

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.~~

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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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~~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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~~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 ~~ease~~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 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.

L ~~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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J. ~~L.~~ DEBT ISSUANCE COMMITTEE

~~Region~~Regional Council has delegated (By-law 26-~~2014~~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.

QO. 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 <u>Provided by issuer &/or Clerk's, Legislative Services</u>
ORIGINAL DATE:	Provided by original issuer
LAST REVIEW DATE:	September 22, 2014 <u>Provided by issuer</u>
LAST UPDATE:	September 22, 2014 <u>Provided by issuer</u>
EFFECTIVE DATE:	September 22, 2014 <u>Provided by issuer</u>
RESPONSIBILITY:	Financial Policy & Development <u>Department/Division/Section - provided by issuer</u>

Appendix II

Debt Management Policy

Document comparison by Workshare 9.5 on March 27, 2020 2:38:11 PM

Input:	
Document 1 ID	file:///SAFE1/Safe1Folders/11432/Desktop/J.Pittini/F20-06 - Debt Management - Original.doc
Description	F20-06 - Debt Management - Original
Document 2 ID	file:///SAFE1/Safe1Folders/11432/Desktop/J.Pittini/F20-06 - Debt Management Policy - Clean.docx
Description	F20-06 - Debt Management Policy - Clean
Rendering set	Standard

Legend:	
<u>Insertion</u>	
Deletion	
Moved from	
<u>Moved to</u>	
Style change	
Format change	
Moved deletion	
Inserted cell	
Deleted cell	
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