

INFORMATION BULLETIN

Local Government Services Division

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Approval to Exceed the Debt Limit

With the passing of the Municipal Government Act (MGA), the Local Authorities Board ceased to exist and was therefore eliminated from the borrowing process. This change made it necessary to establish certain guidelines for municipalities wishing to borrow in excess of the regulated debt and debt service limits.

Part 8 of the MGA specifies the general rules for borrowing, which include calculating the municipality's debt and debt service limits. Alberta Regulation No. 375/94 sets two criteria for calculating debt and debt service limits. The debt limit is 1.5 times the total revenue shown in the municipality's most recent audited financial statement. The debt service limit is 0.25 times the same figure. Each municipality is required to calculate its debt and debt service limits annually, and provide full note disclosure in its financial statements.

Without the Minister's approval to exceed the debt limit, councilors could be held liable for amounts borrowed over the limit.

To borrow above prescribed limits, a municipality should write to the Department requesting the Minister's approval. The Minister's timeline to process a debt limit extension depends on the complexity of the application. Generally, debt limit extensions are approved only in emergency or extraordinary situations.

Each application should include the following:

- (a) project details;
- (b) estimates of any additional annual revenues, expected costs, and cost-savings resulting from the project;
- (c) estimates and source(s) of funds planned for meeting the additional debt obligations;
- (d) estimates of costs and sources of funds for supporting the project;
- (e) a copy of the borrowing bylaw after first reading;
- (f) a long-range capital expenditure plan;
- (g) other.

(over)

Upon approval by the Minister, a municipality can submit an "Application to Sell Debentures" to the Alberta Municipal Financing Corporation (AMFC). The Board of Directors of AMFC must approve any borrowing that will put a municipality over its debt limit. In addition to the documentation necessary for all applications, AMFC requires the following:

- (1) five year operating and capital plans.
- (2) financial statements for the preceding five years.
- (3) a copy of the Ministerial Order approving the extension of the debt limit.

Generally, AMFC needs ten days to two weeks to complete the borrowing process. Once approved, a debenture can be executed for the next issue date that falls on the 1st and 15th of each month. Like any other financial institution, AMFC may accept or reject the loan application.

The AMFC issued a "Guide to Long-term Borrowing" that sets out its new procedures for borrowing. If you require assistance with the AMFC's borrowing procedure, please contact the Corporation's office at 427-9711.

Please address other concerns or questions to Local Government Advisory Services at 427-2225.