

The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 4, 2023

Report of the Commissioner of Finance

Financing Leases as at December 31, 2022

1. Recommendations

Council receive this report for information.

2. Summary

In accordance with Ontario Regulation 653/05 (the “Regulation”) under the *Municipal Act, 2001*, the Region is required to report all financing leases that were in place as at December 31, 2022.

Key Points:

- Financing leases are a subset of all lease commitments of the Region for which the payments extend beyond the current term of Council
- The net present value of financing leases at the end of 2022 was \$33.2 million, which represents the Region’s financial obligation over the remaining term of the leases
- This report confirms that, in the opinion of the Commissioner of Finance and Regional Treasurer, all financing leases entered into in 2022 are in accordance with the policies and goals set out in the Region’s Capital Financing and Debt Policy (the “Policy”)

3. Background

Provincial regulation requires annual reporting of financing leases

The Policy governs the administration of capital financing leases. The Policy incorporates all the requirements of the Regulation, including the need to provide this annual report to Council.

The Regulation states the annual report must identify all financing leases, estimate the proportion of financing leases to the total long-term debt of the municipality, and contain a statement by the Treasurer that all the lease financing agreements were made in accordance with the municipality’s policies and goals. The Policy also incorporates the requirements of

Ontario Regulation 403/02, which stipulates that financing leases are counted toward the Region’s debt and financial obligation limit, also known as the annual repayment limit.

A financing lease extends beyond the term of Council

A “lease financing agreement”, which would include a financing lease has a very specific definition in Ontario Regulation 266/02 and as referenced in the Regulation. Financing leases are a subset of all lease commitments of the Region. A financing lease is a lease for the provision of municipal capital facilities for which the payments extend beyond the current term of council. According to the provincial definition, municipal capital facilities include land, works, equipment, machinery, and related systems and infrastructures. Leases that expire within the same term of council do not meet the definition of a financing lease.

Financing leases in this report differ from the contractual obligation for leases reported in the Region’s annual audited financial statements

Both the Regulation and Public Sector Accounting Standards Section PS 3390 require some reporting of lease obligations, but the criteria are different. This report shows the net present value of all lease payments, over the entire term of a lease, but only for leases that meet the definition of the Financing Lease per Ontario Regulations 266/02 and 653/05.

In contrast, the Region’s annual audited financial statements, prepared in accordance with the Public Sector Accounting Standards, include a disclosure of the minimum payments, for the next five years, for all leases.

Amounts in Appendix A to this report do not match lease amounts disclosed in the Region’s audited financial statements. The differences between financing leases and the contractual lease obligations are summarized in Table 1.

Table 1

Comparison of financing leases and contractual lease obligations

Comparative Factor	Financing Leases	Contractual Lease Obligations
Reporting requirements	Ontario Regulation 653/05	Public Sector Accounting Standards section PS 3390 – Contractual Obligations
Document	Report to Council	Annual audited financial statements
Period	Term of lease	5 years beyond the date of the financial statements
Scope	A subset of leases at the end of the reporting year and extending beyond the term of Council	All leases including those entered into after the end of the reporting year
Value of money	Net present value	Nominal dollars

The Regulation requires Council approval for new financing leases that are material

The Regulation allows a municipality to differentiate between material and non-material financing leases, to be defined in the municipality's policies. The Policy defines a material financing lease to be one for which the annual payment is more than \$250,000 or where the lease has a net present value equal to or greater 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.

All material financing leases entered into during the year must be approved by Council and be supported by a Treasurer's report. The Treasurer's report assesses the costs and risks associated with the proposed lease, as well as provides a comparison with other forms of financing.

4. Analysis

All financing leases in 2022 conformed to policy guidelines

Total average annual payments were \$4.3 million for all 31 financing leases of the Region as at December 31, 2022, that expire beyond 2026, the current term of Council. Details are provided in Appendix A, which include both material and non-material financing leases.

The Policy requires that the following cost and risk factors be considered compared to other forms of financing prior to the use of all financing leases:

- The ability for lease payments to vary, either based on an underlying benchmark debt instrument, or based on changes in the assumed residual value of the asset
- Uncertainty over leasing costs if the contract needs to be extended or renewed
- Financial strength of the leasing company

The lease information in this report was verified by departments. Legal Services also reviewed all lease agreements prior to their execution. Legal Services has confirmed that the Region entered into [one material lease](#) in 2022 which, in the opinion of the Commissioner of Finance and Regional Treasurer, was renewed in accordance with the lease policy and goals contained in the Policy.

The net present value of all financing leases was \$33.2 million as at December 31, 2022

Table 2 shows the net present value of all financing leases at the end of 2022, itemized by type, as well as the proportion of financing leases relative to the Region's total long-term debt in comparison to the prior year.

The net present value of financing leases at the end of 2022 was \$33.2 million, which represents the Region's financial obligation over the remaining term of the leases.

The net present value of the financing leases decreased by \$18.3 million, from \$51.5 million in 2021 to \$33.2 million in 2022. The decrease was primarily the result of 19 leases no longer meeting the definition of a financing lease, as the new Council term goes from 2022-2026 where the previous report was prepared for 2019-2022 Council term. Therefore, leases that expire between 2023 and 2026 are excluded in the current year's report where previously they had been included. This decrease was offset by the addition of one new financing lease in 2022. Additionally, both the short-term and long-term discount rates have been updated which resulted in an overall decrease of the net present value given the increase in rates.

Financing leases represented approximately 1.41% of the total long-term debt of the corporation.

Table 2
Net Present Value (NPV) of Financing Leases

Type	Amount as at Dec. 31, 2022 (\$Million)	Amount as at Dec. 31, 2021 (\$Million)	Change (\$Million)
A. Real estate	33.1	51.3	(18.2)
B. Miscellaneous Equipment	0.1	0.2	(0.1)
C. Total NPV of Financing Leases as at Dec 31 (= A + B)	33.2	51.5	(18.3)
D. Total Long-Term Debt* plus NPV of financing leases	2,350.7	2,592.1	(241.4)
E. Total NPV of Financing Leases as a Proportion to the Total Long-Term Debt plus NPV of financing leases (= C / D)	1.41%	1.99%	(0.58%)

*Total long-term debt is the debt incurred by the Region and outstanding at the end of the year, offset by the value of the sinking fund asset set aside to repay the sinking fund debt. Debt and sinking fund for local municipalities is excluded.

5. Financial

There are no new financial implications associated with this report.

6. Local Impact

There is no direct impact on local municipalities.

7. Conclusion

This report meets the reporting requirements set out by Ontario Regulation 653/05 under the *Municipal Act, 2001* and the Region's Capital Financing and Debt Policy which governs the use of capital financing leases.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.



Recommended by:

Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer



Approved for Submission:

Bruce Macgregor
Chief Administrative Officer

April 21, 2023

eDOCS #14861087

Appendix A – Financing Leases as at December 31, 2022

**The Regional Municipality of York
Financing Leases as at December 31, 2022**

Description	Address	Term of Lease Including Renewal Options (Years)	Expiry Date	Average Annual Cost (\$)	Net Present Value (\$)
<i>Police Real Estate Leases</i>					
Bruce's Mill (Community Safety Village)	3291 Stouffville Road, Whitchurch-Stouffville	30	7/18/2032	17,260	135,687
Queensway North (Telus) Tower	297 Queensway North, Georgina	10	12/31/2028	29,719	158,582
Tangreen (Communication Tower)	10 Tangreen Court, North York	11	12/31/2028	24,119	128,698
Township of King Sub Station	2585 King Road, Kettleby	20	12/31/2038	28,994	326,987
Whitchurch Stouffville Substation	111 Sandiford Drive, Whitchurch Stouffville	20	10/31/2033	85,823	738,454
York Regional Police Association (YRPA)	63 Eric T. Smith Way, Unit 204, Aurora	20	12/31/2041	98,083	1,236,725
York Regional Police Association (YRPA)	63 Eric T. Smith Way, Unit 205, Aurora	5	6/30/2027	45,642	188,217
Police Real Estate Leases Subtotal				329,639	2,913,350
<i>Transit Leases</i>					
Access way to Richmond Hill Centre Terminal	Access way to Richmond Hill Centre Terminal, Richmond Hill	25	12/31/2030	27,075	184,426
Bernard Bus Terminal ¹	10909 Yonge Street, Richmond Hill	Note 1	None	1	22
Pioneer Village Station ²	50 Settler Road, Vaughan	Note 2	None	32,000	708,592
TTC - Don Mills	1700 Sheppard Avenue East, Toronto	10	11/24/2027	121,980	543,779
TTC - Downsview	1035 Sheppard Avenue West, Toronto	10	9/30/2030	56,825	377,731
Vaughan Mills Bus Terminal	1 Bass Pro Drive, Vaughan	99	12/1/2103	221,926	4,786,455
YRT Bus Supply Warehouse	35 Killaloe Road, Vaughan	10	2/28/2030	114,668	712,546
Transit Leases Subtotal				574,475	7,313,550
<i>EMS Leases</i>					
EMS Aurora - Fire Hall	220 Edward Street, Aurora	35	12/31/2034	33,556	308,270
EMS Markham - Fire Hall	10 Riviera Drive, Markham	25	4/30/2029	65,442	366,027

Description	Address	Term of Lease Including Renewal Options (Years)	Expiry Date	Average Annual Cost (\$)	Net Present Value (\$)
EMS Nobleton	15 Old King Road, Nobleton	23	8/31/2028	26,492	134,622
EMS Schomberg ³	15 Dillane Drive, King	50	4/14/2061	1	18
EMS Mount Albert	22A Princess Street, East Gwillimbury	41	8/31/2044	1,373	18,962
EMS Stouffville - Fire Hall	100 Weldon Road, Whitchurch-Stouffville	35	11/26/2044	14,194	197,291
EMS Unionville - Fire Hall	316 Main Street, Markham	25	3/31/2027	37,526	146,816
EMS Vaughan - Fire Hall	7690 Martingrove Road, Vaughan	49	1/31/2066	62,587	1,187,409
EMS Leases Subtotal				241,171	2,359,416
Other Real Estate Leases					
Community Environmental Centre (Elgin Mills Road)	1200 Elgin Mills Road East, Richmond Hill	21	9/30/2030	45,640	303,381
Early Intervention Services	13175 Yonge Street Premises and Basement, Richmond Hill	20	2/28/2027	357,545	1,373,098
Markham Early Intervention Services	9275 Highway 48 (Markham Road), Units 16, 17, 202 and 204, Markham	13	1/7/2027	243,079	903,993
Markham Health Services	4261 Hwy #7E, Suites B4-B9, Suite C-1, Markham	21	11/30/2029	376,461	2,275,095
Markham Household Hazardous Waste Depot	555 Miller Avenue, Markham	19	12/31/2027	41,218	187,096
South East District Yard (Richmond Hill Works Yard)	1700 Major Mackenzie Drive East, Richmond Hill	38	3/31/2033	73,707	607,091
South Services Centre	50 High Tech Road, Richmond Hill	31	12/31/2031	1,850,674	13,862,202
The Link	20849 Dalton Road, Georgina	16	9/30/2035	113,163	1,087,118
Other Real Estate Leases Subtotal				3,101,485	20,599,073
Office Services Printer Leases					
Print Shop / High Capacity Sheet Feeder - for File-based Processing	17250 Yonge Street, Newmarket	6	9/30/2027	12,913	55,951
Office Services Printer Leases Subtotal				12,913	55,951
Financing Leases Total				4,259,682	33,241,341

¹ No end date, the land was conveyed to the Region for the period it is required to operate a public transit service, nominal rent is charged for the lease

² Lease term is to the end of subway service

³ The landlords are area municipalities of York Region, consequently nominal rents are charged for these leases