital Forecast

CITY	MULTI-YEAR CAPITAL FORECAST			
	Prepared	No. of Years	Provincial Requirement	Instrument
Calgary	Yes	10	Yes	Legislation
Edmonton	No	N/A	N/A	N/A
Halifax	Yes	3	No	N/A
Metro Toronto	Yes	5	Yes (TTC only)	Policy
Montreal	Yes	3	Yes	Legislation
Quebec City	Yes	3	Yes	Regulation
Regina	Yes	5	Yes	Legislation
Saskatoon	Yes	4	Yes	Legislation
St. John’s	Yes	5	Yes	Legislation
Vancouver	Yes	3	No	N/A
Whitehorse	Yes	5	Yes	Legislation
Winnipeg	Yes	5	Yes	Legislation
Yellowknife	Yes	15-20	No	N/A

Of the responding municipalities all except one, Edmonton, prepare a Multi-Year Capital Forecast. The number of years included in the forecast range from three years (Halifax, Montreal, Quebec City, and Vancouver) to 15-20 years (Yellowknife). Saskatoon prepares a four-year forecast. Metro Toronto, Regina, St. John's, Whitehorse, and Winnipeg prepare five-year forecasts and Calgary prepares a ten-year forecast. All municipalities except Halifax, Vancouver, and Yellowknife are required by their respective provinces to prepare a Multi-Year Capital Forecast. Metro Toronto is an exception in that the province only requires the Toronto Transit Commission (TTC) to prepare a long-range forecast. With respect to instruments, Metro Toronto's (TTC) forecast is required through policy. Quebec City is required through regulation. All others are required through legislation.

Determining the existence of formal programs or policies regarding Infrastructure Planning, Maintenance, and Renewal in surveyed municipalities was important. Again, information of this nature provides insight into the characteristics of responding municipalities. Table 10 illustrates which municipalities have formal programs and policies regulating these areas and which ones do not.

Table 10 - Formal Programs or Policies

	PROGRAM OR POLICY		
CITY	Infrastructure Planning	Infrastructure Maintenance	Infrastructure Renewal
Calgary	Yes	Yes	Yes
Edmonton	No	No	No
Halifax	No	No	No
Metro Toronto	Yes	Yes	Yes
Montreal	No	No	No
Quebec City	Yes	Yes	Yes
Regina	Yes	Yes	Yes
Saskatoon	Yes	Yes	Yes
St. John's	Yes	Yes	Yes
Vancouver	Yes	Yes	Yes
Whitehorse	Yes	Yes	Yes
Winnipeg	Yes	Yes	Yes
Yellowknife	Yes	Partial	Yes (water/sewer)

All responding municipalities, except Edmonton, Halifax, and Montreal have formal programs or policies regarding Infrastructure Planning, Maintenance, and Renewal.

In Calgary, provincial legislation requires that each municipality prepare a Municipal Development Plan and a long-term Transportation Plan. Each municipality must also have area structure plans, which provide a framework for the subdivision and development of different areas of land, and area development plans. Each Responsibility Centre within the City of Calgary, i.e., Electric System, Waterworks, Streets and Transit, etc., must prepare Three-Year Business Plans. These plans consist of long-term growth plans and asset management plans. These long-term plans are embedded in the reports setting the tax rates. Both the business plans and rate reports are approved by Council. A Corporate Infrastructure Report is also prepared biannually. This report consists of a long-term corporate profile of the maintenance and upgrading required for the existing infrastructure. Periodically, an "Update of the Capital Spending Framework" is prepared. This report relates infrastructure initiatives to available finance. All of the above information is brought together in Calgary's annual Five-Year Capital Budget that is approved by council.

In contrast, Edmonton does not have any formal, council-approved programs or policies on infrastructure. But periodically, guidelines are used in planning and carrying out capital programs. An example is determining whether to repair or replace a broken water main. A standard of five breaks per kilometre over a five-year period is used. If the number of breaks exceeds this standard, it is replaced rather than repaired. In Edmonton, most capital program expenditures are based on assessment of need, according to city finance officials for the City. Expenditure decisions are controlled by funding. If a capital expenditure is for a municipal utility, the decision to proceed with the expenditure is determined by the impact it would have on utility rates. If the expenditure is for general municipal (tax-supported) purposes, funding is limited by Edmonton's Debt Management Policy (discussed later in this section).

According to the Halifax respondent, the Halifax Regional Municipality does not have any formal programs or policies regarding infrastructure planning, maintenance, or renewal. However, the region does have, for capital budget purposes, a number of criteria that determine spending such as sidewalk deficiency ratings and pavement life.

Metro Toronto is currently working under its 1996-2000 Capital Works Program, which was approved by Metro Council on 15 February 1996. This document outlines all of Metro's capital projects and provides descriptions of all major capital items.

The City of Montreal is currently developing an investment plan for the rehabilitation and improvement of its existing equipment and infrastructure. The process is currently at the stage of evaluation of investment needs.

In Quebec City there is an obligation to prepare a three-year planning document for capital projects. This plan is formally approved by council. Also, the engineering department is responsible for infrastructure evaluation and capital outlays planning. It was also reported that the City has put emphasis on maintaining and upgrading funds (up to 35 percent of capital budget) to major infrastructure renewal.

Regina has formal programs in all three areas. Specifically, the City has an ongoing program that is associated with asphalt and concrete infrastructure. The mission of the program is to construct and maintain infrastructure related to curbs, sidewalks, paved streets, gravel roads, easements, bridges and subways to an acceptable and safe standard. The Five-Year Capital Program consists of programs for Street Infrastructure Renewal, Water Main Replacement, Sanitary Sewer Renewal, Bridge Rehabilitation, Railway Crossing Upgrades and Intersection Upgrade along with upgrading of particular major streets and intersections.

Saskatoon is currently developing an Asset Management Program. This program covers infrastructure planning, maintenance, and renewal. The program is to be completed in phases. The first phase will concentrate on roadways and related structures. In the second phase the program will expand to cover underground services. According to the City Comptroller for the City of Saskatoon, the objective of the program is to ensure funds are spent in the right places. He also states that under this program the City will be able to measure the degree (in dollar terms) of depreciation and appreciation of the infrastructure on an annual basis. Finally, a formal program for buildings is in place which provides annual program transfers to a reserve to ensure regular preventative maintenance programs are properly funded.

The City of St. John's is quite advanced with respect to programs regarding infrastructure planning, maintenance and renewal. The City of St. John's currently uses a computerized pavement management system, an overall maintenance management system, and a computerized modeling system for water, sanitary, and storm sewers. The City also prepares a long-range transportation plan and maintains an up-to-date master list of new and replacement infrastructure required.

The City of Vancouver is currently working on its 1997-1999 Capital Plan. This plan directs infrastructure planning, maintenance, and renewal for infrastructure such as water, sewer, street lighting, under grounding, and streets. (General Manager of Engineering Services, City of Vancouver, An Administrative Report to Council, 1996) As reported in the Administrative Report to Council, the general infrastructure replacement strategy is based on three criteria: 1) replace infrastructure at a time that minimizes total costs; 2) maintain a relatively stable and skilled workforce; and 3) equalize expenditures to stabilize funding requirements.

Specifically, a uniform infrastructure replacement program, at a rate of 1.5 percent of the value of the system per year, will be part of the plan for water. In addition, water conservation initiatives are part of the plan. For example, regulations exist which permit only half of the City to water their lawn on any watering day. With respect to sewers, a 1 percent per annum life cycle main sewer replacement policy will be in effect. Street lighting will have a 2 percent replacement rate. Policy governing street under grounding sets out funding for these types of projects: 1/3 funding comes from Council, 1/3 comes from utility companies and 1/3 comes from property owners. Finally, transportation policy, in the form of a new Transportation Plan, is currently being developed. The plan will continue to be consistent with Vancouver's City Plan, its Transport 2021 Plan, and public need. Street improvements are required to evolve to accommodate all modes of transportation.

In Whitehorse, infrastructure planning, maintenance, and renewal are directed by three major sources: a Five-Year Capital Plan, Area Reconstruction plans and preventative maintenance listing for conditions of roads.

Priorities related to infrastructure planning, maintenance and renewal in the City of Winnipeg are guided by *Plan Winnipeg ... Toward 2010*. This plan was approved by the Province of Manitoba and adopted by the City Council on 23 June 1993. In addition to this plan an Annual Current Estimates Report, an Annual Capital Estimates Report, and a Five-Year Capital Forecast define Winnipeg's programs for maintenance and renewal. Also, there are many specific systems used within departments to identify infrastructure priorities which feed into the process of political review of the capital program. As a final note on Winnipeg, according to municipal representatives, the City is currently facing an infrastructure deficit. This means there is a gap between what needs to be invested for regular maintenance of infrastructure and what actually is invested. This is the most significant challenge facing the City of Winnipeg, with local road conditions being the primary concern.

Finally, Yellowknife has somewhat of a different arrangement. In regards to infrastructure planning the City of Yellowknife prepares Twenty-Year Plans coupled with Three-Year Detailed Project Plans which are based on optimal lifecycle costing. With respect to maintenance, the City does not have formal maintenance management programs or policies, but programs of scheduled maintenance are incorporated into the annual budget. Infrastructure renewal programs apply only to water and sewer services. It is guided by a recently introduced 15-Year Water/Sanitary Sewer Renewal Program.

As mentioned earlier in the report, the Provincial Government plays an integral part in the regulation of Municipal Capital Borrowing. Provincial Legislation/Regulation can affect the use of debt by municipalities to finance their capital budget. The legislation and regulations affecting the responding municipalities are summarized in Table 11 below.

Table 11 - Provincial Legislation/Regulations that affect use of debt to finance Capital Budget

CITY	LEGISLATION/REGULATIONS
Calgary	Alberta Municipal Government Act
Edmonton	Alberta Municipal Government Act
Halifax	Municipal Affairs Act
Metro Toronto	Municipality of Metro Toronto Act
Montreal	City of Montreal Charter Manual of Normalization for Municipal Bookkeeping (from Minister of Municipal Affairs)
Quebec City	None per se. Only Provincial Policy exists Long-Term Borrowing Bylaws require Municipal Affairs Department approval
Regina	Urban Municipality Act
Saskatoon	Urban Municipality Act
St. John's	City of St. John's Act Municipalities Act
Vancouver	Vancouver Charter
Whitehorse	Yukon Municipal Act
Winnipeg	City of Winnipeg Act
Yellowknife	Cities, Towns, and Villages Act of the NWT

How significant are the above controls in terms of their effect on a municipality's use of debt to finance capital projects? Municipal representatives were asked to identify which specific controls have the greatest effect on the use of debt. The responses are summarized in Table 12.

Table 12 - Most Significant Controls

CITY	MOST SIGNIFICANT CONTROLS
Calgary	- Most are internal - Capital Financing ceiling of $276 million for 1997-2001 - Debt/revenue servicing ratio under 10% - No debt issuance except for exceptional circumstances - Restricted debt/equity ratios for services - Desire to maintain AA credit rating
Edmonton	None
Halifax	- <u>All</u> long-term debt is issued through Municipal Finance Corporation - mandatory submission of a comprehensive debt policy for municipalities with debt service ratios greater than 10% (recommended) - <u>All</u> debt policies subject to approval of Minister of Housing and Municipal Affairs (recommended)
Metro Toronto	- Debt charges no greater than 25% - Foreign currency regulations
Montreal	None

Quebec City	- Approval for all long-term borrowing (statutory obligation) - Obligation to provide detailed plans and costs for all projects - Municipal Affairs approval before starting works or rewarding contracts
Regina	- Saskatchewan Municipal Board approves all debt issuance - Long-term debt available only for capital purposes - Not allowed to issue debt for the purpose of retiring mature debentures
Saskatoon	- Saskatchewan Municipal Board gives final approval on long-term debt
Vancouver	- Balanced budget required for each year - Operating Budget cannot be financed by long-term borrowing - City required to provide full payment for its debenture borrowing
Whitehorse	None
Winnipeg	- Rate of interest must be stated in the bylaw (fixed-rate financing) - City is required to make annual sinking fund contributions or make annual principal payments on debentures
Yellowknife	- Ratepayer approval for borrowing any amount

Of the responding municipalities, Edmonton, Montreal, St. John's, and Whitehorse reported no significant controls affecting their use of debt.

The representative from Calgary reported that most of the controls affecting their use of debt to finance the Capital Budget are internal. These controls include a Capital Financing Envelope (ceiling) of $276 million for the period of 1997-2001; a policy to keep the debt/revenue servicing ratio under 10 percent; a policy not to issue any more debt, except in exceptional circumstances; a policy, for utilities, to stay within certain debt/equity ratios (60 percent max.) And finally, a desire to maintain a credit rating of AA or better, for all debt. This is consistent with the Edmonton position of there being no significant external controls.

The Halifax respondent is concerned with the fact that all long-term debt must be issued through a provincial crown corporation (Municipal Finance Corporation). He also believes the recommendations put forth by a Department of Housing and Municipal Affairs Committee on the capital planning and financing process are quite significant. These recommendations include mandatory submission of a comprehensive debt policy for those municipal units with debt service ratios greater than 10 percent and a requirement where all debt policies must be approved by the Minister of Housing and Municipal Affairs.

The respondent from Metro Toronto listed two controls believed to be quite significant. The first is the provincial debt and financial obligation limit which allows municipalities to only issue debt that generates debt charges that are 25 percent or less of own source revenues. The second is regulation regarding the issuance of foreign currency debt, which includes authorizing certain currencies, swap agreements, and minimum credit rating of counterparts.

The Quebec City representative listed three significant controls: 1) the statutory obligation to submit for approval any and all "borrowing bylaws"; 2) the obligation to provide with each bylaw, detailed plans and cost evaluations for each project included in the "bylaw"; and 3) the obligation to get Municipal Affairs Department Approval before starting work or awarding contracts.

The Regina respondent believes the following are the most significant controls. First, the UMA specifies no debt limit, therefore each issuance must be approved by the Saskatchewan Municipal Board (SMB). Second, long-term debt is only available for capital purposes. Third, no borrowing bylaw has any force of effect until approved by the SMB. Finally, the City cannot issue debt for the purpose of retiring mature debentures; therefore taxes must be levied for the servicing and repayment of all debt, unless handled by self-funding utilities.

In Saskatoon, only one significant control was identified. The respondent said the debt issuance final approval power of the Saskatchewan Municipal Board is very significant in terms of its effect on the use of debt in The City of Saskatoon.

The controls identified by the Vancouver representative are quite different from the controls in other municipalities. In Vancouver the City must provide a balanced budget each year and is not allowed to use long-term borrowing to finance the operating budget. Also, the City is required to provide full payment (interest and principal) for its debenture borrowing in its operating budget over the term of the debenture. The Vancouver respondent identified these controls as having the most significant effect on the use of debt to finance the Capital Budget.

The Winnipeg respondent offered two significant controls affecting Winnipeg’s use of debt. The first is the requirement that the rate of interest on borrowing must be stated in the bylaw and the second is the required sinking fund contribution or annual principal payments on debentures. These controls are discussed in some detail in the next section.

Finally, formal ratepayer approval for borrowing of any amount was identified by the Northwest Territories representative as being the most significant control on the use of debt to finance the Capital Budget.

Are Provincial Legislation/RegulationsToo Restrictive?

Having discussed the Provincial Legislation/Regulations and significant specific controls, it is important to determine how restrictive these controls really are for local governments. To address this issue municipal representatives were asked if they thought Provincial Legislation/Regulations were too restrictive. The answers are summarized in Table 13 below.

Table 13 - Are Provincial Debt Regulations Overly Restrictive?

CITY	Yes	No
Calgary		✔
Edmonton		✔
Halifax		✔
Metro Toronto		✔
Montreal		✔
Quebec City	✔	
Regina		✔
Saskatoon		✔
St. John’s		✔
Vancouver		✔
Whitehorse	✔	
Winnipeg	✔	

Yellowknife	✔ (ON APPROVAL)	✔ (ON LIMITS)

As indicated in the table, most municipal representatives reported that provincial debt regulations were not overly restrictive. Only Quebec City, Whitehorse, Winnipeg, and Yellowknife answered yes to this question. The Quebec City respondent said that the obligation to describe all and any projects in detail is a drawback in terms of efficiency and speed of approval. The respondent from Whitehorse said that limits on borrowing have not been revised in a number of years and therefore do not correspond to realistic limits for the 1990s. He also said that Whitehorse has one of the lowest municipal borrowing limits in Canada.

In Winnipeg, the City of Winnipeg Act, a Province of Manitoba Statute, details how the City may finance the capital budget. According to the Winnipeg respondent the Act is too restrictive because it does not allow variable interest rate financing to be used to finance capital expenditures. The set rate of interest is stated in the bylaw. The respondent said that historically variable rate financing has been less expensive than fixed rate financing. Therefore, Winnipeg is not utilizing the rate that produces the lowest overall cost. Secondly, the present Act requires the City either make annual sinking fund contributions or make annual principal payments on debentures. Therefore the City is prohibited from issuing debt without an annual principal payment. Again, according to the Winnipeg respondent, the use of a Sinking Fund by the City increases the cost of financing, which is not a desirable outcome.

Finally, Yellowknife reported that provincial debt regulations are overly restrictive with respect to approvals. Specifically, the respondent said that ratepayer approval for borrowing small amounts should not be required, as is presently the case. The above sections have outlined the existing state of affairs in selected municipalities in regards to infrastructure planning and capital budgeting. But, what does the future hold? The responses to this question are examined in the next section.

The Future of Municipal Infrastructure Planning and Capital Budgeting

Not only is it important to understand what is currently happening in municipalities regarding infrastructure planning and capital budgeting, but it is important to understand the future. The final two questions in the survey asked municipal representatives about the future.

The final two questions in the survey were: “Do you anticipate any changes in your capital budget/forecasts, process/structure?,” and “Do you anticipate any new municipal initiatives in infrastructure planning, maintenance or renewal policies or programs?” The answers to the first question are summarized in Table 14 below.

Table 14 - Changes anticipated in Capital Budget/Forecasts and/or process/structure

CITY	Yes or No
Calgary	✔ Yes - Infrastructure planning and budgeting process continually reviewed and improved ex. Value-for-Money Audit of Capital (1996)
Edmonton	✔ Yes - New City Manager and possible reorganization
Halifax	✔ Yes - Comprehensive Debt Policy including debt servicing forecasts
Metro Toronto	✔ Yes - Project prioritization

CITY	Yes or No
Montreal	✔ Yes - Investment Plan - Freezing of financing for projects
Quebec City	No
Regina	No
Saskatoon	No
St. John's	No
Vancouver	No
Whitehorse	No
Winnipeg	✔ Yes - Steps to reduce debt and borrowing costs ex. financing capital projects on user-pay basis - Moving to adoption of biannual budgeting
Yellowknife	No

Calgary, Edmonton, Metro Toronto, Montreal, Halifax, and Winnipeg anticipate changes. The Calgary representative responded by saying that their infrastructure planning and budgeting process are continually being reviewed and improved. For example, City Council is currently undertaking a Value-For-Money Audit of Capital, to be completed in mid-1997, that may generate changes in both the planning and budgeting processes.

In Edmonton a new City Manager has recently been hired. The City Manager is currently reviewing the City's organizational structure. This review may result in reduction of the number of departments which may affect the budget process.

In Halifax, a comprehensive debt policy is being developed that includes, among other things, debt servicing forecasts.

The Metro Toronto representative responded by saying that Metro's capital budget/forecasts vary from year to year for a variety of reasons, such as provincial funding changes, unanticipated new needs/projects, better or more accurate updated cost estimates, project scope changes, changing priorities, and fiscal pressures. Metro is currently developing its 1997-2001 Capital Works Program. As part of the process (which is similar to the process used in previous years) the Financial Priorities Committee will recommend to Council capital targets for each Standing Committee and those committees will develop departmental and agency programs (prioritized by project) within those targets. This time around project prioritization is of primary concern as a result of the provincial announcement on transit capital funding. The Financial Priorities Committee is going to review the Standing Committee envelope allocations previously set out in the 1996-2000 Capital Works Program. Metro's representative also pointed out that the majority of tax-supported capital expenditures are in the programs of the Toronto Transit Commission, Transportation Department, and Police Services Board. He says prioritization within and between these programs will assume particular significance.

Montreal is developing an investment plan to protect and rehabilitate the City's infrastructure but is restricted by a freezing of funds available for projects.

In Winnipeg's case, steps are being taken to reduce debt and borrowing costs. They include reducing the level of average capital expenditures to $139.8 million per year for 1996-2001, down from $157.2 million the previous four years; decreasing the level of external borrowing by utilizing internal financing;

financing more capital projects on a user-pay or pay-as-you-go basis; using pay-as-you-go financing for the repair and rehabilitation of the city's aqueduct and for residential street repairs; and emphasizing rehabilitation and maintenance of infrastructure rather than building new projects. (The City of Winnipeg, May 1996)

The answers to the second question, concerning new municipal initiatives, are summarized in Table 15 below.

Table 15 - Anticipated New Municipal Initiatives in Infrastructure Planning, Maintenance, and Renewal Programs/Policies

CITY	Yes or No
Calgary	✔ Yes - Public-private partnership for facility renewal and energy savings
Edmonton	No
Halifax	✔ Yes - Capital Infrastructure Plan
Metro Toronto	No
Montreal	✔ Yes - Infrastructure investment plan
Quebec City	No
Regina	✔ Yes
Saskatoon	✔ Yes - On-going development of existing programs
St. John's	No
Vancouver	No
Whitehorse	✔ Yes - Extension of Urban Infra. Program (Federal) - New territorial Community Development Fund initiative
Winnipeg	✔ Yes - National Infrastructure Program - Continuous Improvement Initiative
Yellowknife	No

It is evident that many municipalities are undertaking new initiatives in Infrastructure Planning, Maintenance, and Renewal. In Calgary, the City is currently testing a public-private partnership initiative for facility renewal and energy savings. The Halifax representative is anticipating the development of a formal Capital Infrastructure Plan. The City of Montreal is developing an investment plan that will focus on providing investment for the protection and rehabilitation of the City's infrastructure. The Regina representative responded by saying that enhanced technology such as Pavement Management Information Services and Geographic Information Services is hopefully going to allow the City to better track the condition of roads and provide better information for prioritizing construction budgets. Saskatoon is constantly developing its existing programs and undertaking initiatives to improve those programs. The respondent from Whitehorse anticipates the extension of the Urban Infrastructure Program (Federal) and the implementation of a new Territorial Community Development Fund. Finally, Winnipeg anticipates two new initiatives. The first is the implementation of a second National Infrastructure Program where the City of Winnipeg would be a 1/3 participant. The second is the continuation of the City's Continuous Improvement Initiative, in which the City of Winnipeg continues to provide and improve quality public works services in the most cost effective and efficient manner.

Many municipalities reported anticipating no new initiatives. These municipalities include Edmonton, Metro Toronto, Quebec City, St. John's, Vancouver, and Yellowknife. Both Edmonton and Vancouver representatives responded "no" to the question but offered some important information that should be noted. The objective of Edmonton's Debt Management Policy is to retire all general municipal debt by 2004. The policy also states that all general municipal capital expenditures must be paid from current revenue after 1990. The respondent says that as the debt service charges on outstanding debt declines, the City will use the extra savings to increase the amount spent on capital. As a result, an increase in real spending on capital works is anticipated.

In Vancouver a greater focus on managing demand will occur. Examples include a Power Smart Energy Conservation Program for street lighting and a Roof Drain Disconnect Pilot Project, for sewers and summer lawn sprinkling restrictions.

Chapter 5

Conclusion

The information obtained through the questionnaires, interviews, and discussions from both the provincial agencies and municipalities across Canada has provided valuable insight into the provincial regulation of municipal capital debt. It also has shed some light on the influence that the regulations have on municipalities, not only in terms of debt issuance but also with respect to infrastructure/capital facility planning and renewal programs. Since all provinces and territories across Canada provided information for this study, while only a select number of municipalities were included and responded to the study, the provincial level information is more comprehensive and representative than the municipal information. However, the information obtained and analyzed for both levels of government is sufficient to address and draw conclusions regarding the two objectives of the study identified in the first chapter.

Prior to drawing these conclusions it is useful to summarize the two objectives. The first of these objectives may be summarized as attempting to determine whether the existing arrangements, procedures, and regulations for municipal capital borrowing are appropriate given the current trends and changes in redefining provincial/local government relationships. The second objective is to assess how the existing regulatory process affects municipalities with respect to infrastructure planning and multi-year capital budgets.

With regard to the first objective, several key items must be addressed, including both what the existing regulations actually mean in terms of effectively controlling municipalities, and the extent and nature of change undertaken and proposed that might reflect a reduction in provincial control of municipalities. The question of what regulations actually mean to municipalities arises as a conclusion to the study due to the nature of what has been learned about the structure of the regulations. There are two impacts of the regulations that must assessed. The first is whether the regulations are binding, i.e., whether they are set at a level such that they actually control or curtail municipal activity. The second impact is whether the regulation results in significant “red tape” and time delays that in and of themselves may be a deterrent to engaging in too much municipal capital borrowing.

With regard to the degree to which the regulations are binding, it would appear that this reflects in part whether the regulations are used by the approval agency or minister as a guide, or whether they reflect the level above which approvals must be obtained either by the minister, board, or via some form of a public voting procedure. Both the evidence in Table 1 and the information provided by the provinces indicate that generally municipalities are not close to the debt limits specified in the various provinces and territories. This seems to suggest that the current debt limits do not act as a very binding regulation. This brings us to the issue of the red tape and the time requirements in obtaining approval to borrow. It is important to recognize that this is only an issue where all borrowing must be approved, or when provincial guidelines are exceeded and consequently approval is then needed from a provincial minister/board or the electorate. In these cases it is important to assess the time and red tape requirements.

With regard to the red tape requirements, most provinces require a substantial set of data upon which to assess whether or not to permit the issuance of additional debt by a municipality. However, most of the data expected to be submitted would already be readily available in municipal files. With regard to the time delays in obtaining approval, Table 7 indicates that only in two provinces, Ontario and Newfoundland, could the time delay in processing be expected to be longer than six weeks. Consequently, the time delays are not so significant as to suggest that they would be a deterrent to municipalities undertaking capital borrowing when approvals are required. There is however, room for improvement in reducing this time frame.

In a more general sense the municipal survey provides an insight into how selected municipalities view the existing regulatory environment for capital borrowing in their respective provinces. Table 13 shows that only the responding municipalities in Quebec, Manitoba, Northwest Territories, and the Yukon found the existing regulations overly restrictive. The respondent in Manitoba was Winnipeg, which is not representative of overall controls as it has its own set of regulations for the City. This set of responses suggests that on balance the responding municipalities did not find the current provincial regulatory environment overly restrictive.

With the new relaxed regulations in place in Ontario and Alberta as well as anticipated changes in New Brunswick, Nova Scotia, and the Northwest Territories, there is a trend toward deregulation in the sense of the need for approval authorities or multiple approval authorities to approve all capital borrowing. There also appears to be trend started by Alberta and Ontario that municipalities may borrow up to some guideline without approval by the province in any form, and approval will only be necessary if the guideline is to be exceeded. It would appear that municipalities would applaud more widespread applications of the approach.

With regard to the second objective, it is clear from both the provincial responses in Table 5 and the municipal responses in Table 9 that municipalities across Canada tend to prepare multi-year capital plans. A large part of the reason for this is that eight of the provinces and territories require these plans and three others encourage their preparation. Of the thirteen selected municipalities responding to the survey, all but one prepared a multi-year capital plan for at least part of their capital expenditures. It is important to again be aware that the selected municipalities tend to be the larger and capital cities in the various provinces. Knowing that this approach is widespread is only a beginning. It is important to determine the extent to which multi-year capital plans relate to the existence and use of more formal infrastructure planning, as well as infrastructure maintenance and renewal programs.

The survey results presented in Table 10 provide some insight into this question from the perspective of the municipalities surveyed. With regard to the use of infrastructure planning, ten of the thirteen municipalities claim to be undertaking this activity. In terms of infrastructure maintenance programs, again the same ten municipalities claim to be working in this area. The same pattern of responses also exists for the question of the municipality undertaking an infrastructure renewal program. Although one municipality that said no to all three programs did not have a multi-year capital plan or forecast, the other two municipalities that said no to all three programs did prepare a three-year capital plan or forecast. This suggests that the simple requirement of having to prepare a capital plan does not ensure the existence of infrastructure planning and related programs. Although the existence of the multi-year capital plan does seem to increase the probability of a municipality undertaking the other infrastructure related activities. Consequently, there is some evidence that where regulations require the preparation of capital plan, it does provide support or a starting document for these further activities.

Having assessed the objectives of the study, questions still remain about the future role of provincial regulations in municipal capital borrowing. With more pressure being put on provincial expenditures, it is likely that the trend in reducing the regulatory requirements on municipal capital borrowing will continue along the approaches employed by Ontario and Alberta. This trend will likely persist as municipalities appear reluctant to take on additional debt and have debt loads that are generally not close to existing guidelines. Furthermore, provinces will try to reduce the costs of regulation such as those that exist with two provincial levels of debt approval. There may well be a continuing trend toward setting guidelines and only requiring provincial approval if the guideline will be exceeded. This presumes that the Alberta and Ontario approaches continue to function well and provide role models for other provinces contemplating change, such as New Brunswick and Nova Scotia. Those provinces that have citizen input via voting for capital expenditures may well continue to use this approach as it is very democratic and gets the community involved.

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Appendix A

Questionnaire on Municipal Capital Borrowing

1) Do municipalities in your province require authorization to borrow for capital expenditures? If yes, is there a Board that authorizes borrowing or is Ministerial Approval required, or both?

2) If there is a Board, which Department(s) are represented? How many members are there? How often does the Board meet? Does the Board have policies on capital borrowing?

3) What Act, policies, or regulations govern the operation of this authority?

4) Have there been recent changes to the power of this authority, is it under review, or do you anticipate changes in the near future?

5) What process must a municipality follow to obtain authority to borrow for a capital project?

6) What restrictions exist, if any, to limit capital borrowing (eg: policies, regulations, legislation)? Are these restrictions universal or different depending on municipal status, population, etc. ?

7) Does the process vary by municipality? If so, how does it vary? How are municipalities differentiated, i.e., by size, budget, debt load, etc.?

8) What conditions are required to receive authorization to borrow?

9) Are the above conditions legislated by act, regulation, or policy set by the authorizing agency?

10) Are capital plans required? If yes, for what period of time (e.g.: 5 years)? If not, are capital plans encouraged?

11) Is proposed borrowing advertised? If so by whom?

12) What is the usual turnaround time between a request for authorization to borrow and final approval being given?

13) Is borrowing authority given on specific assets? If not, please explain?

14) How is long-term financing obtained?

15) Is prior authorization to borrow required in order to get long-term financing?

16) Is there a separate central agency for municipal long-term financing?

17) What instrument is used for long-term debt (e.g.: bonds, debentures)?

18) Is early repayment allowed?

19) Are members of the Board paid a salary or honorarium? If so, how much?

20) Are costs for services rendered recovered from municipalities? If so, how is the money recovered and what percent does it represent of total costs?

21) Do any jurisdictions have different conditions depending on which "fund" is doing the capital borrowing?

22) Are there provisions in the legislation/policy to allow for exemptions from either the process or conditions identified above? If yes, when, where, and to whom do these apply?

23) How is "capital" defined for borrowing purposes?

24) What expenses may be included in capital costs, i.e., acquisition costs, legal costs, demolition costs?

25) What problems are perceived to exist with the existing borrowing regulations?

26) What solutions might be considered to solve these problems?

27) What provincial regulations exist regarding capital budgeting? Which municipalities must prepare them? How many years must be in the capital forecast?

28) Has the province encouraged or facilitated any form of municipal infrastructure planning, maintenance or renewal programs? If yes, please describe them.

Appendix B:

Questionnaire on Municipal Infrastructure Planning and Capital Budgeting

MUNICIPALITY:

NAME:
TITLE:
ADDRESS:

1. Do you have a formal program or policies regarding:

	Yes or No
Infrastructure Planning?	
Infrastructure Maintenance?	
Infrastructure Renewal?	

2. If you have any of the above programs/policies, please explain them and/or provide documentation.

3. Do your programs or plans relate to any Provincial initiatives or grant programs ?
Yes ____
No ____
If Yes, please explain.

4. a) In addition to a one-year capital budget, do you prepare a multi-year capital forecast ?
Yes ____
No ____
If yes, how many years? ____

b) Does the Province require it?
Yes ____
No ____
If yes, by: Legislation ____
Regulation ____
Policy ____

5. What provincial legislation and/or regulations affect your use of debt to finance the capital budget?

6. Describe what you feel are the most significant controls?

7. Do you find provincial debt regulations overly restrictive?
   Yes ____
   No ____
   If yes, please explain which ones and why you find them overly restrictive.

8. What was the size of your 1996 capital budget? $__________

9. What percentage of your capital budget is typically by debt issuance? __________

10. Please provide any information/documentation regarding your capital budget format and process.

11. Do you anticipate any changes in your capital budget/forecasts, process/structure?
    Yes ____
    No ____
    If yes, please explain.

12. Do you anticipate any new municipal initiatives in infrastructure planning, maintenance, or renewal policies or programs?
    Yes ____
    No ____
    If yes, please explain.