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**REPORT TITLE: Debt Management Policy and Update**

**FROM:** Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services

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## **RECOMMENDATION**

**That the proposed amended Debt Management Policy (F20-06), attached as Appendix I to the report of the Chief Financial Officer and Commissioner of Corporate Services, as listed on the November 18, 2021 Audit and Risk Committee agenda, titled “2021 Debt Management Policy and Update”, be approved.**

## **REPORT HIGHLIGHTS**

- The Debt Management 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 recommended amendments for this policy review period can be categorized as an enhancement to the current governance structure.
  - It is expected that sinking fund EB will have an estimated surplus of \$1.25 million at maturity on December 1, 2021.
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## **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’s 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.

The Region’s Policy has been developed 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. An update on the Region’s current debt status, its credit rating and legislative requirements is as follows:

## Debt Management Policy and Update

### a) Region of Peel Debt – Current Status (unaudited)

As at September 30, 2021, the total long-term debt outstanding for the Region amounted to \$2,006 million. This consists of \$1,774 million for Regional purposes and \$232 million issued on behalf of its local municipalities with \$416 million set aside in sinking funds and principal repayments. The \$1,774 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 September 30, 2021, the total outstanding DC funded debt for the Region was \$1,593 million;
- ii) Growth/Non-Development Charge funded infrastructure: As at September 30, 2021, \$81 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 \$100 million at the end of September 2021. 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*, as amended, 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 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 passu* 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 Ontario Land Tribunal.

## **Debt Management Policy and Update**

### **2. Policy Amendments**

The Policy was last revised in the Fall of 2020. As required by the Policy, a review will be conducted at a minimum every year by the Director, Treasury Services and updated as deemed appropriate. 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.

The amendments to the Policy align with internal strategies and industry best practices and can be categorized as an enhancement to the governance structure.

#### **a) Governance Structure Enhancement**

The Chief Financial Officer and Commissioner of Corporate Services, and the Regional Treasurer are responsible for advising and reporting to Regional Council on matters related to financial management and for overseeing the implementation of the Debt Management Policy. As part of the annual review, staff have identified that the authority to select the Region's debt syndicate membership is not currently established by any policy or legislation.

The Region's debt syndicate is composed of a select group of financial institutions that support the Region in the placement of debt securities with investors. Historically, staff have obtained Council approval at the start of each term of Council. Staff engaged in discussions with other municipalities and determined that there is no standard in the sector. Given the operational nature of the selection of the debt syndicate membership, staff recommend that the approval authority be delegated to the Chief Financial Officer and Commissioner of Corporate Services and/or the Regional Treasurer and the changes are reflected in the Policy attached as Appendix I. Explicitly stating this authority in the Policy removes any risk of uncertainty or confusion. Staff will confirm the composition of the Region's debt syndicate membership each year through the annual Treasury report to Regional Council.

### **3. Sinking Fund EB Surplus**

Sinking fund series EB matures on December 1, 2021. It is expected that sinking fund series EB will have a surplus of approximately \$1.25 million. As per section s.410 of the *Municipal Act*, the Region's Sinking Fund Committee has the authority to manage the sinking funds and any excess.

## **RISK CONSIDERATIONS**

There are no risks or financial implications associated with the recommendations made in the report. The approval of the amendments to the Policy will ensure that the debt management program will be prudently managed in support of the Region's operating and infrastructure needs.

## **Debt Management Policy and Update**

### **CONCLUSION**

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)

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