Is the 18% Debt Service Ratio (DSR) limit useful?
What metrics does the government use?

Definition of the DSR

The DSR is defined as **debt charges** – principal & interest payments -- divided by operating revenues expressed as a %. Because Montreal West collects the Agglomeration tax as a revenue and pays it out as an expense, it's a flow-through which can be removed from the calculation.

The DSR then becomes debt charges divided by *local* revenues. However, since municipalities are not allowed to present a budget with a deficit, revenues must match expenses making local revenues equal to local expenses. The DSR can thus be expressed as **debt charges divided by local expenses**, and is reported in the pie chart in the expense section of the yearly budget. (2026 budget page 8). Local expenses can further be separated into debt charges and ***local expenses excluding debt charges*** (**LEEDC**).

$$\text{DSR} = \frac{\text{Debt charges}}{\text{Local expenses}} = \frac{\text{Debt charges}}{\text{Debt charges + LEEDC}}.$$

The DSR is intended to act as an alarm to detect excessive debt charges which gobble up revenue, or crowd out other expenses. In a business environment a high DSR is particularly significant: it alerts a company that debt charges are becoming problematic relative to the company's ability to pay them without compromising profits – in which case debt charges need to be reined-in, or revenue increased.

Our first instinct to reduce a problematic MoWest DSR is likely to *reduce the debt charges*. In fact, *increasing LEEDCs* works just as well which, though undesirable, is often inevitable due to inflation and rising costs. But, when the problem of a high DSR is inadvertently mediated via a large increase in LEEDCs the usefulness of the DSR as a metric has been compromised. (In business, where budgeted expenses are not explicitly matched to budgeted revenues, the denominator remains as revenues meaning that high debt charges can be easily offset by increased revenues which generally increase more than other expenses.)

An example of an LEEDC increase lowering the DSR

In 2025 the budgeted DSR increased 10.0% pushing slightly above the 18% limit. When the 2026 budget was delivered, there was a remarkable decrease in the DSR to **15.41%** – a reduction of **14.8%**, Fig 1.

Instead of there being a significant reduction in debt charges, which only decreased a mere **$68,848** (**2.8%**), the 14.8% DSR decrease was driven almost entirely by a **17.8% ($1.98M)** increase in LEEDC from $11,110,558 in the 2025 budget, Fig 2.

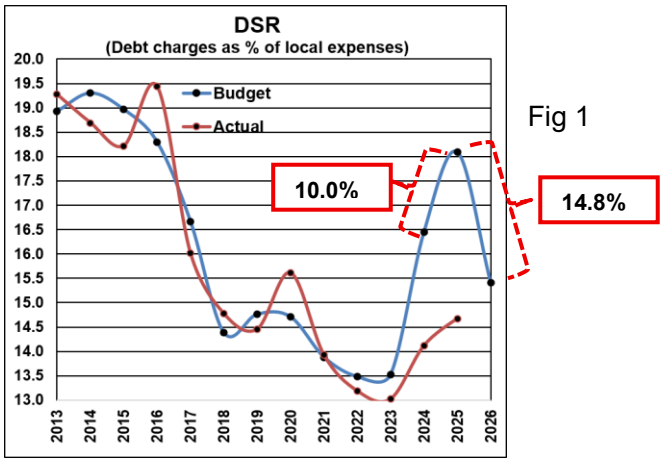
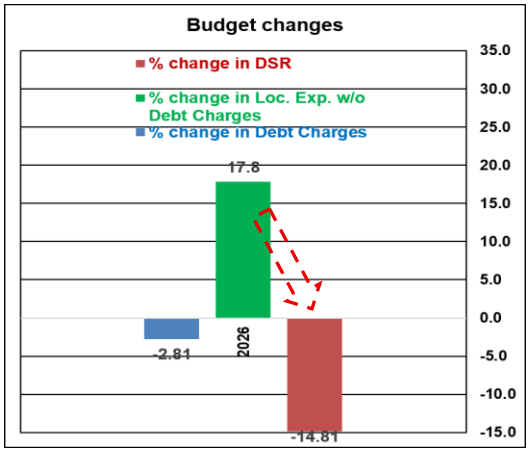


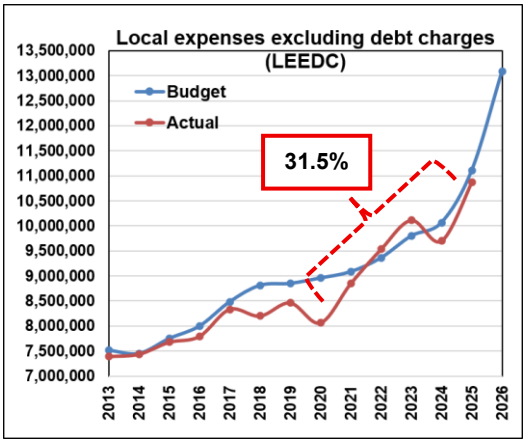
Fig 1

Fig 2



Actual LEEDCs grew by 31.5% during the six years from 2020** to 2025, Fig 3. If this trend continues the DSR is likely to be reduced further even in the absence of any debt charge reductions. (** The average of LEEDCs from 2016 to 2020 was used as the base in 2020.)

Fig 3



In fact, data from 2014 to 2026 found on page 4 indicates that only 2 of 6 significant decreases in the DSR were due to reductions in debt charges.

But, if increased LEEDCs have mitigated the high DSR problem, the high debt charge problem has only been supplanted by a larger other-expense problem, and the value of the DSR as a metric is compromised.

How much control do we actually have over our debt charges, and has the DSR been of any use?

During the iterative budget-making process is the DSR ever calculated, or is it simply a "score" that's determined at the end? When the DSR exceeded 18% in the four years from 2013 to 2016, were debt charges ever "massaged" to bring the DSR down from higher values? Is that even possible given existing principal repayment schedules and interest rates that are generally beyond our control?

No doubt the Town has a long-term plan for managing the debt, but this likely does not involve a magic wand that will reduce debt charges on demand to keep the DSR in check in any one year. In fact, future principal payments may have to increase to pay off the rec centre component of the bank debt.

What is the point?

Setting a limit on the DSR creates the expectation that we can judiciously control it by reining in debt charges when in fact it's more likely to be controlled by an increase in local expenses excluding debt charges, which is not necessarily the outcome desired.

So, does the DSR have enough significance that we need to limit it as part of our debt management strategy? The government must always approve our debt based on their confidence in our financial situation, and then the banks grant the loans – most likely without examining our DSR since loans are guaranteed by the government.

Furthermore, the provincial government seems to rely on metrics other than the DSR – as described on the next page – so **why not drop it from the SFP?**

Government restrictions on municipal debt and metrics calculated

The constraints found in the government **Act Respecting Municipal Debts and Loans** are that the term for repayment *cannot exceed 40 years or the minimum lifetime of the asset* (section 1), that it must be *approved by the ministry*, and *where/how the financing can be obtained*. There is no mention of debt metrics. See the Act

DSRs, and limits on them, are also *not* considered in the official **Rapports Financier** describing the actual financial performance of a town. However, six debt metrics are tracked by the Ministry in the "**Profils Financier**"; MoWest results for 2024 are reproduced below, see the Profil.

The first metric: "*Endettement total net a long terme par 100$ de RFU*" has us 24.3% above the other towns. RFU is "Richesse fonciere uniformisee" which appears to be the *total valuation* of all properties in a town. Interestingly, if a town's real estate valuations increase greater that those of other towns, this ratio would decrease and look better relative to the average. *But our debt situation wouldn't have really improved.* The objective seems to be to use community wealth based on total real estate value to determine our ability to support debt. If we're property-rich, we can presumably sustain tax increases to cover the debt.

The effect of our small size is evident in the second and third metrics which calculate the debt "*par unite d'evaluation*" and "*par logement et local*": we are *multiples* of the averages for our class of town. However, these high values can be traced to debt remaining from our exemplary infrastructure renewal in the "golden-era" from 2009 to 2019, plus the initial rec center debt hit in 2024. (As with many things in the Profil, I'm not clear on the distinction between these two metrics.)

Pseudo-DSRs appear in the second and third rows *from the bottom*, yet the 2024 MoWest values given of 9.43% and 8.47% bear little resemblance to the *actual* DSR of 14.12%. Nevertheless, these are well within average values found in the second column for the 275 municipalities in the same class.

It's unclear at what level a municipality's deviation from the averages for similar towns raises a red flag. I haven't been able to find any formal limits, which suggests the Ministry recognizes that towns are often unique cases.

The absence of any DSR limits suggests the Ministry is not overly concerned with them, should we be?

Bottom of page 3, 2024 Profil Financier. The 2025 Profil is not yet available.

Comparaison avec différents groupes

Données du rapport financier et du sommaire du rôle d'évaluation foncière 2024

Données consolidées	Municipalité	Classe de population	MRC	Région administrative	Tout le Québec
Nombre de municipalités		275	S. O.	16	997
Endettement					
Endettement total net à long terme par 100 $ de RFU	1,69 $	1,36 $	S. O. $	2,10 $	1,61 $
Endettement total net à long terme par unité d'évaluation	19 001 $	4 684 $	S. O. $	22 626 $	8 543 $
Endettement total net à long terme par logement et local	14 190 $	5 277 $	S. O. $	10 450 $	6 758 $
Service de la dette / Charges nettes sans amortissement	9,43 %	16,30 %	S. O. %	20,15 %	17,22 %
Service de la dette à la charge de la municipalité / Charges nettes sans amortissement	8,47 %	12,07 %	S. O. %	12,86 %	12,80 %
Dette à long terme / Actifs	20,40 %	27,29 %	S. O. %	36,60 %	30,62 %

The Microsoft Copilot AI identifies the 8.47% as the "municipal" DSR, though the actual DSR that year was 14.1%.

For the 13 years from 2014 to 2026 only 2 of 6 significant DSR reductions were solely due to decreases in debt charges

Six significant decreases in budgeted DSRs occurred from 2014 to 2026, Fig 4, which are identified by green numbers in the **% ΔDSR** row in the table below. Only 2 reductions in 2018** and 2021 were completely driven by decreases in debt charges of more than 5%, identified by blue numbers in the **% ΔDC** row. DSR decreases in 2016, 2022, and 2026 were predominantly due to increases in LEEDC – the red values in the **% ΔLEEDC** row, The decline in 2017 can be attributed to a combination of both a debt charge decrease and an LEEDC increase.

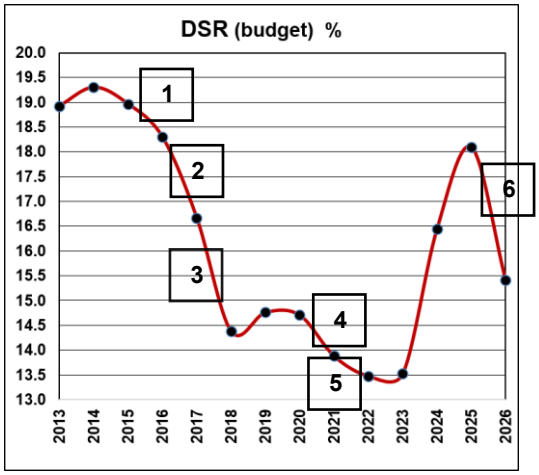
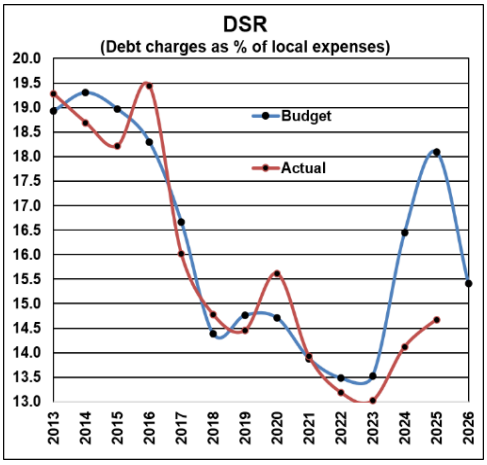


Fig 4

Fig 5



	DSR = Debt Service Ratio			DC = Debt Charges			LEEDC = Local Expenses Excluding Debt Charges							
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
DSR	18.93%	19.30%	18.96%	18.30%	16.67%	14.38%	14.76%	14.70%	13.88%	13.48%	13.52%	16.44%	18.09%	15.41%
% ΔDSR		1.98%	-1.75%	-3.52%	-8.91%	-13.72%	2.64%	-0.37%	-5.60%	-2.90%	0.32%	21.61%	10.00%	-14.82%
DC	1,753,568	1,780,913	1,812,315	1,789,841	1,695,972	1,479,407	1,531,832	1,543,990	1,463,812	1,457,921	1,531,897	1,981,055	2,453,540	2,384,692
ΔDC $$		27,345	31,402	-22,474	-93,869	-216,565	52,425	12,158	-80,178	-5,891	73,976	449,158	472,485	-68,848
% ΔDC		1.56%	1.76%	-1.24%	-5.24%	-12.77%	3.54%	0.79%	-5.19%	-0.40%	5.07%	29.32%	23.85%	-2.81%
LEEDC	7,511,739	7,446,162	7,744,305	7,992,899	8,479,878	8,808,337	8,846,951	8,955,962	9,081,900	9,359,218	9,797,612	10,066,484	11,110,558	13,092,226
ΔLEEDC $$		-65,577	298,143	248,594	486,979	328,459	38,614	109,011	125,938	277,318	438,394	268,872	1,044,074	1,981,668
% ΔLEEDC		-0.87%	4.00%	3.21%	6.09%	3.87%	0.44%	1.23%	1.41%	3.05%	4.68%	2.74%	10.37%	17.84%

**Although the 2018 DSR decrease involved a $328K increase in LEEDC which would seem more significant than the $217K decrease in debt charges, the nature of the DSR function: z = x/(x + y) where x is debt charges and y is LEEDC, is such that it's more sensitive to variations in debt charges. For instance, while there was a $126K increase in LEEDC in 2021, which was over 50% greater than the $80K decrease in debt charges, the debt charge change had a much greater impact.

2026 budget: https://montreal-ouest.ca/wp-content/uploads/2026/01/Budget-2026-FINAL.pdf
2025 budget: https://montreal-ouest.ca/wp-content/uploads/2024/12/Budget-2025-FINAL.pdf
SFP: https://montreal-ouest.ca/wp-content/uploads/2018/10/strategic-financial-plan-2018-2022.pdf

Provincial government: Act respecting municipal debts and loans
https://www.legisquebec.gouv.qc.ca/fr/document/lc/d-7%20?langCont=en
Link to 2024 MoWest Profil Financier:
https://www.mamh.gouv.qc.ca/documentsfinanciersweb/Profil-financier-2024-2025-66047.pdf