

Chapter 9

Local Government Debt

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Local Government Debt

Local Government Debt Reaches Historic High

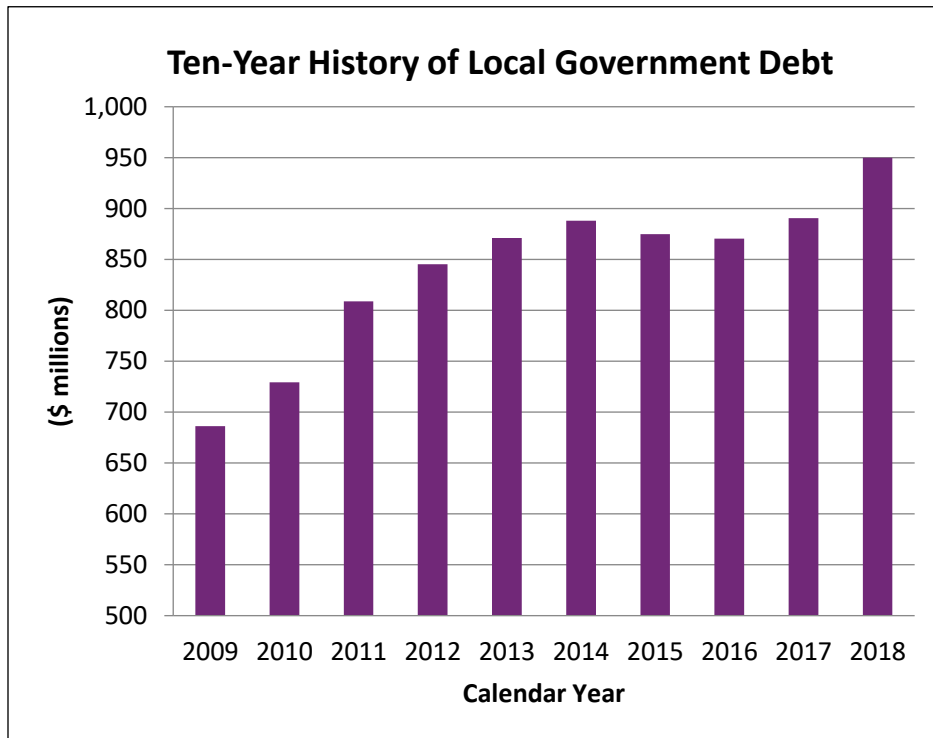
Local government debt reaches historic high of \$950 million

9.1 Debt owing by New Brunswick local governments reached a historic high of \$950 million at December 31, 2018. Local governments include municipalities, regional municipalities, rural communities, municipal enterprises and regional service commissions.

9.2 To inform the Legislative Assembly of this situation, we have included information below obtained during our most recent audit of the Municipal Finance Corporation.

9.3 The ten-year history of debt owed by local governments to the Province is presented in Exhibit 9.1 below.

Exhibit 9.1 - Ten-Year History of Local Government Debt

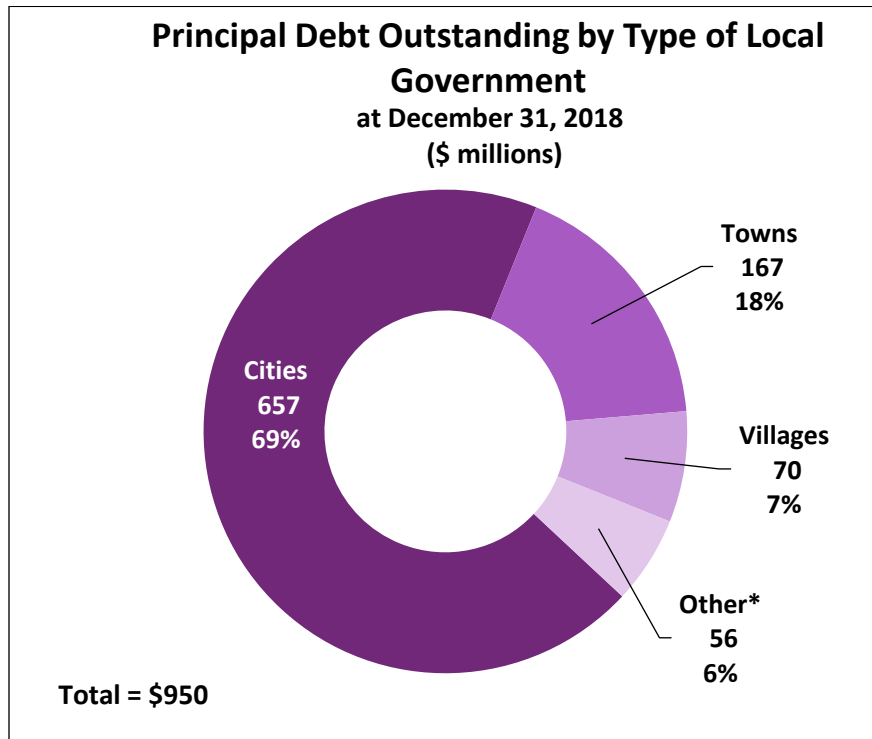


Source: Prepared by AGNB. Refer to Appendix I for supporting information.

Cities hold the highest share of debt

9.4 Cities hold the largest share of local government debt, followed by towns, villages and other types. Exhibit 9.2 presents a breakdown of debt by type of local government at December 31, 2018 in dollars and percentage share.

Exhibit 9.2 - Principal Debt Outstanding by Type of Local Government at December 31, 2018



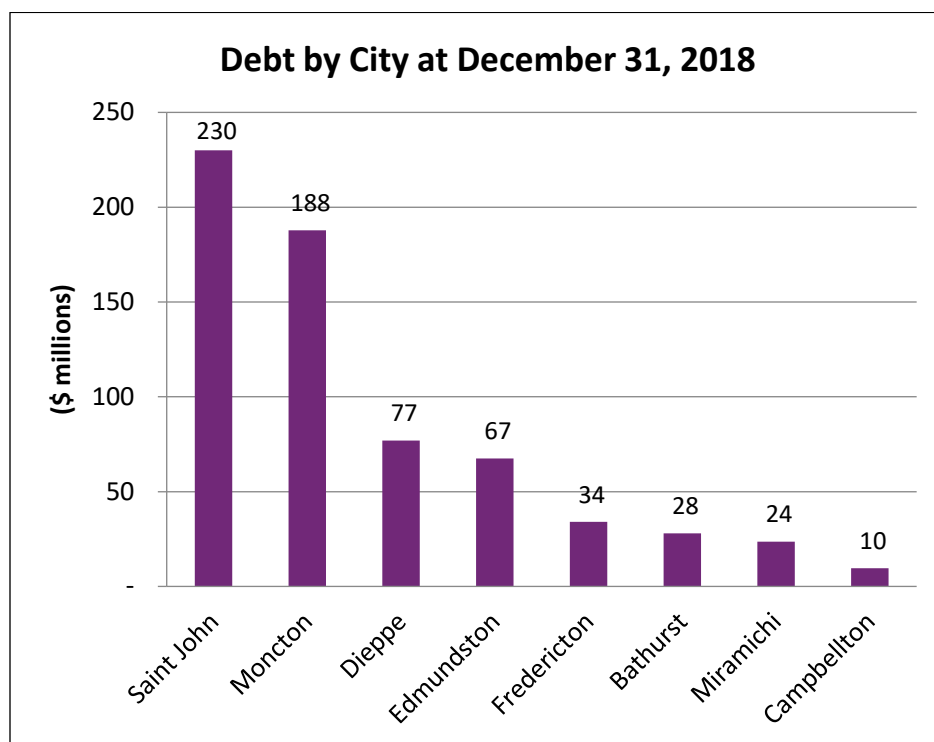
**Other includes regional municipalities, rural communities, municipal enterprises and regional service commissions.*

Source: Prepared by AGNB. Refer to Appendix I for supporting information.

Saint John has the highest debt of cities

9.5 Of the eight municipalities deemed a “city”, Saint John has the highest debt, followed by Moncton and Dieppe. Exhibit 9.3 presents debt by city for the 2018 calendar year.

Exhibit 9.3 - Debt by City at December 31, 2018

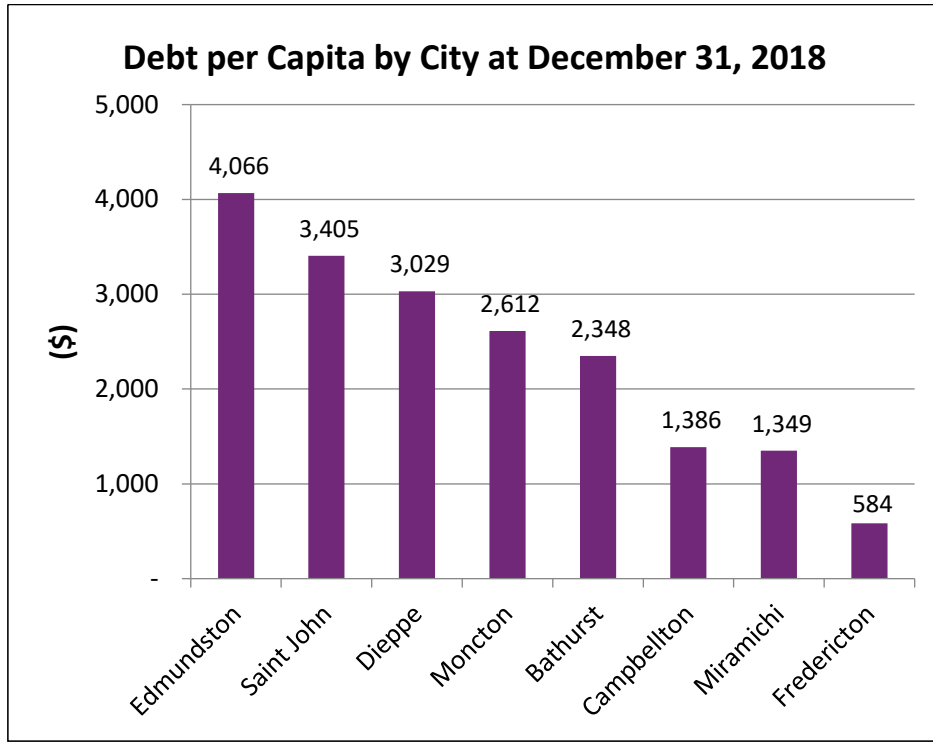


Source: Prepared by AGNB. Refer to Appendix I for supporting information.

Edmundston has highest debt per capita

9.6 When comparing, however, debt per resident, known as “debt per capita”, Edmundston has the highest debt per capita followed by Saint John and Dieppe. Edmundston has a high level of debt due to borrowing for its electrical utility, which operates two hydro generating stations. Exhibit 9.4 shows debt per capita (per resident) by city for the 2018 calendar year.

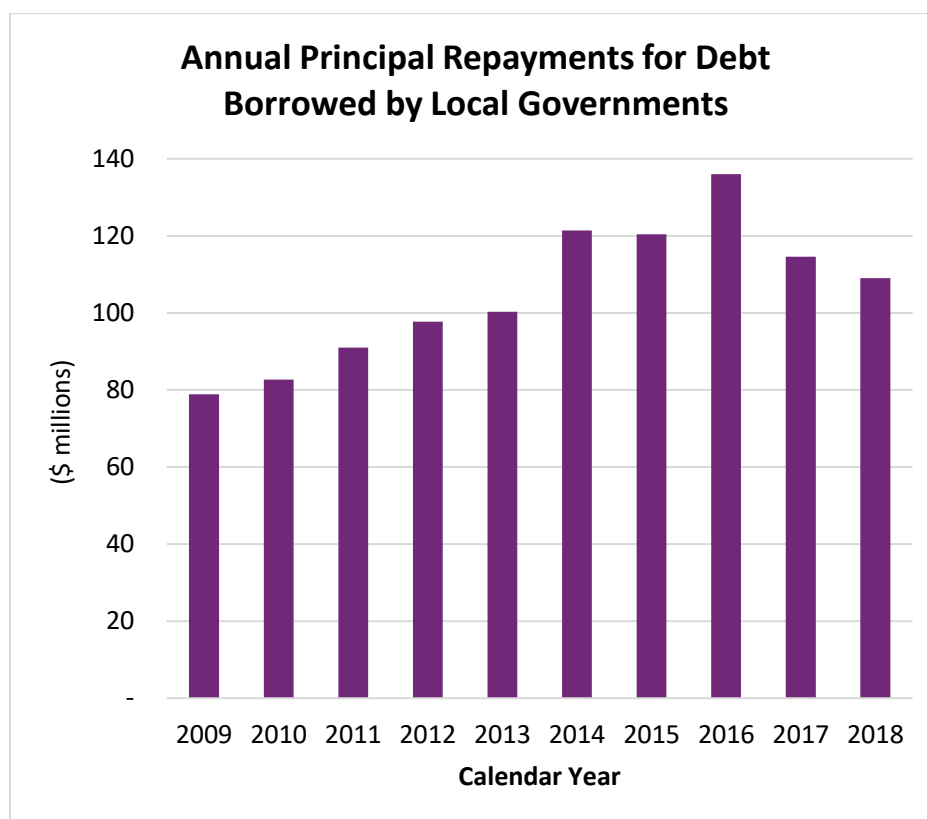
Exhibit 9.4 - Debt per Capita by City at December 31, 2018



Source: Prepared by AGNB. Refer to Appendix I for supporting information.

9.7 Local government debt is structured so that a portion is repaid in principal installments each year to the Municipal Finance Corporation. The ten-year history of principal payments by local governments is presented in Exhibit 9.5. See paragraph 9.15 for information on the role of the Municipal Finance Corporation. We found no local governments defaulted on their debt repayments in 2018.

Exhibit 9.5 - Annual Principal Repayments for Debt Borrowed by Local Governments



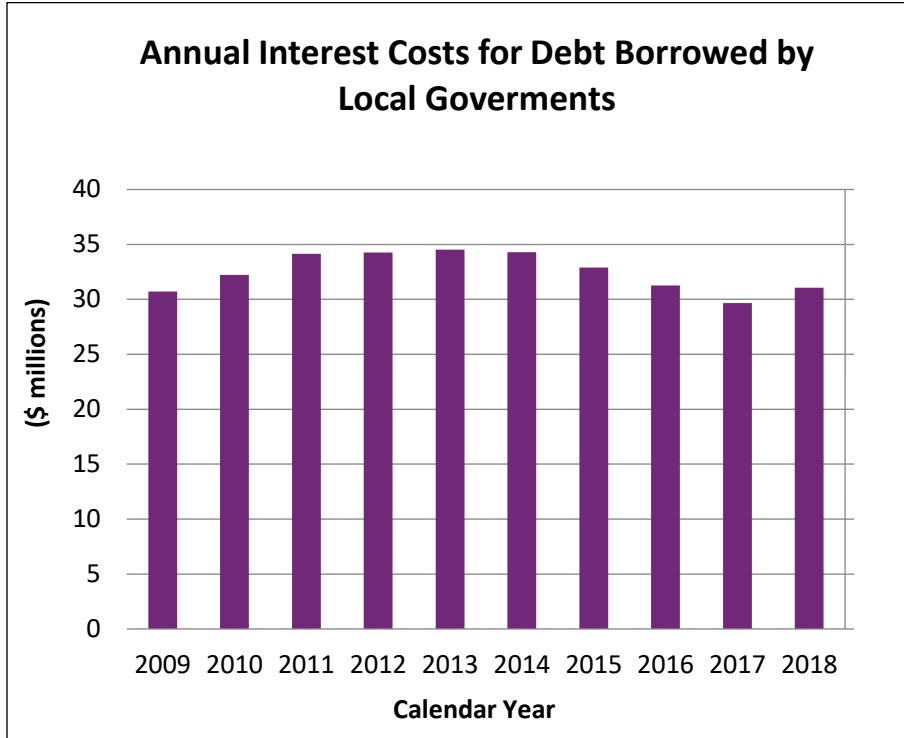
Source: Prepared by AGNB. Refer to Appendix I for supporting information.

9.8 In addition to annual principal repayments, local governments have annual borrowing costs consisting mostly of interest expense. In 2018, borrowing costs for local governments were \$31 million.

Borrowing costs have fluctuated overtime

9.9 Despite the increase in debt over the past ten years as depicted in Exhibit 9.1, this has not translated into increased borrowing costs. This is due to lower interest rates in recent years, and annual repayments each year, which have decreased the overall cost of borrowing. Exhibit 9.6 presents the borrowing cost trend over the past ten years.

Exhibit 9.6 - Annual Interest Costs for Debt Borrowed by Local Governments



Source: Prepared by AGNB. Refer to Appendix I for supporting information.

9.10 The full list of local government debt can be found in Appendix I. Additionally, further information is available in the Municipal Finance Corporation’s annual report, available on the Government of New Brunswick web site.

How Does a Local Government Borrow Money?

Applications are made to the Municipal Capital Borrowing Board to borrow money

9.11 If a local government wishes to borrow money for a capital expense, either by loan or by the issue of debentures, it must make an application to the Municipal Capital Borrowing Board (the “Board”) in accordance with the *Municipal Capital Borrowing Act*. The Board is appointed by the Lieutenant-Governor in Council and at the time of writing this report, consists of five public servants.

Municipal council must approve application

9.12 The application must first be approved by the municipality’s council before proceeding to the Board. The only exception under the *Act* is the City of Saint John, which is not required to make an application to the Board.

- Public hearings are held** **9.13** The Board will evaluate the application made by the municipal council and hold public hearings. Limits on borrowing by a local government are established in the *Local Government Act*.
- Minister of Environment and Local Government approves application** **9.14** Once approved by the Board, the Minister of Environment and Local Government (the “Minister”) must approve the application before a local government can proceed with its project.
- Municipal Finance Corporation provides long-term financing** **9.15** Long-term financing is provided by the Municipal Finance Corporation (the “Corporation”) as established by the *New Brunswick Municipal Finance Corporation Act*. This includes financing for the City of Saint John, which is not excluded from the Act.
- Role of Municipal Finance Corporation** **9.16** The Corporation provides protection for investors as the Lieutenant-Governor in Council, guarantees the principal and interest issued by the Corporation. If a local government defaults on its payments, the Minister is obligated to pay the Corporation for the amount. The Minister has other mechanisms at his/her disposal to collect the outstanding payments from a local government such as offsetting the unconditional municipal grant.
- 9.17** This guarantee to the Corporation by the Minister is disclosed in 2019 Volume I – Public Accounts Note 8.
- 9.18** See Exhibit 9.7 for the process municipalities follow when requesting additional debt.

Exhibit 9.7 - Process Municipalities Follow When Requesting Debt



Source: Prepared by AGNB using source:

https://www2.gnb.ca/content/gnb/en/services/services_renderer.13936.Municipal_Capital_Borrowing.html