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**REPORT TITLE: Debt Management Policy**

**FROM:** Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

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**And further, that the Debenture Issuance Policy (F20-03), attached as Appendix II, be repealed.**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

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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 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 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

## **Debt Management Policy**

- 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;

## Debt Management 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)

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*For further information regarding this report, please contact Julie Pittini, Director Treasury Services, Ext. 7120, [julie.pittini@peelregion.ca](mailto:julie.pittini@peelregion.ca)*

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***Reviewed and/or approved in workflow by:***

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.



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N. Polsinelli, Interim Chief Administrative Officer