
CATEGORY: FINANCIAL MANAGEMENT

SUBCATEGORY: FINANCIAL PLANNING

SUBJECT: DEBT/INVESTMENT MANAGEMENT POLICY

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.

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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;

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- (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.

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

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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.

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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.

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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 and Commissioner of Corporate Services 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.

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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.

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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 or Serial Debentures, through the Region of Peel's Syndicate. The membership of the Region's Syndicate is reviewed periodically.

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.

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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.

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2. Advising the Region of Borrowing Needs

To ensure effective long-term financial planning, including prudent debt issuance and well-coordinated 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.

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M. REPORTING REQUIREMENTS

In addition to any information requested by Council or that the Chief Financial Officer and Commissioner of Corporate Services 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 Chief Financial Officer and Commissioner of Corporate Services and the Regional Treasurer 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.

The selection of the Syndicate members is the responsibility of the Chief Financial Officer and Commissioner of Corporate Services and/or the Regional Treasurer.

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) In consultation with the lead(s) of the Debt Issuance Syndicate, approves the timing and structure of debt issues;

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- 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;
 - e) Periodically review and recommend changes to the Syndicate membership; and;
 - f) 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)

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"

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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

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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).

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

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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.

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.

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APPROVAL SOURCE:	Resolution 2011-894, Resolution 2020-790
ORIGINAL DATE:	September 22, 2011
LAST REVIEW DATE:	October 5, 2021
LAST UPDATE:	October 5, 2021
EFFECTIVE DATE:	September 17, 2020
RESPONSIBILITY:	Corporate Services/Corporate Finance/Treasury Services