

# Capital Financing and Debt Policy

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## Policy Statement

A policy governing the use and administration of capital financing and debt.

## Application

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

## Purpose

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

## Definitions

**Amortizing Debentures:** Debentures for which the total annual payment (principal and interest) is approximately even throughout the life of the debenture issue.

**Annual Repayment Limit (ARL):** For the purpose of this Policy it has the same meaning as the Debt and Financial Obligation Limit

**Area Municipality:** Any municipality located within the Region of York.

**Banker's Acceptance:** A short-term credit obligation created by a non-financial firm such as the Corporation and guaranteed by a bank as to payment.

**Bond Forward Agreement:** A financial contract with an eligible Schedule I, II or III bank used to hedge future interest rates by short selling a particular Government of Canada or Province of Ontario bond and repurchasing the same bond at a predetermined future settlement date. A settlement payment may be required by either the issuer or the bank if there is a difference between the price at which the government debt instruments are sold and the price at which they are bought back on the settlement date.

**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 (capital works or capital projects) using debt, financing leases, swaps and other derivatives.

**Construction Financing:** A form of debt financing in which the issuer does not pay any principal and/or interest for a period up to 5 years during the construction or rehabilitation of a capital asset.

**Corporation:** Refers to the Corporation of The Regional Municipality of York.

**Cross-Border Lease:** A lease in which the lessor and lessee are located in different countries, and where the holder of legal title to the asset can claim tax benefits in its home country, while the tax laws of the asset user treat it as owner for tax purposes in its own country.

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

**Debenture Committee:** A committee established by Regional Council on September 23, 2010 through enactment of Bylaw No. 2010-69 which has the authority to enact Debenture Bylaws under the Terms of Reference contained in that bylaw.

**Debt and Financial Obligation Limit:** A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing 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 Land Tribunal. **For purposes of this Policy, it has the same meaning as the Annual Repayment Limit.**

**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. Debentures issued to Infrastructure Ontario are also considered as debt.

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

**Foreign Currency Debentures:** Debentures that are denominated or payable in a foreign currency. In Ontario, a municipality is permitted to issue debentures denominated in Dollars of Australia, Yen of Japan, Francs of Switzerland, Sterling money of the United Kingdom, Dollars of the United States of America and the euro currency adopted by member states of the European Union.

**Foreign Currency Exchange Agreements:** An agreement entered into with a financial institution to fix the rate of exchange for future payments made in a foreign currency.

**Growth-related Cost Supplement:** A supplement to the Debt and Financial Obligation Limit equal to 80 per cent of the average of the previous three calendar years of development charge collections.

**Growth-related Debt and Financial Obligation Limit:** The limit imposed by the Province with respect to the Corporation's debt and financial obligation payments comprised of the total of the Debt and Financial Obligation Limit and the Growth-related Cost Supplement.

**Hedging:** A strategy used to offset or mitigate currency and/or interest rate risk.

**Instalment (Serial) Debentures:** Debentures of which a constant portion of the principal matures each year throughout the life of the debenture issue.

**Interest Rate Exchange Agreements:** An agreement entered into with a financial institution to fix the future rate of interest paid on a variable rate debenture or long-term bank loan.

**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 Corporation beyond the current term of Council.

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

**Long-Term Debt:** Any debt for which the repayment of any portion of the principal is due beyond one year.

**Long-Term Debt Management Plan:** A plan to be adopted or affirmed by Regional Council as part of the Corporation's annual budget to comply with Ontario Regulation 403/02 to access the Growth-related Cost Supplement.

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

**Non-Material Leases:** A class of financing leases in which the annual payment for individual leases will be less than \$250,000 and as a class does not exceed one percent (1%) of the Corporation's net tax levy; or the net present value of the annual payments is less than \$2 million for the term of the lease agreement, including possible extensions or renewals for which approval to extend or renew has been delegated to an officer of the Corporation.

**Ontario Infrastructure and Lands Corporation (IO) or its successor organization:** Any entity established by the Province of Ontario to provide Ontario municipalities, universities and hospitals access to alternative financing and procurement service and to longer-term fixed rate loans for the building and renewal of public infrastructure.

**Project Financing:** Financing in which principal and interest payments are structured so as to more closely match the revenues or cost savings of a specific project. Also includes financing for which the lender, in the case of default, would have no or limited recourse to the issuer beyond the assets purchased with the proceeds of the financing.

**Refinancing:** As applied to debentures, describes the process of retiring existing debt by issuing new securities to either reduce the interest rate or extend the maturity date or both.

**Rent:** A payment made by the Region in respect of property which will be used for the Region's purposes and for which a formal ownership transaction does not take place. Rent includes all payments made to the owner of the property.

**Retirement Fund Debentures:** Debentures for which money is deposited at least annually, commencing several years after the issuance of the other debentures, issued under the same debenture bylaw becomes payable provided that such deposits shall be deposited into a separate custodial account that when combined with interest and other revenue earned thereon, if any, is used to redeem the debentures.

**Rolling Stock:** Equipment that moves on wheels used for transportation and/or transit purposes. Examples include subway cars, trucks, buses and tractor trailers.

**School Board:** Any school board which has jurisdiction within the Region of York.

**Short-Term Debt:** Any debt for which the repayment of all the principal is due within one year.

**Sinking Fund Committee:** A committee consisting of the Corporation's Commissioner of Finance and Regional Treasurer and other persons appointed by Council who are responsible for the management of the sinking and/or retirement funds.

**Sinking Fund Debentures:** Debentures for which money is deposited at least annually into a separate custodial account that when combined with interest and other revenue earned thereon, if any, is used to redeem the debentures.

**Syndicated Bank Loan:** A loan between the Corporation and a bank listed in Schedule I, II or III of the Bank Act (Canada), a loan or trust corporation registered under the Loan and Trust Corporations Act or a credit union or central to which the Credit Unions and Caisses Populaires Act, 2020 applies where the loan is obtained through a financing agreement in which each of the institutions that is a party to the agreement contributes a portion of the loan.

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

**Term Debentures:** Debentures that are comprised of a combination of instalment and retirement fund debentures issued under one debenture bylaw.

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

**Underwriting Syndicate:** An individual or group of investment bankers appointed for the purpose of purchasing and reselling new debentures issued by the Corporation at a negotiated price.

**Variable Interest Rate Debentures:** Debentures that provide for one or more variations in the rate of interest payable on the principal during the term of the debenture.

## Description

### **A. Philosophy for Capital Financing and Debt Issuance**

Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for its own purposes, or those of its municipal business corporations, area municipalities and/or school boards.

"Best interest" will be consistent with the philosophy of the Corporation's Financial Mission Statement, adopted by Council in 1999, which includes the following key financial principle with respect to capital financing and debt practices:

"Capital financing and debenture practices will be responsive and fair to the needs of both current and future taxpayers and will be reflective of the underlying life cycle and the nature of the expenditure."

This philosophy will be met through the objectives outlined below.

### **B. Primary Objectives of the Capital Financing and Debt Program**

The primary objectives for the Corporation's capital financing and debt program, in priority order, shall be:

1. Adhere to statutory requirements
2. Maintain a superior credit rating
3. Ensure long term financial flexibility
4. Limit financial risk exposure
5. Minimize long-term cost of financing

6. Match the term of the capital financing to the lesser of the useful life of the related asset or the period over which third party funding for the retirement of the debt will be received

## **1. Adhere to Statutory Requirements**

Capital financing may only be undertaken if and when it is in compliance with the relevant sections of the Municipal Act, Ontario Regulation 586/06:Local Improvement Charges – Priority Lien Status under the Municipal Act, or the Tile Drainage Act, and their 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 the current fiscal year;
- b) The term of the capital financing will not exceed the lesser of 40 years and the useful life of the underlying asset;
- c) Long-term debt will only be issued for capital projects;
- d) The total annual financing charges cannot exceed the Growth-related Debt and Financial Obligation Limit or the Debt and Financial Obligation Limit, as applicable, for the municipality responsible for incurring the debt unless otherwise approved by the Ontario Land Tribunal;
- e) Access to the growth-related cost supplement to the Annual Repayment Limit is restricted to capital projects related only to the Yonge North Subway Extension.
- f) Council has adopted or affirmed a Long-Term Debt and Financial Obligations Management Plan for each fiscal year that a Growth-related Cost Supplement is required;
- g) 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 in relation to other methods of financing;
- h) Prior to passing a debenture by-law which provides that instalments of principal or interest, or both, are not payable during the period of construction of an undertaking up to a maximum of five (5) years, Council will have considered all financial and other risks related to the proposed construction financing;

- i) A credit rating of AA - (or equivalent) will be maintained for the year and the prior year that a Growth-related Cost Supplement is required; and
- j) Long-term debt will be the joint and several obligations of the Corporation and its area 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's Purchasing By-law.

## **2. Maintain a Superior Credit Rating**

Maintaining a superior credit rating is a key factor in minimizing the cost of debt and accessing capital markets in an efficient manner. Also, as noted elsewhere, a credit rating of a least AA - (or equivalent) will be needed by the Corporation to meet the statutory requirements for entering into certain types of capital financing contemplated by this Policy.

However, some factors affecting the credit rating are beyond the Corporation's direct control, such as the performance of the economy. To partially mitigate this concern, the Corporation has a Reserve and Reserve Fund Policy that ensures its ability to pay operational and financial obligations even if the economy suffers setbacks or other contingencies arise.

Development charges, which are a major source of funding to repay growth-related debt, are particularly sensitive to underlying economic conditions. Having an adequate Development Charge Reserve balance demonstrates to the rating agencies an ability to meet growth-related debt obligations even during periods when collections may temporarily decline.

Therefore, it will be the Corporation's practice to maintain a cash balance in its Development Charge Reserves equal to a range of 50 to 100 per cent of the projected annual principal and interest payments during the fiscal year for growth-related debt.

## **3. Ensure Long-Term Financial Flexibility**

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

Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding.

To the extent practicable, regular and/or ongoing capital expenditures and the current portion of future rehabilitation and replacement costs will be recovered on a "pay as you go" basis through rates, tax levy, user fees and/or reserve fund monies. Adequate reserves must be developed and maintained for all capital assets owned by the Corporation to ensure long-term financial flexibility. However, where long-term financing is required, due consideration will be paid to all forms of financing including debentures, construction financing, debentures, conditional loan agreements, long-term bank loan agreements and lease financing agreements.

#### **4. Limit Financial Risk Exposure**

The capital financing program will be managed in a manner to limit, where practicable, financial risk exposure. As a result, it will be the Corporation's normal practice to issue debt that is only denominated in Canadian dollars with an interest rate that will be fixed over its term.

Notwithstanding, if a situation arises where there is a material financial advantage and/or it is deemed prudent for the Corporation to issue debt that is subject to fluctuations, in foreign currency and/or interest rates, a hedging strategy will be considered to either reduce or eliminate the risk.

This strategy would include the following:

- a) For debentures that are not denominated in Canadian currency, the rate of exchange will be fixed for the term of the obligation (both principal and interest payments) on or before the date of issuance.
- b) For variable interest rate debentures with a term exceeding one year, the interest rate will be fixed within six months of the issuance date.

However, long-term bank loans for which the interest rate may vary will not be fixed if prevailing market conditions are such that in the opinion of the Commissioner of Finance Regional Treasurer it is in the Corporation's best interests to allow the rate to float where such debt, in addition to any other outstanding variable rate loans or debentures, does not exceed fifteen percent (15%) of the total outstanding principal debt of the Corporation (including the principal of the bank loan agreements) as authorized by O. Reg 276/02 s 8(2).

Finally, financing leases have different financial and other risks than traditional debt that must be considered and, where practicable, mitigated prior to its use, including; contingent payment obligations for items such as,

lease termination provisions, equipment loss, equipment replacement options, guarantees and indemnities. These risks will be identified prior to entering into any material lease.

(Refer to Section E of this Policy – Financing Risk Identification and Mitigation Strategies.)

## **5. Minimize Long-Term Cost of Financing**

The timing, type and term of financing for each capital asset will be determined with a view to minimize both its and the Corporation's overall long-term cost of financing.

Factors to be considered will include: current versus future interest rates; shape of the interest rate curve, the availability of related reserve fund monies; the pattern of anticipated revenues or cost savings attributable to the capital project or capital works; the applicability of using Bond Forward Agreements to hedge interest costs; and, all costs related to the financing of the capital project whether by debentures, construction financing, conditional loan agreements, long-term bank loan agreements or financing leases.

## **6. Match the Term of the Capital Financing to the Lesser of the Useful Life of the Underlying Capital Asset or the Period over which Third Party Funding for the Retirement of the Debt will be Received**

The Corporation's normal practice will be to issue long-term debt for contractual terms that will be well received in the financial market place, typically 10, 20 or 30 years. However, the amortization period over which the debt will be retired may be longer, necessitating that part of the debt will need to be refinanced for an additional term (i.e., debentures with a refinancing provision). Except as noted below, the maximum term over which a capital asset shall be financed will be as set out in Appendix 1 unless otherwise specifically approved by Council or by the Debenture Committee; or for such longer term up to 12 months that may be determined by the Commissioner of Finance and Regional Treasurer and/or Director, Treasury Office where there is a perceived benefit to do so based on the prevailing financial market conditions. In no case shall the term of financing exceed the lesser of the anticipated useful life of the underlying asset or in the case of financing that will be repaid from third party funding (e.g., development charges), the period over which the funding will be received.

## **C. 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 process are expected to abide by the Corporation'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 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 Commissioner of Finance and Regional Treasurer will have the overall responsibility for the capital financing program of the Corporation. The Director, Treasury Office normally will have responsibility for directing/implementing the activities of the capital financing program and 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 Director shall establish a system of controls to regulate the activities of subordinate officials and exercise control over the staff.

Notwithstanding, the Chief Administrative Officer, as authorized by the Purchasing By-law, may approve non-material financing leases as previously defined.

**3. Requirement for Outside Advice**

The Corporation'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.

## **D. 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 asset to be financed.

### **1. Short-Term – Under One (1) Year**

Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing may be from one or more of the following sources:

- a) Reserves and reserve funds. (These funds may be used as the primary source of short-term financing provided that interest is paid at the prevailing market rate);
- b) Bank line of credit;
- c) Short-term promissory notes issued to aforementioned institutions;
- d) Bankers' Acceptances; and
- e) IO (or its successor organizations) short-term advances pending issuance of long-term debentures.

### **2. Long-Term – Greater than One (1) Year**

Financing of assets for a period of greater than one year may be from any of the following sources:

- a) Debentures (including those issued to IO or its successor or related organizations), including those with a refinancing provision, which may be in the following form or a combination thereof:
  - Instalment

- Sinking Fund
- Term
- Amortizing
- Variable Interest Rate
- Foreign Currency
- Retirement Fund

b) Reserves and Reserve Funds

These may be used for both interim and medium-term for a period of no greater than five-year financing if deemed cost effective or otherwise necessary. However, reserves and reserve funds are for a defined purpose and must be available when that purpose occurs or requires them. Notwithstanding this policy, intrafund borrowing between development charge reserve accounts for a longer period of time is permitted if the funds are available when needed.

c) Long-Term Bank Loans (including Syndicated Bank Loans)

These may be used if deemed cost effective or otherwise necessary. These loans may be either fixed or variable interest rate loans as determined by the Commissioner of Finance and Regional Treasurer.

d) Construction Financing

May be used for a period up to five (5) years during construction or rehabilitation of certain facilities from which a revenue stream is expected to be generated (e.g., water plant) upon its completion.

e) Lease Financing Agreements (Capital Financing Leases)

May be used when it provides material and measurable benefits compared with other forms of financing. Capital financing leases may include cross-border and rolling stock leases.

f) Tile Drainage Debentures

These will be used to finance the construction of tile drainage systems for agriculture and for those individual farmers who apply and are accepted for financing.

**3. Credit Rating Requirements for Issuing Certain Types of Debt**

The Corporation may only issue foreign currency debentures, variable rate debentures, or variable rate long-term bank loans if its long-term debt obligations are rated by:

- a) Dominion Bond Rating Service Limited as "AA (low)" or higher, or
- b) Fitch Ratings as "AA-" or higher, or
- c) Moody's Investors Service, Inc. as "Aa3" or higher, or
- d) Standard and Poor's as "AA-" or higher.

## **E. Financing Risk Identification and Mitigation Strategies**

There may be additional risks associated with certain types of financing. It is expected that these risks will be identified and considered in relation to other forms of financing that would be available. Also, the mitigation strategies discussed below will be used to reduce the additional risk when deemed practicable.

### **1. Availability of Debt Capacity for Future Priority Projects**

The Corporation could face the risk in any fiscal year of having insufficient debt capacity to fully execute its capital plan, based on its ARL or Growth-related Debt and Financial Obligation Limit. To manage this risk, the capital plan will show the amount of debt financing that will be required for each capital project and each year of the plan. Each capital project will also be prioritized on the basis of its impact on the Corporation's growth plan and/or any strategic plan approved by Council. Project prioritization would permit the most critical elements of the capital plan to proceed in an expeditious manner.

### **2. Refinancing Risk**

The Corporation may issue debentures for which the amortization to retirement period is longer than the contractual term of the debenture, similar to a home mortgage. For those debentures, the balance of the debt remaining at the end of the contractual term will need to be refinanced.

A risk to the Corporation would be that interest rates may be higher during the second financing period, resulting in higher than anticipated debt payments. For this reason the use of refinancing debentures will not be a preferred method of financing by the Corporation whenever tax levy is the primary source of funding. However, there will be no restriction to the use of refinancing debentures funded mainly from development charges or user

rates which tend to be for longer periods and are better able to absorb increases (or decreases) to their cost of financing over time.

Further risk to the Corporation may arise if market conditions are unfavorable at the end of the first contractual term of a-debenture in respect of which refinancing debentures may be issued at maturity. In those situations, several strategies will be employed, including pre-financing, short -term borrowing from reserves, using variable rate debt and lines of credit, and making borrowing applications to government agencies such as IO.

### **3. Construction Financing**

Construction financing may be used to “lock-in” the debt needed for a capital project that will eventually generate a revenue stream which could be used to make principal and interest payments (e.g. water plant). Construction financing is unique in that the debt and interest may be accrued in advance of the project’s completion and no payments are made during the construction period up to a maximum of five (5) years.

The following risks compared to other forms of financing will be considered prior to the use of construction financing:

a) The financial risks include the following:

- The possibility that interest rates may fall from the time the rate for the construction loan is established and completion of construction. Should there be a high probability of this occurring, staff will consider the use of variable interest rate rather than fixed rate financing as a method to mitigate this risk.
- The possibility that the final cost of construction could be materially less than initially forecasted and financed. Staff will consider whether or not to issue debt until a fixed rate contract has been awarded or to issue debt that does not exceed 75% of the projected cost as a method to mitigate this risk.

b) Other risks include that the construction project may not be able to proceed or is not completed for technical or other reasons. The mitigation option to be considered in this case will be not to issue long-term debt until all critical construction contracts have been awarded.

### **4. Lease Financing Agreements**

Leases may be used to finance equipment, buildings, land or other capital assets that the Corporation does not have a long-term interest in or may not be able to acquire through other means.

The following risks compared to other forms of financing will be considered prior to the use of capital lease financing agreements.

a) The financial risks include the following:

- The ability for lease payment amounts to vary if based on changes in an underlying benchmark debt instrument (generally expressed as a particular Government of Canada Bond). This risk usually applies only to new capital assets being added to a leasing schedule and would be the same as new debt being issued from time to time;
- The ability for lease payments to vary based on changes in the assumed residual values of the capital asset being leased. Again, this risk usually applies only to new capital assets being added to a leasing schedule and would not be riskier than other forms of financing; and
- Uncertainty over leasing costs if a contract needs to be extended or renewed. The normal practice of the Corporation will be to negotiate these costs prior to the leasing agreement being executed.

b) Other risks include the potential for the seizure and removal of leased equipment if the leasing company goes into default of its obligations to creditors, and its creditors have the legal right to seize assets of the leasing company. The practice of the Corporation will be to assess the financial strength of the leasing company prior to the leasing agreement being executed.

## **5. Variable Interest Rate Debenture and Long-Term Bank Loans**

Variable rate debentures and long-term bank loan agreements may be used when there is volatility in the financial market and/or there is an expectation of significantly lower interest rates occurring within a few months of their issue. In all cases, the interest rate will be fixed no later than 6 months after issue by means of an interest rate exchange (i.e. hedging) agreement to mitigate the financial exposure.

The Corporation may only enter into interest rate exchange agreements as part of a variable rate debenture with an eligible institution whose credit ratings are equivalent to those cited in Section D(3) above.

## **6. Foreign Currency Debentures**

Foreign currency debentures may be used when the “all in” cost of financing in a foreign market is cheaper or the market conditions are such that domestic financing is not practicable. The risk associated with foreign currency debentures is that the rate of exchange incurred for future interest and principal payments could significantly increase over the term of the debt, raising its overall cost.

The Corporation’s practice with respect to foreign currency debentures will be to have the rate of exchange for all interest and principal payments fixed prior to their issue by means of foreign currency exchange or hedging agreements to mitigate the financial exposure.

The Corporation may only enter into a foreign currency exchange agreement with an institution whose credit ratings are equivalent to those cited in Section D(3) above.

Any foreign currency exchange agreement or agreements for a debenture will, when read together, provide for the reduction of currency risk with respect to the entire amount of principal and interest payable under the debenture and shall require any amount payable to any person under the agreement or agreements to be expressed as a Canadian currency amount.

The currencies set out in Appendix 2 are prescribed foreign currencies eligible under provincial regulation.

## **7. Bond Forward Agreements**

The timing of the Corporation’s debenture issues is very dependent upon market or economic conditions. Market-out conditions can occur due to competing issuers and in times of financial crisis. Bond Forward Agreements allow the Corporation to lock-in the underlying interest rate on a portion of a planned debt issue, facilitating the issuing process.

Bond Forward Agreements may only be used for the issue or the refinancing of debentures denominated in Canadian currency for which Council approval has already been given.

Furthermore, it will be the Corporation’s normal practice to limit Bond Forward Agreements to no more than seventy-five percent (75%) of the principal amount of debentures to be issued. Bond Forward Agreements may have a settlement day permitted by provincial regulation.

It will be the Corporation's normal practice that counterparty payments resulting from the use of these agreements, if material, will be added to or deducted from the principal of the amount being financed.

Using Bond Forward Agreements exposes the Corporation to the following risks:

- a) Credit risk to the counterparty (financial institution) in the event interest rates have risen and the counterparty cannot fulfill the terms of the agreement. Although this is considered a remote risk, credit exposure resulting from any or all outstanding Bond Forward Agreements executed with any financial institution will be added to any outstanding investments held in the Corporation's investment portfolio and will be subject to the same limitation guidelines set out in Appendix 1 of the Investment Policy.
- b) There will be an opportunity cost if interest rates fall and the Corporation has to pay the counterparty to the Bond Forward Agreement. However, the primary use of a Bond Forward Agreement is to "lock-in" the anticipated borrowing rate associated with the future debenture issue and reduce or eliminate the risk of higher interest rates. The Corporation's practice of hedging less than 100% of the planned debenture issue would result in some of the savings still being achieved if interest rates fall.

By not using a Bond Forward Agreement, the Corporation will be exposed to movements in interest rates that will be either beneficial or detrimental and will have less certainty about the cost of borrowing on a prospective debenture.

Before entering into a Bond Forward Agreement, Treasury Office staff and the Commissioner of Finance and Regional Treasurer will analyze:

- a) The fixed costs and estimated costs to the Corporation resulting from the use of such agreements.
- b) A detailed estimate of the expected results of using such agreements.

Bond Forward Agreement may only be entered into with a bank listed in Schedule I, II or III to the *Bank Act (Canada)* and only if the bank's long-term debt obligations on the day the agreement is entered into are rated by:

- a) Dominion Bond Rating Service as "A(high)" or higher; or
- b) Fitch Ratings as "A+" or higher; or

- c) Moody's Investors Service Inc. as "A1" or higher; or
- d) Standard and Poor's as "A+" or higher.

## **F. Methods of Marketing/Selling Debenture Issues**

Debenture securities may be sold by the following means:

- a) Underwriting Syndicate

The use of an underwriting syndicate appointed by the Commissioner of Finance and Regional Treasurer will be the normal method by which debentures will be sold by the Corporation. Considerations used for appointment to the syndicate will include, among other things: the demonstrated ability of the investment banker to underwrite and/or sell debentures in the various financial markets used by the Corporation; its commitment to provide an active and robust "secondary market" for municipal debt; and, its support for maintaining and developing new investors for municipal debentures. The composition of the Underwriting Syndicate will be reviewed periodically and at least once every five years;

- b) Tender

A tender process may be used when and if significant savings could be expected when compared to issuing through an Underwriting Syndicate; or

- c) 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 volatile or otherwise difficult.

## **G. Debt Issued On Behalf Of Other Jurisdictions**

Council may approve the issuance of debentures for the capital projects of its area municipalities and school boards provided:

- a) They are used for capital projects approved by the Area Municipality and School Board;

- b) The term of the financing is in excess of one (1) year but does not exceed the guidelines set out in Appendix 1;
- c) It has received satisfactory evidence of approval authority and statutory compliance. Accordingly, the Financial Officers of the Area Municipalities must provide to the Corporation, at the time of their financing request, an updated Debt and Financial Obligation Limit for their respective municipality and attest to the validity of the calculation to ensure compliance with the Municipality's Annual Repayment Limit. As well, mandated approvals from provincial ministries, if necessary, and the council of the Area Municipality will be required prior to Council granting financing approval;
- d) The issuance and administrative costs attributable to borrowings on behalf of Area Municipalities and School Boards will be recovered. Costs not directly or specifically attributed to any one participant shall be allocated on a prorata basis to all participants. Conversely, costs incurred which are directly or specifically attributable to any one participant shall be allocated to that participant. Such costs may include, but are not limited to, the following: legal fees; commissions; cost of certificates; registration and re-registration charges; and courier charges.

## **H. Financial Guarantees and Letters of Credit**

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

## **I. Sinking/Retirement Fund Debentures**

A Sinking Fund Committee will be established whenever sinking and/or retirement fund debentures are outstanding anytime during a calendar year. The committee will meet at least annually and will be chaired by the Commissioner of Finance and Regional Treasurer and will have at least two additional members appointed by Council. The committee will establish investment guidelines and ensure that adequate funds will be available to retire the debt at its maturity.

When setting the internal capitalization rate for new sinking/retirement fund debt at the time of its issue, the rate shall not exceed the 5-year Government of Canada bond rate at time of issue.

## **J. Reporting Requirements**

In addition to any information requested by Council or that the Commissioner of Finance and Regional Treasurer considers appropriate, the following reports will be provided:

1. Annually, the Commissioner of Finance and Regional Treasurer shall submit to Council a report or reports that:
  - a) Requests authority for temporary borrowing up to a stipulated amount to meet day-to-day expenditures, pending receipt of taxes, user fees and revenues anticipated during the year;
  - b) Requests authority, if required, to finance certain capital projects detailing for each type of item, the amount and the maximum term of financing;
  - c) States the sum, if any, that must be raised for sinking funds or retirement funds in that year;
  - d) As part of the annual budget a Long-Term Debt Management Plan to be adopted or affirmed by Regional Council that will contain at least the following elements:
    - Projections for each year over a multi-year period of estimated long term debt and financial obligations payments compared to the Growth-related Debt and Financial Obligation Limit;
    - Strategies for prudently and cost effectively dealing with risks associated with planned long term debt and financial obligations and mitigation strategies for adverse contingencies which might arise;
    - An evaluation of the outcomes of the previous year's Long-Term Debt Management Plan as well as a comparison to the current year's plan;
    - A statement indicating the Plan is in compliance with this Policy.
2. As required, the Commissioner of Finance and Regional Treasurer shall submit to Council, the following:

a) A report, before entering into a material lease with a recommendation assessing the costs and financial and other risks associated with the proposed financing lease. This report shall include:

- A comparison between the fixed and estimated costs and the risks associated with the proposed lease and those associated with other methods of financing;
- A statement summarizing, as may be applicable, the effective rate or rates of financing for the lease, the ability for lease payment amounts to vary, and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the lease;
- A statement summarizing any contingent payment obligations under the lease that in his or her opinion would result in a material impact for the Corporation, including lease termination provisions, equipment loss, equipment replacement options and guarantees and indemnities;
- A summary of the assumptions applicable to any possible variations in the lease payment and contingent payment obligations.

b) Lists of any outstanding financing leases including the following details:

- Estimates of the proportion of financing leases to the Corporation's total long-term debt and a description of any change in that proportion since the previous year's report; and
- A statement that in his or her opinion all financing leases were in accordance with the lease policy and goals as outlined in this Policy or as otherwise adopted by Council.

c) A statement before passing a by-law providing for construction financing, which shall consider:

- The fixed and estimated costs to the Corporation;
- Whether the costs of the proposed financing for the construction of the undertaking are lower than other methods of financing available;

- A detailed estimate with respect to the terms of the Corporation's expectations of revenue generation from the undertaking, once constructed;
- The risks to the Corporation if the undertaking is not constructed or completed within the period of construction as estimated by Council; and
- The financial and other risks for the Corporation.

d) A report detailing at least once in a fiscal year, any Bond Forward Agreements in a fiscal year which the Corporation has entered into.

The report must contain the following information and documents:

- A statement comparing the expected and actual results of using Bond Forward Agreements during the period of the report; and
- A statement indicating whether, in his or her opinion, all of the Bond Forward Agreements entered during the period of the report are consistent with the bond forward policies and goals in this Policy or as otherwise adopted by Council.

e) A report detailing at least once in a fiscal year, any subsisting variable interest rate bank loan agreements and any subsisting interest rate exchange agreements applicable to them.

f) Lists of any outstanding construction financing debentures, including the following details:

- A description of the estimated proportion of the total debentures of the Corporation issued to the total long-term debt of the Corporation and a description of the change, if any, in that estimated proportion since the previous year's report;
- A statement as to whether, in his or her opinion, all debentures issued were in accordance with this construction financing policy and goals outlined in this Policy or as otherwise adopted by Council;
- An update of the detailed estimate with respect to the terms of the Corporation's expectations of revenue generation from the undertaking;

- A record of the date of the repayment of each instalment of principal, interest or both principal and interest during the period of construction of the undertaking for which the debentures were issued; and
- A statement of the outstanding instalments of principal, interest or both principal and interest repayable during the currency of the debentures issued that will be due and payable in each year.

g) Details of all outstanding hedging instruments related to foreign exchange, interest and swap agreements, describing type, amount and purpose; and

h) A report detailing, at least once in a fiscal year, any outstanding variable interest rate debentures or foreign currency debenture and any subsisting interest rate or foreign currency exchange agreements applicable to them.

3. The Debenture Committee will report to Regional Council as required under the Region's Procedural Bylaw on each and every occasion it exercises its delegated authority.

## **Responsibilities:**

The following specific responsibilities are identified:

### **Commissioner of Finance and Regional Treasurer:**

- Appoints investment bankers to be members of the Corporation's Underwriting Syndicate;
- May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the appointment of the Underwriting Syndicate; and
- Is a member of the Debenture Committee.

### **Commissioner of Finance and Regional Treasurer and/or Director, Treasury Office:**

- Reviews and recommends the type and term of financing for capital projects and operating requirements;

- Calculates the Growth-related Debt and Financial Obligation Limit for the Corporation as prescribed by the Municipal Act;
- Assigns the lead underwriter(s), members of the management group (if needed) and determines the percentage share of a planned debt issuance that will be allocated to each member of the Underwriting Syndicate;
- In consultation with the lead underwriters, approves the timing and structure of debt issues;
- Coordinates the preparation of debt issue by-laws for Council or the Debenture Committee;
- May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities and Bond Forward Agreements, including the payment of principal, interest or other related fees
- Liaises and assists rating agencies in the evaluation of the credit worthiness of the Corporation's debt securities;
- Reviews and recommends to Council the financial and business aspects of any material lease agreements and transactions; and
- Ensures all reporting requirements identified within this Policy are met.

### **Chair of Council**

- May execute and sign documents on behalf of the Corporation with respect to the issuance of debt securities.
- Is a member and Chair of the Debenture Committee

### **Regional Clerk**

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

### **Chief Administrative Officer**

- Is a member of the Debenture Committee

### **The Debenture Committee**

- May exercise the authorities granted to it under Bylaw No. 2010-69 in terms of enacting bylaws authorizing the issuance of debentures.

## **Reference:**

### **Legislative and other authorities**

- Municipal Act, 2001, S.O. 2001, c. 25, Sections 405(1), 407(1), 408(3,4), 409(2)
- Tile Drainage Act, R.S.O. 1990, c.T.8, Section 2(1)
- Ontario Regulation 266/02 - Financing Leases for Municipal Capital Facilities
- Ontario Regulation 278/02 - Construction Financing
- Ontario Regulation 276/02 – Bank Loans
- Ontario Regulation 586/06 - Local Improvement Charges – Priority Lien Status
- Ontario Regulation 653/05; 291/09 ; 839/21 – Debt Related Financial Instruments and Financial Agreements
- Ontario Regulation 403/02 – Debt and Financial Obligation Limits

### **Appendices**

- Appendix 1: Maximum Financing Term of a Capital Asset
- Appendix 2: Prescribed Foreign Exchange Currencies

## Contact

Director, Treasury Office, Finance Department, ext. 71646

## Approval

Council Date: February 28, 2019	Committee Date: February 21, 2019
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Accessible formats or communication supports are available upon request.

# APPENDIX 1

## Maximum Financing Term of a Capital Asset

### 3 Years

- Computer software
- Police patrol vehicle

### 4 Years

- General purpose vehicle
- Personal computer and monitors

### 5 Years

- Mainframe computer/server and network equipment
- Radio and telecommunications system
- Office furnishings
- Audio and Video equipment
- Printers

### 10 Years

- Specialized vehicle/equipment
- Parking lot
- Public Works facility (depot, dome, etc.)
- Solid waste equipment
- Transit vehicle
- Park, recreational facility
- Dock, wharf, pier, breakwater
- Retaining wall, embankment, flood control
- Sidewalk, path
- Tile drainage
- Street lighting

- Underground wiring

## **15 Years**

- Police station
- Health clinic
- Library
- Fire station

## **20 Years**

- Watermain, hydrant, filtration plant, storage facility, pumping station
- Sanitary sewer, storm sewer, treatment plant, pumping station
- Solid waste landfill site
- Home for the aged
- School, other educational building
- Office building
- Hospital
- Dam, reservoir
- Road
- Emergency Medical Services station

## **Greater than 20 years**

- Major infrastructure –only when term approved by Council

## **30 Years**

- Water and wastewater main projects, subject to:
  - a) the underlying assets having a useful life of at least 30 years; and
  - b) the project being in receipt of dedicated revenues for a similar period.

- Housing projects, subject to:
  - a) the underlying assets having a useful life of at least 30 years; and
  - b) the project being in receipt of dedicated revenues for a similar period.

## **APPENDIX 2**

### **Prescribed Foreign Exchange Currencies**

1. Dollars of Australia.
2. Yen of Japan.
3. Francs of Switzerland.
4. Sterling money of the United Kingdom.
5. Dollars of the United States of America.
6. The euro currency adopted by member states of the European Union.

O. Reg. 247/01, Sched.