Attachment 2

Status: Final

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: 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 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 Municipal Board. **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 United States dollars, Pound Sterling, Japanese Yen and Euros.

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.

Infrastructure Ontario (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.

Installment (Serial) Debentures: Debentures of which a 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 obligators 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 and Financial Obligation 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.

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.

Refunding: 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 accumulated on a regular basis, commencing several years after the issuance of the debentures, in a separate custodial account that 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 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 accumulated on a regular basis in a separate custodial account that when combined with interest earned is used to redeem the debentures.

Syndicated Bank Loans: A loan between the Corporation and a bank listed in Schedule I, II or III of the *Bank Act (Canada)*, a loan corporation registered under the *Loan and Trust Corporations Act* or a credit union to which the *Credit Unions and Liaison Populaires Act, 1994* 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 installment and sinking fund debentures.

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*, the *Local Improvement 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 or 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 Municipal Board;

~~d)~~e) Access to the growth-related cost supplement to the Annual Repayment Limit is restricted to purposes related only to the Yong North Subway Extension.

~~e)~~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;

~~f)~~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;

~~g)~~h) 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 an undertaking, Council will have considered all financial and other risks related to the proposed construction financing;

~~h)~~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

~~i)~~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 75 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, long-term bank loans 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 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 debt of the Corporation as authorized by O.Reg 276/02 s(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 financing 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 project or purpose; the applicability of using Bond Forward Agreements to hedge interest costs; and, all costs related to the financing of the project whether by debenture, construction financing or financing lease.

6. Match the Term of the Capital Financing to the Lesser of the Useful Life of the Underlying 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 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 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. (This 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 organizations), which may be in the following form or a combination thereof:

- Installment
- Sinking Fund
- Term (including those with a refunding provision)
- 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 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 project and each year of the plan. Each 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. Refunding 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 refunding 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 refunding 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 refunding debenture. 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 Infrastructure Ontario.

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 building period.

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. Financing Lease Agreements

Leases may be used to finance equipment, buildings, land or other 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 financing lease 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 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 asset being leased. Again, this risk usually applies only to new 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 loans 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 a 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 up to the maximum period 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 rate fell.

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 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 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 firm 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 purposes 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 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 lesser of the rate allowed in the Municipal Act, or 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 Treasurer considers appropriate, the following reports will be provided:

1. Annually, the Commissioner of Finance and 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 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;

c) States the sum, if any, that must be raised for sinking fund purposes in that year;

d) As part of the annual budget a Long-Term Debt and Financial Obligation 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 and Financial Obligations 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 shall submit to Council, the following:

a) A report, before entering into a material financing 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 municipality, 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 municipality issued to the total long-term debt of the municipality 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 municipality's expectations of revenue generation from the undertaking;

- A record of the date of the repayment of each installment 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 installments 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 Treasurer:

- Appoints firms 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 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)
- Local Improvement Act, R.S.O. 1990, c.L.26, Section 53(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 653/05; 291/09 – Debt Related Financial Instruments and Financial Agreements
- Ontario Regulation 403/02 – Debt and Financial Obligation Limits

Appendices

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

Contact

Director, Treasury Office, Finance Department, ext. 71646

Approval

Council Date: February 28, 2019 Council Minute Item: G.3	Committee Date: February 21, 2019 Committee Minute Item: H

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APPENDIX 1
Maximum Financing Term of an 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

- Water main, 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. Francs of France.
3. Marks of Germany.
4. Yen of Japan.
5. Guilder of the Netherlands.
6. Francs of Switzerland.
7. Sterling money of the United Kingdom.
8. Dollars of the United States of America.
9. The euro currency adopted by member states of the European Union.

O. Reg. 247/01, Sched.

Status: Final

Reserve and Reserve Fund Policy

Approved By:	Council
Approved On:	February 28, 2019
Last Reviewed:	February 28, 2019

Policy Statement

A policy governing the use and management of reserves and reserve funds.

Application

All Regional employees who are responsible for the creation, control, administration and management of the Corporation's reserve and reserve funds.

Purpose

This policy establishes the objectives for reserves and reserve funds, standard of care, as well as it delineates the responsibilities for their management and administration.

Definitions

Corporation: Refers to the Corporation of the Regional Municipality of York, its Boards and Subsidiaries.

Debt: Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash from financial institutions, but could also include loans from reserves.

Development Charges: Fees against land to pay in full or in part on the increased capital costs required because of increased needs for municipal services arising from development of the area in which the land is located.

Discretionary Reserve Funds: Discretionary reserve funds are established whenever a municipal council, local board and other entity wishes to earmark revenues to finance a future expenditure for which it has the authority to spend money, and physically set aside a certain portion of any year's revenues so that the funds are available as required.

GFOA: Refers to the Government Finance Officer's Association of the United States and Canada, a professional association of state, provincial and local finance officers in the dedicated to the sound management of financial resources.

MFOA: Refers to Municipal Finance Officer's Association of Ontario, a professional association which promotes the interests of its members in carrying out their statutory and financial responsibilities by initiating studies and sponsoring seminars to review, discuss and develop positions on important policy and financial management issues.

PSAB: Refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.

Reserve: An appropriation from net revenue at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Although a reserve cannot have a revenue or an expense of itself, a municipality may by bylaw provide earnings derived from the investment of a reserve to form part of that reserve.

Revolving Reserves: Reserves used to fund normal course operating requirements or cash flow deficiencies that do not require Council approval provided they conform with intent of originating bylaw.

Reserve Fund: Funds that have been set aside either by a bylaw of the municipality or by a requirement of provincial legislation to meet a future event. As a result, reserve funds are either "discretionary" being those set up by Council or "statutory" being those set up by virtue of a requirement of provincial statute. Municipal councils may set up reserve funds for any purpose for which they have the authority to spend money.

Sinking Fund: A municipality which has sinking fund or retirement fund debentures outstanding is required to accumulate money in a reserve fund that will be sufficient to retire those debentures at maturity.

Surplus Management Policy: A policy approved by Council that directs the funds deemed to be operating surpluses as a result of Regional operations on a yearly basis.

The allocation of the annual operating surpluses will be made to reserves and reserve funds that are below their funding targets in the following order:

- First to the Working Capital Reserve
- Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, Workers' Compensation Reserve, Group Benefits and the Insurance Reserve
- Then to the General Capital Reserve
- Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions
- Then any remaining funds to the Debt Reduction Reserve.

Statutory Reserve Funds: A reserve fund created when required by statute that revenue received for special purposes be segregated from the general revenues of the municipality. (Refer to Appendix A for a list of current statutory reserve funds.)

Description:

1. Philosophy for Reserve and Reserve Fund Policy

Reserves and reserve funds are key elements of the Corporation's long-term fiscal strategy. This has been previously recognized in the Financial Mission Statement that was adopted by Council in 1999 including the following Financial Principle which specifically addresses the use of reserves and reserve funds:

"Adequate reserves will be maintained to:

1. Replace and rehabilitate major capital infrastructure assets as required
2. Provide a buffer for significant unanticipated expenditures beyond the control of the Region
3. Supply funds for new major capital assets identified in the long-term corporate strategy."

As a result, this Policy's philosophy is to promote fiscal prudence, particularly as identified in the Financial Principles through the creation and management of reserves, as well as to achieve a best practice for reserving among municipal governments.

This Policy also acknowledges that reserves have a direct impact on the credit rating awarded by the Bond Rating Agencies and therefore, the Corporation's long-term cost of financing.

2. Objectives of Reserve and Reserve Funds

The primary objectives for reserves and reserve funds shall be in priority order:

a) Adherence to Statutory Requirements

b) Promotion of financial stability and flexibility

c) Provision for major capital expenditures

d) Reducing the need for tax-levy funded debentures

a) Adherence to Statutory Requirements

It shall be the Corporation's practice to establish and maintain segregated funds and/or reserves that meet all statutory obligations. Appendix A identifies the current statutory reserve funds as well as reference to their applicable legislation.

All reserves and reserve funds will be managed in accordance with provincial legislation. Included in the Municipal Act are the following requirements:

- Section 417 (4) that money raised for a reserve fund shall be paid into a special account and shall be invested only in securities or classes of securities prescribed

- Section 418 (3), as allowed by the Corporation, shall combine money held in any fund (including General, Capital and Reserves and Reserve Funds) for investment purposes

- Section 418 (4) that earnings from combined investments shall be credited to each segregated fund in proportion to the amount invested in it

Furthermore, it will be the Corporation's practice to establish all reserves and reserve funds by bylaw and that all appropriations be approved by Council either through the annual budget or by specific resolution or by bylaw. Notwithstanding, revolving reserves such as working capital, insurance and employee benefits may be used at any time for the purpose approved by Council.

b) Promotion of Financial Stability and Flexibility

It will be the Corporation's practice to maintain adequate non-capital reserves to achieve long-term financial stability and flexibility.

To meet these objectives, the following types of funds will be established and adequately funded:

- Reserves for known and recurring material cash flow deficiencies (eg. Working Capital)
- Reserves for large or lumpy periodic or one time payments (eg. General Capital)
- Reserves for long-term contingencies (eg. Sick Leave)
- Reserves for potential liabilities
- Reserves for unanticipated expenditures (eg. Tax Stabilization)

Appendix B identifies the current reserves and reserve funds established for financial stability and flexibility.

The Corporation will strive to maintain reserves and reserve funds at levels that are at least comparable to those held by similarly rated municipalities with comparable responsibilities and/or levels that meet established best practices among municipalities.

c) Provision for major capital expenditures

It will be the Corporation's practice to maintain adequate reserves to replace and rehabilitate major capital assets, as required, and to provide for new capital assets that have been identified in the long-term corporate strategy.

To achieve this, the following principles will apply where practicable:

- Reserves for the full cost of replacement or rehabilitation of major assets will be funded from ongoing operations at a rate which reflects the consumption of that asset by current ratepayers. Contributions to this reserve will commence in the fiscal year that the asset is acquired or put in service and will be based on an estimate of the useful life of the underlying asset.
- Where the total cost is material, the purchase of minor assets which must be replaced on an ongoing basis (e.g. computers, furniture, vehicles) will be made from a reserve maintained at a three to five year rolling average (based on the asset's useful life) of the anticipated expenditure requirements and funded from operations and appropriations made by Council.
- The Operating Budget will include an annual contribution for the replacement of major capital assets as determined by Council. These contributions will be allocated to asset replacement reserves based upon

reserve adequacy analyses or at the discretion of the Commissioner of Finance.

- Reserves will be maintained for growth related capital projects that will be fully funded from developer contributions. That component of the growth related project which benefits the existing ratepayers or for which a discount has been given, shall be funded from tax/rates in the year the project is built. Notwithstanding, debt may be issued for growth projects when required in accordance with the Capital Financing and Debt Policy.

Appendix C identifies the current reserves and reserve funds established for major capital expenditures.

d) Reducing the need for tax-levy funded debentures

It will be the Corporation's practice to fund a Debt Reduction Reserve to reduce the need to issue tax-levy debentures. The reserve may be used in place of debt that has been previously approved by Council. Funding would be used first to replace tax levy debt that is deemed to be below established debt issuance thresholds and then debt for other tax levy projects at the discretion of the Commissioner of Finance.

The Debt Reduction Reserve will be funded as follows:

- Appropriations as part of the annual Operating Budget
- Contributions as part of the Surplus Management Policy
- Savings from the avoidance of debt as a result of draws from this reserve in either the current or prior years
- Other transfers deemed necessary at the discretion of Council

Departments shall carry within their annual budget a charge equivalent to 50%-100% (at the discretion of the Commissioner of Finance) of the principal and interest cost that was avoided as a result of the use of the Debt Reduction Reserve.

3. Standard of Care

Reserves and reserve funds are important assets of the Corporation for which a high standard of care will be maintained.

a) Delegation of Authority

The Commissioner of Finance will retain the overall authority for establishing and managing reserves and reserve funds.

Notwithstanding, the Commissioner of Finance may delegate to the Director, Treasury Office and/or designate the authority to establish policy and oversight with respect to reserves and reserve funds, to determine the need for new and the financial adequacy of existing reserves and reserve funds and to determine funding sources for reserves and reserve funds.

Furthermore, The Commissioner may delegate to the Director of the Office of the Budget and/or designate the authority to project the impact of reserves and reserve funds as they relate to the long-term business and capital plan.

b) Management of Reserves and Reserve Funds

It is the Corporation's policy to use best practices among municipalities to manage its reserves and reserve funds. These practices will include:

i) Establishing a Reserve or Reserve Fund:

Prior to establishing a new reserve or reserve fund, a financial plan will be prepared which identifies need, target funding level (if applicable), contribution sources and projected disbursements (when practicable) to meet planned future obligations.

ii) Reserve Funding Targets

A target funding level will normally be established for every reserve or reserve fund at the time that it is created. Notwithstanding, this target will be reviewed annually by staff to ensure its adequacy and where necessary, a periodic review by third party consultants will be obtained.

Methodologies for calculating targets are specific to each reserve or reserve fund, however consideration will be given to the following:

- Purpose of fund (ie. operating or capital)
- Certainty of end needs (ie. for contingent liability or long-term asset replacement)
- Economic factors (inflation, interest rates, cyclical pressures)
- Industry/Government/Accounting standards (GFOA, MFOA, PSAB etc.)
- Multi-year forecast of contribution and projected usage

A financial plan forecasting reserve and reserve fund balances and a comparison to target objectives shall be prepared annually based on the most current information available.

iii) Investment of Reserves and Reserve Funds

Reserves and reserve funds may be invested for a term that will not exceed its expected date of need. The related investment income will be credited monthly to the specific reserve or reserve fund according to the methodology detailed in the Corporation's Investment Policy. Investments shall be further governed by the Corporation's Investment Policy.

iv) Contributions to/withdrawals from Reserves and Reserve Funds

All contributions to and/or withdrawals from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process or specifically by resolution with the following exceptions:

- Direct contribution to reserve and reserve fund such as development charge contributions or settlement in account of prior year events
- Transfers that are the direct result of the Surplus Management Policy
- Transfers of funds between reserve cost centres for reserve restructure which in the opinion of the Commissioner of Finance have not changed the purpose for which the funds were intended
- Transfer of funds between asset replacement reserves based upon reserve adequacy analyses or other related information, at the discretion of the Commissioner of Finance
- Use of "revolving" reserves for the purpose approved by Council

All contributions to and/or withdrawals from reserve and reserve funds will be clearly identified and segregated within the Corporation's accounting system and accounted for by either an entry or to or from an operating cost centre or a capital project.

Funding strategies developed for reserves and reserve funds will take into account fairness to current and future tax/rate payers.

v) Lending/Transferring of Reserves and Reserve Funds for Other Purposes

Use for Other Purposes

If required, Council may by bylaw provide that the money raised from a reserve fund be spent, pledged or applied to a purpose other than that for which it was established.

Internal Loans/Transfers

Intra-fund lending from reserves and reserve funds is permitted to temporarily finance capital fund expenditures or operating cash flow deficiencies to avoid external temporary borrowing cost provided that all loans/transfers bear market rates of return and that interest income is credited to the original reserves.

External Loans

External loans may be made at the discretion of Council under Section 107 of the Municipal Act to any person, group or body for any purpose considered to be in the best interests of the municipality. However, prior to recommending such a loan to Council, staff will consider the following:

- Purpose of loan/benefit to be derived must be a public agency or group
- Term of loan not to exceed five years
- Appropriate security is provided to protect the interests of the Corporation
- A financial profile of borrower
- If adequate reserves are available for term of loan

All loans will be provided from non-restricted reserves such as the Working Capital Reserve or the General Capital Reserve as direct loan investment of reserve funds is prohibited under provincial legislation. External loans must bear market rates of return, commensurate with the term of loan and be credited to the appropriate reserve source.

c) Reporting Requirements

The Commissioner of Finance will prepare the following reports:

Annual Audited Financial Statements

Shall include a statement of financial position, financial activities and changes in fund balances for all reserves and reserve funds and as well, separately for outstanding sinking funds.

Long-Term Forecast Report

A report will be prepared annually identifying a reserve forecast of all reserves and reserve funds based on the Long-Term Capital Plan approved by Council and any other relevant information.

Periodic Adequacy Review of Report

Periodically a comprehensive review of the reserves and reserve funds will be made to determine if balances are adequate or the need for particular reserve or reserve funds shall exist or if new reserves or reserve funds are required.

Annual Budget and Business Plan

Contributions to and budget appropriations from reserves and reserve funds will normally be approved by Council as part of the annual Business Plan and Budget or specifically by resolution with the exception of those instances noted above.

Responsibilities:

Commissioner of Finance and Regional Treasurer:

The Commissioner of Finance and Regional Treasurer has overall responsibility for the management of reserves and reserve funds. In addition, the Commissioner of Finance has authority to rebalance reserve and reserve funds within the same funding sources as he/she deems necessary; and approve updates to the appendices in accordance with this policy, bylaws or statutes as amended.

Notwithstanding; responsibilities will be carried out by reporting Directors as follows:

Director, Treasury Office and/or designate:

- Determines need for reserves and reserve funds for operating and capital operation
- Sets targets for various reserves and reserve funds where appropriate
- Ensures a review and report to Council of the adequacy and continuing need for reserves and reserve funds is undertaken when deemed necessary
- Arranges for the preparation and presentations of required reports and/or bylaws for the creation or termination of any new or obsolete reserve or reserve funds
- Develops appropriate strategies, procedures and processes for the investment of reserves and reserve funds
- Prepares required reports to Council on any loan or advance to any agencies or boards where the source for such loans or advances is from a reserve or reserve fund
- Develops long range fiscal planning strategy to effectively meet the Corporation's Capital financing and capital asset replacement requirements

Director of the Office of the Budget and/or designate:

- Ensures the appropriate allowances, contributions and/or appropriations are accounted for in the Corporation's Annual Budget and Business Plan relating to the financial requirements of the reserves and reserve funds
- Develops long range fiscal planning strategy to effectively meet the Corporation's Capital financing and capital asset replacement requirements

Director of the Controllership Office:

- Monitors and reconciles all receipts to and disbursements from reserve and reserve fund accounts to ensure compliance with provincial regulations, PSAB and Reserve Policy
- Ensures all Financial Statement reporting requirements set out in Section (c) of this Policy are met

Reference:

Legislative and other authorities

- Development Charges Act, 1997, S.O. 1997, c. 27, Sections 33 to 37
- Municipal Act, 2001, S.O. 2001, c. 25, Sections 409 and 410
- Workplace Safety and Insurance Act, 1997, S.O. 1997, c. 16, Sched. A, Section 85

Appendices

- Appendix A: York Region Statutory Reserve and Reserve Funds
- Appendix B: York Region Reserves and Reserve Funds for Stability and Flexibility
- Appendix C: York Region Reserves and Reserve Funds for Major Capital Expenditures

Contact:

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Approval:

Council Date: February 28, 2019 Council Minute Item: G.3	Committee Date: February 21, 2019 Committee Minute Item: H

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Appendix A
York Region Statutory Reserve and Reserve Funds

Reserve Fund	Reference Legislation
Development Charges Reserve Fund	Development Charges Act 1997
Sinking Fund	Municipal Act 2001
WSIB Reserve Fund	Workplace Safety and Insurance Act 1997

Appendix B
York Region Reserves and Reserve Funds for Stability and Flexibility

Name	Year Established	Bylaw	Purpose	Sources of Funding
Debt Reduction	2013	2013-97	To reduce or eliminate the need to issue tax levy funded debentures.	Appropriations made from time to time from the operating budget. The earnings derived from investment of monies held in the reserve fund.
~~Federal Gas Tax~~Canada Community Building Fund	2005	There is no bylaw for this reserve.	To fund capital projects in the categories of public transit, water, wastewater, solid waste or community energy systems.	Funding provided by the Government of Canada under the agreement signed with the Government of Ontario and the Association of Municipalities of Ontario (AMO, who calculates the allocation for each municipality other than Toronto).
Fiscal Stabilization	2012	2012-4	To fund temporary revenue shortfall.	Appropriations made from time to time from the operating budget.
Fuel Cost Stabilization	2010	2010-57	To fund differences between actual and budgeted fuel rates during the year based upon projected volumes as well as any costs or savings arising from fuel price hedging transactions.	Appropriations made from time to time from the operating budget. Surpluses arising from differences between actual and budgeted fuel rates during the year based on projected volumes. Savings arising from fuel price hedging transactions.
Sun Life Group Benefits (Sun Life Dental, Sun Life Payroll Transfer, Sun Life Extended Health)		A-228-97-101	To pay, through Sun Life Assurance Company, all claims submitted by employees for extended health, drugs, and dental expenses, as well as the administrative fee for that service.	Funded by budget allocations to the departmental operating budgets, which are based on experience and forecasts provided by the Region's benefit consultant.
Innovation	2002	A-0316-2002- 099	Created to provide revolving funding for projects that will result in more efficient systems and/or ongoing operational savings.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council (among them, budgeted repayments of the revolving funds lent; repayment period cannot exceed 5 years).

Name	Year Established	Bylaw	Purpose	Sources of Funding
Insurance	1997	A-234-97-107	To fund costs incurred for insurance coverage and payment of claims.	Appropriations made from time to time from the operating budget.
Long Term Disability	2002	A-0312-2002-070	To accumulate funds to pay for all long term disability benefits (self-insurance) and associated administration expenses.	Appropriations made from time to time from the current estimates of the Regional Corporation, including an amount equal to the current annual premium that otherwise would have been paid to an insurance carrier (starting October 2002)
Non-Profit Housing Capital Repairs and Maintenance	2002	A-0317-2002-100	Created to offset the Region's potential exposure to under-funded capital expenditures of non-profit housing providers.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council.
Police - OMERS	1995	There is no bylaw for this reserve.	Represents a portion of the employer's share of surplus funds in the OMERS supplementary pension plan for Police. Some of these funds were used between 1993 and 1996 to offset the Social Contract obligations of the York Regional Police.	Interest earned on the employer's share of surplus funds received from OMERS associated with Type 3 contributions have been set aside in this Reserve.
Provincial Gas Tax	2004	A-0357-2004-102	Created to deposit gas tax transfers from the Province of Ontario. These monies must be used to fund the expansion of public transportation infrastructure and levels of service in the Region.	Funding provided by the Province of Ontario from time to time under its Dedicated Gas Tax Funds for Public Transportation Program. Allocation from such sources of revenue as may be determined by Regional Council.
Seized Monies	1999	There is no bylaw for this reserve.	Monies seized by York Regional Police as a result of criminal activities and monies which have been found and turned into the Police are held in trust for return to its rightful owner.	If the seized and/or found monies remain unclaimed, they are set aside in this Reserve.
Sick Leave (Police Staff)	1999	There is no bylaw for this reserve.	To provide for the liability related to Police employees' accumulated unused sick leave.	Funded by annual allocations from the York Regional Police operating budget.
Sick Leave	1982	A-231-97-104	To provide for the liability related to regional employees'	Historically, a surcharge of 1% of payroll had been allocated to

Name	Year Established	Bylaw	Purpose	Sources of Funding
(Regional Staff)			accumulated unused sick leave. Under the historical employee sick leave plan, unused sick leave could accumulate and employees were entitled to a cash payment of fifty percent of the amount accumulated up to a maximum of six months' salary when they left the Region's employ.	departmental operating budgets to fund this reserve.
Tax Stabilization	2002	A-0315-2002-098	To fund unforeseeable one-time expenditures.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council.
Working Capital	1997	A-227-97-100	To fund the day-to-day operations of the corporation and provide the ability to meet current liabilities prior to the receipt of tax levies from local municipalities and other revenues.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. Year-end operating surplus allocation.
Workers' Compensation (WSIB)	1996	A-196-96-58	To self-fund Workers' Compensation claims as a Schedule 2 employer.	Funding results from a charge to operating programs based on a percentage of salary.
Sinking Fund	2013	2013-99	To centralize the accumulated retirement contributions and related interest income associated with the Region's sinking fund debentures.	Appropriations made from time to time from the operating budget. The earnings derived from investment of monies held in the reserve fund.
Court Service	2015	2015-73	To assist the Court Services Branch in planning and managing its cost	Surplus net revenue related to the Provincial Offence Act. Appropriations made from time to time from the operating budget.

Name	Year Established	Bylaw	Purpose	Sources of Funding
Information Technology Licensing and Software Development	2015	2015-75	To fund enterprise-wide software licensing and development of financial applications	Appropriations made from time to time from the operating budget.
Water Rate Stabilization	2015	2015-76	To prevent fluctuations in water rates as a result of unforeseen expenditure	Appropriations made from time to time from the operating budget. Year-end surpluses from user rate budget.
Wastewater Rate Stabilization	2015	2015-77	To prevent fluctuations in wastewater rates as a result of unforeseen expenditure	Appropriations made from time to time from the operating budget. Year-end surpluses from user rate budget.
Green Energy	2016	2016-78	To hold revenues from renewable energy projects and to support future renewable energy and conservation projects	Revenue from solar generating installation. Appropriations made from time to time from the operating budget.
Cannabis Contingency	2018	2019-08	To fund unanticipated operating and capital costs related to the legalization of recreational cannabis.	Appropriations made from time to time from the operating budget.
Innovation Investment	2018	2015-74 and 2019-07	To provide funding to external parties for Council approved new innovation initiatives.	Appropriations made from time to time from the operating budget.
Waste Management Stabilization	2018	2019-09	To fund fluctuations in recycling material market prices and costs identified as part of the budget process.	$30 million transfer from the Solid Waste Management Reserve

Appendix C
York Region Reserves and Reserve Funds for Major Capital Expenditures

Name	Year Established	Bylaw	Purpose	Sources of Funding
Facilities Rehabilitation and Replacement	2000	A-0281-2000-096 and A-0321-2002-156	To fund major capital repairs or rehabilitation expenses associated with regional buildings and other capital purposes such as parking facilities and major equipment or infrastructure refurbishment.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. Funds unspent at the end of each year which were allocated for capital expenditures for major repairs and rehabilitation of Regional buildings.
Roads Capital	1998	A-247-98-69	To fund the tax levy component of roads capital projects as approved by Council.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council.
Capital Asset Replacement–Wastewater	2015	2015-79	To fund future major rehabilitation and/or replacement of wastewater assets.	Appropriations made from time to time from the user rate budget.
Capital Asset Replacement–Water	2015	2015-78	To fund future major rehabilitation and/or replacement of water assets.	Appropriations made from time to time from the user rate budget.
Development Charges	1991	DC-0004-2001-097) and DC-0005-2003-050), 2017-35	To fund growth related capital projects. The Region's Development Charges Bylaws identify the future growth related infrastructure requirements that can be financed by these reserves. The prevailing Bylaws were passed in November 2001 for GO Transit purposes and in June 1998 (amended in December 1999) for other purposes (Water, Wastewater, Roads, Police, LTC, Transit, Hospitals, etc.)	Development charges are levied based on a fixed charge for each residential and multi-residential unit and as a per square foot charge for industrial and commercial properties. Developer receipts must be treated in a manner prescribed by the Development Charges Act. Subsection 16(1) of this Act contains strict legislative direction that moneys received as development charges must be maintained in a separate reserve and may only be used to meet the growth related capital costs for which the development charge was imposed.
Equipment Replacement	1993	A-232-97-105	To fund the cost of maintenance, repair and replacement of	Appropriations made from time to time from the operating budget.

Name	Year Established	Bylaw	Purpose	Sources of Funding
			computer and other operating equipment.	Allocation from such sources of revenue as may be determined by Regional Council.
General Capital	1995	A-233-97-106	To Fund unspecified non-recurring capital expenditures.	Funded from the surplus from operations, if any, at year end after al other accruals and reserve allocations.
Hospital Financing	2010	2010-71	To fund eligible hospital capital project expenditures related to construction, expansion, enhancement or improvement, as approved by Council.	Appropriations made from time to time from the operating budget.
IT Development	2010	2010-65	To fund information technology capital projects related to expansion, enhancement or improvement as approved by Council.	Appropriations made from time to time from the operating budget.
Land Banking	2013	2013-98	To purchase land for future needs that has been identified as part of the Capital Plan.	Appropriations made from time to time from the operating budget. Project funds budgeted for land acquisition during the year in which Capital Spending Authority has been granted by Regional Council.
Land Securement	2001	A-0296-2001-091	To provide for the costs of land securement related to the Regional Greenlands Property Securement Strategy.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. Funds unspent at the end of each year which were allocated for land securement purposes in connection with the Regional Greenlands Property Securement Strategy.
Move Ontario	2008	2008-87	To fund investments in transit vehicles and transit infrastructure in compliance with any and all requirements, policies and procedures established by the Province of Ontario with respect to the funds.	Shall be operated and maintained from funding received from the Province of Ontario.

Name	Year Established	Bylaw	Purpose	Sources of Funding
Regionally Owned Housing	2008	2008-85	To fund the major rehabilitation and replacement of housing owned by the Region and Housing York Inc.	Appropriations made from time to time from the operating budget.
Roads Infrastructure	2008	2008-84	To fund the major rehabilitation and replacement of roads infrastructure.	Appropriations made from time to time from the operating budget.
Social Housing Development	1998 (amended in 2010)	A-060-1998-131 and 2010-64	To fund expenditures related to new affordable housing projects either developed for Housing York Inc., or third parties, as approved by the Region.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council.
Solid Waste Management	1993	A-230-97-103	To fund future infrastructure requirements for solid waste processing and waste transfer facilities.	Initially funded from royalties paid by the City of Toronto related to the Keele Valley facility. Currently financed by funds received from Waste Diversion Ontario (the amounts received are mainly calculated as a percentage of the costs of recycling.)
Transit	1999	A-0265-1999-091	To fund capital expenditures for Regional and GO Transit.	Initially funded with approximately $4.4 million of tax levy savings as a result of lower than budgeted GO Transit costs in the 1998 Local Services Realignment invoices. Savings in 1999of approximately $850,000 was also credited to this reserve fund.
Transit Vehicle Replacement	2013	2013-100	To refurbish and replace transit vehicles.	Appropriations made from time to time from the operating budget.
Vehicle Replacement	1997	A-236-97-109	To purchase replacement vehicles/equipment for the Regional Fleet.	Funded through an internal usage charge to Transportation and Works operating programs.

Name	Year Established	Bylaw	Purpose	Sources of Funding
Infrastructure Reserve - Police	2017	2017-63	To fund the tax levy component of the new capital assets and the rehabilitation and replacement of police assets.	Appropriations made from time to time from the operating budget.
Rapid Transit	2018	2019-10	To fund rapid transit projects to be identified in a future Council report	Reserve transfer of tax levy savings from the Integrated Bilateral Agreement – Public Transit Stream. Funded from the Rapid Transit Infrastructure Levy surcharge.

Status: **Final**
Approved By: **Council**

The Regional Municipality of York

Investment Policy

Policy No.: 7040110

Original Approval Date: October 19, 2006

Policy Last Updated: June 28, 2018

Policy Statement:

A policy governing the use and management of surplus funds and investments including those being managed on behalf of external clients.

Application:

All Regional employees who are responsible for the control, administration and reporting of investments managed by the Corporation.

Purpose:

This policy establishes the objectives, standards of care, eligible investments, reporting requirements and responsibilities for the prudent management of surplus funds and investments including those managed, where applicable, on behalf of external clients.

Definitions:

Approved Entity: Move Ontario Trust and any municipality incorporated in the Province of Ontario.

Asset Backed Securities: Fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

CHUMS Financing Corporation (CHUMS): A subsidiary of the Municipal Finance Officers Association of Ontario (MFOA) which in conjunction with the Local Authority Services Limited operates the ONE Investment Program,

Corporation: The Regional Municipality of York, its Boards and Subsidiaries.

Credit Risk: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Diversification: A process of investing assets among a range of security types by class, sector, maturity, and quality rating.

Duration: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables**:** term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

External Client: Any approved entity outside the Corporation.

Forward Rate Agreement (FRA): A contract with a qualified financial institution (eg. bank) that allows an investor to fix a rate of interest to be received on an investment for a specified term beginning at a specified future date.

FTSE Indices: Indices tabulated by FTSE TMX Global Capital Markets (formally PC Bond/DEX Analytics) a business unit of the Financial Times Stock Exchange and a subsidiary of the London Stock Exchange Group a leading provider of fixed income performance benchmarks and data bases in Canada and globally.

Interest Rate Risk: The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Investment-grade Obligations: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated “BBB” or higher by a rating agency.

Liquidity: A measure of an asset’s convertibility to cash.

Local Authorities Service Limited (LAS): A subsidiary of the Association of Municipalities of Ontario (‘AMO’) which in conjunction with CHUMS operates the ONE Investment Program.

ONE -Investment Program: A professionally managed group of investment funds composed of pooled investments that meet eligibility criteria as defined by regulations under the Municipal Act.

Market Risk: The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: Current market price of a security.

Maturity: The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See “Weighted Average Maturity”.

Prudent Person Rule: An investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

Safekeeping: Holding of securities by a qualified financial institution (e.g. bank) on behalf of the investor.

Schedule I banks: Schedule I banks are domestic banks and are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation (see Appendix 3).

Schedule II banks: Schedule II banks are foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions (see Appendix 3).

Schedule III banks: Schedule III banks are foreign bank branches of foreign institutions that have been authorized under the *Bank Act* to do banking business in Canada. These branches have certain restrictions (see Appendix 3).

Sinking Fund: Securities and/or deposits accumulated on a regular basis in a separate safekeeping and/or bank account that will be used to redeem debt securities at maturity.

Summary of Investment Procedures: A document developed and maintained by the Treasury Office that summarizes specific duties and procedures relating to the operation of the investment program.

Supranational: An agency sponsored by either a single or group of highly rated foreign banks or governments that will issue debt to fund loans in developing countries or large infrastructure projects. Supranational institutions may be owned or guaranteed by a consortium of national governments and their debt is typically rated "AA" or higher.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio.

Description:

1. Objectives of the Corporation's Investment Program

The primary objectives of the investment program, in priority order, shall be:

a) Adherence to statutory requirements
b) Preservation of capital
c) Maintaining liquidity
d) Earning a competitive rate of return

a) Adherence to Statutory Requirements

All investment activities shall be governed by the *Municipal Act* as amended. Investments, unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations, including O.Reg 399/02 and O.Reg 655/05.

b) Preservation of Capital

Safety of principal is an important objective of the investment program. Investments shall be undertaken in a manner that seeks to minimize the risk to capital in the overall portfolio. Staff shall endeavor to mitigate credit and interest rate risk as follows:

Credit Risk:

- Limiting investments to safer types of securities
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Corporation does business
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized
- Setting dollar limits on the size of portfolio investments in asset sectors (fixed income and equities) and in individual credit names

Interest Rate Risk:

- Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities or approved liquid investment pools
- Diversifying longer-term holdings to mitigate effects of interest rate volatility
- Use of Forward Rate Agreements when appropriate
- Investing in shares or equities of Canadian corporations through the ONE Investment Program

c) Maintaining Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements and limit temporary borrowing requirements. This shall be done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands.

Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio may be placed in local government investment pools (eg. ONE Investment Program) which offer liquidity for short-term funds.

d) Competitive Rate of Return

Without compromising other objectives, the Corporation shall maximize the rate of return earned on its portfolio by implementing a dynamic investment strategy as part of its investment program. Trends in macro-economic variables will be monitored including interest rates, inflation, and foreign exchange rates, as affected through the political arena and international developments and perceptions.

Diversification, and ensuring safety of principal by limiting exposure to credit, sector or term risks, also provides opportunities to enhance the investment returns of the Corporation's portfolio by means of prudent and timely adjustments to asset mix.

2. Standard of Care

a) Prudence

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment officers and employees exercising due diligence and acting in accordance with written procedures and this Policy shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of the Policy.

b) Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Officers and employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Corporation.

c) Delegation of Authority

The Commissioner of Finance and Treasurer will have overall responsibility for the prudent investment of the Corporation's portfolio. The Director of the Treasury Office (the "Director") will be responsible and have the authority for the implementation of the investment program and the establishment of investment procedures consistent with the Policy. Such procedures shall include the explicit delegation of the authority needed by staff in order to complete investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy.

The Director shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officers and employees and shall exercise control over them. The Director may delegate responsibility for the day-to-day management of the portfolio to subordinate investment officers within established guidelines.

d) Competitive Selection of Investment Instruments

All securities' purchases/sales will be transacted through a competitive process only with financial institutions approved by the Commissioner of Finance and Treasurer or the Director of the Treasury Office. The Corporation will accept the offer which (a) has the highest rate of return within the maturity required; and (b) optimizes the investment objectives of the overall portfolio. When selling a security, the Corporation will select the bid that generates the highest sale price or the transaction which will yield the best return for the portfolio. If there is a tie bid between one or more dealers, the Corporation will award the winning bid to the dealers on a rotating basis.

It will be the responsibility of authorized investment officers and employees involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions solicited (at least 2 dealers), quoted or interpolated rate, description of the security, investment selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale shall be included in this record.

3. External Investment Clients

Where the Region has undertaken to manage investment portfolios on behalf of an external client account as allowed under Section 420(1) of the Municipal Act and in conformity with Section 25(3) of the Securities Act, it will do so on the following basis:

a) The investment objectives, authorized investments, reporting requirements, and term and sector limits will be in accordance with the external client's investment policy.

b) Each and all portfolios managed will be held separate from the Region's own investment portfolios. The rate of return of the portfolio will reflect the earnings of the investments held only in that portfolio.

c) Each engagement will be subject to a mutually agreed and signed agreement.

d) Prior to the engagement, the following process will be undertaken:

   i) Review client needs, expectations and risk tolerances

   ii) Establish term limits and approved credit exposures

   iii) Agree on a list of eligible investments

   iv) Establish appropriate goals and benchmarks

   v) Prepare and finalize the agreement

e) The agreement will set out the following:

   i) Duties and roles of both parties

   ii) Management expense fee

   iii) Reporting and portfolio review requirements

4. Suitable and Authorized Investments

4.1 The following Canadian Dollar investments are authorized for the purposes of this Policy within the limitations set out in Investment Parameters section and Appendix 1.

a) Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by:

1) Canada or a province or territory of Canada
2) An agency of Canada or a province or territory of Canada
3) A country other than Canada
4) A municipality in Canada including the Regional Municipality of York
5) The Infrastructure Ontario and Lands Corporation
6) A school board or similar entity in Canada (money must be used for school purposes)
7) A post-secondary educational institution
8) The board of governors of a college of applied arts and technology of Ontario
9) A local board as defined in the *Municipal Affairs Act* or a conservation authority
10) A board of a public hospital
11) A non-profit housing corporation
12) A local housing corporation
13) The Municipal Finance Authority of British Columbia
14) The International Bank for Reconstruction and Development
15) A supranational financial institution or a supranational governmental organization
16) Asset-backed securities, with a minimum credit rating of “AAA”
17) A corporation that is incorporated under the laws of Canada or a province of Canada with a maturity of not more than 5 years provided it has a minimum credit rating of “A-”

b) Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by:

   i) a bank listed in Schedule I, II or III to the Bank Act (Canada)

   ii) a loan corporation or trust

   iii) a credit union or league, or

   iv) the Province of Ontario Savings Office

c) Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.

d) Bonds, debentures, promissory notes, other evidence of indebtedness or securities of a corporation if the Corporation first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose (can only be held for 90 days).

e) Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province in Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date the Corporation makes the investment provided that the investment is done through the ONE Investment Program.

f) Shares of a corporation if:

   i) The corporation has a debt payable to the Regional Municipality of York

   ii) Under a court order, the corporation has received protection from its creditors

   iii) The acquisition of the shares in lieu of the debt is authorized by the court order, and

   iv) The Commissioner of Finance and Treasurer is of the opinion that the debt will be uncollectible by the Region unless the debt is converted to shares under the court order

g) Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada, provided that the investment is done through the ONE Investment Program.

4.2 The following United States dollar investments are authorized for the purposes of this Policy within the limitations set out in the Investment Parameters section and Appendix 1.

Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by bank listed in Schedule I to the Bank Act (Canada)

5. Investment Parameters

Fixed income investments shall be diversified by:

a) Diversifying investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities)

b) Limiting investment in securities to those that have higher credit ratings

c) Investing in securities with varying maturities, and

d) Investing in mainly liquid, marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations

In order to promote diversification of the Corporation’s investment portfolio, percentage weightings for class and type of securities shall be established and maintained.

Column “d” of Appendix 1 sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio. Column “e” of Appendix 1 sets out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio. Column “f” of Appendix 1 sets out the maximum term limit for each investment class and issuer.

The Corporation shall adopt weighted average maturity limitations consistent with investment objectives. The Corporation shall also hold sufficient funds in short term investment instruments in order to maintain adequate liquidity. Appendix 2 sets out minimum and maximum term exposures in order to ensure liquidity requirements are maintained. The Corporation shall sell an investment within 30 to 90 days if that investment’s rating falls below the standard as set out in Appendix 1. However, the investment could be held for a longer period if a plan has been developed for its disposal, including expected timelines for selling the investment and the plan has been approved by the Commissioner of Finance and Treasurer or his/her designate.

6. Reporting Requirements

a) Allocation of Investment Income

Allocation of investment earnings from General Fund Portfolios will be allocated monthly to the appropriate reserve, deferred revenue or other account of the Corporation as set out in Appendix 3. The rate of return credited will take into consideration the length of time that investments will be held for the purposes of that account.

b) Reports to Council

The Commissioner of Finance and Treasurer shall submit an investment report for Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner which will allow Council to ascertain whether investment activities during the reporting period have conformed to the Policy. The investment report will include the following:

- Listing of individual securities held at the end of the reporting period
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements)
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks
- Listing of investment by maturity date
- Percentage of the total portfolio which each type of investment represents
- A statement about the performance of the investment portfolio during the period covered by the report
- An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous year's report

- A statement by the Commissioner of Finance and Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the Corporation

- If an investment made by the Corporation is in the opinion of the Commissioner of Finance and Treasurer not consistent with the Policy, the inconsistency shall be reported to Council within 30 days (or the next earliest opportunity) after becoming aware of it

- A record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; If the Corporation has any existing forward rate agreements in a fiscal year, the Commissioner of Finance and Treasurer shall prepare and present to Council once in that fiscal year, or more frequently if Council so desires, a detailed report on all of those agreements, which will contain:

  - A statement about the status of the forward rate agreements during the period of the report, including a comparison of the expected and actual results of using the agreements

  - A statement by the Commissioner of Finance and Treasurer indicating whether, in his or her opinion, all of the forward rate agreements entered during the period of the report are consistent with the Corporation’s statement of policies and goals relating to the use of forward rate agreements

- Such other information that the Council may require or that, in the opinion of the Commissioner of Finance and Treasurer, should be included

c) Performance Benchmarks

It is anticipated that the investment portfolio will earn an average rate of return that is at least commensurate with the investment risk constraints and cash flow needs of the Corporation. Therefore, the actual rate of return earned on the portfolio will be regularly compared to performance benchmarks that have been previously established.

The benchmark(s) may vary from time to time as determined by the Director of the Treasury Office in order to be comparable to the composition and average term of the current holdings of the investment portfolio. The performance of the General Portfolio will be compared using two sets of performance benchmarks – an index-based benchmark and a managed portfolio benchmark.

The index benchmark will be based on a proportional blend of applicable components of the following indices:

- FTSE Canadian Money Market Index
- FTSE Canadian Short-Term Bond Index
- FTSE Canadian Medium-Term Bond Index, and
- FTSE Canadian All Government Long-Term Bond Indexes

The managed portfolio benchmark will be based on a proportional blend of rate of returns earned by the following funds:

- ONE Investment Program Money Market Fund, and
- ONE Investment Program Bond Market

d) Marking to Market

The market value of the investment portfolio shall be calculated monthly or more frequently if determined necessary by the Director of the Treasury Office.

7. Safekeeping and Custody

All securities shall be held for safekeeping by a financial institution approved by the Corporation. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the Corporation.

The depository shall issue a safekeeping receipt to the Corporation listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for the Corporation, the book value of holdings and the market value as of month-end.

8. Securities Lending

The Corporation may engage in the practice of securities lending as provided in Section 418 of the *Municipal Act* to enable the corporation to increase its return on its custodial portfolio by lending certain assets to recognized borrowers for a fee.

9. Forward Rate Agreements

The Corporation may enter into Forward Rate Agreements (FRAs). FRAs may only be used to reduce the risk of future interest rate changes associated with known cash inflows and will be subject to the conditions set out in Appendix 2.

The FRA agreement must specify:

- The forward amount, which is the principal on which the interest rate is based upon
- A settlement date
- The forward interest rate
- The reference rate of interest
- A schedule of approximate payments/cost to or by the Corporation should the reference rate and the forward rate differ

A report analyzing the risks and return profile of the transaction, the risk exposure to the Corporation without the FRA and specific risk control measures must be approved by the Commissioner of Finance or Treasurer prior to entering into a FRA agreement.

Responsibilities and Authorities:

Commissioner of Finance and Treasurer and/or the Director, Treasury Office:

- Develops and maintains all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Corporation's investments, including those managed on behalf of external clients, if applicable, are properly managed and adequately protected.

- Ensures that the summary of Investment Procedures remains up to date and accessible to all investment officers and employees.

- Enters into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities.

- Determines rate of return to be allocated to accounts based on Appendix 3 and the portion of any deferred revenue, reserve or reserve fund deemed to be investable for the long-term.

- Will delegate the responsibilities and functions of the Treasury Office to investment officers and employees in a manner that would delineate between front, back office and a potential risk management committee. The duties performed by the trading desk and back office will be clearly segregated to maintain the integrity of the financial records. The function of executing and confirming trades will be separated from investment officers or employees directly responsible for the trade.

- May delegate all or part of the day-to-day management of investments to a qualified investment officer (e.g., Manager, Investment and Cash Management).

- Ensures that a review of the investment portfolio is performed daily to verify its compliance with the sector and credit exposure limitations set out in Appendix 1 by the appropriate investment officers or employees within the Investment and Cash Management Division.

- Ensures that any investment that becomes inconsistent with this Policy will be disposed of within 180 days.

- Ensures that credit rating of securities held in the investment portfolio are being monitored regularly by appropriate investment officers or employees within the Investment and Cash Management Division and any material negative changes are communicated in a timely manner to the Director, Treasury Office and the Director, Controllership Office, or their designates.

- Executes and signs documents on behalf of the Corporation and performs all other related acts in the day-to-day operation of the investment and cash management program.

- Ensures all Reporting Requirements identified within this Policy are met.

- May temporarily authorize an amendment to the Term Limits shown in Appendix 2 should an operational need arise.

- Obtains adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Corporation’s financial assets.

Reference:

Section 418 of *Municipal Act*

Section 420 of the *Municipal Act*

Section 25 of the *Securities Act*

Ontario Regulation 438/97

Ontario Regulation 265/02

Ontario Regulation 299/02

Ontario Regulation 655/05

Contact:

Director, Treasury Office, Finance Department

Approval Information:

Council Approval Date: June 28, 2018	**Committee Name:** Committee of the Whole
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Accessible formats or communication supports are available upon request.

Appendix 1 – Authorized Investments and Sector Limitations

Sectors	Minimum Credit Rating	Money Market Rating	Sector/Credit Exposure Limitation[1] (maximum)		Sector Term Limitation (Maximum)
			Portfolio Limit	Individual Limit	
(a)	(b)	(c)	(d)	(e)	(f)
Federal[2]					
Canada	N/A		100%	.	50 years
Federal Guarantees	N/A		50%	10%	50 years
Other Countries[2]					
Government	AAA		20%	10%	20 years
Government	AA (L)		10%	5%	10 years
Other Countries Total			20%		
Provincial[2]					
	AA	R1 mid	75%	35%	40 years
	A		25%	15%	30 years
	BBB		10%	5%	10 years
Provincial Total			80%		
Municipal					
Region of York[3]	N/A		25%	25%	None
Other Municipalities[4]	AAA		35%	5%	40 years
	AA		25%	5%	40 years
	A		10%	2%	40 years
	Not rated		5%	2%	10 years
Applied Arts, Housing Corp, Education &	AA(L)		25%	5%	10 years

[1] exposure % limitations to be applied to the par value of the total portfolio
[2] includes guarantees
[3] includes advances to area municipalities
[4] Infrastructure Ontario & BCMFA, School Boards, Local Boards & Conservation.
[5] Investment in these securities is contingent upon the Region maintaining a credit rating at or above AA (L)
[6] Maximum 25% beyond 5 years
[7] Including High Interest Savings Account
[8] United States dollar investments are limited to no more than 1% exposure limit

Hospitals					
Municipal Total			35%		
Asset Backed[5]	AAA	R1 high	20%	5%	10 years
Banks					
Schedule I Banks	A-	R1 mid	50%	25%	10 years[6]
Schedule II Banks	A-	R1 mid	20%	10%	5 years
Schedule III Banks	A-	R1 mid	10%	3%	5 years
Banks Total			**50%**		
Corporate					
Corporate debt[5]	A-	R1 mid	25%	5%	5 years
	A-		**15%**	3%	5 years
Corporate Total			**30%**		
Supranational					
International Bank for Reconstruction and Development[i]	AAA		10%	10%	30years
Other governmental or financial institutions	AAA		15%	10%	30 years
Supranational Total			**20%**		
ONE Investment					
Money Market[7]	n/a		10%	n/a	
Bond Fund	n/a		10%	n/a	
Equity/Shares	n/a		10%	n/a	
Corporate Debt	A		10%	n/a	> 5 year
ONE Total			**25%**		
Other					
Loan or trust corporation, credit union, Province of Ontario Saving Bank	AA(L)		20%	5%	10 years

Appendix 2 – Portfolio Term Limitations[1]

	Percentage	
Term Limitation	**Minimum**	**Maximum**
Less than 90 days	5%*	100%
Less than 1 year	10%	100%
From 1 year up to, but not including 5 years	0%	85%
From 5 years up to, but not including 10 years	0%	60%
From 10 years up to 50 years	0%	30%

Note: to include known cash receipts due within 90 days

Other Restrictions:

1) Term is limited to an individual maximum term of 50 years for certain securities and the weighted average term shall not exceed 10 years for the general portfolio.

2) Investments for terms in excess of 1 year are restricted subject to investments specified and the credit rating limitation set out on Appendix 1.

3) Forward Rate Agreements (FRAs) may only be executed with Schedule I, II or III Banks whose credit rating is as permitted by provincial regulation. The term of any FRA must be less than 1 year and not more than 25% of previous year's cash receipts.

[1] Term % limitations to be applied to the total amortized book value of the General Fund Portfolio.

Appendix 3 – Allocation of Investment Income

The method for allocating interest to accounts with surplus balances will reflect the term characteristics of that account.

The rate structure will be based on a three-tier system as follows:

1. Short-term rate – rate of return realized from the short-term money market portion of the General Fund portfolio including cash held on deposit with the Region's bank service provider.
2. Mid-term rate – a rate of return less than the long-term rate, as determined by the Commissioner of Finance and/or Director, Treasury Office
3. Long-term rate – rate of return realized from all long-term and any residual income not accounted for in the short and mid-term rate calculation above.

The short-term rate will be applied to the following accounts:

1. All deferred revenue accounts
2. The following corporate reserves:
   - Dental
   - Payroll Transfer
   - Extended Health
   - Vacation Pay
3. The following specific reserves:
   - Fuel Cost Stabilization
   - Hospital Financing
   - Transit
   - ~~Federal Gas Tax~~Canada Community Building Fund
   - Provincial Gas Tax
   - Road Capital
   - Pandemic Management

~~3.~~4. Funds held on behalf of other organizations

The long-term rate will be applied to the following accounts:

1. Water - Capital Replacement
2. Sewer - Capital Replacement
3. Facilities Rehabilitation and Replacement
4. Roads Rehabilitation and Replacement
5. Region Owned Housing
6. Transit Vehicle Replacement
7. Any portion of a deferred revenue account, a reserve or reserve fund that maintains a consistent average outstanding balance that, at the discretion of the Commissioner of Finance and/or Director, Treasury Office, is deemed to be investable for the long term.

The mid-term rate will be applied to all other reserve and reserve funds.