REGIONAL MUNICIPALITY OF PEEL
AUDIT AND RISK COMMITTEE
AGENDA

Meeting #:	**ARC-3/2020**
Date:	**Thursday, September 17, 2020**
Time:	**11:00 AM - 12:30 PM**
Location:	**Council Chamber, 5th Floor** **Regional Administrative Headquarters** **10 Peel Centre Drive, Suite A** **Brampton, Ontario**
Members:	**S. Dasko, N. Fairhead, C. Fonseca, N. Iannicca, K. Ras, R. Santos (Vice-Chair), I. Sinclair, R. Starr (Chair), H. Zuberi**

Due to the efforts to contain the spread of COVID-19 there will be no public access to the Council Chamber. The meeting will be live streamed on http://www.peelregion.ca/.

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1. CALL TO ORDER

2. DECLARATIONS OF CONFLICTS OF INTEREST

3. APPROVAL OF AGENDA

4. DELEGATIONS

5. REPORTS

5.1 Traffic Signal Operations and Maintenance Contract Management Audit
(For information)
Presentation by Terry Ricketts, Director, Transportation and Jennifer Weinman, Interim Director, Enterprise Risk and Audit Services

5.2 Information Technology Security Assessment
(For information)
Presentation by Arthur Michalec, IT Security Advisor, IT Operations

5.3 Status of Audit Projects
(For information)

5.4 Status of Management Action Plans
(For information)

5.5 Energy Commodity Procurement Policy Update

5.6 Debt Management Policy

6. COMMUNICATIONS

7. OTHER BUSINESS

8. IN CAMERA

8.1 Information Technology Security Governance and Management Audit
(For information)
(The security of the property of the municipality or local board)

9. NEXT MEETING

Thursday, November 19, 2020
11:00 a.m. – 12:30 p.m.
Council Chamber, 5th Floor
Regional Administrative Headquarters
10 Peel Centre Drive, Suite A
Brampton, Ontario

10. ADJOURNMENT

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REPORT
Meeting Date: 2020-09-17
Audit and Risk Committee

For Information

REPORT TITLE:	**Traffic Signal Operations and Maintenance Contract Management Audit**
FROM:	Jennifer Weinman, Interim Director, Enterprise Risk and Audit Services

OBJECTIVE

To inform the Audit and Risk Committee of the results of the Traffic Signal Operations and Maintenance Contract Management audit.

REPORT HIGHLIGHTS

- The audit focused on Region of Peel's traffic signals that are operated and maintained by agreements with the cities of Mississauga and Brampton.
- The audit assessed the effectiveness of contract management controls in place over the Traffic Signal Operations and Maintenance Service Agreement with the cities.
- Management has implemented informal processes to monitor operations of the traffic signals. A process to formally monitor and oversee compliance with the agreement needs to be developed, documented and implemented.
- A process should be developed to evaluate the cities' performance in operating and maintaining the traffic signals using performance metrics.
- Management has developed action plans and timelines to address the risks identified in the report.

DISCUSSION

1. Background

The 2020 Enterprise Audit Services Risk Based Work Plan included the audit of the Traffic Signal Operations and Maintenance Agreement.

In 2012, it was resolved that responsibility for the operations and maintenance of all Region of Peel traffic signals within the boundaries of the City of Mississauga and the City of Brampton would be transferred to the cities effective March 2015 following Council Resolution 2012-1175.

In 2015, by way of a "Traffic Signal Operations and Maintenance Service Agreement" with each of the City of Mississauga and the City of Brampton, the responsibility for 388 Regional traffic signals was transferred to the cities. In 2019, there were 410 Regional traffic signals being maintained by the cities.

The cities are responsible for the operations and maintenance of the entire Traffic Signals System. The Region's Traffic Signals System consists of all signalized intersections, which includes all electrical components, signage and pavement markings. The system also includes the traffic control signals, which are the actual traffic signal heads, operating from electronic instructions given by a master controller at one of the intersections or by a central computer at a traffic control/operation center.

The Traffic Signals and Streetlighting section of the Public Works Transportation Division oversees the Traffic Signals Operations and Maintenance Service Agreements.

2. Audit Objectives and Scope

The overall objective of the audit was to assess the effectiveness of contract management controls over the Traffic Signals Operation and Maintenance Agreement in place with the City of Mississauga and the City of Brampton (the cities) to mitigate the risks associated with the business objective of:

Ensuring the safe and efficient movement of both pedestrians and vehicles on the roadways while protecting the corridor functionality.

The audit focused on assessing the processes in place to monitor and oversight the following areas:

- Traffic Signals operation and maintenance, signage and complaints
- Traffic control system maintenance, troubleshooting and monitoring
- Performance metrics

The following areas were excluded from the scope of the audit:

- Capital Projects
- Advanced Transportation Management System
- Costs (Capital & Operating)
- Vision Zero Framework
- Traffic Signal Operations and Maintenance Agreement with the Town of Caledon as the Town is not contracted to undertake any work on the Region’s behalf

The scope of the audit reviewed data between January 2018 to November 2019.

This audit was conducted in conformance with the *International Standards for Professional Practice of Internal Auditing*.

3. Audit Observations and Management Response

Management has implemented informal processes to work with the cities and its vendors to ensure work is carried out to operate and maintain the Region’s Traffic Signals. These include communication through regular meetings and discussions, daily e-mail updates; review of meeting minutes and performing follow up as required; site visits and receipting of required reports.

There is a lack of formal processes for monitoring and overseeing the cities compliance with the agreement. The necessary processes and procedures for monitoring and oversight of the various clauses in the agreement need to be formally developed and documented and appropriate records need to be maintained of work completed to monitor compliance with the agreement.

The specific agreement areas to develop and document formal monitoring and oversight processes are noted below.

Contract Compliance Oversight

There should be formal documented processes in place to provide direction to staff in carrying out the responsibility to monitor and oversee that the cities of Mississauga and Brampton are fulfilling the obligations laid out in the Traffic Signal Operations and Maintenance Service Agreement. Further, there should be documentation retained by the Region to support that the Region has carried out oversight of the cities' responsibilities under the agreement.

There are no formal documented processes in place for the terms of the agreement reviewed during the audit. These agreement clauses include:

- Operations and maintenance, record keeping, adherence to Regional maintenance standards, requests for information, complaints and inquiries

- System maintenance, troubleshooting and monitoring, and providing the Region access to the system

There are several informal practices in place that indirectly contribute to oversight of the agreement. The staff involved in working with the cities and the vendor have a strong working relationship with the cities and the vendor and are in regular contact with both. There is a need to formalize processes for oversighting the cities' compliance with the agreement.

Without formal documented processes in place to guide the process for formally overseeing the agreement and documenting the oversight undertaken, there is a medium risk (see Appendix 1 for the Risk Profile) that the Region may not know if the traffic signal system is operating as required and if the traffic signals maintenance has been appropriately performed. Further, there is a high risk that the Region would not be able to substantiate that due diligence has been applied in oversighting the work of the cities should there be a legal dispute or non-compliance with the agreement.

Management Response

The Director, Transportation will ensure that a formal process is developed and communicated to staff which provides direction on how to obtain and maintain records of work completed to monitor compliance with the agreement. This process will address:

- Operations and maintenance, record keeping, adherence to Regional maintenance standards, requests for information, complaints and inquiries

- System maintenance, troubleshooting and monitoring, and providing the Region access to the system

The Director, Transportation will work with staff at the City of Mississauga and City of Brampton to help ensure work to monitor compliance with the agreement is carried out effectively and in an efficient manner. This will involve sharing the draft oversight process with staff from the Cities and partnering with them to help ensure the Region has access to the necessary information and systems.

This management action will be completed and implemented by December 31, 2021.

Further, work is underway across the organization to build capacity, capability and awareness to strengthen contract oversight and monitoring controls. This work, led by the Executive Leadership Team, was paused as the Region responded to the COVID-19 pandemic and will resume in the Fall.

Performance Metrics

A process should be in place to evaluate the cities' performance in operating and maintaining the traffic signals including using performance metrics. The metrics should be stored and tracked through a tool that allows for analyzing and reporting the metrics. Further, there should be a process in place to track and monitor the clauses in the agreement which outline the performance metrics data required under the agreement, specifically, Speed and Delay Travel Time Studies, Traffic Signal Timing Information, Legal Letters and Inquiries, Complaints and Reporting.

The Region does not have a formal, documented process to use performance metrics to evaluate the performance of the cities' in providing services as outlined in the agreement.

The Region does have various sources of data which they collect in relation to the areas listed in the agreement; this information is not being used for the purpose of measuring performance and tracking work being completed.

The agreement states the Region shall track performance metric data using a Business Intelligence tool to ensure all commitments are fulfilled by its vendors and contractors. The formal business intelligence tool for monitoring and tracking has not been developed.

There is a high risk that without a process for intentionally monitoring and assessing performance, the Region may not have the most accurate information regarding work that is being completed in accordance with the expectations laid out in the agreement. Further without tracking performance in the areas identified in the agreement, there is a high risk the Region may not have the ability to monitor data to identify best practices, identify areas of weaknesses in processes, track and report performance related data and improve sharing and exchanging of information with all stakeholders. There is a medium risk that the absence of a formal performance measurement tool may affect the Region's ability to assess whether the agreement is effective.

Management Response

The Director, Transportation will ensure that a formal process and procedure is developed and communicated to staff which documents how to monitor the cities’ performance in operating and maintaining the traffic signal system, and also to track and monitor the performance metric data, specifically, Speed and Delay Travel Time Studies, Traffic Signal Timing Information, Legal Letters and Inquiries, Complaints and Reporting. This management action plan will be completed and implemented by December 31, 2021.

CONCLUSION

A formal process of monitoring and overseeing compliance with the agreement is needed. To achieve this management should ensure that the required procedures for monitoring and oversight of the various clauses in the agreement are formally developed, documented and implemented, and appropriate records are maintained of work completed to monitor compliance with the agreement.

Enterprise Audit Services has reviewed management's action plans and is satisfied the actions developed will address the risks identified. Enterprise Audit Services will follow-up on the status of these management action plans and will report back to the Audit and Risk Committee on the status of all management action plans semi-annually.

APPENDICES

Appendix I – Risk Profile Description

For further information regarding this report, please contact Jennifer Weinman, Interim Director, Enterprise Risk and Audit Services, via email at Jennifer.weinman@peelregion.ca.

Authored By: Jennifer Weinman, CPA, CA, CIA, CRMA, Interim Director, Enterprise Risk and Audit Services, Carol Lyons, CPA, CGA, CIA, Senior Internal Auditor

Reviewed and/or approved in workflow by:

Divisional Director.

Final approval is by the Chief Administrative Officer.

Nancy Polsinelli

N. Polsinelli, Interim Chief Administrative Officer

Risk Profile Description

Risk Profile	
Risk Level	**Potential Impact to the Service/Sub-Service or Business Process**
Very High	Would prevent achievement of outcomes/objectives, and cause unacceptable cost overruns, project slippage or program delivery issues, and/or compromise credibility and reputation.
High	Would cause substantial delays in the achievement of the outcomes/objectives, and cause unacceptable cost overruns, project slippage or program delivery issues, and/or compromise credibility and reputation.
Medium	Would cause moderate delays in the achievement of the outcomes/objectives, and cause cost overruns, project slippage or program delivery issues, and/or compromise credibility and reputation.
Low	May not cause delays in the achievement of the outcomes/objectives, and cause minor cost overruns, project slippage, program delivery issues and/or minor credibility and reputational issues.

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Traffic Signal Operations and Maintenance Contract Management Audit

Terry Ricketts, Director, Transportation
Jennifer Weinman, Interim Director, Enterprise Risk and Audit Services

- Management has implemented informal processes to monitor operation and maintenance of the Region’s traffic signals
- Need to formalize processes for monitoring and overseeing the cities’ compliance with the Agreement
- Process is needed to evaluate the cities' performance in operating and maintaining traffic signals

Agenda

- Audit Objective
- Audit Observations
- Management Response
- Conclusion
- Questions

Audit Objective

Effective contract management controls in place over the Traffic Signal Operations and Maintenance Agreement with the City of Mississauga and the City of Brampton

Contract Compliance Oversight

- Develop and implement formal process to monitor and oversee that the cities are fulfilling the obligations laid out in the Traffic Signal Operations and Maintenance Service Agreements
- Retain documentation to support that the Region has carried out oversight of the cities' responsibilities under the agreement

Performance Metrics

Develop and implement processes:

- to evaluate the cities' performance in operating and maintaining the traffic signals including using performance metrics
- to track and monitor the clauses in the agreement which outline the performance metrics data required under the agreement

Conclusion

- Formal processes for overseeing compliance with the agreement needed including records of work completed to monitor compliance
- Management has developed action plans that addresses the risks identified in the observations

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Thank you and Questions

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REPORT
Meeting Date: 2020-09-17
Audit and Risk Committee

For Information

REPORT TITLE: **Information Technology Security Assessment**

FROM: Sean Baird, Commissioner of Digital and Information Services

OBJECTIVE

To inform the Audit and Risk Committee of the security measures that are currently in place and the results of a third-party security assessment that was conducted in 2019.

REPORT HIGHLIGHTS

- There are controls in place to manage the information technology risks.
- Security standards and best practices are used to provide guidance on controls and existing and emerging threats.
- Third-party security assessment was conducted to validate controls and identify areas of improvement to reduce security risk.
- The Region demonstrated a higher level of security maturity in some key areas.
- The findings from the assessment was good however there are areas that need to be addressed which is included in the security workplan
- Remediation work is underway to address the findings including a State of Good Repair program for addressing legacy applications.

DISCUSSION

1. Background

The Region of Peel network consists of large and complex technologies including best of breed cloud technologies; legacy on premise applications and legislated/mandated applications hosted externally. This creates complexity in the environment and the implementation of security measures to ensure the Confidentiality, Integrity and Availability (CIA) of the information entrusted to the Region.

The work of protection is never complete as new threats are introduced daily and threat actors are always one step ahead. This requires constant changes to ensure that vulnerabilities are addressed and that the defenses in place continue to provide the intended mitigation.

To protect the environment, it is prudent to follow well established processes that are most effective in stopping known attacks. These processes are developed in the form of standards and best practices and are a set of well-defined steps to be followed to minimize the security risk in the environment. It is important to note that while the risks related to system or information compromise can be reduced, they cannot be completely eliminated.

Some of the standards and best practices in use are ISO 27000 series, NIST 800 series, Centre for Internet Security's (CIS) 20 Critical Controls and Cloud Security Alliance (CSA) Cloud Controls Matrix.

Along with the standards and best practices, third party security assessments are also conducted to review the environment for the appropriate levels of controls; identify vulnerabilities and areas for improvements. The findings are used as input to the security workplan. Assessments are usually conducted every two to three years to allow time between the assessments for remediation efforts.

2. Current Security Controls

Security controls are safeguards or countermeasures that are implemented to avoid, detect, counteract, or minimize security risks to the information, computer systems, or other assets. The Region of Peel uses a layered approach to security which means that multiple controls are implemented to reduce the risks.

The following controls are currently in place:

Control	Description
Asset Controls	Utilize industry best practices and standards-based system hardening processes, performing threat and privacy assessments based on the level of sensitivity of the information being stored and recommending appropriate remediations to lower the risk to information breaches.
Identity and Access Controls	Two Identity Management platforms are in use to verify user entities before granting them the right level of access to on premise and cloud-based systems and information. Two Factor authentication is also in place as a second layer of security before being granted access.
Endpoint Protection	A suite of products to protect the endpoint devices (computers, laptops etc.) against viruses, malware, drive-by downloads, and other threats that may affect devices or services. The solution applies to both client and servers.
Vulnerability and Advanced Threat Protection	A tool that scans external and internally hosted systems for any vulnerabilities/risks in operating systems, applications, certificates, and the other components.
Security Patch Management	Utilize a tool to deploy operating systems security patches and maintenance patches to affected computers and servers.
Content Filtering	Email and Web content filtering solutions provide protection against delivery of harmful payload through web and emails for mobile and non-mobile platforms i.e. spam emails, malware, objectionable, inappropriate, or illegal content.
Regulatory Controls	A set of tools used to protect sensitive information on laptops, tablets, and servers by encrypting the data.
Virtual Private Network (VPN)	Used to establish a secure remote connection to Region of Peel network resources or devices. It is used by

	employees with a Region of Peel provided device (laptop, tablet, smartphone) or vendors or other third parties.
Firewalls	There are two corporate firewalls in place (one in each Data Centre) used to monitor incoming and outgoing network traffic from the internet and decides whether to allow or block specific traffic based on a defined set of security rules.
. Public Key Infrastructure (PKI)	Provides certificate to all Region of Peel computers and mobile devices to identify as Region devices to provide access to resources.

These controls are reviewed regularly to ensure they are still relevant and additional controls added to address new threats.

3. Security Assessment

As noted above, a good security practice is to compliment the security controls with a security assessment conducted by a third-party assessor. This validates that the controls in place are sufficient, identifies gaps and provides recommendations on how to remediate. A third-party Information Technology Security Assessment was completed between January and April of 2019. The assessment was focused on the evaluation of the current cyber security posture of the organization, validating that previous efforts have been completed effectively, and that risks are being managed to maintain confidentiality, integrity, and availability of the systems and information.

The assessment covered a broad area of technologies, controls, and governance items assessed against the CIS Critical Security Controls framework, industry best practices, and industry experience.

The findings identified areas for improvement and support the development of a workplan to remediate and reduce security risks.

4. Findings

The results from the security assessment validated that protecting the technology environment is never complete and no one is 100 per cent risk free – there is always a need to do more. It did indicate that the Region of Peel demonstrated a higher level of maturity in some key areas in Inventory and Control of Software Assets, Continuous Vulnerability Management as well as Wireless Access Control. Areas identified for improvement include Controlled Access Based on the Need to Know, Limitation and Control of Network Ports, Protocols, and Services, as well as Incident Response and Management.

Multiple critical vulnerabilities were discovered during the internal and external network penetration testing phase of the project. This testing was performed to attempt to exploit identified vulnerabilities to gain access to network devices, applications, accounts, and information in a manner other than intended.

Multiple issues related to missing patches, lack of system build and hardening standards, legacy operating systems and applications as well as outdated software components with vulnerabilities were also identified.

Technical Deficiencies such as weak build standards, lack of centralized log and event management systems, lack of formal incident response program and missing policy statements were also identified.

The workplan activities for the next several years include activities to address the above findings. While remediation of some findings is easier to attain, others such as the legacy applications and outdated software could take several years. This is dependent on the size and function of the application. In some cases, the application meets the need of the program areas and they would like to continue its use, however the inherent risks associated with these applications will force upgrades or replacement. As such a State of Good Repair (SOGR) program has been established to address legacy applications.

A reassessment is planned for 2021 to validate the issues that have been resolved and identify any new issues.

5. Workplan Activities

The workplan activities includes the items identified in the security assessment as well other activities that will strengthen security and reduce risks. Some activities have been completed, are ongoing or planned.

Status Indicators:

√ Completed

√ Ongoing

√ Not Started

Activities	2019	2020	2021
Deliver continuous Cyber Security awareness training for the organization	√	√	√
Conducted internal email phishing campaign within the organization		√	√
Introduced three new technology and security policy statements	√	√	
Implemented Identity Access technology system policies to protect corporate information against unauthorized access		√	
Developed security incident response plan		√	
Implemented next generation endpoint protection solution	√	√	
Implemented Security Incident and Event Management (SIEM) solution to centralize logging of security events	√		

Information Technology Security Assessment

Automated corporate systems build processes	√	√	
Modernized Cyber Security tools to leverage cloud computing, auditing, and analytics	√	√	√
Enhance security of mobile devices (smartphones)		√	√
Review and update existing security and technology policy statements		√	√
SOGR program is underway to address the legacy applications by retiring, replacing, or upgrading the applications	√	√	√
Remediate Technical deficiencies such as missing applications updates	√	√	√
Operationalize Security Incident Response Plan		√	
Enhance regulatory compliance controls		√	√
Improve lower scored areas to increase the security maturity assessment scores	√	√	√
Complete follow up IT security assessment			√

For further information regarding this report, please contact Steve Van de Ven, Director IT Operations, (416) 419-1324, steve.vandeven@peelregion.ca.

Authored By: Janette Myers-Sinclair, Manager IT Service Delivery

Reviewed and/or approved in workflow by:

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.

N. Polsinelli, Interim Chief Administrative Officer

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Security Assessment

Audit Committee Report

Arthur Michalec
IT Security Advisor - CISSP, TOGAF 9, GIAC GMOB
IT Services Delivery | IT Operations | Digital & Information Services

What is Cyber Security?

"*Cyber Security* refers to the body of technologies, processes, and practices designed to protect networks, devices, programs, and data from attack, damage, or unauthorized access."

Did you know that for the month of July the Region of Peel…

Blocked 86% of all emails daily

Daily Incoming Emails	Unsolicited Emails SPAM	Malware	Viruses	Bulk	Phishing
410,000	282,900 (69%)	36,900 (9%)	20,500 (5%)	12,300 (2%)	4,100 (1%)

Blocked 2% of all website sites daily

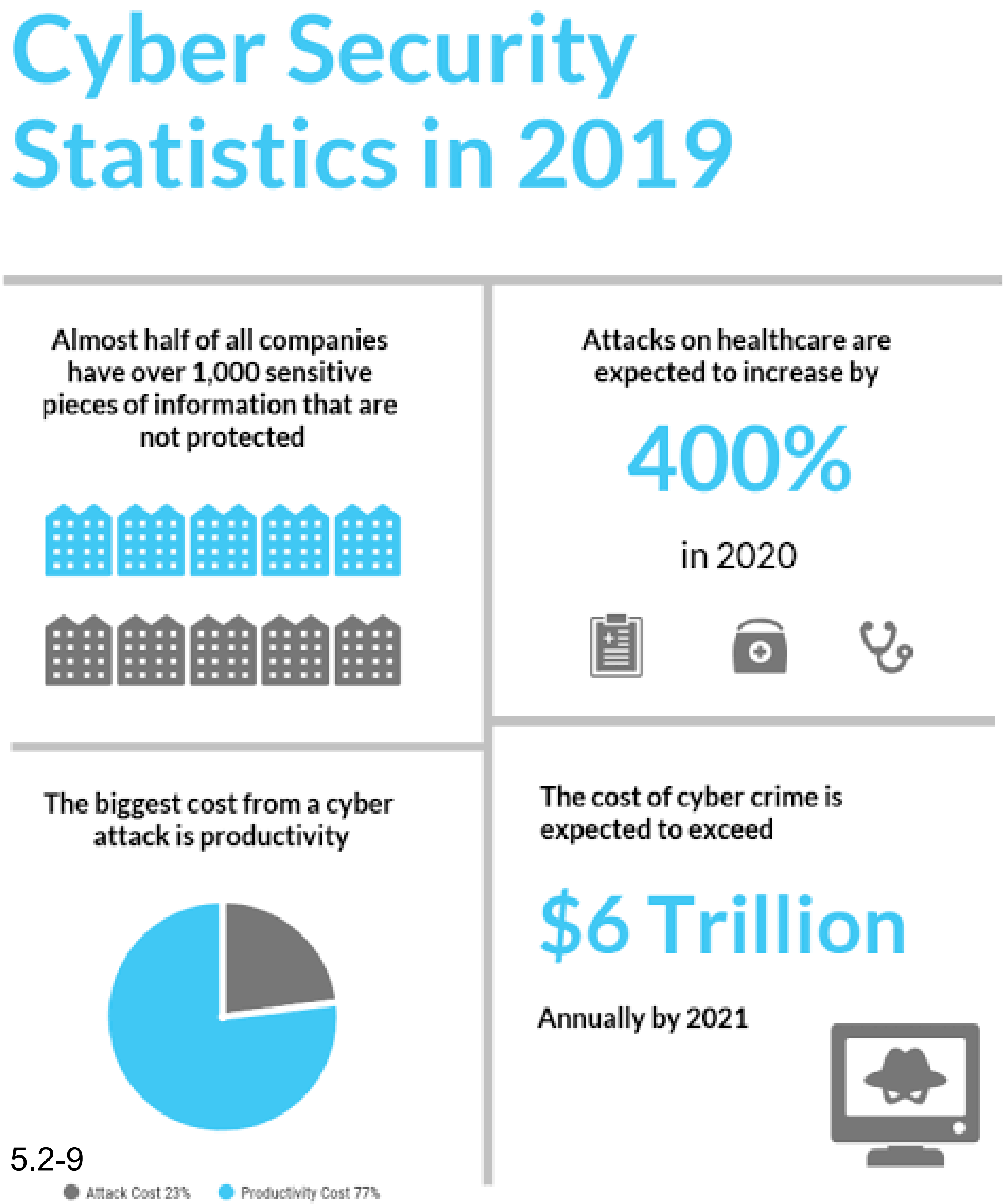
Daily Visited Web Pages	Blocked Sites Malware	Phishing	Cryptomining	Regional Values Policy
9,600,000	105,500 (1%)	51,250 (0.5%)	32,565 (0.3%)	10,250 (0.1%)

Achieved average scores as part of its first internal email phishing campaign

Phishing Campaign Targets	Users Who Clicked Malware Link	Supplied Credentials
1000	193 (19%)	82 (8%)

Cyber Security

"When applied correctly in the enterprise, Cyber Security can reduce risk related to system or information compromise. However, the risk cannot be completely eliminated."

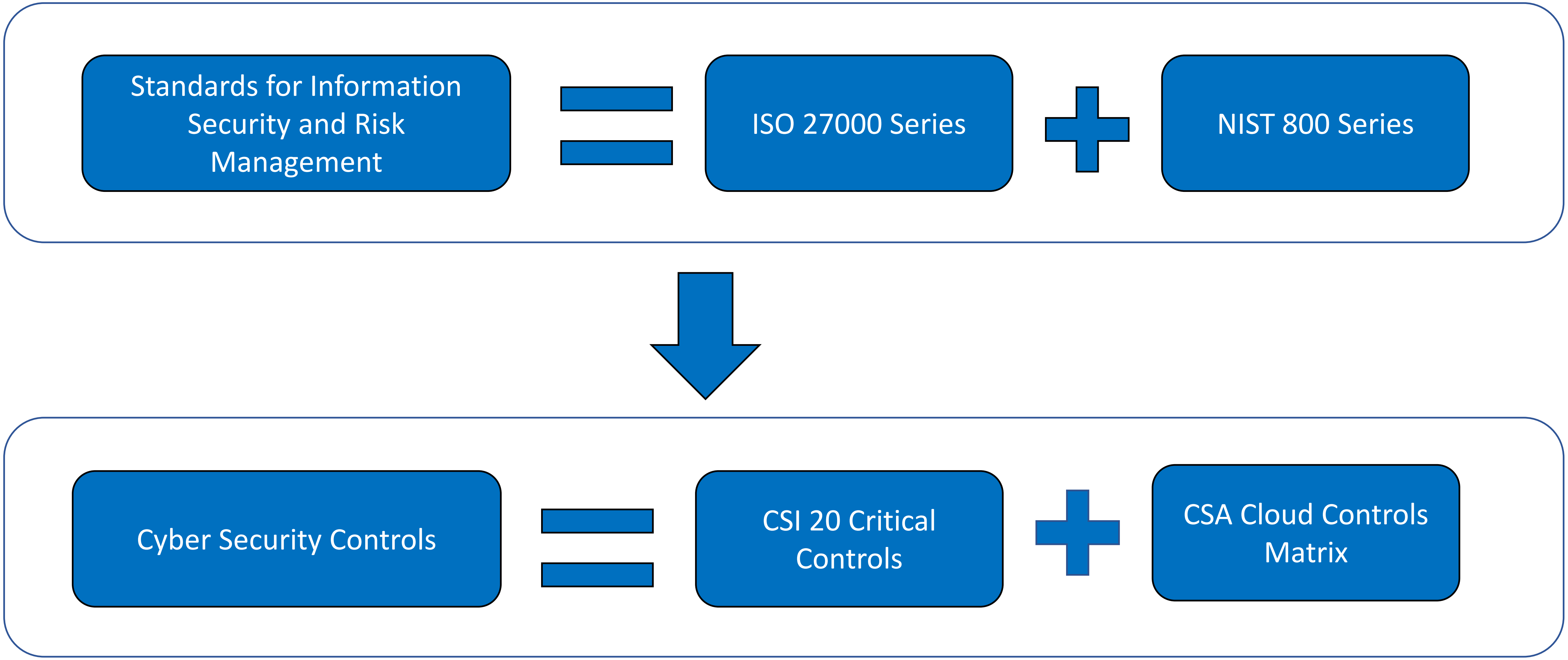


Source: stanfieldit.com

Remote Work - Risks

- Unsecure Networks
- Phishing attacks
- Sharing work computers with family
- Unpatched computers
- Physical security
- Lack of security awareness

The Region of Peel lives by industry standards



The Region of Peel’s layered security controls

CIS 20 Critical Controls

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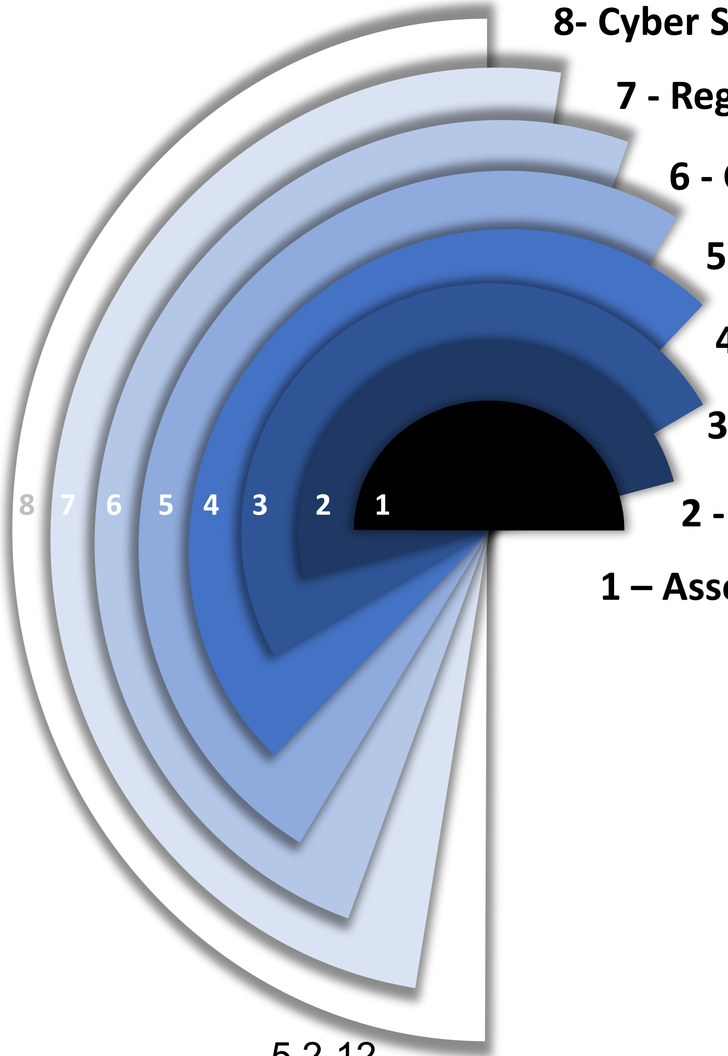
CSA Cloud Controls Matrix



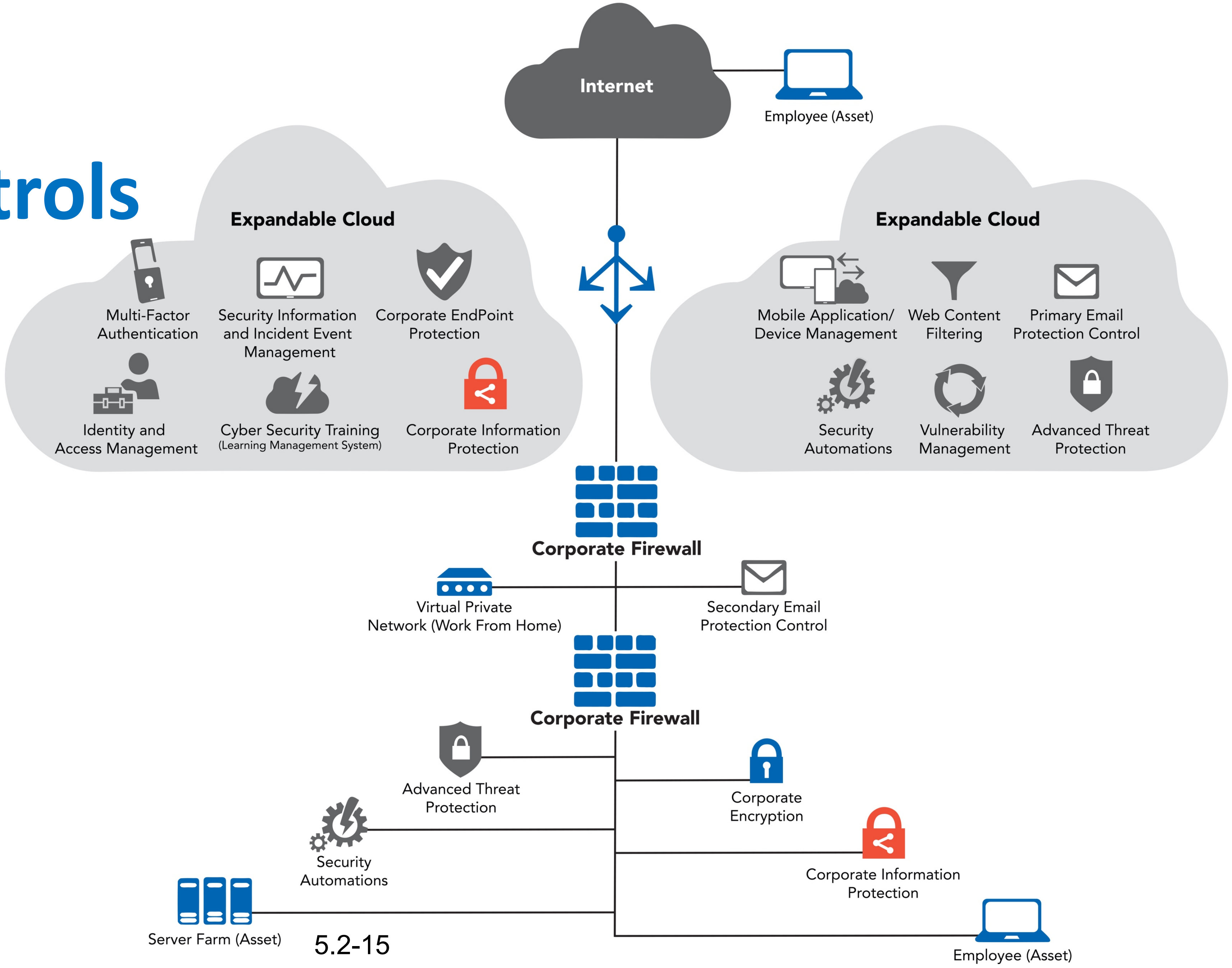
Examples of Security Controls

Asset Controls	System build procedure template Retain audit logs for compliance
Identity Access Controls	Identity Governance enforcement policies Least privilege access
Endpoint Protection	Antivirus software Machine Learning to identify threats
Vulnerability and Advanced Threat Protection	Technology Threat Risk Assessment process Automated Vulnerability Assessment risk

Examples of Security Controls

Security Patch Management	Inventory of vulnerable applications Audit compliance
Content Filtering	Email protection User of Safe Links and Safe Attachments
Regulatory Controls	Device or communication encryption Use of secondary forms of authentication
Cyber Security Training	Training delivered through Learning Management System Internal Phishing campaigns or simulations

Peel's Cyber Security Controls

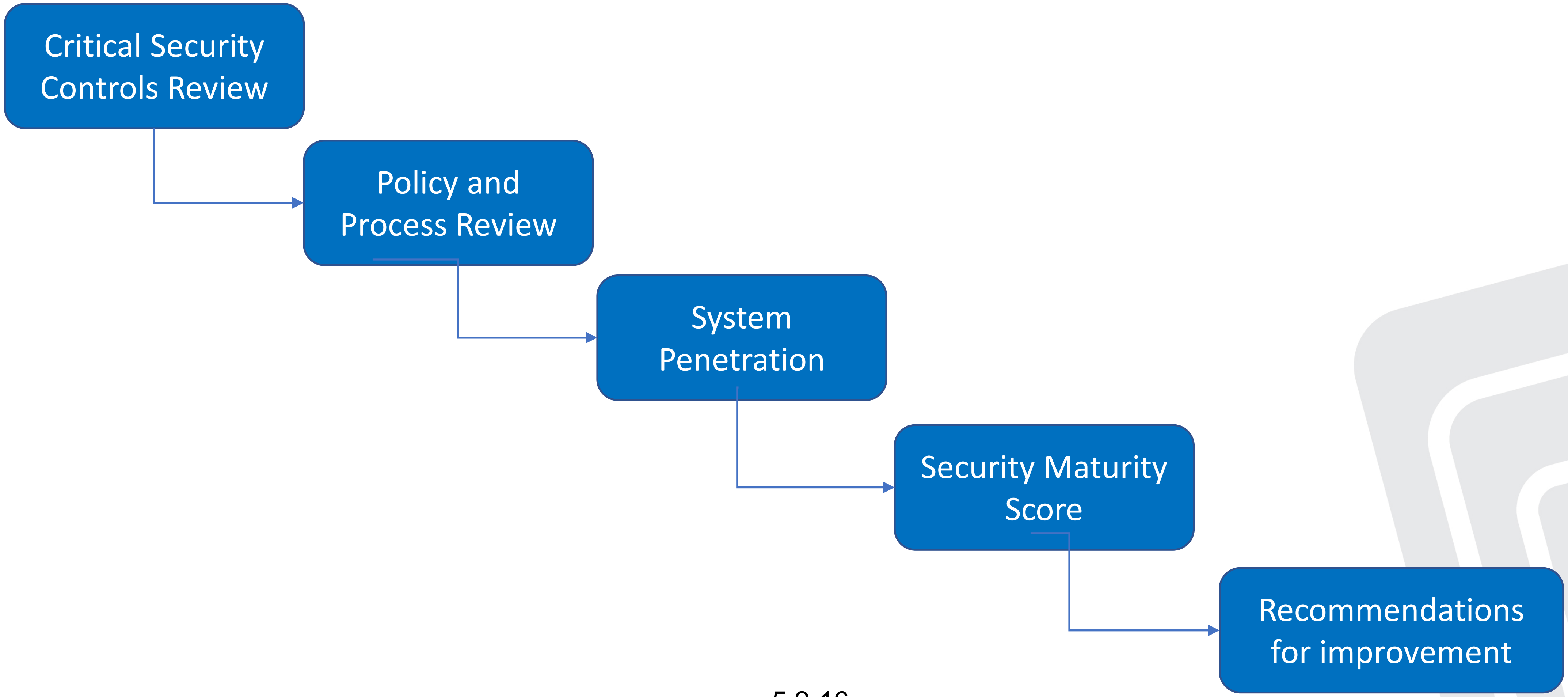


Peel's Cyber Security Controls

- Cloud/Hybrid Controls
- On-premises Controls
- Future Controls

Third Party Security Assessment

Completed in April of 2019



Security Maturity Assessment (Findings)

The Region of Peel's overall **Critical Security Controls maturity score is 42%.**

This is higher than the current municipalities sector average of **39%.**

Security Maturity Assessment (Findings)

Status Indicators:

- Completed
- Ongoing
- Not Started

The Region of Peel has higher maturity than the sector average in the following areas:

CSC 2 – Inventory and Control of Software Assets – 35%

CSC 3 – Continuous Vulnerability Management – 43%

CSC 15 – Wireless Access Control – 50%

Security Maturity Assessment (Findings)

The Region of Peel has lower maturity than the sector average in the following areas:

- CSC 9 - Limitation and Control of Network Ports, Protocols, and Services - 5%
- CSC 14 – Controlled Access Based on the Need to Know - 3%
- CSC 19 - Incident Response and Management - 9%

Internal Penetration Testing (Findings)

Vulnerability Assessment

- Aging applications prevent deployment of latest server operating systems.
  - 40% of all the servers are running on unsupported operating systems.
  - Some vulnerable operating system weaknesses are 10 years and older.
- Numerous outdated software applications were discovered

Technical Deficiencies

- In some cases system build procedures were not followed
- Lack of centralized log management & event management system
- No formal Incident Response Plan

IT Policies and Documentation (Findings)

Missing or inaccurate policy statements

- Recording Policy, Bring Your Own Device Policy, Information Classification Policy, Information Protection Policy
- Review existing IT Technology policies and keep them updated regularly

Documentation

- Some systems lacked the design detail
- Some threat risk assessment recommendations were not applied correctly

Work Plan

Activities	2019	2020	2021
Deliver continuous Cyber Security awareness training for the organization	✓	✓	✓
Conducted internal email phishing campaign within the organization		✓	✓
Introduced three new technology and security policy statements	✓	✓	
Implemented Identity Access technology system policies to protect corporate information against unauthorized access		✓	
Developed security incident response plan		✓	

Work Plan

Activities	2019	2020	2021
Implemented next generation endpoint protection solution	✓	✓	
Implemented Security Incident and Event management solution	✓		
Automated corporate systems build processes	✓	✓	
Modernize cyber security tools	✓	✓	✓

Work Plan

Activities	2019	2020	2021
Enhance security of mobile devices (smartphones)		✓	✓
Review and update existing security and technology policy statements		✓	✓
State of Good Repair (SOGR) program is underway to address the legacy applications by retiring, replacing, or upgrading the applications	✓	✓	✓
Remediate technical deficiencies such as missing application updates	✓	✓	✓

Work Plan

Activities	2019	2020	2021
Operationalize Security Incident Response Plan		✓	
Enhance regulatory compliance controls		✓	✓
Improve lower scored areas to increase the security maturity assessment scores.	✓	✓	✓
Complete follow up IT security assessment			✓

Questions?

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REPORT
Meeting Date: 2020-09-17
Audit and Risk Committee

For Information

REPORT TITLE: **Status of Audit Projects**

FROM: Jennifer Weinman, Interim Director, Enterprise Risk & Audit Services

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OBJECTIVE

To inform the Audit and Risk Committee on the status of audit projects with respect to the current Regional Emergency.

REPORT HIGHLIGHTS

- On March 18, 2020, a Regional State of Emergency was declared; impacting the status of many audit projects.
- This report outlines the status of audit projects as the Region responds to and recovers from the Regional Emergency.
- At this time, it is expected that the 2020 Enterprise Audit Services Risk Based Work Plan as approved will not be fully completed.

DISCUSSION

1. Background

On March 18, 2020 the Region of Peel declared a State of Emergency in response to the current COVID-19 pandemic. Currently, many of the Region's programs and services are engaging in responding to the Regional Emergency and others are working to both support that response as well as work on recovery.

The Audit and Risk Committee Charter states that "in case of a Regional emergency, to the extent that redeployment of staff may be necessary to support critical functions, the Enterprise Risk and Audit Services division staff may be required to perform otherwise non-audit related duties". At present most of the Enterprise Risk and Audit Services staff have been redeployed to assist other program areas with service delivery efforts.

The 2020 Enterprise Audit Services Risk Based Work Plan ("2020 Work Plan") was approved at the February 6, 2020 Audit and Risk Committee meeting. Enterprise Audit Services noted the 2020 Work Plan as presented may need to be amended based on risks and issues that occur during the year. Outlined in the report of the Interim Director, Enterprise Risk and Audit Services, titled "Status of Audit Projects" is the current status of the approved audit projects.

Status of Audit Projects

2. 2019 Audit Projects Reported in 2020

There were two audit projects from the approved 2019 Work Plan where the audit work was completed at the end of 2019 and the audits were reported to the Audit and Risk Committee at the April and September 2020 Committee meetings (see Appendix I – Status of the 2019 Audit Projects Reported in 2020). These audit projects were not impacted by the Regional Emergency.

3. 2020 Enterprise Audit Services Risk Based Work Plan Status

Twelve audit projects were included in the 2020 Work Plan. The Regional Emergency has affected the status of several projects (see Appendix II – Status of 2020 Work Plan Projects) as staff within Enterprise Audit Services and the audit areas are being re-directed to responding to this effort.

Presently one audit project, Transportation Management, is complete and being presented to the Audit and Risk Committee in September 2020. There are two projects that have been competitively procured to have external vendors complete the audit work. At this time, audit work has either been deferred during the State of Emergency or delayed and recently resumed as outlined in Appendix II. All other projects in the 2020 Work Plan are either not started or have been deferred.

4. Enterprise Risk and Audit Services Staff Redeployments

To support the Region's efforts to respond to the COVID-19 pandemic and the critical services most impacted by the emergency, staff from the division were redeployed to areas across the Region including Long Term Care, Public Works, Temporary Isolation Housing, Active Screening and the Regional Operations Emergency Centre. Out of the eight staff members currently in the division, two were redeployed full-time, four were redeployed part-time and one took a leave of absence.

The division had a risk based work plan in place to be completed during 2020. The risks of not completing the work plan were weighed against the need to add extra staff to those areas most significantly impacted by the emergency and the decision was made that staff from the division should be redeployed as the impacts of the emergency were presenting a greater risk. Audit work is expected to advance in the fall as staff return from their redeployment positions.

CONCLUSION

As many Regional resources are now focused on responding to the current State of Emergency, the 2020 Work Plan as approved will not be fully completed. Enterprise Audit Services will continue to update the Audit and Risk Committee with the status of the approved Work Plan at the first meeting in 2021.

APPENDICES

Appendix I - Status of the 2019 Work Plan Projects Reported in 2020
Appendix II - Status of 2020 Work Plan Projects

Status of Audit Projects

For further information regarding this report, please contact Jennifer Weinman, Interim Director, Enterprise Risk and Audit Services, Ext. 4122, jennifer.weinman@peelregion.ca.

Authored By: Jennifer Weinman, CPA, CA, CIA, CRMA, Interim Director, Enterprise Risk and Audit Services, Nicole Lewis, Coordinator, Enterprise Risk and Audit Services

Reviewed and/or approved in workflow by:

Divisional Director

Final approval is by the Chief Administrative Officer.

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N. Polsinelli, Interim Chief Administrative Officer

Appendix I
Status of Audit Projects

Status of the 2019 Work Plan Projects Reported in 2020

Strategic Plan Area of Focus	Audit Project	Status
Living People's lives are improved in their time of need	Homelessness Support – Shelter Operations	Completed Reported April 2020
Leading Government is future-oriented and accountable	Information and Technology – Information Technology Security Governance and Management	Completed Reported September 2020

Appendix II
Status of Audit Projects

Status of 2020 Work Plan Projects

Strategic Plan Area of Focus	Audit Project	Status
Living People's lives are improved in their time of need	Paramedics	Not Started
Leading Government is future-oriented and accountable	Asset Management – Capital Construction	Started-Deferred
	Information and Technology – Information Technology Capability Management	Not Started
	Financial Management - Insurance and Loss Management	Not Started
	Financial Management - Financial Reporting and Accounting – Accounts Payable	Not Started
	Public Accountability – Legislative Services - Privacy	Not Started
	Workforce Retention – Payroll	Not Started
	Information and Technology – Information Technology Enterprise Architecture	Started-Deferred*
Thriving Communities are integrated, safe and complete	Roads and Transportation – Transportation Management	Completed
	Infectious Disease Prevention – Immunization and Disease Control	Started-Deferred
	Water Supply – Water Meter Testing	Started-Delayed*
	Land Use Planning – Land Use Development Services Division	Not Started

* For both projects external vendors have been engaged through competitive procurements to complete the audit work and the contracts have been awarded. Work on the Information Technology Enterprise Architecture audit will restart when the Regional Emergency has ended and work on the Water Meter Testing audit has recently restarted after being temporarily delayed.

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REPORT
Meeting Date: 2020-09-17
Audit and Risk Committee

For Information

REPORT TITLE: **Status of Management Action Plans**

FROM: Jennifer Weinman, Interim Director, Enterprise Risk & Audit Services

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OBJECTIVE

To provide the Audit and Risk Committee with an update on the status of management action plans which were developed to address audit observations.

REPORT HIGHLIGHTS

- Professional auditing standards require that Enterprise Audit Services have a process in place to monitor the implementation of management action plans.
- Management successfully implemented nine of the 14 management action plans (64 per cent) that were due to be implemented on or before December 31, 2019.
- The current risk exposure on the five remaining management action plans that were due but not fully implemented is high and are specific to Peel Living Property Management objectives.

DISCUSSION

1. Background

Standard 2500.A1 of the *International Standards for the Professional Practice of Internal Auditing* states that Enterprise Audit Services "must establish a follow-up process to monitor and ensure that management actions have been effectively implemented". Enterprise Audit Services has a process in place to monitor the implementation of management action plans and reports bi-annually to the Audit and Risk Committee on the results.

Commissioners are provided with reports on the status of management action plans throughout the year. These reports provide information to assist with monitoring department specific management action plans.

2. Analysis of Results

Management action plans due to be implemented on or before December 31, 2019 were reviewed. Enterprise Audit Services verified that nine of the 14 plans (64 per cent) that were due by December 31, 2019 were implemented successfully. Of the management action plans that were due by December 31, 2019, a total of five management action plans remain outstanding and pertain to the Peel Living Property Management Audit.

Status of Management Action Plans

The table below shows the implementation rate for management action plans over the past two years.

Reporting Period	Total Due to be Implemented	Total Implemented	Implementation Rate
December 31, 2019	14	9	64%
June 30, 2019	19	18	95%
December 31, 2018	44	30	68%

<u>Peel Living Property Management Audit</u>

Five management action plans remain outstanding. Four of these management actions are related to the implementation of a technology solution, and one is related to a resource to support contract oversight and vendor performance management. These action plans and the planned implementation date are outlined below.

Management is targeting December 31, 2020 for active implementation of the Preventative Maintenance module in MegaMations to address the four observations below:

1. Property Management Information System
2. Asset Management System
3. Preventative Maintenance Planning and Monitoring
4. Managing Repairs and Other Service Requests

Management is actively participating in the Region's Vendor Performance Management program; the roll-out is anticipated in the later part of 2020. A job evaluation for a quality specialist is underway. Participating in the Vendor Performance Management program and hiring a quality specialist address the observation related to:

5. Vendor Management

3. Risk Analysis of Outstanding Management Action Plans

For the reporting period ended December 31, 2019, 64 per cent of the management action plans that were due have been implemented. Part of the audit process involves assigning a risk category and risk ranking to each audit observation. These risks relate to the area that was audited and are specific to the business process objectives. A risk analysis of the management action plans that were due but not fully implemented is provided below.

The risk exposure for the five outstanding management action plans is high. The risks pertain to the specific business processes and systems related to each observation. Refer to Appendix I – Risk Profile for information about the risk rating scale.

The risks relate to the risk categories as outlined below.

1. Property Management Information System – Service Delivery
2. Asset Management System - Technology
3. Preventative Maintenance Planning and Monitoring – Service Delivery
4. Managing Repairs and Other Service Requests – Service Delivery
5. Vendor Management – Procurement

Service Delivery risk, Technology risk and Procurement risk fall under the category of Operational risk. Operational risks are the risk of loss from people, systems, internal procedures or events which have the potential for the organization to deviate from its objectives. They are day-to-day risks typically managed by managers, supervisors and staff.

CONCLUSION

Enterprise Audit Services will continue to work with Peel Living management in their efforts toward implementing the management action plan in a timely manner.

Due to the impacts of COVID-19 on many of the Region's services, no additional status of management action plan follow-up will be conducted in 2020. The next follow-up process will be conducted in early 2021 and reported to the Audit and Risk Committee in the spring.

APPENDICES

Appendix I – Risk Profile

For further information regarding this report, please contact Jennifer Weinman, Interim Director, Enterprise Risk and Audit Services, Ext. 4122, jennifer.weinman@peelregion.ca.

Authored By: Jennifer Weinman, CPA, CA, CIA, CRMA Interim Director, Enterprise Risk and Audit Services, Nicole Lewis, Coordinator, Enterprise Risk and Audit Services

Reviewed and/or approved in workflow by:

Divisional Director

Final approval is by the Chief Administrative Officer.

N. Polsinelli, Interim Chief Administrative Officer

Appendix I
Status of Management Action Plans

Risk Profile

Risk Profile	
Risk Level	**Potential Impact to the Service/Sub-Service or Business Process**
Very High	Would prevent achievement of outcomes/objectives, and cause unacceptable cost overruns, project slippage or program delivery issues, and/or compromise credibility and reputation.
High	Would cause substantial delays in the achievement of the outcomes/objectives, and cause unacceptable cost overruns, project slippage or program delivery issues, and/or compromise credibility and reputation.
Medium	Would cause moderate delays in the achievement of the outcomes/objectives, and cause cost overruns, project slippage or program delivery issues, and/or compromise credibility and reputation.
Low	May not cause delays in the achievement of the outcomes/objectives, and cause minor cost overruns, project slippage, program delivery issues and/or minor credibility and reputational issues.

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REPORT
Meeting Date: 2020-09-17
Audit and Risk Committee

REPORT TITLE:	**Energy Commodity Procurement Policy Update**
FROM:	Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That the Energy Commodity Procurement Policy attached as Appendix I to the report from the Commissioner of Finance and Chief Financial Officer, titled "Energy Commodity Procurement Policy Update", be approved.

REPORT HIGHLIGHTS

- An Energy Management Audit Report presented to the Audit and Risk Committee in October 2019 identified the opportunity to review and update the policy and procedures related to commodity procurement to help ensure clear roles and responsibilities in the energy hedging program.
- Management developed an action plan to address this observation and the policy was updated to include changes in the responsible authority and the composition of the Energy Procurement Working Group, and inclusion of the Energy Risk Management Framework in the policy.

DISCUSSION

1. Background

An Energy Management audit was conducted in 2019 by Enterprise Risk and Audit Services and the audit report was submitted to the Audit and Risk Committee in October 2019.

The audit found that the controls in place to provide system support for energy consumption and performance analysis are effective; there are controls in place to manage energy requirement forecasting and energy procurement, at the same time mitigating the market risks associated with commodity markets.

The Energy Commodity Procurement Policy was approved by Regional Council in April 2016 to provide guidelines that ensure effective controls are in place to achieve the business objectives related to mitigating market risks associated with energy commodity markets such as supplies and demands, and price fluctuation. The Region purchases two types of energy commodities: natural gas and electricity. The procurement process follows the Region's approved Energy Commodity Procurement Policy. A hedging program was established to mitigate the market risks associated with commodity markets such as supplies and demands, and price fluctuation.

Energy Commodity Procurement Policy Update

The audit further indicated that there is an opportunity to review and update the policy and procedures supporting energy procurement to ensure roles and responsibilities of staff responsible for the hedging program are clearly defined. It should be noted that in October 2016 the Energy Procurement and Planning Section of Real Property Asset Management Division (RPAM) was transferred to the Corporate Finance Division as the functions of the said section aligns better to the procurement function of Finance. The transfer resulted in improvements to service function and changes in responsibilities and the reporting and signing authority.

The audit noted that without an updated policy and procedures to effectively guide and support staff, there is a risk that practices may not align with management expectations. To address this observation, management developed an action plan to review and update the policy.

2. Key Revisions

The major revisions to the policy are as follows:

a) Responsible Authority
Due to changes in reporting and signing authority, the following revisions are included:
   i. Approval of energy transactions shall be changed from the Director-Real Property Asset Management to the Treasurer and Director of Corporate Finance.
   ii. The Deputy Treasurer shall be authorized to approve energy transactions in the absence of the Treasurer and Director of Corporate Finance.

b) Composition of the Energy Commodity Working Group
Due to changes in reporting authority and to better align responsibilities, the following revisions are included:
   i. The lead of group shall be changed from the Director-Real Property Asset Management to the Treasurer and Director of Corporate Finance.
   ii. The Director of Enterprise Risk and Audit Services shall be replaced as working group member by the Director of Treasury Services. The Manager-Finance Services Unit of Peel Living is also added as member.

c) Added as Appendix "A" - Energy Commodity Risk Framework
To reflect the actual best practices in managing energy market risks, the Energy Commodity Risk Framework which was not contained in the previous version of the policy shall be included as Appendix "A" to the policy. The Energy Commodity Risk Framework provides detailed guidelines and processes on energy market risk assessment and management.

CONCLUSION

Overall, the Region's updated Energy Commodity Procurement Policy will provide clear guidance and management processes to enable the Region to quickly respond to legislative changes as well as energy market conditions that affect electricity and natural gas costs, mitigating the impacts of energy market volatility and ensuring that the services provided to the community in Peel are delivered in a cost effective manner. Moving forward, management shall continue to review and update the policy as needed in order to ensure it aligns with management expectations.

APPENDICES

Appendix I – Energy Commodity Procurement Policy
Appendix II – Energy Commodity Procurement Policy – BLACKLINED (Proposed Revisions)

For further information regarding this report, please contact Stephanie Nagel, Director Corporate Finance and Treasurer, email address: stephanie.nagel@peelregion.ca.

Authored By: Peter Bacalso, Energy Finance Manager, email address: peter.bacalso@peelregion.ca.

Reviewed and/or approved in workflow by:

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.

Nancy Polsinelli

N. Polsinelli, Interim Chief Administrative Officer

CATEGORY: FINANCIAL MANAGEMENT

SUBCATEGORY: PURCHASING

SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

A. PREAMBLE

The improvement of budget stability and accuracy requires actions that enable The Regional Municipality of Peel to mitigate risks from volatile markets and achieve manageable Commodity costs. Price volatility on Commodities purchased by the Region presents both a budgeting challenge and a financial risk. Maintaining an active Commodity portfolio and risk management strategy requires constant market presence, the ability to make sound and timely purchasing decisions, and flexibility to move between fixed Hedges and Spot Markets instantaneously. The Energy Commodity Procurement Policy addresses these challenges and supports the financial objectives of the Region.

Commodity Price Hedging Agreements provide price stability and cost certainty by fixing some portion of the future Commodity price. It would enable the Region to secure favourable pricing for Commodity purchase commitments where other means, such as long-term contracts, are not practicable.

B. PURPOSE

The Energy Commodity Procurement Policy provides the guidelines and risk management framework for the supply of the Commodity procured through Price Hedging Agreements by The Regional Municipality of Peel. It establishes objectives, responsibilities, information-based decision making, processes and reporting requirements for the prudent use of Hedging Agreements; in accordance with *Municipal Act 2001, Ontario Regulation 653/05 (0.Reg. 653/05).*

C. SCOPE

All financial commitments for the purpose of fixing future prices through Commodity price Hedging Agreements, including related agreements that are entered into by the Region, its boards and subsidiaries, and by Regional staff responsible for the control, implementation, management and purchase of Hedging Agreements for energy Commodities.

D. DEFINITIONS

1. Commodity - shall be consistent with the definition of applicable legislation, and in the context of this Policy, shall refer to electricity and natural gas Commodities.

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SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

2. Forward Markets - an exchange where Commodity price Hedging Agreements, such as those for electricity and natural gas, may be purchased or sold.
3. Hedge or Hedging Agreement - a financial commitment to acquire a specified quantity of the Commodity, at a specific fixed price or fixed range of prices, at some future point or period in time.
4. Hedge Volume – refers to the amount or quantity of energy in kilowatt-hours (kWh) or megawatt-hours (MWh) for electricity and in cubic meters (m^3) or gigajoules (GJ) for natural gas to be procured under a Price Hedging Agreement.
5. Municipal Act, 2001 - the *Municipal Act, 2001* S.O. 2001, Chapter 25 and regulations thereunder, as amended or replaced from time to time.
6. Other Commodities - refers to commodities other than electricity and natural gas that will be subject to Commodity price Hedging Agreements, duly approved by Regional Council, including, but not limited to chemicals and fuel oils.
7. Policy-refers to the Energy Commodity Procurement Policy.
8. Region or Regional Corporation or Region of Peel - refers to The Regional Municipality of Peel.
9. Regional Council or Council - refers to the Council of the Regional Municipality of Peel.
10. Risk Appetite - The level of uncertainty an organization is willing to assume in the pursuit of its objectives and outcomes.
11. Risk Tolerance - the limit of the organization's capacity for taking risks.
12. Target Prices - the unit price of the Commodity, such as electricity prices in dollars per kilowatt-hour ($/kWh) or dollars per megawatt-hour ($/MWh), or natural gas prices in cents per cubic meter (cents/m^3) or dollars per gigajoule ($/GJ), that the Region would be willing to transact Hedging Agreements in the Forward Markets, at or below the Target Prices.
13. Spot Market - refers to a deregulated, open and competitive Commodity market, such as the electricity and natural gas market.
14. Supplier, Vendor, Agent or Consultant - refers to an entity(ies) or organization(s) acting on behalf of the Region to provide advice on Forward Markets, pricing and Hedging strategy, and/or are duly licensed by the Ontario Energy Board to execute Commodity Hedging Agreements and transportation agreements and transactions, and/or provide distributor consolidated billing services for energy.

E. OBJECTIVES OF THIS POLICY

The primary objectives of the Energy Commodity Procurement Policy are as follows, in the order of their priority:

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1. **To adhere to legislative or statutory requirements -** A Commodity price Hedging Agreement may only be undertaken by the Region if the agreement is in compliance with the relevant provisions of the *Municipal Act, 2001,* and all implementing rules and regulations thereunder.
2. **To promote financial flexibility -** The Commodity price Hedging program will be managed in such a manner consistent with other management and financial objectives in efforts to support budget stability for the Region.
3. **To maximize procurement opportunities -** The Commodity price Hedging Agreement is a mechanism for alignment to the Region's Risk Appetite, adapting to the volatility in the Commodity markets, by establishing appropriate levels of certainty for future prices, without compromising the other Policy objectives.

F. AUTHORIZED COMMODITIES FOR PRICE HEDGING

For purposes of this Policy, Commodities that may be subject to Hedging Agreements are as follows:

i. Electricity
ii. Natural Gas

Other Commodities used by the Region may be procured through Commodity Price Hedging Agreements in accordance with this Policy, subject to approval by Regional Council.

G. POLICY

1. Applicable By-Laws, Legislation and Regional Strategies

Regional staff decisions, strategies and actions under this Policy shall be governed, guided by and in compliance with the following:

i. Ontario Regulation 653/05 (Debt-Related Financial Instruments and Financial Agreements), with · regards to Commodity Price Hedging Agreements;
ii. F35-00 Region of Peel Procurement By-law 30-2018 and any amendments thereof;
iii. L00-01 Execution of Documents By-Law 32-2017 of the Region of Peel;
iv. Region of Peel's Energy and Environment Sustainability Strategy dated June 20, 2007 and any amendments thereof.

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SUBCATEGORY: PURCHASING

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2. Use and Award of Commodity Price Hedging Agreements

Pursuant to Ontario Regulation 653/05, The Regional Municipality of Peel will consider entering into Commodity price Hedging Agreements as a means of fixing, directly or indirectly, or enabling the Region to fix the price or range of prices to be paid by the Region for the future delivery of some or all of the Commodity or the future cost of the municipality of an equivalent quantity of the Commodity, as well as long-term contracts for Commodity transportation, delivery and/or storage to achieve the goal of this Policy and ensure stability and cost effectiveness of supply.

Contracts with Vendors or Suppliers for Commodity Hedging will be awarded on a competitive basis in accordance with the Region's Purchasing By-law and procedures. Participation in competitive bids for Commodity Hedging shall be limited to vendors or suppliers that have the appropriate and valid licenses issued by the Ontario Energy Board.

3. Establishing Energy Commodity Hedging Procurement Based on Risk Tolerance

The Hedge Volume for each type of Commodity for each period or calendar year shall be determined in accordance with the Energy Commodity Risk Framework (Appendix "A") which shall be in alignment with the Region's Risk Appetite as approved by Regional Council. The said framework shall identify the parameters in the energy markets that impact future Commodity price volatility. Market intelligence may be provided by third party market consultants with expertise in local, North American and global energy markets to be used in analyzing future or forward market condition.

4. Partnership Agreements with Other Public Sector Entities

The Region may enter into or be required to enter into partnership agreements within the public sector if it is anticipated that such agreements can achieve better financial benefit to the Region through bulk purchases. Partners may include other municipalities, universities, schools, hospitals, or buying groups organized by municipal or housing organizations such as the Housing Services Corporation (HSC) or the Association of Municipalities of Ontario (AMO).

In the latter case, the "buying group" may act as an Agent for the Region, including executing Hedge transactions on behalf of the Region, provided they follow specific parameters established through section G.(3) above. Except for prescribed agreements required for certain housing accounts as provided for under HSC.

5. Staff Energy Commodity Working Group

The Energy Commodity Working Group (Working Group) will ensure the stewardship and effective governance of the Commodity Hedging Agreements, procurement practices to maintain regulatory compliance, financial flexibility, and maximize procurement opportunities. The Working Group shall also provide guidance and direction on the financial, demand, and market risk tolerance that the Region is willing to take or absorb with regard to electricity and natural gas procured under a price Hedging program, to ensure these are aligned with the risk appetite established by Council.

The Working Group shall be chaired by the Treasurer and Director of Corporate Finance and shall be composed of the Director of Treasury Services, , the Director of Procurement, the Manager, Peel Living FSU and the Manager of Energy Finance (in charge of energy procurement and planning). The Region's Executive Leadership Team (ELT) may appoint additional members if deemed necessary or may establish additional working groups for Other Commodities.

6. Annual Report to Council on Price Hedging by the Treasurer

Regional Council shall be informed, in compliance to Ontario Regulation 653/05, through the Annual Treasury Report to Council, if the actions taken under this Policy comply with regulations and are prudent and necessary as they relate to the procurement of Hedges for Commodities and the management of associated risks. The report shall contain information on the completed transactions based on the multi-year energy hedging strategy, any related decisions on hedging, and non-compliance and corrective actions if any.

7. Regional Facilities Operated by Third Parties

Region owned facilities to be operated by external or third parties shall have risk assessments completed by RPAM staff to determine which party would better handle the risks of energy procurement. Should the assessment show that the

Region is in better position to handle the risk, provisions in the agreements or contracts with said third parties should stipulate that the procurement of electricity and natural gas will be the responsibility of the Region.

8. Control Measures for Market and Demand Risks

i. *Market Risk* - there may be opportunity costs if the price of the Commodity falls below the purchase price in a Hedging agreement. It is a case where the Region could have benefited from the lower cost of unhedged Commodity had the Region not entered into a Hedging Agreement.

While staff involved with the recommendation of a Commodity price Hedging Agreement will be expected to monitor and consider the prevailing trend in market conditions and price of the Commodity, the key benefit of the Hedging Agreement is to ensure financial predictability for the Region. The impending financial loss from a price drop in the Spot Market may be offset by blending existing Hedging agreements with lower price Hedges where available, or by lowering the percentage to be Hedged for the Commodity, in accordance with the Energy Commodity Risk Framework. Conversely, if the Spot Market price of the Commodity increases, the Region would realize a net gain on the Hedging Agreement.

ii. *Demand Risk* - the Region may use less of the Commodity than forecasted, leading to the possibility of excess Hedging. To mitigate this risk, the Working Group shall stipulate the maximum percentage of the forecast demand to be Hedged for each period or calendar year, based on the Energy Commodity Risk Framework. Volume adjustments may be made by selling back the excess Hedge Volume to the market or to the Supplier/s of the Commodity. Conversely, should the Region consume more of the commodity than what was transacted based on forecasts, volume adjustments may be made by purchasing from the Commodity market to make up for the deficit.

9. Control Measures for Financial Risks

i. *Credit Risk or "Counterparty Risk"* - exist in the event that the amounts involved in the transactions in the financial Hedge Agreement has risen and the counterparty can no longer fulfill the terms of the agreement. Although default is considered a remote risk, risk control measures will be undertaken

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prior to entering into a financial Hedging Agreement. Risk control measures shall include, but are not limited to, the following:

a. Credit exposure limits for the counterparty based on credit ratings and on the degree of regulatory oversight and regulatory capital; if the counterparty's credit rating falls below BBB (S&P), Baa3 (Moody's) and/or BBB (low) (DBRS), the Region may demand Adequate Assurance of Performance. "Adequate Assurance of Performance" shall mean sufficient security in form, amount and for the term reasonably acceptable to the Region, and/or being able to provide an unconditional irrevocable letter of credit or prepayment;
b. In case where the counterparty has no credit rating, a guarantee from the parent corporation (provided the parent corporation meets the credit rating requirements above).
c. Ensuring on-going monitoring with respect to agreements.

ii. *Competitive Price Risk* - a competitive price Hedge Agreement may not be available in the market, or available only at an undesirable price which is beyond the Target Price set by the Region. Staff will continuously monitor the market and may consider other options such as resetting of Target Prices based on prevailing market conditions, purchasing on the "Spot Market", or placing financial agreements with multiple counterparties.

10. Standard of Care

All officers and employees responsible for Commodity price Hedging Agreements will follow the standard of care identified in this Policy.

i. **Ethics and Conflicts of Interest**

All officers and employees involved in the Commodity price Hedging process are expected to abide by the Region's Code of Conduct. In particular they shall:

a) Refrain from personal business activity that could conflict with the proper execution and management of the Commodity price Hedging program, or that could impair their ability to make impartial decisions;
b) Disclose any material interests in financial institutions related to Commodity Price Hedging with which they conduct business;

c) Disclose any personal financial/investment positions that could be related to the performance of their Commodity price Hedging duties; and
d) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Region.

ii. **Commodity Price Hedging Agreements**

Commodities to be supplied under Hedging Agreements will be acquired on a competitive basis. The Region may enter into a financial agreement with one or more institutions where apportioning the total of the Hedge Volume is expected to confer a financial advantage.

iii. **Delegation of Authority**

The Treasurer and Director of Corporate Finance will have responsibility for directing/ implementing the activities of the Commodity Price Hedging program, as well as the establishment of procedures consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for Commodity Price Hedging activities. No person shall be permitted to engage in a Commodity Price Hedging activity except as provided for under the terms of this Policy. The Treasurer and Director of Corporate Finance will be responsible for all activities undertaken and shall establish a system of controls to regulate the activities of staff. Notwithstanding, the Region may delegate specific authority to an "Agent" of the Region as contemplated under section G.(4.) of this Policy. The authority delegated will be strictly governed by the terms of an agency contract that will be approved by the Treasurer and Director of Corporate Finance, authorized under the Document Execution By-Law.

iv. **Requirements for Outside Advice**

Regional staff will be expected to have sufficient knowledge to prudently evaluate standard financial agreements or related contracts. However, the Region may obtain outside energy market intelligence, financial and/or legal advice as necessary.

v. **Financial Payments**

The nature of financial agreements requires that financial transactions, whether disbursements or receipts, will be made to or from financial institutions from time to time during the term of an agreement. Staff will apply the same level of diligence to these transactions as would be expected under the normal operating procedures of the Region. Further, these transactions will be fully disclosed in the annual reporting required under section G. (6.) of this Policy.

H. RESPONSIBILITIES

1. Energy Commodity Working Group

i. Review on an annual basis the status of procurement of forward Hedge Volumes for each Commodity and actual performance of Hedges.
ii. Review the implementation of the risk-based approach to financial planning and management related to electricity, natural gas, and Other Commodity Hedge procurement programs, thus, ensuring that program objectives and Risk Tolerances are reflected in Hedging procurement practices.
iii. Review the implementation of established risk management framework which assists in the monitoring and management of Hedging Agreements.
iv. Review and recommend proposed changes to the Energy Commodity Procurement Policy and the Energy Commodity Risk Framework.

2. Treasurer and Director of Corporate Finance

i. Responsible for all administrative matters, as well as direct and implement activities pertaining to fix-price Hedging of electricity and natural gas Commodities under a price Hedging program.
ii. Approve/execute contracts and routine documents for Hedging transactions in accordance with the Region's Document Execution Bylaw required for the purpose of purchasing, securing, transporting and/or delivering Commodities covered under a price Hedging program.
iii. Establish procedures consistent with this Policy, which shall include explicit delegation of authority to persons responsible for Commodity price Hedging activities.
iv. Review the status and performance of current Hedge Agreements, a list of all active Hedging Agreements to be used at some future time, changes in

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Commodity Hedging strategies, philosophies, Policies or organization, and other issues or matters related to Hedging.

v. Review any contingent payment obligation under a Commodity price Hedging Agreement that would result in a material impact for the Region, including agreement termination provisions, variations in the Commodity price Hedging Agreement payment terms, contingent payment obligations, equipment loss, equipment replacement options, guarantees and indemnities.

vi. Procure the services of Vendors, Suppliers, Consultants and/or Agents that can provide market research, distributor consolidated billing services and market intelligence.

vii. Review and approve the multi-year energy procurement strategy, and its annual updates, containing the forward market Target Prices and proportion of Hedged Volumes for each Commodity in alignment with the Policy and the Region's established Energy Commodity Risk Tolerance.

viii. In the absence of the Treasurer and Director of Corporate Finance, the Deputy Treasurer appointed by the Region is authorized to approve transactions and documents under this Section H.2.

3. Director of Treasury Services

i. Present to Council a detailed report on the status of the Hedging Agreements for electricity, natural gas and Other Commodities, in accordance with O.Reg.653/05.

I. PROCEDURES

The Energy Commodity Risk Framework (Appendix "A") outlines the procedures and framework related to how the Commodities are procured in accordance with this Policy and in alignment to the Region's risk tolerance.

APPROVAL SOURCE:	Regional Council
ORIGINAL DATE:	December 21, 2015
LAST REVIEW DATE:	June 12, 2020
LAST UPDATE:	April 16, 2016
EFFECTIVE DATE:	
RESPONSIBILITY:	Energy Finance, Corporate Finance, Finance

CATEGORY: FINANCIAL MANAGEMENT

SUBCATEGORY: PURCHASING

SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

APPENDIX "A"

Energy Commodity Risk Framework

The Energy Commodity Risk Framework is created to take into account energy market conditions assessed by staff and the Region's financial and economic risk appetite set by Council. The Energy Commodity Risk Framework (Risk Framework) will inform the development of the Multi-Year Energy Procurement Strategy of the Region, updated annually based on forward market conditions and the Region's risk appetite, and associated procurement decisions in the future. This framework forms part of the Energy Commodity Procurement Policy.

1. Background

The deregulation of the energy sector in Ontario has resulted in electricity and natural gas prices being set by market conditions, leading to volatility in spot prices (current prices), as well as in the prices of forward markets. With energy commodities being a significant cost in the Region's operating budget, there was a need to have some predictability in energy prices. In June 2007, Council approved the "Energy Procurement Strategy of the Region of Peel", as an overarching plan to manage and mitigate the risks associated with competitive energy markets. In April of 2016, Council also approved the "Energy Commodity Procurement Policy" which outlines the processes and guidelines in the strategic procurement of energy commodity, which was complemented by the approval in September 2016 of the "Energy Commodity Risk Framework" by Council Risk and Audit Committee. The core component of the Strategy, Policy and Risk Framework is the use of energy hedging agreements which help manage future energy prices. Entering into a hedging agreement is a means to fix the price or range of prices to be paid by the Region for the future delivery of some or all of the electricity or natural gas commodities.

2. Purpose

Establishing an Energy Commodity Risk Framework allows the Region to enhance transparency and promote a shared understanding of risk. This in turn supports staff in setting energy hedge targets that consider market conditions and the Region's financial and economic risk appetite.

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SUBCATEGORY: PURCHASING

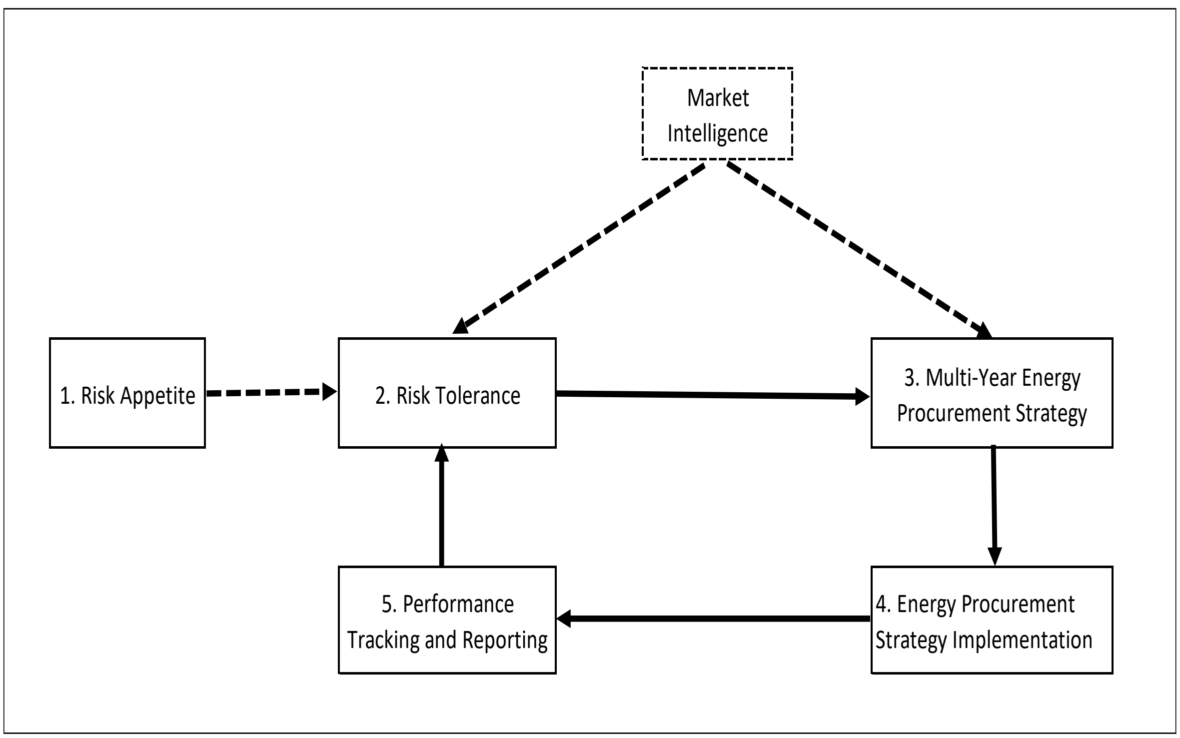
SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

3. Energy Commodity Risk Framework

The future Region of Peel Energy Procurement Strategy should be informed by the Region's risk appetite, energy market conditions and the impact of energy costs. The essential input to the Risk Framework is the Region's risk appetite for financial and economic matters as approved by Regional Council from time to time.

The financial and economic risk appetite, in addition to market intelligence, are in turn the primary inputs that will guide decision making with respect to energy procurement, as contained in the Multi-Year Energy Procurement Strategy, which is updated on an annual basis by staff and approved by the Treasurer and Director of Corporate Finance. Figure 1 depicts the energy procurement business cycle and its relationship with these primary inputs.

<u>Figure 1: Energy Procurement Business Cycle</u>



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SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

I. Establishing the Energy Risk Tolerance

To ensure transparency and a shared understanding of risk, the following Energy Commodity Risk Framework shall be implemented to support future decisions on energy hedges:

i) Market Conditions Risk Evaluation

a. Market Intelligence

Staff shall gather market intelligence of current and future market conditions for both electricity and natural gas commodities. Such market intelligence is obtained through research by staff and/or through third party energy market consultants or experts. Parameters or "Risk Factors" that impacts forward market price volatility are determined, such as but not limited to the following:

a.1 For Electricity Risk Factors
- Demand – Economic growth related
- Demand – Weather related
- Generator fuel risks – gas-fired peaking plants
- Impact of renewable generation
- Generator availability – nuclear and/or hydro
- Cap and trade cost impacts
- Global adjustment costs
- Government energy policies/legislation
- RPP rates- competing goals

a.2 For Natural Gas Risk Factors
- Demand – Gas-fired power generation
- Demand – Industrial loads
- Demand – LNG exports outside North America
- Demand – Exports to Mexico
- Supply – Rig counts
- Gas in storage – End of season balance
- Economy
- Canadian Dollar - Foreign exchange
- 5A Index Volatility and Gas Pipeline Transport Cost

The above listed Risk Factors may change from time to time based on analysis and evaluation by staff and new information from third party energy market intelligence consultants or experts. Through market intelligence information, the likelihood of occurrence and the impact to price volatility for each future year shall be determined on a monthly basis for each of the Risk Factors. The weight factor of how much each Risk Factor contributes to the whole price volatility risks shall also be established.

b. Market Condition Risk Evaluation Matrix (Risk Matrix)
The Region shall use the Market Condition Risk Evaluation Matrix (refer to Attachment I: Market Condition Risk Evaluation Matrix) to determine the "Market Attributes" for each future calendar year. Each of the Risk Factors shall be evaluated and scored based on the following:

Likelihood of Occurrence:

Score	Evaluation
1	Rare or none at all
2	Unlikely
3	Possible
4	Likely
5	Almost Certain

Impact to Price Volatility:

Score	Evaluation
1	Insignificant impact
2	Low
3	Medium
4	High
5	Severe

Based on the evaluation on likelihood and impact of occurrence, each Risk Factor is plotted on the Likelihood-Impact severity chart of the Risk Matrix, and the weighted scores of each of the Risk Factors are calculated (Likelihood score x Impact Score x Weight Factor). The total weighted score determines the Market Attribute for the Calendar Year using the following Table 1:

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Table 1: Market Attribute Table

MARKET ATTRIBUTE	TOTAL WEIGHTED SCORE
RELATIVELY STABLE MARKET	0 TO 8
MODERATE VOLATILITY	OVER 8 TO 17
HIGH VOLATILITY	OVER 17 TO 25

The resulting Market Attribute together with the Region's approved Risk Appetite shall serve as input to determining the level of hedging for the future calendar year being evaluated.

ii) An Energy Procurement Risk Tolerance Table: The table will be used to align future natural gas and electricity market conditions (Market Attributes) assessed by staff with the Region's financial and economic risk appetite set by Council (See Table 2 and 3). Each of the future market conditions (i.e. stable, moderate, and volatile), have risk tolerance ranges for the respective risk appetites.

Market condition findings (refer to Attachment I: Market Conditions Risk Evaluation Matrix) will determine what future market conditions the Region should be planning for with respect to its energy procurement. In turn, this will help determine the Region's risk tolerance within the Council endorsed risk appetite (See Table 2 and 3). It should be noted that changes in market conditions will result in shifts in the hedge targets within the three established risk tolerance ranges (Example: Table 2 moderate risk appetite has three risk tolerances (Stable, moderate and volatile) that range from 35 per cent to 65 per cent). Changes in risk appetite will require Council's direction.

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Table 2: Energy Procurement Risk Tolerance Table: Natural Gas

Risk Appetite (Council)	Market Risk Tolerance (Staff-Market Attribute)		
	Stable market and low future spot prices	**Moderate** market volatility and future spot prices	**Volatile** market and high future spot prices
Low	65-75%	75-85%	85-100%
Moderate	35-45%	45-55%	55-65%
High	0-15%	15-25%	25-35%

The electricity hedge range below has been capped at 30 per cent due to the Provincial Global Adjustment which limits the Region's exposure and control over a significant portion of the electricity rate. In the current market an electricity hedge greater than 30 per cent would be redundant.

Table 3: Energy Procurement Risk Tolerance Scale: Electricity

Risk Appetite (Council)	Market Risk Tolerance (Staff-Market Attribute)		
	Stable market and low future spot prices	**Moderate** market volatility and future spot prices	**Volatile** market and high future spot prices
Low	20%	20-25%	25-30%
Moderate	10%	10-15%	15-20%
High	0%	0-5%	5-10%

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II. Multi-Year Energy Procurement Strategy

The annual percentages of hedges for both electricity and natural gas determined through the established risk tolerances in Section I above shall inform a Multi-Year Energy Procurement Strategy (the Strategy) which shall be developed for the Region. This Strategy shall cover at least a five (5) years which includes the current year and four (4) succeeding years.

The Strategy shall establish the energy hedge transactions recommended to be made for multiple years into the future. All hedges needed for the immediate succeeding year shall be procured during the current year. The hedges for three (3) remaining future years may be procured in smaller layers as determined by staff so these can take advantage of good pricing opportunities.

The strategy shall establish the Target Prices for both electricity and natural gas for the hedges to be procured in the forward markets. The Target Prices, which is determined through market intelligence information, shall be the maximum price that a hedge shall be procured in the forward markets. Volumes shall be purchased at or below the said target prices.

Market conditions may have sudden unforeseen changes which would influence volatility as well as the average spot prices, and these changes may or may not have favourable impacts to the Region. To mitigate such impacts, sensitivity analysis shall be conducted to test performance of such Target Prices (refer to Attachment 2) and show that it would optimize avoided costs if the trend shows very high market price volatility and minimize opportunity costs if price volatility goes the other way.

The Multi-Year Energy Procurement Strategy and any amendment thereof shall be approved by the Treasurer and Director of Corporate Finance. The Strategy shall be updated and approved on an annual basis, covering the current year and the rolling four (4) future years.

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III. Energy Procurement Strategy Implementation

Procurement of Fixed Price Hedges for both electricity and natural gas for future years shall be in accordance with the Energy Commodity Procurement Policy and shall be based on the volumes and Target Prices set in the latest Multi-Year Energy Procurement Strategy. The markets shall be scanned for forward prices for the planned hedge volumes to be procured, and the Region shall transact with energy suppliers at or below the approved Target Prices. Staff shall ensure that the layers of hedge volumes for future years as set in the Strategy shall be procured during the current year. Should there be unforeseen changes in the forward markets that impacts hedge prices and render the Target Prices inapplicable or too low, these will be reassessed so that new Target Price levels can be established, and these shall be submitted to the Treasurer and Director of Corporate Finance for approval. Once a hedge transaction has been completed and confirmed the Region cannot reduce its volumes even if there would be new revisions in the risk appetite or risk tolerance that suggests that the hedge volumes should be less.

IV. Performance Tracking and Reporting

Staff shall submit an annual report to the Treasurer and Director of Corporate Finance and the Energy Commodity Procurement Working Group on the status of implementation of the Energy Procurement Strategy, indicating the volumes of hedges procured, the actual forward prices of such hedges, and the energy suppliers where such hedge volumes were transacted. The report shall also include the actual performance of delivered hedges and its financial implications. The annual report shall serve as basis for the Treasury's report to Regional Council in compliance to Ontario Regulation 654/05.

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ATTACHMENT 1

MARKET CONDITION RISK EVALUATION MATRIX (Illustration)

Market Conditions Risk Evaluation as of Mar 2020

1. Identify risk factors affecting commodity markets for a given year, assign a % weight for each risk factor.
2. Determine "Likelihood" and "Impact" of occurrence for the year and compute weighted score for each risk factor.
3. Plot the risk factors on the Impact-Likelihood chart below.
4. Using the Weighted Score, determine what the "market attribute" would be for that year.

Market Attributes	**Weighted Score**
Relatively Stable	= 0 to 8
Moderate Volatility	= over 8 to 17
High Volatility	= over 17 to 25

2020 Market Condition Risk Evaluation - Natural Gas

Impact					
5 - Severe	Medium	High	6 High	10 Very High	Very High
4 - High	Medium	Medium	8 7 High	1 High	4 3 Very High
3- Medium	Low	Medium	2 5 Medium	9 High	High
2 - Low	Low	Low	Medium	Medium	High
1 - Insignificant	Low	Low	Low	Medium	Medium
	1 - Rare	2 - Unlikely	3 - Possible	4 - Likely	5 - Almost Certain
	Likelihood				

Risk Factors	Likelihood	Impact	Weight (%)	Score (Likelihood x Impact x Weight)
1. Demand - Gas Fired Power Gen.	4	4	15%	2.40
2. Demand - Industrial	3	3	5%	0.45
3. Demand - LNG Exports out of N.A.	5	4	15%	3.00
4. Demand - Exports to Mexico	5	4	10%	2.00
5. Supply - Rig Count	3	3	7.5%	0.68
6. Supply - Base Supply	3	5	15%	2.25
7. Storage - End of season balance	3	4	5.0%	0.60
8. Economy	3	4	2.5%	0.30
9. Canadian Dollar	4	3	5%	0.60
10.5A Index Volatility and Transport Costs	4	5	20.0%	4.00
Weighted Score			**100%**	**16.28**

2020 Natural Gas Market Conditions Risk Evaluation Summary

1. Demand - Gas Fired Power Gen.
   - Demand expected to continue to increase, may be offset in part by wind and solar generation
2. Demand - Industrial
   - Slow growth continues year over year.
3. Demand - LNG Exports out of N.A.
   - Forecast to average over 7 Bcf/day in 2020 but may slow a bit due to trade tensions with China.
4. Demand - Exports to Mexico
   - Pipeline exports to Mexico are expected to continue to increase each year.
5. Supply - Rig Count
   - Rig count is settling down.
6. Supply - Base Supply
   - Production forecast to grow. Getting shale gas to market may be more difficult without new pipe.
7. Storage - End of season balance
   - Difficult to forecast longer term into the future. End of winter balance influences summer pricing.
8. Economy
   - Slow growth expected year over year.
9. Canadian Dollar
   - Greater chance of volatility due to economic and geo-political events (US)
10. 5A Index Volatility and Transport Costs
   - Many factors affect the 5A Index in Alberta - storage levels, winter weather severity and internal pipeline issues in Alberta. The transport adder to Dawn had been rising in the past 2 years but has dropped recently - good value to pick up outer years.

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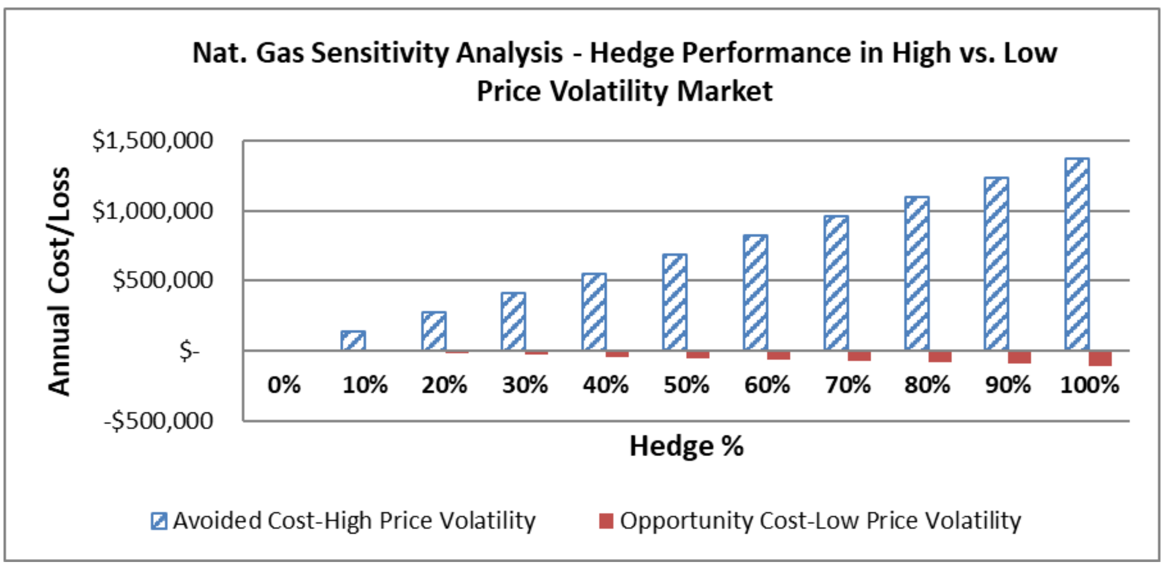
ATTACHMENT 2

SENSITIVITY ANALYSIS ON SETTING TARGET PRICES (Illustration)

The Market Conditions Risk Evaluation is supported by a Sensitivity Analysis tool (Figures 2 and 3 below) which illustrates, based on a Target Price for a forward fixed- price hedge, the possible cost-avoidance of the Region in a high volatile market scenario, and the opportunity cost impact in a low price volatility scenario, at various hedge volume levels. This further connects risk tolerance decisions with financial impact.

Figure 2: Natural Gas Sensitivity Analysis



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Corporate Policies

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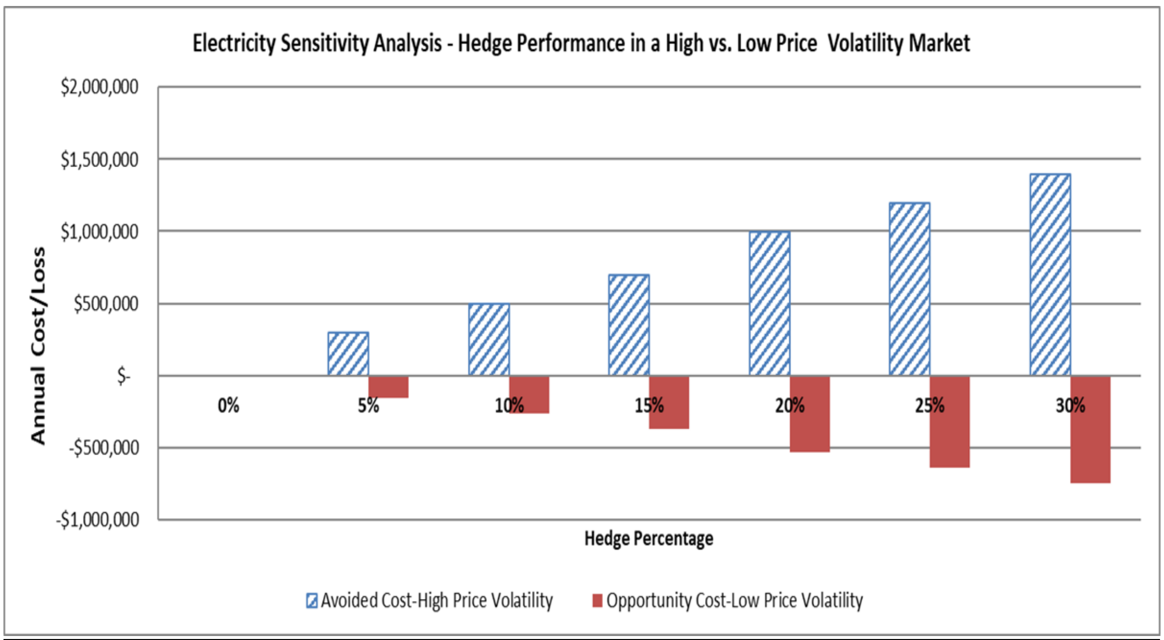
Attachment 2 (page 2)

Figure 3: Electricity Sensitivity Analysis



Region of Peel working with you

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A. PREAMBLE

The improvement of budget stability and accuracy requires actions that enable The Regional Municipality of Peel to mitigate risks from volatile markets and achieve manageable Commodity costs. Price volatility on Commodities purchased by the Region presents both a budgeting challenge and a financial risk. Maintaining an active Commodity portfolio and risk management strategy requires constant market presence, the ability to make sound and timely purchasing decisions, and flexibility to move between fixed Hedges and Spot Markets instantaneously. The Energy Commodity Procurement Policy addresses these challenges and supports the financial objectives of the Region.

Commodity ~~price~~Price Hedging Agreements provide price stability and cost certainty by fixing some portion of the future Commodity price. It would enable the Region to secure favourable pricing for Commodity purchase commitments where other means, such as long-term contracts, are not practicable.

B. PURPOSE

The Energy Commodity Procurement Policy ~~outlines~~provides the ~~framework and~~ guidelines and risk management framework for the supply of ~~a~~the Commodity procured through ~~price~~Price Hedging Agreements by The Regional Municipality of Peel. It establishes objectives, responsibilities, information-based decision making, processes and reporting requirements for the prudent use of Hedging Agreements; in accordance with *Municipal Act 2001, Ontario Regulation 653/05 (0.Reg. 653/05).*

C. SCOPE

All financial commitments for the purpose of fixing future prices through Commodity price Hedging Agreements, including related agreements that are entered into by the Region, its boards and subsidiaries, and by Regional staff responsible for the control, implementation, management and purchase of Hedging Agreements for energy Commodities.

D. DEFINITIONS

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SUBCATEGORY: **PURCHASING**

SUBJECT: **ENERGY COMMODITY PROCUREMENT POLICY**

1. Commodity - shall be consistent with the definition of applicable legislation, and in the context of this Policy, shall refer to electricity and natural gas Commodities.
2. Forward Markets - an exchange where Commodity price Hedging Agreements, such as those for electricity and natural gas, may be purchased or sold.
3. Hedge or Hedging Agreement - a financial commitment to acquire a specified quantity of the Commodity, at a specific fixed price or fixed range of prices, at some future point or period in time.
4. Hedge Volume – refers to the amount or quantity of energy in kilowatt-hours (kWh) or megawatt-hours (MWh) for electricity and in cubic meters (m^3) or gigajoules (GJ) for natural gas to be procured under a Price Hedging Agreement.
5. Municipal Act, 2001 - the *Municipal Act, 2001* S.O. 2001, Chapter 25 and regulations thereunder, as amended or replaced from time to time.
6. Other Commodities - refers to commodities other than electricity and natural gas that will be subject to Commodity price Hedging Agreements, duly approved by Regional Council, including, but not limited to chemicals and fuel oils.
7. Policy-refers to the Energy Commodity Procurement Policy.
8. Region or Regional Corporation or Region of Peel - refers to The Regional Municipality of Peel.
9. Regional Council or Council - refers to the Council of the Regional Municipality of Peel.

~~9~~10. Risk Appetite - The level of uncertainty an organization is willing to assume in the pursuit of its objectives and outcomes.

11. Risk Tolerance - the limit of the organization's capacity for taking risks.
12. Target Prices - the unit price of the Commodity, such as electricity prices in dollars per kilowatt-hour ($/kWh) or dollars per megawatt-hour ($/MWh), or natural gas prices in cents per cubic meter (cents/~~m³~~m^3) or dollars per gigajoule ($/GJ), that the Region would be willing to transact Hedging Agreements in the Forward Markets, at or below the Target Prices.
13. Spot Market - refers to a deregulated, open and competitive Commodity market, such as the electricity and natural gas market.

~~13~~14. Supplier, Vendor, Agent or Consultant - refers to an entity(ies) or organization(s) acting on behalf of the Region to provide advice on Forward Markets, pricing and Hedging strategy, and/or ~~facilitate~~are duly licensed by the ~~execution of~~Ontario Energy Board to execute Commodity Hedging Agreements and transportation agreements and transactions, and/or provide distributor consolidated billing services for energy.

E. OBJECTIVES OF THIS POLICY

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SUBCATEGORY: PURCHASING

SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

The primary objectives of the Energy Commodity Procurement Policy are as follows, in the order of their priority:
~~in the order of their priority:~~

1. **To adhere to legislative or statutory requirements -** A Commodity price Hedging Agreement may only be undertaken by the Region if the agreement is in compliance with the relevant provisions of the *Municipal Act, 2001,* and all implementing rules and regulations thereunder.
2. **To promote financial flexibility -** The Commodity price Hedging program will be managed in such a manner consistent with other management and financial objectives in efforts to support budget stability for the Region.
3. **To maximize procurement opportunities -** The Commodity price Hedging Agreement is a mechanism for alignment to the Region's Risk Appetite, adapting to the volatility in the Commodity markets, by establishing appropriate levels of certainty for future prices, without compromising the other Policy objectives.

F. AUTHORIZED COMMODITIES FOR PRICE HEDGING

For purposes of this Policy, Commodities that may be subject to Hedging Agreements are as follows:
~~Agreements are as follows:~~

i. Electricity
ii. Natural Gas

Other Commodities used by the Region may be ~~Hedged~~procured through Commodity Price Hedging Agreements in accordance with this Policy, subject to approval by Regional Council.

G. ~~G.~~ POLICY

1. Applicable By-Laws, Legislation and Regional Strategies

Regional staff decisions, strategies and actions under this Policy shall be governed, guided by and in compliance with the following:

i. Ontario Regulation 653/05 (Debt-Related Financial Instruments and Financial Agreements), with · regards to Commodity Price Hedging Agreements;

~~Purchasing~~ii. F35-00 Region of Peel Procurement By-law ~~113-2013 of the Region of Peel~~30-2018 and any amendments thereof;
~~Document~~iii. L00-01 Execution of Documents By-Law ~~39-2001~~32-2017 of the Region of Peel ~~as amended~~;
iv. Region of Peel's Energy and Environment Sustainability Strategy dated June 20, 2007 and any amendments thereof.

2. Use and Award of Commodity Price Hedging Agreements

Pursuant to Ontario Regulation 653/05, The Regional Municipality of Peel will consider entering into Commodity price Hedging Agreements as a means of fixing, directly or indirectly, or enabling the Region to fix the price or range of prices to be paid by the Region for the future delivery of some or all of the Commodity or the future cost of the municipality of an equivalent quantity of the Commodity, as well as long-term contracts for Commodity transportation, delivery and/or storage to achieve the goal of this Policy and ensure stability and cost effectiveness of supply.

Contracts with Vendors or Suppliers for Commodity Hedging will be awarded on a competitive basis in accordance with the Region's Purchasing By-law and procedures. Participation in competitive bids for Commodity Hedging shall be limited to vendors or suppliers that have the appropriate and valid licenses issued by the Ontario Energy Board.

3. Establishing Energy Commodity Hedging Procurement Based on Risk Tolerance

~~The Risk Tolerance for energy Commodity procurement will be set by the Working Group in alignment with Council's established Risk Appetite. This will inform the proportion of the Commodity to be Hedged. The Risk Tolerance will be reviewed annually or more frequently should the markets experience significant change.~~

The Hedge Volume for each type of Commodity for each period or calendar year shall be determined in accordance with the Energy Commodity Risk Framework (Appendix "A") which shall be in alignment with the Region's Risk Appetite as approved by Regional Council. The said framework shall identify the parameters

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in the energy markets that impact future Commodity price volatility. Market intelligence may be provided by third party market consultants with expertise in local, North American and global energy markets to be used in analyzing future or forward market condition.

4. Partnership Agreements with Other Public Sector Entities

The Region may enter into or be required to enter into partnership agreements within the public sector if it is anticipated that such agreements can achieve better financial benefit to the Region through bulk purchases. Partners may include other municipalities, universities, schools, hospitals, or buying groups organized by municipal or housing organizations such as the Housing Services Corporation (HSC) or the Association of Municipalities of Ontario (AMO).

In the latter case, the "buying group" may act as an Agent for the Region, including executing Hedge transactions on behalf of the Region, provided they follow specific parameters established through section G.(3) above. Except for prescribed agreements required for certain housing accounts as provided for under HSC.

5. Staff Energy Commodity ~~Procurement~~ Working Group

The Energy Commodity ~~Procurement~~ Working Group (Working Group) will ensure the stewardship and effective governance of the Commodity Hedging Agreements, procurement practices to maintain regulatory compliance, financial flexibility, and maximize procurement opportunities. The Working Group shall also provide guidance and direction on the financial, demand, and market risk tolerance that the Region is willing to take or absorb with regard to electricity and natural gas procured under a price Hedging program, to ensure these are aligned with the risk appetite established by Council.

The Working Group shall be chaired by the Treasurer and Director of Corporate Finance and shall be composed of the ~~Region's Treasurer, the~~ Director of ~~Real Property Asset Management (RPAM), the Director of Purchasing~~Treasury Services, , the Director ~~responsible for Risk Management~~of Procurement, the Manager, Peel Living FSU and the Manager ~~responsible for~~of Energy Finance (in

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charge of energy procurement~~, or any of their respective successor positions.~~ and planning). The Region's Executive Leadership Team (ELT) ~~can~~may appoint additional members if deemed necessary or may establish additional working groups for Other Commodities.

6. Annual Report to Council on Price Hedging by the Treasurer

Regional Council shall be informed, in compliance to Ontario Regulation 653/05, through ~~an annual statement from~~ the ~~Treasurer~~Annual Treasury Report to Council, if the actions taken under this Policy comply with regulations and are prudent and necessary as they relate to the procurement of Hedges for Commodities and the management of associated risks. The report shall contain information on the completed transactions based on the multi-year energy hedging strategy, any related decisions on hedging, and non-compliance and corrective actions if any.

7. Regional Facilities Operated by Third Parties

Region owned facilities to be operated by external or third parties shall have risk assessments completed by RPAM staff to determine which party would better handle the risks of energy procurement. Should the assessment show that the Region is in better position to handle the risk, provisions in the agreements or contracts with said third parties should stipulate that the procurement of electricity and natural gas will be the responsibility of the Region.

8. Control Measures for Market and Demand Risks

i. *Market Risk* - there may be opportunity costs if the price of the Commodity falls below the purchase price in a Hedging agreement. It is a case where the Region could have benefited from the lower cost of unhedged Commodity had the Region not entered into a Hedging Agreement.

   While staff involved with the recommendation of a Commodity price Hedging Agreement will be expected to monitor and consider the prevailing trend in market conditions and price of the Commodity, the key benefit of the Hedging Agreement is to ensure financial predictability for the Region. The impending financial loss from a price drop in the Spot Market may be offset by blending existing Hedging agreements with lower price Hedges where available, or by lowering the percentage to be Hedged for the Commodity~~.~~

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, in accordance with the Energy Commodity Risk Framework. Conversely, if the Spot Market price of the Commodity increases, the Region would realize a net gain on the Hedging Agreement.

ii. *Demand Risk* - the Region may use less of the Commodity than forecasted, leading to the possibility of excess Hedging. To mitigate this risk, the Working Group shall stipulate the maximum percentage of the forecast demand to be Hedged~~.~~ for each period or calendar year, based on the Energy Commodity Risk Framework. Volume adjustments may be made by selling back the excess Hedge Volume to the market or to the Supplier/s of the Commodity. Conversely, should the Region consume more of the commodity than what was transacted based on forecasts, volume adjustments may be made by purchasing from the Commodity market to make up for the deficit.

9. Control Measures for Financial Risks

i. *Credit Risk or "Counterparty Risk"* - exist in the event that the amounts involved in the transactions in the financial Hedge Agreement has risen and the counterparty can no longer fulfill the terms of the agreement. Although default is considered a remote risk, risk control measures will be undertaken prior to entering into a financial Hedging Agreement. Risk control measures shall include, but are not limited to, the following:

a. Credit exposure limits for the counterparty based on credit ratings and on the degree of regulatory oversight and regulatory capital; if the counterparty's credit rating falls below BBB (S&P), Baa3 (~~Moodys~~Moody's) and/or BBB (low) (DBRS), the Region may demand Adequate Assurance of Performance. "Adequate Assurance of Performance" shall mean sufficient security in form, amount and for the term reasonably acceptable to the Region, and/or being able to provide an unconditional irrevocable letter of credit or prepayment;
b. In case where the counterparty has no credit rating, a guarantee from the parent corporation (~~assuming~~provided the parent corporation meets the credit rating requirements above).
c. Ensuring on-going monitoring with respect to agreements.

ii. *Competitive Price Risk* - a competitive price Hedge Agreement may not be available in the market, or available only at an undesirable price which is beyond the Target Price set by the Region. Staff will continuously monitor the market~~,~~ and may consider other options such as resetting of Target Prices based on prevailing market conditions, purchasing on the "Spot Market", or placing financial agreements with multiple counterparties.

10. Standard of Care

All officers and employees responsible for Commodity price Hedging Agreements will follow the standard of care identified in this Policy.

i. **Ethics and Conflicts of Interest**

All officers and employees involved in the Commodity price Hedging process are expected to abide by the Region's Code of Conduct. In particular they shall:

a) Refrain from personal business activity that could conflict with the proper execution and management of the Commodity price Hedging program, or that could impair their ability to make impartial decisions;

b) Disclose any material interests in financial institutions related to Commodity Price Hedging with which they conduct ~~Business~~business;

c) Disclose any personal financial/investment positions that could be related to the performance of their Commodity price Hedging duties; and

d) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Region.

ii. **Commodity Price Hedging Agreements**

Commodities to be supplied under Hedging Agreements will be acquired on a competitive basis. The Region may enter into a financial agreement with one or more institutions where apportioning the total of the ~~agreement~~Hedge Volume is expected to confer a financial advantage.

iii. **Delegation of Authority**

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SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

The Treasurer and Director of ~~RPAM,~~Corporate Finance will have responsibility for directing/ implementing the activities of the Commodity ~~price~~Price Hedging program, as well as the establishment of procedures consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for Commodity ~~price~~Price Hedging activities.

No person shall be permitted to engage in a Commodity ~~price~~Price Hedging activity except as provided for under the terms of this Policy. The Treasurer and Director of ~~RPAM,~~Corporate Finance will be responsible for all activities undertaken~~,~~ and shall establish a system of controls to regulate the activities of staff.

Notwithstanding, the Region may delegate specific authority to an "Agent" of the Region as contemplated under section G.(4.) of this Policy. The authority delegated will be strictly governed by the terms of an agency contract that will be approved by the Treasurer and Director of ~~RPAM~~Corporate Finance, authorized under the Document Execution By-Law.

iv. **Requirements for Outside Advice**

Regional staff will be expected to have sufficient knowledge to prudently evaluate standard financial agreements or related contracts. However, ~~should in their opinion~~ the ~~appropriate level of knowledge or~~Region may obtain outside energy market intelligence ~~not exist, or as otherwise directed, outside~~ , financial~~, market~~ and/or legal advice ~~will be obtained~~as necessary.

v. **Financial Payments**

The nature of financial agreements requires that financial transactions, whether disbursements or receipts, will be made to or from financial institutions from time to time during the term of an agreement. Staff will apply the same level of diligence to these transactions as would be expected under the normal operating procedures of the Region. Further, these transactions will be fully disclosed in the annual reporting required under section G. (6.) of this Policy.

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H. ~~H.~~ RESPONSIBILITIES

1. Energy Commodity ~~Procurement~~ Working Group

~~i. Establish internal control systems including Policies objectives, and plans for Hedges.~~

~~Implement a~~i. Review on an annual basis the status of procurement of forward Hedge Volumes for each Commodity and actual performance of Hedges.

ii. Review the implementation of the risk-based approach to financial planning and management related to electricity, natural gas, and Other Commodity Hedge procurement programs, thus, ensuring that program objectives and Risk Tolerances are reflected in Hedging procurement practices.

~~Establish a performance~~iii. Review the implementation of established risk management framework which assists in the monitoring and management of Hedging Agreements.

~~ii. Review and recommend new Commodities for procurement through price Hedging Agreements, ensuring that Hedging Agreements meet all regulatory requirements.~~

~~iii. Provide guidance and direction on the financial Risk Tolerance that the Region is willing to accept or absorb with regards to electricity, natural gas and Other Commodities procured under a price Hedging program.~~

~~iv. Recommend Target Price ranges and proportion of volumes for Commodity Hedging Agreements.~~

iv. Review and recommend proposed changes to the ~~Hedging strategy for a particular~~Energy Commodity Procurement Policy and the Energy Commodity~~.~~ Risk Framework.

2. Treasurer and Director of ~~Real Property Asset Management~~Corporate Finance

i. Responsible for all administrative matters, as well as direct and implement activities pertaining to fix-price Hedging of electricity and natural gas Commodities under a price Hedging program.

ii. Approve/execute contracts and routine documents for Hedging transactions in accordance with the Region's Document Execution Bylaw required for the purpose of purchasing, securing, transporting and/or delivering Commodities covered under a price Hedging program.

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iii. Establish procedures consistent with this Policy, which shall include explicit delegation of authority to persons responsible for Commodity price Hedging activities.

~~Ensure that written reports are submitted to the Treasurer on a triannual basis containing~~iv. Review the status and performance of current Hedge Agreements, a list of all active Hedging Agreements to be used at some future time, changes in Commodity Hedging strategies, philosophies, Policies or organization, and other issues or matters related to Hedging.

~~Inform the Treasurer of~~v. Review any contingent payment obligation under a Commodity price Hedging Agreement that~~, in the opinion of the Director concerned,~~ would result in a material impact for the Region, including agreement termination provisions, variations in the Commodity price Hedging Agreement payment terms, contingent payment obligations, equipment loss, equipment replacement options, guarantees and indemnities.

vi. Procure the services of Vendors, Suppliers, Consultants and/or Agents that can provide market research, distributor consolidated billing services and market intelligence.

~~Recommend~~vii. Review and approve the multi-year energy procurement strategy, and its annual updates, containing the forward market Target Prices and proportion of Hedged ~~volumes to the Working Group~~Volumes for each Commodity in alignment with the Policy and the Region's established Energy Commodity Risk Tolerance.

~~**1. Treasurer**~~

viii. In the absence of the Treasurer and Director of Corporate Finance, the Deputy Treasurer appointed by the Region is authorized to approve transactions and documents under this Section H.2.

3. Director of Treasury Services

i. Present to Council a detailed report on the status of the Hedging Agreements for electricity, natural gas and Other Commodities, in accordance with O.Reg.653/05.

I. ~~I.~~ PROCEDURES

~~Regional staff will use the Forward Markets as the first option to acquire Commodities to be supplied under Hedging Agreements, or where the desired~~

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~~pricing is not available in an open market such as the Forward Market, solicit three or more bids, where available.~~

The ~~supplemental~~ Energy Commodity ~~Procurement Policy Procedures~~Risk Framework (Appendix "A") outlines the ~~process~~procedures and framework related to how the ~~Policy will be implemented,~~Commodities are procured in accordance with this ~~includes direction for, but not limited to, the following areas;~~Policy and in alignment to the Region's risk tolerance.

APPROVAL SOURCE:	Regional Council
ORIGINAL DATE:	December 21, 2015
LAST REVIEW DATE:	June 12, 2020
LAST UPDATE:	April 16, 2016
EFFECTIVE DATE:	
RESPONSIBILITY:	Energy Finance, Corporate Finance, Finance

APPENDIX "A"

Energy Commodity ~~risk assessments~~Risk Framework

~~• Commodity procurement~~
~~• Commodity market forecasts~~

~~**APPROVAL SOURCE:** Regional Council~~
~~**ORIGINAL DATE:** December 21, 2015~~
~~**LAST REVIEW DATE:**~~
~~**LAST UPDATE:**~~
~~**EFFECTIVE DATE:**~~
~~**RESPONSIBILITY:** Energy Services, BES - RPAM, Corporate Services;~~

The Energy Commodity Risk Framework is created to take into account energy market conditions assessed by staff and the Region's financial and economic risk appetite set by Council. The Energy Commodity Risk Framework (Risk Framework) will inform the

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development of the Multi-Year Energy Procurement Strategy of the Region, updated annually based on forward market conditions and the Region's risk appetite, and associated procurement decisions in the future. This framework forms part of the Energy Commodity Procurement Policy.

1. Background

The deregulation of the energy sector in Ontario has resulted in electricity and natural gas prices being set by market conditions, leading to volatility in spot prices (current prices), as well as in the prices of forward markets. With energy commodities being a significant cost in the Region's operating budget, there was a need to have some predictability in energy prices. In June 2007, Council approved the "Energy Procurement Strategy of the Region of Peel", as an overarching plan to manage and mitigate the risks associated with competitive energy markets. In April of 2016, Council also approved the "Energy Commodity Procurement Policy" which outlines the processes and guidelines in the strategic procurement of energy commodity, which was complemented by the approval in September 2016 of the "Energy Commodity Risk Framework" by Council Risk and Audit Committee. The core component of the Strategy, Policy and Risk Framework is the use of energy hedging agreements which help manage future energy prices. Entering into a hedging agreement is a means to fix the price or range of prices to be paid by the Region for the future delivery of some or all of the electricity or natural gas commodities.

2. Purpose

Establishing an Energy Commodity Risk Framework allows the Region to enhance transparency and promote a shared understanding of risk. This in turn supports staff in setting energy hedge targets that consider market conditions and the Region's financial and economic risk appetite.

3. Energy Commodity Risk Framework

The future Region of Peel Energy Procurement Strategy should be informed by the Region's risk appetite, energy market conditions and the impact of energy costs. The essential input to the Risk Framework is the Region's risk appetite for financial and economic matters as approved by Regional Council from time to time.

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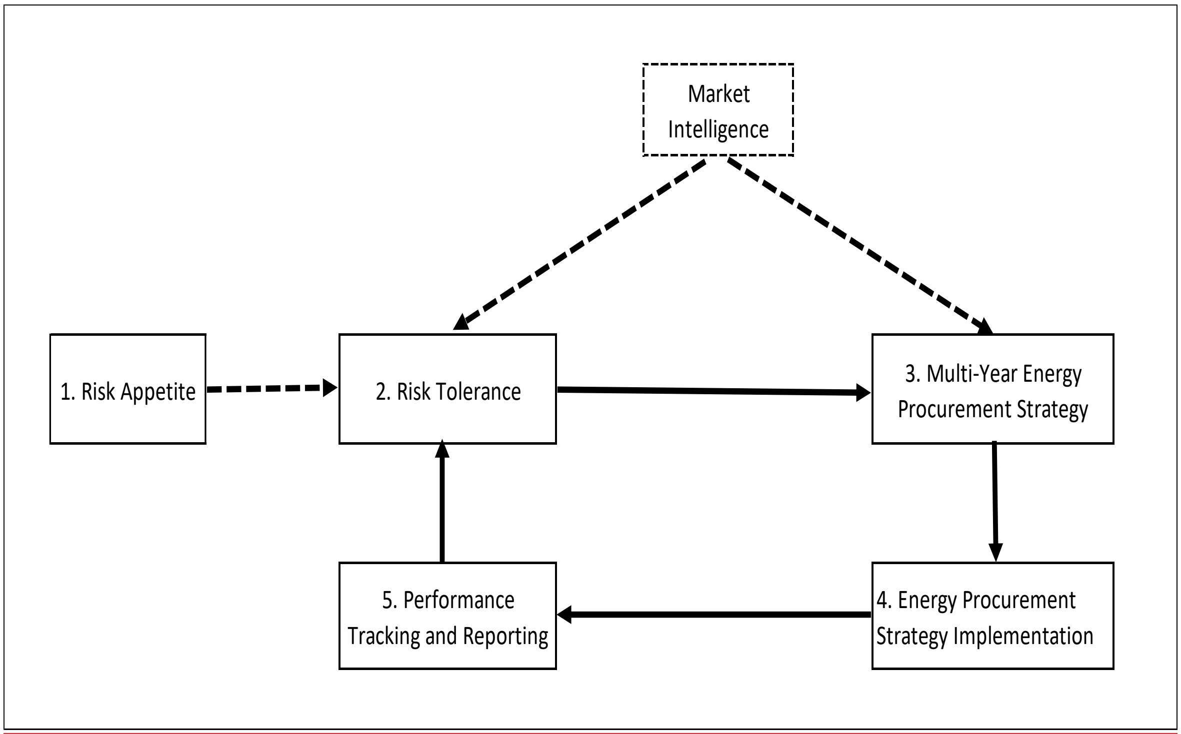
The financial and economic risk appetite, in addition to market intelligence, are in turn the primary inputs that will guide decision making with respect to energy procurement, as contained in the Multi-Year Energy Procurement Strategy, which is updated on an annual basis by staff and approved by the Treasurer and Director of Corporate Finance. Figure 1 depicts the energy procurement business cycle and its relationship with these primary inputs.

Figure 1: Energy Procurement Business Cycle



I. Establishing the Energy Risk Tolerance

To ensure transparency and a shared understanding of risk, the following Energy Commodity Risk Framework shall be implemented to support future decisions on energy hedges:

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i) Market Conditions Risk Evaluation

a. Market Intelligence

Staff shall gather market intelligence of current and future market conditions for both electricity and natural gas commodities. Such market intelligence is obtained through research by staff and/or through third party energy market consultants or experts. Parameters or "Risk Factors" that impacts forward market price volatility are determined, such as but not limited to the following:

a.1 For Electricity Risk Factors

- Demand – Economic growth related
- Demand – Weather related
- Generator fuel risks – gas-fired peaking plants
- Impact of renewable generation
- Generator availability – nuclear and/or hydro
- Cap and trade cost impacts
- Global adjustment costs
- Government energy policies/legislation
- RPP rates- competing goals

a.2 For Natural Gas Risk Factors

- Demand – Gas-fired power generation
- Demand – Industrial loads
- Demand – LNG exports outside North America
- Demand – Exports to Mexico
- Supply – Rig counts
- Gas in storage – End of season balance
- Economy
- Canadian Dollar - Foreign exchange
- 5A Index Volatility and Gas Pipeline Transport Cost

The above listed Risk Factors may change from time to time based on analysis and evaluation by staff and new information from third party energy market intelligence consultants or experts. Through market intelligence information, the likelihood of occurrence and the impact to price volatility for each future year shall be determined on a monthly basis for each of the Risk Factors. The weight factor of how much each Risk Factor contributes to the whole price volatility risks shall also be established.

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b. Market Condition Risk Evaluation Matrix (Risk Matrix)

The Region shall use the Market Condition Risk Evaluation Matrix (refer to Attachment I: Market Condition Risk Evaluation Matrix) to determine the "Market Attributes" for each future calendar year. Each of the Risk Factors shall be evaluated and scored based on the following:

Likelihood of Occurrence:

Score	Evaluation
1	Rare or none at all
2	Unlikely
3	Possible
4	Likely
5	Almost Certain

Impact to Price Volatility:

Score	Evaluation
1	Insignificant impact
2	Low
3	Medium
4	High
5	Severe

Based on the evaluation on likelihood and impact of occurrence, each Risk Factor is plotted on the Likelihood-Impact severity chart of the Risk Matrix, and the weighted scores of each of the Risk Factors are calculated (Likelihood score x Impact Score x Weight Factor). The total weighted score determines the Market Attribute for the Calendar Year using the following Table 1:

Table 1: Market Attribute Table

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MARKET ATTRIBUTE	TOTAL WEIGHTED SCORE
RELATIVELY STABLE MARKET	0 TO 8
MODERATE VOLATILITY	OVER 8 TO 17
HIGH VOLATILITY	OVER 17 TO 25

The resulting Market Attribute together with the Region's approved Risk Appetite shall serve as input to determining the level of hedging for the future calendar year being evaluated.

ii) An Energy Procurement Risk Tolerance Table: The table will be used to align future natural gas and electricity market conditions (Market Attributes) assessed by staff with the Region's financial and economic risk appetite set by Council (See Table 2 and 3). Each of the future market conditions (i.e. stable, moderate, and volatile), have risk tolerance ranges for the respective risk appetites.

Market condition findings (refer to Attachment I: Market Conditions Risk Evaluation Matrix) will determine what future market conditions the Region should be planning for with respect to its energy procurement. In turn, this will help determine the Region's risk tolerance within the Council endorsed risk appetite (See Table 2 and 3). It should be noted that changes in market conditions will result in shifts in the hedge targets within the three established risk tolerance ranges (Example: Table 2 moderate risk appetite has three risk tolerances (Stable, moderate and volatile) that range from 35 per cent to 65 per cent). Changes in risk appetite will require Council's direction.

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Table 2: Energy Procurement Risk Tolerance Table: Natural Gas

Risk Appetite (Council)	Market Risk Tolerance (Staff-Market Attribute)		
	Stable market and low future spot prices	**Moderate** market volatility and future spot prices	**Volatile** market and high future spot prices
Low	65-75%	75-85%	85-100%
Moderate	35-45%	45-55%	55-65%
High	0-15%	15-25%	25-35%

The electricity hedge range below has been capped at 30 per cent due to the Provincial Global Adjustment which limits the Region's exposure and control over a significant portion of the electricity rate. In the current market an electricity hedge greater than 30 per cent would be redundant.

Table 3: Energy Procurement Risk Tolerance Scale: Electricity

Risk Appetite (Council)	Market Risk Tolerance (Staff-Market Attribute)		
	Stable market and low future spot prices	**Moderate** market volatility and future spot prices	**Volatile** market and high future spot prices
Low	20%	20-25%	25-30%
Moderate	10%	10-15%	15-20%
High	0%	0-5%	5-10%

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II. Multi-Year Energy Procurement Strategy

The annual percentages of hedges for both electricity and natural gas determined through the established risk tolerances in Section I above shall inform a Multi-Year Energy Procurement Strategy (the Strategy) which shall be developed for the Region. This Strategy shall cover at least a five (5) years which includes the current year and four (4) succeeding years.

The Strategy shall establish the energy hedge transactions recommended to be made for multiple years into the future. All hedges needed for the immediate succeeding year shall be procured during the current year. The hedges for three (3) remaining future years may be procured in smaller layers as determined by staff so these can take advantage of good pricing opportunities.

The strategy shall establish the Target Prices for both electricity and natural gas for the hedges to be procured in the forward markets. The Target Prices, which is determined through market intelligence information, shall be the maximum price that a hedge shall be procured in the forward markets. Volumes shall be purchased at or below the said target prices.

Market conditions may have sudden unforeseen changes which would influence volatility as well as the average spot prices, and these changes may or may not have favourable impacts to the Region. To mitigate such impacts, sensitivity analysis shall be conducted to test performance of such Target Prices (refer to Attachment 2) and show that it would optimize avoided costs if the trend shows very high market price volatility and minimize opportunity costs if price volatility goes the other way.

The Multi-Year Energy Procurement Strategy and any amendment thereof shall be approved by the Treasurer and Director of Corporate Finance. The Strategy shall be updated and approved on an annual basis, covering the current year and the rolling four (4) future years.

III. Energy Procurement Strategy Implementation

Procurement of Fixed Price Hedges for both electricity and natural gas for future years shall be in accordance with the Energy Commodity Procurement Policy and shall be based on the volumes and Target Prices set in the latest

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Multi-Year Energy Procurement Strategy. The markets shall be scanned for forward prices for the planned hedge volumes to be procured, and the Region shall transact with energy suppliers at or below the approved Target Prices. Staff shall ensure that the layers of hedge volumes for future years as set in the Strategy shall be procured during the current year. Should there be unforeseen changes in the forward markets that impacts hedge prices and render the Target Prices inapplicable or too low, these will be reassessed so that new Target Price levels can be established, and these shall be submitted to the Treasurer and Director of Corporate Finance for approval. Once a hedge transaction has been completed and confirmed the Region cannot reduce its volumes even if there would be new revisions in the risk appetite or risk tolerance that suggests that the hedge volumes should be less.

IV. Performance Tracking and Reporting

Staff shall submit an annual report to the Treasurer and Director of Corporate Finance and the Energy Commodity Procurement Working Group on the status of implementation of the Energy Procurement Strategy, indicating the volumes of hedges procured, the actual forward prices of such hedges, and the energy suppliers where such hedge volumes were transacted. The report shall also include the actual performance of delivered hedges and its financial implications. The annual report shall serve as basis for the Treasury's report to Regional Council in compliance to Ontario Regulation 654/05.

ATTACHMENT 1

CATEGORY: FINANCIAL MANAGEMENT

SUBCATEGORY: PURCHASING

SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

MARKET CONDITION RISK EVALUATION MATRIX (Illustration)

Market Conditions Risk Evaluation as of Mar 2020

1. Identify risk factors affecting commodity markets for a given year, assign a % weight for each risk factor.
2. Determine "Likelihood" and "Impact" of occurrence for the year and compute weighted score for each risk factor.
3. Plot the risk factors on the Impact-Likelihood chart below.
4. Using the Weighted Score, determine what the "market attribute" would be for that year.

Market Attributes	Weighted Score
Relatively Stable	= 0 to 8
Moderate Volatility	= over 8 to 17
High Volatility	= over 17 to 25

2020 Market Condition Risk Evaluation - Natural Gas

Impact	1 - Rare	2 - Unlikely	3 - Possible	4 - Likely	5 - Almost Certain
5 - Severe	Medium	High	6 High	10 Very High	Very High
4 - High	Medium	Medium	8 7 High	1 High	4 3 Very High
3- Medium	Low	Medium	2 5 Medium	9 High	High
2 - Low	Low	Low	Medium	Medium	High
1 - Insignificant	Low	Low	Low	Medium	Medium
	Likelihood				

Risk Factors	Likelihood	Impact	Weight (%)	Score (Likelihood x Impact x Weight)
1. Demand - Gas Fired Power Gen.	4	4	15%	2.40
2. Demand - Industrial	3	3	5%	0.45
3. Demand - LNG Exports out of N.A.	5	4	15%	3.00
4. Demand - Exports to Mexico	5	4	10%	2.00
5. Supply - Rig Count	3	3	7.5%	0.68
6. Supply - Base Supply	3	5	15%	2.25
7. Storage - End of season balance	3	4	5.0%	0.60
8. Economy	3	4	2.5%	0.30
9. Canadian Dollar	4	3	5%	0.60
10.5A Index Volatility and Transport Costs	4	5	20.0%	4.00
Weighted Score			100%	16.28

2020 Natural Gas Market Conditions Risk Evaluation Summary

1. Demand - Gas Fired Power Gen.
   - Demand expected to continue to increase, may be offset in part by wind and solar generation
2. Demand - Industrial
   - Slow growth continues year over year.
3. Demand - LNG Exports out of N.A.
   - Forecast to average over 7 Bcf/day in 2020 but may slow a bit due to trade tensions with China.
4. Demand - Exports to Mexico
   - Pipeline exports to Mexico are expected to continue to increase each year.
5. Supply - Rig Count
   - Rig count is settling down.
6. Supply - Base Supply
   - Production forecast to grow. Getting shale gas to market may be more difficult without new pipe.
7. Storage - End of season balance
   - Difficult to forecast longer term into the future. End of winter balance influences summer pricing.
8. Economy
   - Slow growth expected year over year.
9. Canadian Dollar
   - Greater chance of volatility due to economic and geo-political events (US)
10. 5A Index Volatility and Transport Costs
   - Many factors affect the 5A Index in Alberta - storage levels, winter weather severity and internal pipeline issues in Alberta. The transport adder to Dawn had been rising in the past 2 years but has dropped recently - good value to pick up outer years.

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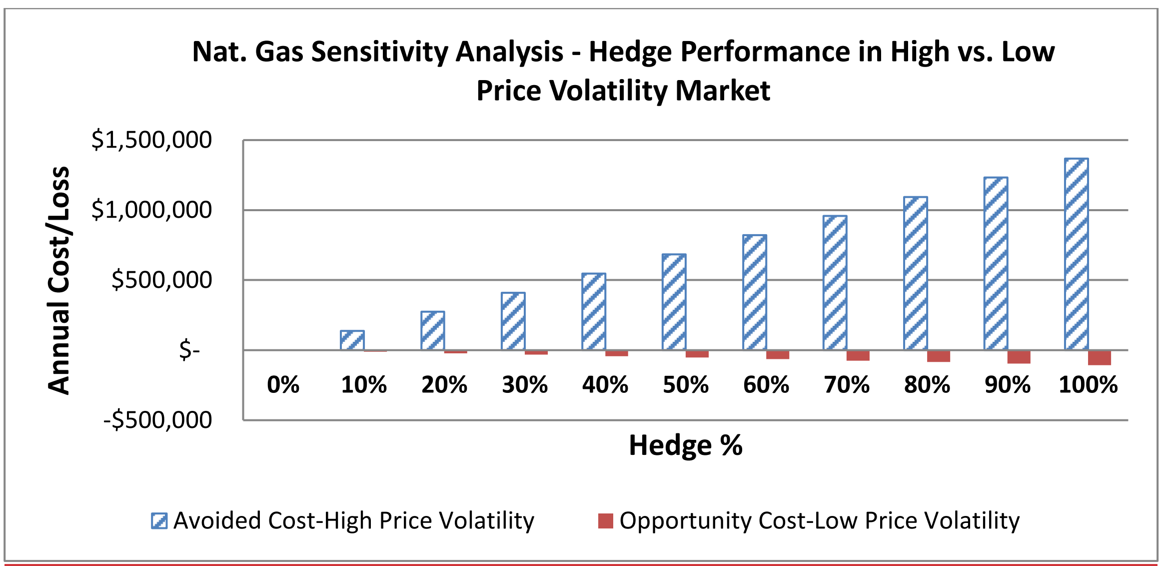
ATTACHMENT 2

SENSITIVITY ANALYSIS ON SETTING TARGET PRICES (Illustration)

The Market Conditions Risk Evaluation is supported by a Sensitivity Analysis tool (Figures 2 and 3 below) which illustrates, based on a Target Price for a forward fixed- price hedge, the possible cost-avoidance of the Region in a high volatile market scenario, and the opportunity cost impact in a low price volatility scenario, at various hedge volume levels. This further connects risk tolerance decisions with financial impact.

Figure 2: Natural Gas Sensitivity Analysis



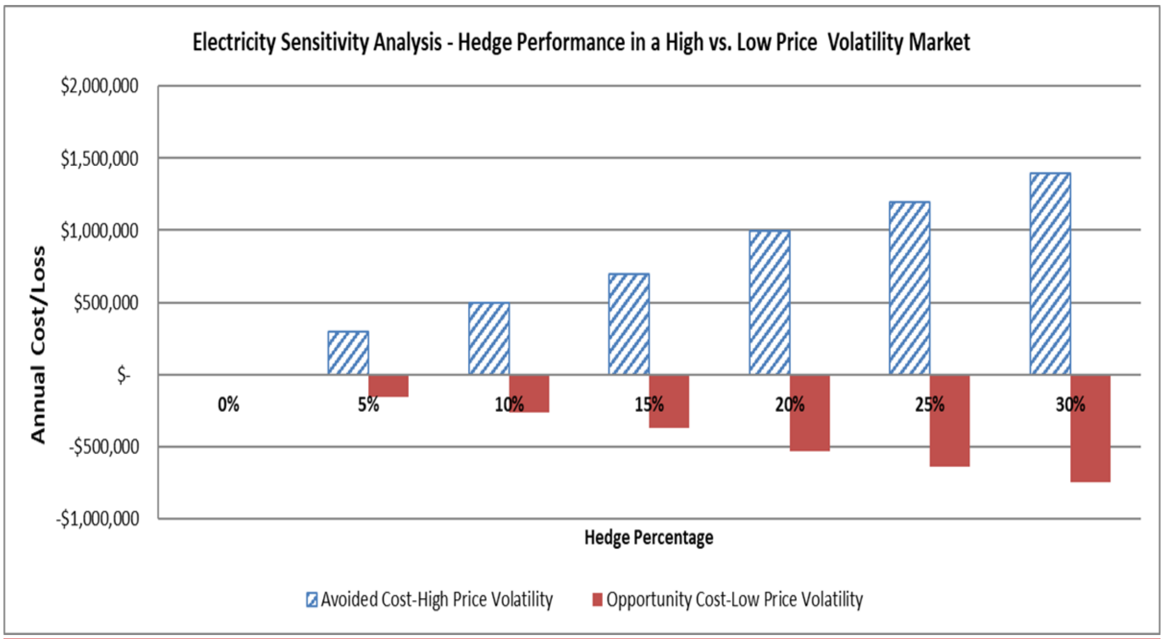
Attachment 2 (page 2)

CATEGORY: FINANCIAL MANAGEMENT

SUBCATEGORY: PURCHASING

SUBJECT: ENERGY COMMODITY PROCUREMENT POLICY

Figure 3: Electricity Sensitivity Analysis



Region of Peel
working with you

REPORT
Meeting Date: 2020-05-07
Audit and Risk Committee

REPORT TITLE:	**Debt Management Policy**
FROM:	Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That the proposed amended Debt Management Policy (F20-06), attached as Appendix I to the report of the Commissioner of Finance and Chief Financial Officer, titled "2020 Debt Management Policy", be approved;

And further, that the Debenture Issuance Policy (F20-03), attached as Appendix II, be repealed.

REPORT HIGHLIGHTS

- The Debt Management Policy (Policy) is a key policy of the Region of Peel's overall financial framework and supports the principles of the Long-Term Financial Planning Strategy and the Capital Financing Strategy.
- The Policy provides a framework for the Region of Peel's debt management, emphasizing objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities.
- The recommended Policy amendments further support the prudent financing of the Region of Peel's operating and infrastructure needs.
- The amended Policy has been revised to reflect:
  - Risk management and governance structure enhancements;
  - The debt management flexibility allowable under the applicable legislations and regulations; and
  - Increased readability.

DISCUSSION

1. Background

The Debt Management Policy (Policy) sets forth the standards and controls of the capital financing and debt issuance activities for the Region of Peel (Region). It guides the Region as it makes decisions in support of the following goals:

- Ensure adequate infrastructure, services and resources to support existing and growing communities;
- Ensure financial sustainability of Regional services; and
- Ensure debt is structured in a way that provides the Region with flexibility to meet financial obligations and ensure intergenerational equity.

Debt Management Policy

The Region's Debt Management Policy has been developed and further amended to help guide the effective management of debt to ensure the delivery of infrastructure and services to the residents and businesses within the Region in a sustainable manner. A discussion on the background of the Region's current debt status, its credit rating and legislative requirements is as follows:

a) Region of Peel Debt – Current Status

As at December 31, 2019, the total long-term debt outstanding for the Region amounted to $1,856 million. This consists of $1,614 million for Regional purposes and $240 million issued on behalf of its local municipalities. The $1,614 million Regional debt consists of three components:

i) Growth-related/Development Charge funded infrastructure: Debt that is intended mainly for the purpose of funding the gap between growth-related development charge (DC) infrastructure revenue and expenditures based on the fundamental principle that 'growth should pay for growth' at the Region. As at December 31, 2019, the total outstanding DC funded debt for the Region was $1,426 million with $358 million set aside in sinking funds and principal repayments;

ii) Growth/Non-Development Charge funded infrastructure: As at December 31, 2019, $88 million is outstanding to fund the Region's non-DC infrastructure; and

iii) Mortgages: The Region also incurs debt in the form of mortgages for Peel Living properties which amount to $133 million at the end of 2019. The Housing Services Act, 2011, transferred the ownership and responsibility for the administration of social and public housing to the Region.

b) Region of Peel Credit Rating

The Region has been rated Triple A, the highest possible rating issued, by both Standard & Poor's and by Moody's Investor Services. The credit rating agencies have acknowledged the Region's high and liquid reserve funds level and its relatively low level of debt as major attributes. Maintaining a high credit rating is an explicit objective of the Policy to support access to capital markets at very competitive borrowing rates.

c) Legislative Context for Management of Debt

The *Municipal Act, 2001* provides several legislative safeguards to ensure that fundamental activities and responsibilities are adhered to in the management of any debt issued by (or on behalf of) the municipality. The Region's Debt Management Policy has taken into account these requirements, some of which include:

i) Municipalities only have borrowing powers which are expressly set out in legislation;
ii) Municipal debentures rank pari pasu meaning that every debenture issued by a municipality ranks concurrently to the principal and the interest of other debt of the municipality regardless of difference in date of issue or maturity;
iii) Once approved, debenture by-laws cannot be repealed;
iv) Long-term debt will be the joint and several obligations of the Region and its local municipalities; and

v) The total annual financing charges after a proposed debt issue will not exceed the Annual Repayment Limit (ARL) for the municipality responsible for repaying the debt, unless otherwise approved by the Local Planning Appeal Tribunal.

2. Policy Amendments

The Policy was last revised in 2011. The prudent use of a debt management policy is acknowledged as a fundamental component to a well-developed and credible financial management framework and supports financial discipline and stability. Staff is recommending that Council repeal the Debt Issuance Policy (F20-03) as the relevant components have been included in the Debt Management Policy to simplify the policy framework.

The amendments to the Policy align with internal strategies, recent regulatory revisions and industry best practices. Amendments can be categorized as follows:

- Risk management and governance structure enhancements;
- The debt management flexibility allowable under the applicable legislations and regulations; and
- Increased readability.

The following is a summary of key amendments grouped by the three categories noted above.

a) Risk Management and Governance Structure Enhancements

- Enhancement of the goals of the Policy to include the concept of inter-generational equity;
- Adding references in the Policy to the Director of Treasury Services, where applicable;
- Expanding 'Legal Support' to include outside counsel;
- Consideration of future liquidity when issuing debentures;
- Review of Policy by the Region's staff to be completed every year; and
- Alignment with the applicable legislation/regulations.

b) Debt Management Flexibility

- Listing of construction financing as an approved financing option consistent with the governing legislation/regulations;
- Issuing of debt in a foreign currency consistent with the governing legislation/regulations;
- Ability to enter into debt with a variable interest rate structure; and
- Expansion of the list of capital financing sources to include all government (Federal/Provincial) agencies.

c) Increased Readability

- Amended Policy to focus less on procedures and more on governance concepts and general guidelines;
- Specific references to legislation/regulation removed to ensure timeliness of the Policy;

- Consistent and concise wording used to avoid ambiguity; and
- Clear and simple descriptions used for technical terms with financial industry jargon removed or simplified.

FINANCIAL IMPLICATIONS

There are no direct costs associated with the report. The approval of the Policy will ensure that the risks and costs associated with capital financing will be prudently managed in support of the Region's operating and infrastructure needs.

CONCLUSION

The updated Policy is expected to support the quality of decisions and demonstrate commitment to the fiduciary care of the Region's finances through the maintenance of the Region's financial flexibility.

The Region's Debt Management Policy supports the Region's capital financing principles and the Long-Term Financial Planning Strategy by ensuring appropriate and comprehensive guidelines are in place to promote best practices in the administration of the Region's capital financing and debt management programs.

APPENDICES

Appendix I - Debt Management Policy (F20-06)
Appendix II - Debt Management Policy (F20-06) BLACKLINE
Appendix III - Debt Issuance Policy (F20-03)

For further information regarding this report, please contact Julie Pittini, Director Treasury Services, Ext. 7120, julie.pittini@peelregion.ca

Authored By: Tareq El-Ahmed, Senior Portfolio Manager, Treasury Services

Reviewed and/or approved in workflow by:

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.

N. Polsinelli, Interim Chief Administrative Officer

CATEGORY: **FINANCIAL MANAGEMENT**

SUBCATEGORY: **DEBT/INVESTMENT MANAGEMENT**

SUBJECT: **DEBT MANAGEMENT**

A. PURPOSE

This Policy establishes objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities for the prudent financing of the Region's operating and infrastructure needs.

B. SCOPE

This Policy addresses all financial obligations including related agreements and capital lease financing agreements that are entered into by the Region, its boards and subsidiaries, as well as those employees responsible for the control, administration or management of capital financing and debt issuance activities.

C. POLICY

1. CAPITAL FINANCING AND DEBT ISSUANCE GOALS

Council may, where it is deemed to be in the best interests of its taxpayers and/or rate payers, approve the issuance of debt for the Region's purposes, or those of its boards and subsidiaries including its municipal services corporations, Local Municipalities and/or school boards. The issuance of debt shall be undertaken in support of the following goals:

a) Ensure adequate infrastructure, services and resources to support existing and growing communities;
b) Ensure financial sustainability of Regional services; and
c) Ensure debt is structured in a way that provides the Region with flexibility to meet financial obligations and ensure intergenerational equity.

These goals will be met through the objectives outlined below.

2. PRIMARY REQUIREMENTS AND OBJECTIVES OF THE CAPITAL FINANCING AND DEBT PROGRAM

The requirements and objectives of the Region's capital financing and debt program, in priority order, will be to:

1. Adhere to statutory requirements including monitoring and reporting;
2. Ensure long-term financial flexibility;

3. Limit financial risk exposure;
4. Minimize long-term cost of financing;
5. Match the term of the capital financing to the useful life of the related capital asset, when possible and financially beneficial; and
6. Maintain a strong credit rating.

Further elaboration of the requirements and objectives are provided below.

1) Adhere to Statutory Requirements

Financing may only be undertaken if it is in compliance with the relevant sections of the enabling legislation and related regulations. Requirements include but are not limited to the following:

(a) The term of temporary or short-term debt for operating purposes will not exceed 364 days;
(b) The term of the capital financing will not exceed the lesser of 40 years or the useful life of the underlying capital work;
(c) Long-term debt will only be issued for capital projects and capital assets, both of which constitute capital works;
(d) The total annual financing charges after a proposed debt issue will not exceed the updated Debt and Financial Obligation Limit (Annual Repayment Limit or ARL) for the municipality responsible for repaying the debt, unless otherwise approved by the Local Planning Appeal Tribunal;
(e) Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed agreement with other methods of financing in accordance with Policy F50-05;
(f) A minimum credit rating, pursuant to the regulations, will be needed by the Region to meet the statutory requirements for entering into certain types of capital financing contemplated by this Policy;
(g) Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of construction of a capital work, as estimated by Council, provided that such non-payment does not exceed five years, Council will have considered all prescribed information in addition to financial and other risks related to the proposed construction financing; and
(h) Long-term debt will be the joint and several obligations of the Region and its Local Municipalities.

CATEGORY: FINANCIAL MANAGEMENT

SUBCATEGORY: DEBT/INVESTMENT MANAGEMENT

SUBJECT: DEBT MANAGEMENT

Furthermore, the awarding of any contract under this Policy, unless otherwise authorized by Council, will follow the procedures and authorities set out in the Region's By-laws.

2) Ensure Long-Term Financial Flexibility

The capital financing and debt program will be managed in a manner consistent with other long-term planning, financial and management objectives.

(a) Growth-Related/Development Charge Funded Infrastructure

Issuance of growth-related infrastructure capital financing may be undertaken in order to ensure adequate infrastructure, services and resources to support the Region's growth plans. Repayment of this type of capital financing (principal and interest) shall be recoverable through the Region's development charges as planned/included in the Development Charges (DC) Background Study and subsequent DC by-laws updated from time to time. Long-term debt issued for growth-related infrastructure shall normally be in the form of debentures, but other forms of financing (e.g. senior government sources) may be used where warranted.

(b) Growth/Non-Development Charges Funded Infrastructure

Other capital works considered to be growth-related, but not deemed to be funded through development charges can be funded through debt with repayment to match the life of the related capital work. This debt would be funded primarily from taxes, utility rates and/or reserves.

(c) Non-Growth Replacement Infrastructure

To the extent practicable, replacement assets as well as regular and/or ongoing capital expenditures will be recovered on a "pay as you go" basis through utility rates (water and wastewater), tax levy, user fees and/or reserve monies. It is recognized that adequate reserves must be developed and maintained for all capital assets owned by the Region to ensure long-term financial flexibility and sustainability.

This is to be addressed as part of the Region's asset management strategy, the Region's key indicators of financial condition (i.e. the degree to which the Region can maintain its sustainability and flexibility and minimize its vulnerability), and the annual, multi-year budget process. However, where long-term financing is required, due consideration will be given to all forms of financing including debentures, construction financing, long-term bank loan agreements and lease financing agreements.

(d) Non-Growth New Infrastructure

The provision of new social housing properties through Peel Living could require long-term financing in the form of mortgages or through the Region which could involve long-term bank loan agreements, debentures and/or other forms of debt. The Region may also incur debt for other new infrastructure related to the delivery of services that is not considered to be 'growth' in nature.

3) Limit Financial Risk Exposure

The Region's debt will be managed in a manner to limit, where practicable, financial risk exposure. It will be the Region's normal practice to issue debt instruments that are denominated in Canadian dollars and where the interest rates will be fixed over their term.

There may be a material financial advantage for the Region to issue debt in a foreign currency and/or with a variable interest rate structure, whereby a hedging strategy will be considered to either reduce or eliminate the risk. Variable interest rate bank loan agreements or debentures cannot exceed 15% of the total outstanding principal of all undertaking or work indebtedness of the Region as authorized by O. Reg. 276/02 s8(2) in the case of bank loan agreements and by O. Reg. 247/01 s3(1) in the case of debentures.

4) Minimize Long-Term Cost of Financing

The timing, type and term of financing for each capital asset will be determined with due consideration to minimize the Region's overall long-term cost of financing given the constraints of current debt maturities and capital market conditions. Factors to be considered will include: current versus future interest rates; the availability of related reserve monies; the pattern of anticipated revenues or cost savings attributable to the capital asset; and all costs related to the financing of the capital asset whether by debenture, construction financing, lease financing agreements or other prescribed instruments or agreements.

5) Match the Term of the Capital Financing to the Useful Life of the Related Asset

The maximum term over which a capital asset may be financed is 40 years. Under no circumstance may the term of financing exceed the anticipated useful life of the related asset. The Region will endeavour to maintain intergenerational equity where applicable. The matching of term and useful asset life may be achieved through re-financing.

6) Maintain a strong credit rating

The Region's capital financing and debt program will be managed in a manner to maintain and seek the highest possible credit rating for the Region without compromising the delivery of services and programs through prudent capital financing and debt management. A key element in maintaining the highest possible credit rating will be to ensure that the timing, amount and type of capital financing will be assessed as being appropriate to the long-term needs of the Region as well as being seen as balanced against other forms of financing.

Particular attention shall be paid to the key indicators used by credit rating agencies as part of the debt management processes in order to maintain the Region's credit worthiness.

D. STANDARD OF CARE

All officers and employees responsible for capital financing and debt activities will follow the standard of care identified in this Policy.

1) Ethics and Conflicts of Interest

Officers and employees involved in the capital financing and debt management processes are expected to abide by the Region's Code of Conduct.

In particular they shall:

(a) Refrain from personal business activity that could conflict with the proper execution and management of the capital financing and debt program, or that could impair their ability to make impartial decisions;
(b) Disclose any material interests in financial institutions with which they conduct business;

(c) Disclose any personal financial/investment positions that could be related to the performance of their capital financing duties; and
(d) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Region.

2) Delegation of Authority

The Chief Financial Officer will have the overall responsibility for the capital financing and debt program of the Region. Authority to manage and implement the debt management program is granted to the Director, Corporate Finance & Treasurer (Regional Treasurer) and/or the Director, Treasury Services who shall act in accordance with this Policy.

3) Requirements for Outside Advice

The Region's staff will be expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should in their opinion the appropriate level of knowledge not exist for instances such as capital financing transactions that are unusually complicated or non-standard, or as otherwise directed, outside financial and/or legal advice will be obtained.

4) Legal Support

A specific borrowing by-law must be adopted to authorize the issuance of debentures or the entering into of a bank loan agreement for the purpose of capital financing that is covered by this Policy. The Regional Solicitor provides legal advice with respect to the Regional debt financing transactions and may require that legal advice be obtained from an independent source.

E. SUITABLE AND AUTHORIZED FINANCING INSTRUMENTS

The form of financing that meets the objectives listed above will be dependent in part upon its term and the type of capital asset to be financed. For the purpose of this Policy, financial instruments are secured either for a temporary or long-term basis.

1. Temporary Financing

Temporary financing instruments are issued either for operating or capital purposes. Financing may be from one or more of the following sources:

a) Reserves and reserve funds loans;
b) Bank line of credit;
c) Short-term promissory notes;
d) Bankers' Acceptances; and
e) Government of Canada/Ontario agencies (e.g. Infrastructure Ontario)

2. Long-Term Financing

The financing of capital assets which is deemed either as temporary operating or temporary capital financing may be provided from any of the following sources, subject to the Region's policies:

a) Debenture issuance;
b) Reserves and reserve funds loans;
c) Borrowing from the Local Municipalities;
d) Bank loan agreements;
e) Lease financing agreements; and
f) Tile Drainage Debentures issued on behalf of the Local Municipalities to finance the construction of tile drainage systems for agriculture and for those individual farmers who apply and are accepted for financing.

3. Debt Structures

Debt issued is structured to achieve the lowest possible all-in net cost of funds, subject to the constraints of current debt maturities and the prevailing capital market conditions, while meeting the goals and objectives of the approved borrowing plan. New debt will aim to support current and future liquidity and will be undertaken primarily by issuing benchmark size Sinking Fund (Bullet) Debentures.

F. FINANCING RISK IDENTIFICATION AND MITIGATION STRATEGIES

It is explicitly recognized that there may be additional risks associated with certain types of financing. It is expected that these risks will be identified and considered prior to their use in relation to other forms of financing that would be available. A Bond Forward Agreement can be used to reduce the additional risk when deemed practicable.

Bond Forward Agreements - Hedging Instruments Related to Debt Issuance

O. Reg. 653/05 introduced the use of instruments to manage the cost or risk associated with the fluctuations in interest rates. By entering into a Bond Forward Agreement, the risk of higher interest rates between "today" and the "future" date when the actual debt will be issued, is reduced. Bond Forward Agreements allow the Region to "lock in" future interest rates.

In order to balance the benefits and risks of Bond Forward Agreements, the following requirements under O. Reg. 653/05 would be adhered to:

i) The term of the Bond Forward Agreements must comply with the prescribed requirements.
ii) The total value of the principal of the government debt instruments that are the subject of the Bond Forward Agreement may not exceed the expected principal amount of the debentures to be issued.

In the event that debentures are being issued on behalf of a Local Municipality and that municipality wishes some or all of the principal of such debentures to be included in a Bond Forward Agreement, the Region will need to ensure that the relevant sections of the applicable legislation and/or regulations are adhered to and that such municipality agrees to reimburse the Region for any costs related to the Bond Forward Agreement, including administration costs.

G. METHODS OF MARKETING/SELLING DEBENTURE ISSUES

Debenture securities may be sold by the following means:

a) Debt Issuance Syndicate
b) Tender
c) Bought Deal/Private Placement

H. DEBT ISSUED ON BEHALF OF OTHER ENTITIES

1. Purpose

Council may approve the issuance of debentures for the purposes of its Local Municipalities provided:

(a) They are used for capital projects approved by the Local Municipality;
(b) The term of the financing is in excess of one (1) year;
(c) It has received satisfactory evidence of approval authority and statutory compliance. Accordingly, the Treasurers of the Local Municipalities must provide to the Region at the time of their financing request, an updated ARL for their

respective municipality and attest to the validity of the calculation in order to ensure compliance under the regulations of the *Municipal Act, 2001*. As well, mandated approvals from provincial ministries, if necessary, and the council of the Local Municipality will be required prior to Regional Council granting financing approval; and

(d) The Local Municipalities assume their responsibility for the Debt Issuance Syndicate costs related to the issuing of debentures on their behalf and that all other miscellaneous connected costs such as legal fees, banking and trustee fees be borne by the Region and be levied through the General Levy imposed on the Local Municipalities.

As the Local Municipalities are required by section 401(3) of the *Municipal Act, 2001* to issue debentures through the Region, all debentures issued under a debenture by-law passed by the Region are direct, joint and several obligations of the Region and the Local Municipalities (s.403(7)). Pursuant to sections 403(6) and 403(8) of the Act interest charges and other amounts to be paid by the Local Municipality to the Region that are in default may be recovered by the Region as part of the General Levy imposed on the Local Municipalities.

2. Advising the Region of Borrowing Needs

To ensure effective long-term financial planning, including prudent debt issuance and well-co-ordinated and managed investor communications through the Debt Issuance Syndicate, the Local Municipalities' Treasurers are required to provide to the Regional Treasurer an external debt forecast identifying anticipated borrowing (within a range of plus or minus $25 million per each municipality) 18 months in advance of the date the funds are required. The anticipated borrowed amounts are to be further confirmed (within a range of plus or minus $5 million per each municipality) within six months of when the funds are required.

I. FINANCIAL GUARANTEES AND LETTERS OF CREDIT

Financial guarantees and/or letters of credit provided by the Region, its boards and subsidiaries will be considered debt and will be governed by this Policy.

J. DEBT ISSUANCE COMMITTEE

Regional Council has delegated (By-law 26-2011, as amended) to the Debt Issuance Committee the authority to enact by-laws to authorize debentures, financial instruments and financial agreements including, for temporary borrowing in the form of promissory notes, bankers acceptances and loan agreements, and for long-term borrowing in the form of debentures and bank loan agreements, and to execute all documents necessary to give effect to the foregoing. By-law 26-2011, as amended, establishes the membership, responsibilities and reporting requirements of the Committee.

K. SINKING/RETIREMENT FUND DEBENTURES

The Sinking Fund Committee establishes the investment guidelines and ensures that adequate funds are available to retire the debt at its maturity. The Committee will consist of the Regional Treasurer and the Treasurers of the Local Municipalities or their appointees and will meet at least annually. The Committee will be chaired by the Regional Treasurer and the role of the other members will be to provide advice.

L. DEBT RETIREMENT RESERVE AND RESERVE FUND

Council may authorize contributions to a debt retirement reserve or reserve fund to fully or partially fund the repayment of outstanding debt prior to or on maturity or otherwise offset the repayment requirements related to debt.

M. REPORTING REQUIREMENTS

In addition to any information requested by Council or that the Chief Financial Officer considers appropriate, the Regional Treasurer, in accordance with legislative requirements, will submit to Council all applicable reports.

N. RESPONSIBILITIES

Officers and staff of the Region in complying with this Policy shall have the necessary authority to carry out the responsibilities and duties identified within the Policy.

The Regional Treasurer, and the Chief Financial Officer have overall responsibility for the advice and reporting relating to financial management that is provided to Regional Council and for overseeing the implementation of this Policy.

This Policy is implemented through the execution of the following specific responsibilities as identified:

CATEGORY: **FINANCIAL MANAGEMENT**

SUBCATEGORY: **DEBT/INVESTMENT MANAGEMENT**

SUBJECT: **DEBT MANAGEMENT**

1. The Director, Corporate Finance & Treasurer (the Regional Treasurer):

a) Calculates the updated ARL for the Region as prescribed by the *Municipal Act*, *2001*;
b) May execute and sign documents on behalf of the Region and perform all other related acts with respect to the issuance of debt securities;
c) Reviews and recommends to Council the financial and business aspects of any material lease agreements including capital financing leases and transactions; and
d) Signs debentures.

2. Director, Treasury Services

a) Reviews and recommends the type and term of financing for capital projects and operating requirements;
b) In consultation with the lead(s) of the Debt Issuance Syndicate, approves the timing and structure of debt issues;
c) Coordinates the preparation of debt issue by-laws for the Debt Issuance Committee;
d) Liaises and assists credit rating agencies in the evaluation of the credit worthiness of the Region's debt securities; and
e) Ensures all reporting requirements identified within this Policy are met.

3. Regional Chair

The Regional Chair may execute and sign documents on behalf of the Region with respect to the issuance of debt securities and shall sign debentures.

4. Regional Clerk

The Regional Clerk may certify and sign documents on behalf of the Region with respect to the issuance of debentures.

O. POLICY REVIEW

The Policy will be reviewed at a minimum every year by the Director, Treasury Services and be updated as deemed appropriate.

CONTACT:
Treasury Portfolio Manager(s)

CATEGORY: **FINANCIAL MANAGEMENT**

SUBCATEGORY: **DEBT/INVESTMENT MANAGEMENT**

SUBJECT: **DEBT MANAGEMENT**

P. REFERENCE:

Municipal Act, *2001*, S.O. 2001, c. 25 Part XIII (Debt and Investment)
Tile Drainage Act, R.S.O. 1990, c.T.8, Section 2(1)
Ontario Regulation 247/01 – Variable Interest Rate Debentures and Foreign Currency Borrowing
Ontario Regulation 276/02 – Bank Loans
Ontario Regulation 278/02 - Construction Financing
Ontario Regulation 403/02 – Debt and Financial Obligation Limits
Ontario Regulation 586/06 – Local Improvement Charges – Priority Lien Status
Ontario Regulation 603/06 – Municipal and School Capital Facilities – Agreements and Tax Exemptions
Ontario Regulation 653/05 – Debt-Related Financial Instruments and Financial Agreements
Corporate Policy F20-02 - "Borrowing Between the Region and the Area Municipalities"
Corporate Policy F20-03 - "Debenture Issuance"
Corporate Policy F50-05 - "Lease Financing Policy"
Corporate Policy F50-06 - "Internal Loans from Reserves and Reserve Funds"
Corporate Policy B20-01 - "Real Property Acquisition & Inventory Management"
Regional By-law 26-2011 - "A By-law to Establish a Debt Issuance Committee"

Q. GLOSSARY

Amortizing Loan: A loan that has a blended payment of principal and interest that is the same for each repayment period.

Benchmark Bond: A bond that provides a standard against which the performance of other bonds/debentures can be measured.

Bond Forward Agreement: Contracts where two parties (e.g. Bank and the Region) agree today on the interest rate level that will apply to a certain amount of debt in the future.

Bought Deal: A financing transaction, such as a debenture issue, in which an individual underwriter or underwriting group purchases the entire amount in order to resell to investors.

Bullet Debentures: A debt instrument whose entire principal value is paid all at once on the maturity date, as opposed to amortizing the principal payments over the debt instrument's lifetime.

Capital Financing: A generic term for the financing of capital assets. Although this can be achieved through the use of a variety of funding sources, for the purposes of this Policy it is assumed to mean the use of debt.

Credit Rating: A rating assigned by a credit rating agency (e.g. Standard and Poor's or Moody's) to the creditworthiness of a municipality's debt. The rating assesses the financial strength of a municipality and assists investors in making a determination of the likelihood that the municipality will pay the debt service payments in a timely fashion and more importantly repay all outstanding obligations including principal at maturity.

Debenture: A formal written obligation to repay specific sums on certain dates. In the case of a municipality debentures are typically unsecured.

Debt and Financial Obligation Limit: A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing (MMAH) that determines the maximum amount of new annual long-term debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Local Planning Appeal Tribunal (LPAT). The Treasurer is to calculate and report annually to MMAH in respect of financial information based on which the MMAH will determine the ARL as required by the legislation and related regulations. Additionally, the Treasurer shall calculate an updated ARL using the most recent ARL determined by the MMAH and provide this to council before council authorizes any capital asset or any increase in expenditures for a capital asset requiring long-term debt.

Debt: Any obligation for the payment of money. For Ontario municipalities, debt would normally involve the issuance of debentures as well as either notes or bankers' acceptances from financial institutions but could also include loans from reserves in addition to other prescribed instruments and agreements.

Debt Issuance Committee – a committee formed by Regional Council in accordance with By-law 26-2011 (as amended) delegating authority to the Debt Issuance Committee to make final decisions with respect to the issuance of debentures and the entering into of bank loan agreements where the project debt authority has been approved by Council with one or more debt issues and to finalize the terms and conditions of such debt issues.

CATEGORY: **FINANCIAL MANAGEMENT**

SUBCATEGORY: **DEBT/INVESTMENT MANAGEMENT**

SUBJECT: **DEBT MANAGEMENT**

Financial Guarantee: An agreement whereby the Region will take responsibility for the payment of debt in the event that the primary debtor fails to perform.

Joint and Several: An obligation that may be enforced against all obligors jointly or against any one of them separately.

Lease Financing Agreements: A lease allowing for the provision of municipal capital facilities if the lease may or will require payment by the Region beyond the current term of Council.

Letter of Credit: A binding document from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase (debt).

Long-Term Bank Loan: Long-term debt provided by a bank or a syndicate (group) of banks.

Long-Term Debt or Financing: Any debt which is deemed not be either temporary operating or temporary capital and extends beyond the term of Council.

Local Municipality: The Corporation of the City of Mississauga, The Corporation of the City of Brampton and The Corporation of the Town of Caledon, each of which is a lower-tier municipality of the Region (area municipality has the same meaning as lower-tier municipality).

Municipal Capital Facilities: Includes land, as defined in the *Assessment Act*, works, equipment, machinery and related systems and infrastructures.

Region: Refers to The Regional Municipality of Peel.

Retirement Fund Debentures: Debentures that contain a retirement fund provision pursuant to which the issuer has undertaken to annually pay on a fixed date, funds into a retirement fund for the repayment of the principal at maturity on the basis that the annual payments into the retirement fund will commence after the principal of the other debentures issued under the same debenture by-law becomes payable.

Temporary Debt or Financing: Any debt which is consistent with the definition of temporary operating or temporary capital financing (see Section E, subsection 1).

CATEGORY: **FINANCIAL MANAGEMENT**

SUBCATEGORY: **DEBT/INVESTMENT MANAGEMENT**

SUBJECT: **DEBT MANAGEMENT**

Sinking Fund Debentures: A long-term debt instrument that contains a sinking fund provision pursuant to which the issuer has undertaken to annually pay on a fixed date, funds into a sinking fund for the repayment of the principal at maturity.

Sinking Fund Committee: A committee that a municipality may establish consisting of the municipality's Treasurer as the chair and any number of other persons appointed by Council who are responsible for the management of Sinking Fund Debentures.

Syndicate or Debt Issuance Syndicate: The debt issuance syndicate is a group of financial institutions that undertakes the promotion and marketing and the possible purchase of debt issued by the Region to investors for an agreed upon percentage as a fee.

Tender: A process whereby formal bids are submitted to purchase debt securities or to provide a lease.

Tile Drainage Debentures: Debentures issued to finance the construction of a tile drainage system for agricultural land

APPROVAL SOURCE:	Provided by issuer &/or Clerk's, Legislative Services
ORIGINAL DATE:	Provided by original issuer
LAST REVIEW DATE:	Provided by issuer
LAST UPDATE:	Provided by issuer
EFFECTIVE DATE:	Provided by issuer
RESPONSIBILITY:	Department/Division/Section - provided by issuer

Policy Number: ~~F20-06~~*Assigned by Corporate Clerks*

COMP - F20-06 - Debt Management - Original VS. F20-06 - Debt Management Policy - Clean

CATEGORY: **FINANCIAL MANAGEMENT**

SUBCATEGORY: **~~FINANCIAL PLANNING~~DEBT/INVESTMENT MANAGEMENT**

SUBJECT: **DEBT MANAGEMENT**

A. PURPOSE

This ~~policy~~Policy establishes objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities for the prudent financing of the ~~Corporation~~Region's operating and infrastructure needs.

B. SCOPE

~~All~~This Policy addresses all financial obligations including related agreements and capital lease financing ~~leases~~agreements that are entered into by the ~~Corporation~~Region, its boards and subsidiaries, as well as those employees responsible for the control, administration or management of capital financing and debt issuance activities.

C. ~~DEFINITIONS~~

~~**Amortizing Loan:** A loan that has a blended principal and interest payment that is equal each repayment period.~~

~~**Borrower:** The counterparty receiving the funds.~~

~~**Bought Deal:** A financing transaction, such as a debenture issue, in which an individual underwriter or underwriting group purchases the entire amount in order to resell to investors.~~

~~**Capital Financing:** A generic term for the financing of capital assets. Although this can be achieved through the use of a variety of funding sources, for the purposes of this policy it is assumed to mean the use of debt.~~

~~**Corporation:** Refers to The Regional Municipality of Peel.~~

~~**Credit Rating:** A rating assigned by a credit rating agency (e.g. Standard and Poor's or Moody's) to the credit worthiness of a corporation's debt. The rating defines the financial strength of a borrower and assists investors to determine the likelihood that the debt issuer will pay the interest payments in a timely fashion and more importantly the initial investment at maturity.~~

Region of Peel working with you

Policy Number: ~~**F20-06**~~ *Assigned by Corporate Clerks*

CATEGORY: **FINANCIAL MANAGEMENT**

SUBCATEGORY: ~~**FINANCIAL PLANNING**~~**DEBT/INVESTMENT MANAGEMENT**

SUBJECT: **DEBT MANAGEMENT**

~~**Debenture:** A formal written obligation to repay specific sums on certain dates. In the case of a municipality debentures are typically unsecured.~~

~~**Debt and Financial Obligation Limit:** A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing (MMAH) that determines the maximum amount of new annual debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board (OMB). The Treasurer is to calculate and report annually to MMAH the Annual Debt Repayment Limit as required by the legislation and related regulations. Additionally, the Treasurer shall recalculate an updated limit using the most recent debt and financial obligation limit determined by the MMAH and provide this to council before council authorizes any increase in expenditure requiring long-term debt.~~

~~**Debt:** Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash loans from financial institutions, but could also include loans from reserves.~~

~~**Debt Issuance Committee** – a committee formed by Regional Council in accordance with By-law 26-2011 (as amended) delegating authority to the Debt Issuance Committee to make final decisions with respect to the issuance of debentures where the project debt authority has been approved by Council with one or more debt issues and to finalize the terms and conditions of such debt issues as modified.~~

~~**Financial Guarantee:** An agreement whereby the Corporation will take responsibility for the payment of debt in the event that the primary debtor fails to perform.~~

~~**Instalment Loan:** A loan that has an equal portion of the principal repaid in each payment period.~~

~~**Joint and Several:** An obligation that may be enforced against all obligators jointly or against any one of them separately.~~

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Policy Number: ~~F20-06~~ *Assigned by*

CATEGORY: FINANCIAL MANAGEMENT

SUBCATEGORY: ~~FINANCIAL PLANNING~~ DEBT/INVESTMENT MANAGEMENT

SUBJECT: DEBT MANAGEMENT

~~**Lease Financing Agreements:** A lease allowing for the provision of Municipal Capital Facilities if the lease may or will require payment by the Corporation beyond the current term of Council.~~

~~**Lender:** The counterparty providing the funds.~~

~~**Letter of Credit:** A binding document from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase (debt).~~

~~**Long-Term Bank Loan:** Long-term debt provided by a bank or a syndicate (group) of banks.~~

~~**Long-Term Debt or Financing:** Any debt which is deemed not be either temporary operating or temporary capital.~~

~~**Lower-tier Municipality:** The City of Mississauga, the City of Brampton and the Town of Caledon (area municipality has the same meaning as lower-tier municipality).~~

~~**Municipal Capital Facilities:** Includes land, as defined in the *Assessment Act*, works, equipment, machinery and related systems and infrastructures.~~

~~**Open Loan:** A loan that, at the discretion of the borrower, be repaid in part or in full at any time, provided that at least 30 days notice is given to the lender.~~

~~**Retirement Fund Debentures:** Debentures for which funds are accumulated on a prescribed basis, commencing one year after the issuance of the debentures, in a separate custodial account, the sum total, including interest earned, is used to fund the redemption of the debentures.~~

~~**Retirement Fund Committee**: A committee that a municipality may establish consisting of the Corporation's Treasurer as the chair and any number of other~~

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Policy Number: ~~F20-06~~Assigned by Corporate Clerks

CATEGORY: FINANCIAL MANAGEMENT

SUBCATEGORY: ~~FINANCIAL PLANNING~~DEBT/INVESTMENT MANAGEMENT

SUBJECT: DEBT MANAGEMENT

~~persons appointed by Council who are responsible for the management of the retirement fund debentures.~~

~~**Temporary Debt or Financing:** Any debt which is consistent with the definition of temporary operating or temporary capital financing (see Section F).~~

~~**Sinking Fund Debentures:** A long-term debt instrument that contains a sinking fund provision that the issuer has undertaken to regularly set aside on a fixed date funds to a sinking fund for the repayment of the principal.~~

~~**Sinking Fund Committee**: A committee that a municipality may establish consisting of the Corporation's Treasurer as the chair and any number of other persons appointed by Council who are responsible for the management of the sinking fund debentures.~~

~~**Syndicate or Debt Issuance Syndicate:** The debt issuance syndicate is a group of financial institutions that undertakes the promotion and marketing of debt issued by the Corporation to investors for an agreed upon percentage fee.~~

~~**Tender:** A process whereby formal bids are submitted to issue debt securities or to provide a lease.~~

~~**Tile Drainage Debentures:** Debentures issued to finance the construction of a tile drainage system for agricultural land.~~~~**D.**~~ **POLICY**

1. CAPITAL FINANCING AND DEBT ISSUANCE GOALS

Council may, where it is deemed to be ~~necessary~~in the best interests of its taxpayers and/or rate payers, approve the issuance of debt for ~~its own~~the Region's purposes, or those of its boards and subsidiaries including its municipal ~~business~~services corporations, ~~and lower-tier municipalities~~Local Municipalities and/or school boards. The issuance of debt shall be undertaken in support of the following goals:

a) Ensure adequate infrastructure, services and resources to support existing and growing communities;

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b) Ensure financial sustainability of Regional services; and
c) Ensure debt is structured in a way that ~~is fair and equitable to those who pay for and benefit from the underlying assets over time~~provides the Region with flexibility to meet financial obligations and ensure intergenerational equity.

These goals will be met through the objectives outlined below.

2. PRIMARY REQUIREMENTS AND OBJECTIVES OF THE CAPITAL FINANCING AND DEBT PROGRAM

The ~~primary~~requirements and objectives ~~for~~of the ~~Corporation~~Region's capital financing and debt program, in priority order, ~~shall~~will be to:

1. ~~a)~~ Adhere to statutory requirements including monitoring and reporting;
2. ~~b)~~ Ensure long-term financial flexibility;
3. ~~c)~~ Limit financial risk exposure;
4. ~~d)~~ Minimize long-term cost of financing;
5. ~~e)~~ Match the term of the capital financing to the useful life of the related ~~asset~~capital asset, when possible and financially beneficial; and
6. ~~f)~~ Maintain a ~~Superior Credit Rating~~strong credit rating.

Further elaboration of ~~these~~the requirements and objectives ~~is~~are provided below.

1) Adhere to Statutory Requirements

~~Capital financing~~Financing may only be undertaken if ~~and when~~ it is in compliance with the relevant ~~section~~sections of the enabling legislation and related regulations. ~~The Region is not authorized by legislation and will not issue debt obligations or use debt proceeds to finance current operations with the exception of temporary financing that is permitted under Section 407 of the *Municipal Act, 2001*.~~ Requirements include but are not limited to the following:

(a) The term of temporary or short-term debt for operating purposes will not exceed ~~the current fiscal year~~364 days;
(b) The term of the capital financing will not exceed the lesser of 40 years or the useful life of the underlying ~~asset~~capital work;

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(c) Long-term debt will only be issued for capital projects and capital assets, both of which constitute capital works;

(d) The total annual financing charges after a proposed debt issue will not exceed the updated Debt and Financial Obligation Limit (Annual Repayment Limit or ARL) for the municipality responsible for repaying the debt, unless otherwise approved by the ~~OMB~~Local Planning Appeal Tribunal;

(e) Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed ~~lease~~agreement with other methods of financing in accordance with Policy F50-05;

(f) A minimum credit rating, pursuant to the regulations, will be needed by the Region to meet the statutory requirements for entering into certain types of capital financing contemplated by this Policy;

(g) Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of construction of a capital work, as estimated by Council, provided that such non-payment does not exceed five years, Council will have considered all prescribed information in addition to financial and other risks related to the proposed construction financing; and

(h) ~~(f)~~ Long-term debt will be the joint and several obligations of the ~~Corporation~~Region and its ~~lower-tier municipalities.~~ Local Municipalities.

Furthermore, the awarding of any contract under this Policy, unless otherwise authorized by Council, will follow the procedures and authorities set out in the ~~Corporation~~Region's By-laws.

2) Ensure Long-Term Financial Flexibility

The capital financing and debt program will be managed in a manner consistent with other long-term planning, financial and management objectives.

(a) Growth -Related/Development Charge Funded Infrastructure

Issuance of growth -related infrastructure capital financing may be undertaken in order to ensure adequate infrastructure, services and resources to support the ~~Corporation~~Region's growth plans. Repayment of this type of capital financing (principal and interest) shall be recoverable through the ~~Corporation~~Region's development charges as planned/included in the Development Charges (DC) ~~background study~~Background Study and subsequent DC by-laws updated from

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time to time. Long-term debt issued for growth -related infrastructure shall normally be in the form of debentures, but other forms of financing (e.g. senior government sources) may be used where warranted.

(b) Growth/Non -Development Charges Funded Infrastructure

Other ~~assets or~~ capital works considered to be growth -related, but not deemed to be funded through development charges ~~(e.g. building and or facilities such as the Regional office building at 7120 Hurontario Street)~~ can be funded through debt with repayment to match the life of the ~~asset.~~related capital work. This debt would be funded primarily from taxes, utility rates and/or reserves.

(c) Non -Growth Replacement Infrastructure

To the extent practicable, replacement assets as well as regular and/or ongoing capital expenditures will be recovered on a "pay as you go" basis through utility rates (water and wastewater), tax levy, user fees and/or reserve monies. It is recognized that adequate reserves must be developed and maintained for all capital assets owned by the ~~Corporation~~Region to ensure long-term financial flexibility and sustainability.

This is to be addressed as part of the ~~Corporate Asset Management~~Region's asset management strategy, the ~~Corporation~~Region's key indicators of financial condition (i.e. the degree to which the ~~municipality~~Region can maintain its sustainability and flexibility and minimize its vulnerability), and the annual, multi-year budget process. However, where long-term financing is required, due consideration will be given to all forms of financing including debentures, construction financing, long-term bank ~~loans~~loan agreements and lease financing agreements.

(d) Non -Growth New Infrastructure

~~The Region incurs debt in the form of mortgages for Peel Housing Corporation (Peel Living) properties as a result of the *Social Housing Reform Act, 2000* which transferred the ownership and responsibility for the administration of provincial public housing to the Region.~~ The provision of new social housing properties through Peel Living could require long-term financing in the form of mortgages or through the Region which could

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~~require~~involve long-term bank ~~loans~~loan agreements, debentures and/or other forms of debt. The Region may also incur debt for other new infrastructure related to the delivery of services that is not considered to be 'growth' in nature.

3) Limit Financial Risk Exposure

The ~~capital financing program~~Region's debt will be managed in a manner to limit, where practicable, financial risk exposure. It will be the ~~Corporation~~Region's normal practice to issue debt instruments that are denominated in Canadian dollars and where the interest rates will be fixed over their term.

There may be a material financial advantage for the Region to issue debt in a foreign currency and/or with a variable interest rate structure, whereby a hedging strategy will be considered to either reduce or eliminate the risk. Variable interest rate bank loan agreements or debentures cannot exceed 15% of the total outstanding principal of all undertaking or work indebtedness of the Region as authorized by O. Reg. 276/02 s8(2) in the case of bank loan agreements and by O. Reg. 247/01 s3(1) in the case of debentures.

4) Minimize Long-Term Cost of Financing

The timing, type and term of financing for each capital asset will be determined with ~~a view~~due consideration to minimize ~~both its and~~ the ~~Corporation~~Region's overall long-term cost of financing given the constraints of current debt maturities and capital market conditions. Factors to be considered will include: current versus future interest rates; the availability of related reserve monies; the pattern of anticipated revenues or cost savings attributable to the ~~project or purpose~~capital asset; and all costs related to the financing of the ~~project~~capital asset whether by debenture, construction financing ~~or~~, lease financing agreements or other prescribed instruments or agreements.

5) Match the Term of the Capital Financing to the Useful Life of the Related Asset

The maximum term over which a capital asset may be financed is 40 years ~~for social housing assets and 30 years for all other programs unless otherwise specifically approved by Council. In~~. Under no ~~case~~circumstance may the term of financing exceed the anticipated useful life of the related asset. The Region will

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endeavour to maintain intergenerational equity where applicable. The matching of term and useful asset life may be achieved through ~~the~~ re-financing ~~of assets~~.

6) Maintain a ~~Superior Credit Rating~~strong credit rating

The Region's capital financing and debt program will be managed in a manner to maintain ~~a superior rating by a credit rating agency used by the Corporation (e.g. Standard and Poor's, "AAA" rating).~~and seek the highest possible credit rating for the Region without compromising the delivery of services and programs through prudent capital financing and debt management. A key element ~~of~~in maintaining ~~a superior~~the highest possible credit rating will be to ensure that the timing, amount and type of capital financing will be assessed as being appropriate to the long-term needs of the ~~Corporation~~Region as well as being seen as balanced against other forms of financing.

Particular attention shall be paid to the key indicators used by credit rating agencies as part of the debt management ~~process~~processes in order to maintain the ~~Corporation~~Region's credit worthiness. ~~These include, but are not limited to the following:~~

~~a) Debt per capita~~
~~b) Debt charges per capita~~
~~c) Debt charges as a percentage of (own purpose) revenue~~
~~d) Debt charges as a percentage of the municipal levy~~
~~e) Debt to operating revenues~~
~~f) Cash and liquid assets to operating expenditures~~
~~g) Exposure to market risks~~
~~h) Interest rate risk~~
~~i) Currency risk~~
~~j) Use of derivative instruments~~
~~k) Debt maturity profile~~
~~l) Other long-term liabilities~~
~~m) Annual increase in debt in relation to:~~

~~i. Inflation~~
~~ii. Population~~

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~~iii. Assessment growth~~
~~iv. Operating revenue~~

~~Finally, any significant information pertaining to the general economic condition or financial health of the Corporation will be communicated to the rating agency/agencies on a regular and timely basis.~~

~~The Region must adhere to the provincially established limit on the debt that could be issued such that debt charges (principal and interest) cannot exceed 25% of its own source revenue as per Ontario Regulation 403/02 without OMB approval. This is referred to as the Region's "Annual Repayment Limit" and will be monitored and reported annually.~~

D. ~~E.~~ STANDARD OF CARE

All officers and employees responsible for capital financing and debt activities will follow the standard of care identified in this Policy.

1) Ethics and Conflicts of Interest

Officers and employees involved in the capital financing and debt management processes are expected to abide by the ~~Corporation~~Region's Code of Conduct.

In particular they shall:

(a) Refrain from personal business activity that could conflict with the proper execution and management of the capital financing and debt program, or that could impair their ability to make impartial decisions;
(b) Disclose any material interests in financial institutions with which they conduct business;
(c) Disclose any personal financial/investment positions that could be related to the performance of their capital financing duties; and
(d) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Region.

2) Delegation of Authority

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The Chief Financial Officer will have the overall responsibility for the capital financing and debt program of the ~~Corporation. However, the Treasurer will have responsibility for directing/implementing the activities of the capital financing program as well as the establishment of procedures consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for capital financing activities. No person shall be permitted to engage in a capital financing activity except as provided for under the terms of this Policy. The Treasurer will be responsible for all activities undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and exercise control over that staff.~~ Region. Authority to manage and implement the debt management program is granted to the Director, Corporate Finance & Treasurer (Regional Treasurer) and/or the Director, Treasury Services who shall act in accordance with this Policy.

3) Requirements for Outside Advice

The ~~Corporation~~Region's staff will be expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should in their opinion the appropriate level of knowledge not exist for instances such as capital financing transactions that are unusually complicated or non-standard, or as otherwise directed, outside financial and/or legal advice will be obtained.

4) Legal Support

A specific borrowing by-law must be adopted to authorize the issuance of debentures or the entering into of a bank loan agreement for the purpose of capital financing that is covered by this Policy. The Regional Solicitor provides legal advice with ~~regard~~respect to the Regional debt financing transactions and may require that legal advice be obtained from ~~and~~an independent source. ~~This advice would cover the initial proposal and extend to the various contracts and agreements that would have to be executed in conjunction with the transaction.~~

~~The Debt Issuance Syndicate is responsible for retaining external counsel who provides the legal opinion for the investors. The Regional Solicitor works closely with external legal counsel that represents the Debt Issuance Syndicate. It is the responsibility of the Issuer (i.e. the Corporation) to bear the full costs associated with each debt issue including the retention of external legal counsel.~~

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E. ~~F.~~ SUITABLE AND AUTHORIZED FINANCING INSTRUMENTS

The form of financing that meets the objectives listed above will be dependent in part upon its term and the type of capital asset to be financed. For the purpose of this Policy, financial instruments are secured either for a temporary or long-term basis.

1. Temporary Financing

Temporary financing instruments are issued either for operating or capital purposes.~~(a) Temporary Operating Financing is for funding operational needs during the current fiscal year pending the receipt of taxes and other revenues (in accordance with Section 407 of the *Municipal Act, 2001*)~~. Financing may be from one or more of the following sources:

a) ~~i)~~ Reserves and reserve funds loans~~in accordance with Corporate Policy F50-06 "Internal Loans from Reserves and Reserve Funds";~~
~~ii) Borrowing from the lower-tier municipalities in accordance with Corporate Policy F20-02 "Borrowing Between the Region and the Area Municipalities";~~
~~iii) Bank line of credit;~~
~~iv) Short-term promissory notes; and~~
~~v) Bankers' Acceptances.~~

~~(b) Temporary Capital Financing refers to a debt obligation for capital assets that is of an interim nature pending long-term capital financing and:~~

~~i) shall not exceed 50% of the asset life and~~
~~ii) shall not exceed 50% of the period over which the debt is to be repaid. For example, if 20-year debt financing is desired for an asset with a 30-year life then temporary capital financing could be utilized for up to 10 years which is the lesser of 10 years (50% of the 20-year financing term) and 15 years (50% of the 30-year asset life).~~

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~~Financing may be provided from one or more of the following sources:~~

~~**a)** Reserves and reserve funds loans in accordance with Corporate Policy F50-06 "Internal Loans from Reserves and Reserve Funds";**b)** Borrowing from the lower-tier municipalities in accordance with Corporate Policy F20-02 "Borrowing Between the Region and the Area Municipalities"~~;
b) ~~**c)**~~ Bank line of credit;
c) ~~**d)**~~ Short-term promissory notes;
d) ~~**e)**~~ Bankers' Acceptances; and
e) ~~**f)**~~ Government of Canada/Ontario agencies (e.g. Infrastructure ~~and Land Corporation.~~Ontario)

2. Long-Term Financing

The financing of capital assets which is deemed ~~neither~~either as temporary operating ~~and/~~or temporary capital financing may be provided from any of the following sources, subject to the Region's policies:

a) Debenture issuance~~ in accordance with Corporate Policy F20-03 "Debenture Issuance"~~;
b) Reserves and ~~Reserve Funds Loans in accordance with Corporate Policy F50-06 "Internal Loans from Reserves and Reserve Funds";~~reserve funds loans;
c) Borrowing from the ~~lower-tier municipalities in accordance with Corporate Policy F20-02 "Borrowing Between the Region and the Area~~Local Municipalities~~"~~;
d) ~~Long-term Bank Loans if deemed cost effective or otherwise necessary. These loans may be either fixed or variable interest rate loans as determined by the Chief Financial Officer;~~Bank loan agreements;
e) Lease ~~Financing Agreements used when they provide material and measurable benefits compared with other forms of~~ financing agreements; and
f) Tile Drainage Debentures issued on behalf of the ~~lower-tier municipalities~~Local Municipalities to finance the construction of tile drainage systems for agriculture and for those individual farmers who apply and are accepted for financing.

3. Debt Structures

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Debt issued is structured to achieve the lowest possible all-in net cost of funds, subject to the constraints of current debt maturities and the prevailing capital market conditions, while meeting the goals and objectives of the approved borrowing plan. New debt ~~issues will primarily be benchmark size sinking fund bullet maturities denominated in Canadian dollars. The intent is to issue new debt in a size that is consistent (as this provides investors with a clear outlook on the Region's debt issuing plan and assists in the marketing of this new debt, which plays a positive factor in the pricing of new debt issues), but still allows the Region to take advantage of strong borrowing conditions when the opportunities are present.~~will aim to support current and future liquidity and will be undertaken primarily by issuing benchmark size Sinking Fund (Bullet) Debentures.

F. ~~G.~~ FINANCING RISK IDENTIFICATION AND MITIGATION STRATEGIES

It is explicitly recognized that there may be additional risks associated with certain types of financing. It is expected that these risks will be identified and considered prior to their use in relation to other forms of financing that would be available. ~~Also the mitigation strategies discussed below will~~A Bond Forward Agreement can be used to reduce the additional risk when deemed practicable.

~~1) Lease Financing Agreements~~

~~Lease financing shall be undertaken in accordance with Corporate Policies F50-05 "Lease Financing Policy" and B20-01 "Real Property Acquisition & Inventory Management".~~

~~2) Long-Term Bank Loans~~

~~As a source for financing capital works, the Chief Financial Officer shall consider bank loans and recommend to Council that it enters into a bank loan agreement if it conforms to this Policy and achieves the goals of providing a lower cost of funds and flexible terms than other available debt instruments.~~

~~3)~~ Bond Forward Agreements - Hedging Instruments Related to Debt Issuance

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~~Ontario regulation~~O. Reg. 653/05 introduced the use of instruments to manage the cost or risk associated with the fluctuations in interest rates. ~~Bond Forward Agreements are contracts where two parties (e.g. Bank and the Region) agree today on the interest rate level that will apply to a certain amount of debt in the future. By entering into this agreement~~By entering into a Bond Forward Agreement, the risk of higher interest rates between "today" and the "future" date when the actual debt will be issued, is ~~eliminated. Essentially,~~reduced. Bond Forward Agreements allow the Region to "lock in" future ~~rates of~~ interest~~.Although the interest rate is known at the time of the agreement, the Region runs the risks of opportunity losses. Since the Region has already agreed on a future interest rate based on today's interest rate, the Region might have to forgo a lower interest rate at the actual time of debt issuance should the interest rate decrease between the time of the agreement and the time the money is raised~~ rates.

In order to balance the benefits and ~~opportunity~~ risks of Bond Forward Agreements, the following ~~guidelines would be adhered to:**a)** Requirements~~requirements under O. Reg. 653/05 ~~including~~would be adhered to:

i) ~~Contracts cannot exceed 180 days or the term of any temporary borrowing whichever is shorter.~~The term of the Bond Forward Agreements must comply with the prescribed requirements.

ii) The ~~forward amount~~total value of the principal of the government debt instruments that are the subject of the Bond Forward Agreement may not exceed the expected principal amount ~~to be borrowed.**b)** Contracts should only be used on a cash-match basis where the cash value of the principal of the debt instruments to be borrowed and sold does not exceed (i.e. matches) the total value of the cash principal of debentures to be transacted.**c)** Contracts should only be used when the bond forward premium plus the current yield is less than the mean and median of the latest interest rate forecast issued by the Debt Syndicate for the same period and term.~~of the debentures to be issued.

In the event that debentures are being issued on behalf of a ~~lower-tier municipality~~Local Municipality and that municipality wishes some or all of ~~those funds~~the principal of such debentures to be included in a Bond Forward Agreement ~~that the Region has decided to enter into, then the Region and the lower-tier~~

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~~municipality shall enter into an agreement regarding the sharing of the costs and benefits of~~, the Region will need to ensure that the relevant sections of the applicable legislation and/or regulations are adhered to and that such municipality agrees to reimburse the Region for any costs related to the Bond Forward Agreement, including ~~any profit or loss. The Treasurer of the lower-tier municipality shall certify that section 3 of O. Reg. 653/05 has been and section 4 of O. Reg. 653/05 will be applied by the lower-tier municipality. The lower-tier and Regional Councils shall have approved by-laws per section 2(1) of O. Reg. 653/05 and the lower-tier Treasurer shall specify the value of government debt instruments for~~ administration costs.

~~their portion of the Bond Forward Agreement which shall not exceed the value of the principal of the debentures being raised for that lower-tier's purposes and the term of temporary capital borrowing by the lower-tier shall not exceed the Bond Forward Agreement term.~~

G. ~~H.~~ METHODS OF MARKETING/SELLING DEBENTURE ISSUES

Debenture securities may be sold by the following means:

a) ~~1)~~ Debt Issuance Syndicate. ~~The use of an Debt Issuance Syndicate will be the normal method by which debentures will be sold by the Corporation; or~~
b) ~~2)~~ Tender. ~~A tender process may be used when and if significant savings could be expected when compared to issuing through a Debt Issuance Syndicate; or~~
c) ~~3)~~ Bought Deal/Private Placement. ~~This may be appropriate for "one off" or unusual financing structures when significant savings would be expected or when market conditions are especially volatile or otherwise difficult market conditions exist.~~

~~I. DEBT ISSUED INTERNALLY~~

~~1. Purpose~~

~~To establish the requirements for short-term and long-term financing of capital projects internally through loans from reserves and reserve funds if deemed cost~~

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~~effective or otherwise necessary. It is recognized that reserves and reserve funds are for a defined purpose and must be available when that purpose occurs or requires them. For the purpose of this section of the Policy the 'lender' is the Corporation and the 'borrower' is one of the programs responsible for the delivery of service at the Region of Peel.~~

~~2. **Council Approval**~~

~~The Region has the general power pursuant to Section 417 of the *Municipal Act, 2001*, S.O. 2001, c. 25 to apply reserve funds to a purpose other than that for which the fund was established. This includes the making of an internal loan from reserve funds in order to finance capital projects of the Region.~~

~~Capital projects are funded from a variety of sources such as grants, donations and financing which includes internal loans. Financing can be obtained from a mix of internal and external funds and can be short-term or long-term.~~

~~Any funding provided by the Region requires approval from Regional Council. On an annual basis and for the coming fiscal year, the Chief Financial Officer will approve a maximum amount of new internal loans that may be submitted to Regional Council for approval.~~

~~3. **Loan Requirements**~~

~~For the approval of each internal loan the specific details must, at a minimum, include the following:~~

~~a) start date;~~
~~b) loan type;~~
~~c) loan amount;~~
~~d) loan period;~~
    ~~i) The maturity date must be limited to the lifetime of the project or 40 years, whichever is lower.~~
~~e) term date;~~
    ~~i) The borrower may choose to make the term date the same as the loan period.~~

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~~f) loan rate;~~

~~i) The loan rate will reflect the Region's all-in cost of funding for a similar term and structure at the time of the actual loan, as determined by the Treasurer. The loan rate will reflect the most recent all-in rate that was set when the Region issued debt through the Debt Issuance Syndicate, if the internal loan is similar in type of loan and term. However, due to changing market conditions this is all-in rate may be adjusted to reflect the current interest rate environment. Otherwise, all other loans will be determined by estimating a Region of Peel issue spread over Government of Canada issued debt and will include an administrative fee expressed in percentage points.~~

~~ii) For Open and Instalment Loans, the loan rate will be applied monthly on the outstanding principal amount.~~

~~iii) For amortizing loans, the loan rate will be renewed at the term date until the end of the loan period. At each term date, an amortization schedule will be provided.~~

~~g) repayment frequency;~~

~~h) special loan provisions;~~

~~i) Special provisions, such as interest free periods and discounted interest rates are strongly discouraged. Any such requests must first be approved by the Chief Financial Officer. Special requests have an impact upon administrative complexities and make ongoing loan administration cumbersome. These loans will incur an increase to the administrative charge, reflected by an addition to the loan rate as expressed in percentage terms.~~

~~Borrowers entering into loan arrangements will be responsible for repayments of principal and interest as per the structure approved by Regional Council and recorded in the appropriate legal documentation.~~

~~4. **Legal Documentation**~~

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~~Upon full approval, Legal Services must be consulted to determine the appropriate legal documentation required between the Lender and the Borrower.~~

~~The legal documentation must include:~~

- ~~a) The resolution number and date of the associated Council report.~~
- ~~b) The specific details of the internal loan as agreed to by the Chief Financial Officer.~~
- ~~c) The Director of the requesting department must provide sign-off of the loan request.~~

~~5. Administration~~

~~The Senior Treasury and Portfolio Manager must review the legal documentation to ensure all relevant terms are included.~~

~~At the time of the actual funding, the loan rate will be determined by the Treasurer.~~

~~During the term of the loan, the Treasurer will prepare and provide to the borrower regular updates on the principal and interest paid and outstanding balances.~~

H. ~~J.~~ DEBT ISSUED ON BEHALF OF OTHER ~~JURISDICTIONS~~ENTITIES

1. Purpose

Council may approve the issuance of debentures for the purposes of its ~~lower-tier municipalities~~Local Municipalities provided:

(a) They are used for capital projects approved by the ~~lower-tier municipality~~Local Municipality;
(b) The term of the financing is in excess of one (1) year;
(c) It has received satisfactory evidence of approval authority and statutory compliance. Accordingly, the Treasurers of the ~~lower-tier municipalities~~Local Municipalities must provide to the ~~Corporation~~Region at the time of their

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financing request, an updated ~~Debt and Financial Obligation Limit~~ARL for their respective municipality and attest to the validity of the calculation in order to ensure compliance under the regulations of the *Municipal Act*~~.~~*, 2001.* As well, mandated approvals from provincial ministries, if necessary, and the council of the ~~lower-tier municipality~~Local Municipality will be required prior to Regional Council granting financing approval; and

(d) The ~~lower-tier municipalities~~Local Municipalities assume their responsibility for the Debt Issuance Syndicate costs related to the issuing of debentures on their behalf and that all other miscellaneous connected costs such as legal fees, banking and trustee fees be borne by the Region and be levied through the General Levy ~~to the lower-tier municipalities~~imposed on the Local Municipalities.

As the ~~lower-tier municipalities~~Local Municipalities are required by section 401(3) of the *Municipal Act, 2001* to issue debentures through the Region, all debentures issued under a debenture by-law passed by the Region are direct, joint and several obligations of the Region and the ~~lower-tier municipalities (403.7). The Act (403.6 and 403.8) stipulates~~Local Municipalities (s.403(7)). Pursuant to sections 403(6) and 403(8) of the Act interest charges and ~~recovery of outstanding~~other amounts to be paid by the ~~lower-tier municipality~~Local Municipality to the Region that ~~is~~are in default may be recovered by the Region as part of the General Levy imposed on the Local Municipalities.

2. Advising the Region of Borrowing Needs

To ensure effective long-term financial planning, including prudent debt issuance and well -co-ordinated and managed investor communications through the ~~Investment~~Debt Issuance Syndicate, the ~~lower-tier municipalities~~Local Municipalities' Treasurers are required to provide to the Regional Treasurer an external debt forecast identifying anticipated borrowing (within a range of plus or minus $25 million per each municipality) 18 months in advance of the date the funds are required. The anticipated borrowed amounts are to be further confirmed (within a range of plus or minus $5 million per each municipality) within six months of when the funds are required.

I. ~~K.~~ FINANCIAL GUARANTEES AND LETTERS OF CREDIT

Financial guarantees and/or letters of credit provided by the ~~Corporation~~Region, its boards and subsidiaries will be considered ~~as~~ debt and will be governed by this Policy.

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SUBJECT: DEBT MANAGEMENT

J. ~~L.~~ DEBT ISSUANCE COMMITTEE

~~Region~~Regional Council has delegated (By-law 26-~~2011~~2011, as amended) to the Debt Issuance Committee the authority to enact by-laws to authorize debentures, financial instruments and financial agreements including, for temporary borrowing~~,~~ in the form of promissory notes, bankers acceptances ~~or~~and loan agreements, and for long-term borrowing~~,~~ in the form of debentures and bank loan agreements, and to execute all documents necessary to give effect to the foregoing. ~~The~~ By-law 26-2011, as amended, establishes the membership, responsibilities and reporting requirements of the Committee.

K. ~~M.~~ SINKING/RETIREMENT FUND DEBENTURES

The Sinking Fund Committee establishes the investment guidelines and ensures that adequate funds are available to retire the debt at its maturity. The Committee will consist of the Regional Treasurer and the Treasurers of the ~~lower-tier municipalities~~Local Municipalities or their appointees and will meet at least annually. The Committee will be chaired by the Regional Treasurer and the role of the other members will be to provide advice.

L. ~~N.~~ DEBT RETIREMENT RESERVE AND RESERVE FUND

Council may authorize ~~contribution~~contributions to a debt retirement reserve or reserve fund to fully or partially fund the ~~purchase~~repayment of outstanding debt prior to or on maturity or otherwise offset the ~~funding~~repayment requirements related to debt.

M. ~~O.~~ REPORTING REQUIREMENTS

In addition to any information requested by Council or that the Chief Financial Officer considers appropriate, the ~~following reports will be provided:~~ Regional Treasurer, in accordance with legislative requirements, will submit to Council all applicable reports.

~~(1) The Treasurer shall submit to the Debt Issuance Committee a report or reports that:~~

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~~(a) Requests authority for temporary borrowing up to a stipulated amount to meet day-to-day expenditures, pending receipt of tax levies, user fees and revenues anticipated during the year;~~
~~(b) Requests authority, if required to finance certain capital items detailing for each type of item the amount and the maximum term of financing; and~~
~~(c) A report detailing any bond forward agreements undertaken, comparing expected and actual results during the period and a statement by the Treasurer indicating whether all bond forward agreements are consistent with policies.~~

~~(2) The Treasurer shall submit to Council a report or reports that:~~

~~(a) Requests authority for a maximum amount to be borrowed in the fiscal year to finance capital expenditures;~~
~~(b) States the sum, if any, that must be raised for sinking fund and/or debt retirement purposes in that year;~~
~~(c) States activity within the debt retirement reserve fund(s) within the fiscal year;~~
~~(d) States the performance results of the Treasury section over the fiscal year;~~
~~(e) States information pertaining to finance leasing consistent with and as stipulated in Policy F50-05, as required; and~~
~~(f) A report detailing any pre-existing variable interest rate bank loan agreements and any pre-existing interest rate exchange agreements applicable to them.~~

N. ~~P.~~ RESPONSIBILITIES

Officers and staff of the ~~Corporation~~Region in complying with this Policy shall have the necessary authority to carry out the responsibilities and duties identified within the Policy.

The Regional Treasurer, and the Chief Financial Officer ~~has~~have overall responsibility for the advice and reporting relating to financial management that is provided to Regional Council and for overseeing the implementation of this Policy.

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This Policy is implemented through the execution of the following specific responsibilities as identified:

1. The Director, Corporate Finance & Treasurer (the Regional Treasurer):

a) Calculates the updated ARL for the Region as prescribed by the *Municipal Act, 2001;*
b) May execute and sign documents on behalf of the Region and perform all other related acts with respect to the issuance of debt securities;
c) Reviews and recommends to Council the financial and business aspects of any material lease agreements including capital financing leases and transactions; and
d) Signs debentures.

2. Director, Treasury Services

a) Reviews and recommends the type and term of financing for capital projects and operating requirements;
~~b) Calculates the financial debt and obligation limit for the Corporation as prescribed by the *Municipal Act*, *2001*;~~
b) ~~c)~~ In consultation with the lead(s) of the Debt Issuance Syndicate, approves the timing and structure of debt issues;
c) ~~d)~~ Coordinates the preparation of debt issue by-laws for the Debt Issuance Committee;
~~e) May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities;~~
d) ~~f)~~ Liaises and assists credit rating agencies in the evaluation of the credit worthiness of the ~~Corporation'~~Region's debt securities; and
~~g) Reviews and recommends to Council the financial and business aspects of any material lease agreements and transactions;~~
e) ~~h)~~ Ensures all reporting requirements identified within this Policy are met~~; and~~.
~~i) Signs debentures.~~

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3. ~~2.~~ Regional Chair ~~of Council~~

The Regional Chair may execute and sign documents on behalf of the ~~Corporation~~Region with respect to the issuance of debt securities and shall sign debentures.

4. ~~3.~~ Regional Clerk

The Regional Clerk may certify and sign documents on behalf of the ~~Corporation~~Region with respect to the issuance of ~~debt securities~~debentures.

~~Q~~O. POLICY REVIEW

~~In order to maintain the guidance provided through this policy as being effective and relevant the~~The Policy will be reviewed at a minimum ~~of~~ every ~~four years~~year by the ~~Treasurer~~Director, Treasury Services and be updated as deemed ~~as~~ appropriate.

CONTACT:
~~Senior~~ Treasury ~~and~~ Portfolio Manager(s)

P. ~~R.~~ REFERENCE:

Municipal Act, 2001, S.O. 2001, c. 25 ~~Sections 405(1), 407(1), 408(3, 4), 409(2)~~ ~~*Local Improvement Act*, R.S.O. 1990, c.L.26, Section 53(2~~Part XIII (Debt and Investment)
Tile Drainage Act, R.S.O. 1990, c.T.8, Section 2(1)
Ontario Regulation 247/01 ~~-~~ – Variable Interest Rate Debentures and Foreign Currency Borrowing
~~Ontario Regulation 266/02 - Financing Leases for Municipal Capital Facilities~~
Ontario Regulation 276/02 ~~-~~ – Bank Loans
Ontario Regulation 278/02 - Construction Financing
Ontario Regulation 403/02 – Debt and Financial Obligation Limits
Ontario Regulation 586/06 – Local Improvement Charges – Priority Lien Status
Ontario Regulation 603/06 – Municipal and School Capital Facilities – Agreements and Tax Exemptions
Ontario Regulation 653/05 ~~-~~ – Debt -Related Financial Instruments and Financial Agreements

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Corporate Policy F20-02 - "Borrowing Between the Region and the Area Municipalities"
Corporate Policy F20-03 - "Debenture Issuance"
Corporate Policy F50-05 - "Lease Financing Policy"
Corporate Policy F50-06 - "Internal Loans from Reserves and Reserve Funds"
Corporate Policy B20-01 - "Real Property Acquisition & Inventory Management"
Regional By-law 26-2011 - "A By-law to Establish a Debt Issuance Committee"

Q. GLOSSARY

Amortizing Loan: A loan that has a blended payment of principal and interest that is the same for each repayment period.

Benchmark Bond: A bond that provides a standard against which the performance of other bonds/debentures can be measured.

Bond Forward Agreement: Contracts where two parties (e.g. Bank and the Region) agree today on the interest rate level that will apply to a certain amount of debt in the future.

Bought Deal: A financing transaction, such as a debenture issue, in which an individual underwriter or underwriting group purchases the entire amount in order to resell to investors.

Bullet Debentures: A debt instrument whose entire principal value is paid all at once on the maturity date, as opposed to amortizing the principal payments over the debt instrument's lifetime.

Capital Financing: A generic term for the financing of capital assets. Although this can be achieved through the use of a variety of funding sources, for the purposes of this Policy it is assumed to mean the use of debt.

Credit Rating: A rating assigned by a credit rating agency (e.g. Standard and Poor's or Moody's) to the creditworthiness of a municipality's debt. The rating assesses the financial strength of a municipality and assists investors in making a determination of the likelihood that the municipality will pay the debt service payments in a timely fashion and more importantly repay all outstanding obligations including principal at maturity.

Debenture: A formal written obligation to repay specific sums on certain dates. In the case of a municipality debentures are typically unsecured.

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Debt and Financial Obligation Limit: A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing (MMAH) that determines the maximum amount of new annual long-term debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Local Planning Appeal Tribunal (LPAT). The Treasurer is to calculate and report annually to MMAH in respect of financial information based on which the MMAH will determine the ARL as required by the legislation and related regulations. Additionally, the Treasurer shall calculate an updated ARL using the most recent ARL determined by the MMAH and provide this to council before council authorizes any capital asset or any increase in expenditures for a capital asset requiring long-term debt.

Debt: Any obligation for the payment of money. For Ontario municipalities, debt would normally involve the issuance of debentures as well as either notes or bankers' acceptances from financial institutions but could also include loans from reserves in addition to other prescribed instruments and agreements.

Debt Issuance Committee – a committee formed by Regional Council in accordance with By-law 26-2011 (as amended) delegating authority to the Debt Issuance Committee to make final decisions with respect to the issuance of debentures and the entering into of bank loan agreements where the project debt authority has been approved by Council with one or more debt issues and to finalize the terms and conditions of such debt issues.

Financial Guarantee: An agreement whereby the Region will take responsibility for the payment of debt in the event that the primary debtor fails to perform.

Joint and Several: An obligation that may be enforced against all obligors jointly or against any one of them separately.

Lease Financing Agreements: A lease allowing for the provision of municipal capital facilities if the lease may or will require payment by the Region beyond the current term of Council.

Letter of Credit: A binding document from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase (debt).

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Long-Term Bank Loan: Long-term debt provided by a bank or a syndicate (group) of banks.

Long-Term Debt or Financing: Any debt which is deemed not be either temporary operating or temporary capital and extends beyond the term of Council.

Local Municipality: The Corporation of the City of Mississauga, The Corporation of the City of Brampton and The Corporation of the Town of Caledon, each of which is a lower-tier municipality of the Region (area municipality has the same meaning as lower-tier municipality).

Municipal Capital Facilities: Includes land, as defined in the *Assessment Act*, works, equipment, machinery and related systems and infrastructures.

Region: Refers to The Regional Municipality of Peel.

Retirement Fund Debentures: Debentures that contain a retirement fund provision pursuant to which the issuer has undertaken to annually pay on a fixed date, funds into a retirement fund for the repayment of the principal at maturity on the basis that the annual payments into the retirement fund will commence after the principal of the other debentures issued under the same debenture by-law becomes payable.

Temporary Debt or Financing: Any debt which is consistent with the definition of temporary operating or temporary capital financing (see Section E, subsection 1).

Sinking Fund Debentures: A long-term debt instrument that contains a sinking fund provision pursuant to which the issuer has undertaken to annually pay on a fixed date, funds into a sinking fund for the repayment of the principal at maturity.

Sinking Fund Committee: A committee that a municipality may establish consisting of the municipality's Treasurer as the chair and any number of other persons appointed by Council who are responsible for the management of Sinking Fund Debentures.

Syndicate or Debt Issuance Syndicate: The debt issuance syndicate is a group of financial institutions that undertakes the promotion and marketing and the possible purchase of debt issued by the Region to investors for an agreed upon percentage as a fee.

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Tender: A process whereby formal bids are submitted to purchase debt securities or to provide a lease.

Tile Drainage Debentures: Debentures issued to finance the construction of a tile drainage system for agricultural land

APPROVAL SOURCE:	~~Resolution: 2011-894~~Provided by issuer &/or Clerk's, Legislative Services
ORIGINAL DATE:	Provided by original issuer
LAST REVIEW DATE:	~~September 22, 2011~~Provided by issuer
LAST UPDATE:	~~September 22, 2011~~Provided by issuer
EFFECTIVE DATE:	~~September 22, 2011~~Provided by issuer
RESPONSIBILITY:	~~Financial Policy & Development~~Department/Division/Section - provided by issuer

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Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	284
Deletions	327
Moved from	51
Moved to	51
Style change	0
Format changed	0
Total changes	713

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Corporate Policy

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CATEGORY: **FINANCIAL MANAGEMENT**

SUBCATEGORY: **DEBT/INVESTMENT MANAGEMENT**

SUBJECT: **DEBENTURE ISSUANCE**

A. PURPOSE

This policy describes the issuance of debentures.

B. GENERAL

The Regional Municipality of Peel is guided by the *Municipal Act, 2001* (the "*Municipal Act* ") in the issuance of debentures, and is comprised of local municipalities, being the City of Mississauga, the City of Brampton and the Town of Caledon, and are referred to herein as "area municipalities".

As provided for in the *Municipal Act*, area municipalities do not have power to issue debentures. Under the provisions of the *Municipal Act*, the powers of The Regional Municipality of Peel (the "Regional Corporation") are exercised by the Council of the Regional Corporation (the "Regional Council"), which Council has the sole right to issue debentures on the credit of the Regional Corporation for the purposes of the Regional Corporation, of an area municipality and the joint purposes of two or more area municipalities.

C. RESPONSIBILITIES

1. *By-law Number 50-74* authorizes the Chief Financial Officer (CFO) and Commissioner of Corporate Services to give the Regional Corporation's consent to debenture issue requests from area municipalities providing that:

   a) such requests will not exceed the particular area municipality's most recent updated annual debt and financial obligation limit in accordance with *Municipal Act,* Ontario Regulation 403/02 and

   b) the area Finance Department give particulars of the amount, purpose, term and when the monies would be required, and also supply any other necessary material information.

D. PROCEDURE

1. The CFO and Commissioner of Corporate Services receives a request from the area municipality to issue debentures. This request is followed by a certified true copy of the area municipality's by-law authorizing the issuance of debentures for the specified project(s) as well as a certificate signed by the Treasurer of the area municipality stating that such requests will not exceed the area municipality's most recent updated annual debt and financial obligation limit in accordance with the *Municipal Act*, Ontario Regulation 403/02.

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SUBJECT: **DEBENTURE ISSUANCE**

2. Regional Council authorizes the CFO and Commissioner of Corporate Services to negotiate the issuance of debentures.

3. The CFO and Commissioner of Corporate Services contacts the lead manager to negotiate the issuance of debentures.

4. As approved by **Council Resolution 94-354-9,** with each succeeding debt issue, the lead manager role rotates among the managers in the syndicate (ScotiaMcLeod Inc., CIBC Wood Gundy, RBC Dominion Securities Inc.).

5. The lead manager appoints a legal firm to act as counsel.

6. Regional Council passes a by-law(s) authorizing the issuance of debentures on behalf of the area municipality. The by-law contains the amount, purpose, term and repayment schedule.

7. The by-law(s) are registered at the land registry office.

8. The Regional Clerk signs a declaration and a certificate to the declaration.

9. The CFO and Commissioner of Corporate Services signs the Certificate of Signature and No Litigation, Certificate of Delivery and Borrowing Powers, Certificate of Registrar, Certificate of Payment of the Region, Certificate of the Treasurer and Commissioner of Finance of the Region, Letter of Representations, and the global debenture certificate.

10. The Regional Chair signs the Letter of Representations and the global debenture certificate.

11. The Clerk of the area municipality signs a declaration and a certificate to the declaration.

12. The external legal counsel prepares their legal opinion.

13. On the day of closing, the global debenture certificate is delivered to The Canadian Depository for Securities Limited and the proceeds from the sale are received and distributed to the area municipality.

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SUBJECT: **DEBENTURE ISSUANCE**

APPROVAL SOURCE:	*By-law 50-74;* **Council Resolution 94-354-9;** *By-law 63-2007, By-law 38-2009*; ACP 10-04,
ORIGINAL DATE:	April 1974
LAST REVIEW DATE:	July 14, 2009
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