

Alternative Debt Servicing Limit Measure Considerations

Measure	Merits	Drawbacks
<p>% of Edmonton Gross Domestic Product (GDP)</p>	<ul style="list-style-type: none"> GDP reflects the size of Edmonton’s economy within a given period of time. Setting a debt servicing limit as a % of GDP would ensure that City debt has the potential to be proportional to the size of the economy. The limit would increase as the economy grows over time, providing growth in debt servicing room. 	<ul style="list-style-type: none"> GDP data at the municipal level is imperfect. GDP is accurately measured at the national and provincial level only. Any sub-provincial calculation, such as at a city level, is only an estimate. As such, any figure for GDP will be a best estimate, and subject to some degree of error. GDP declines during economic contractions. Recessions and fluctuations in the business cycle would cause Edmonton’s debt servicing limit to reduce, potentially placing the City above its limit despite no additional debt being issued. Unlike income and consumption taxes, the City’s revenues do not have the same broad exposure to GDP. Linking the debt servicing limit to GDP has no bearing on the City’s revenues or its ability to afford its debt payments.
<p>Consumer Inflation</p>	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Consumer inflation measures the % change in the price of consumer goods. There is no association between consumer inflation and debt limits. Historically, the City’s revenues have grown at a higher rate than consumer inflation. If the City’s total borrowing limit, in dollar terms, were pegged to grow at the rate of consumer inflation, borrowing limits would not reflect the City’s ability to afford debt payments. The debt servicing limit, as a % of revenues, would likely gradually decline over time and would not be reflective of the City’s ability to pay for debt (i.e. affordability).
<p>% of Aggregate Household Income</p>	<ul style="list-style-type: none"> Approximately half the tax levy is paid by residential property owners. While property tax is a tax on the value of property, for most homeowners, it is effectively 	<ul style="list-style-type: none"> The City’s revenues come from several sources, and do not trend perfectly with aggregate household income. Movements in aggregate household income do not reflect the City’s ability to afford debt payments. Although household income may increase or decrease, it does not necessarily mean that the City can afford more or less debt,

	<p>paid using income. Aggregate household income reflects the total of all income earned by the household sector, and changes in household income can be reflective of tax tolerance of the average citizen.</p>	<p>respectively, due to other revenue streams available to the City.</p> <ul style="list-style-type: none">• In the case where the aggregate household income were to increase, although this could be indicative of increased tax tolerance, it does not necessarily mean that the average citizen can afford to pay more property taxes towards debt servicing. The increased tax tolerance can be for various City services, not only debt servicing.
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