

The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 5, 2022

Report of the Commissioner of Finance

Financing Leases as at December 31, 2021

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, 2021.

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 2021 was \$51.6 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 2021 are in accordance with the policies and goals set out in the Capital Financing and Debt Policy (the “Policy”)
- Private Attachment 1 to this report will be considered in a private session because it relates to the security of Regional property

3. Background

Provincial regulation requires annual reporting of financing leases

The Capital Financing and Debt Policy governs the administration of capital financing leases. The Policy incorporates all the requirements of Ontario Regulation 653/05, including the need to provide this annual report to Council.

The Regulation states that 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 Ontario Regulation 653/05. 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 Ontario Regulation 653/05 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 disclosure of the minimum payments, for the next five years, for all leases.

Amounts in Attachment 1 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 Region’s Capital Financing and Debt 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 2021 conformed to policy guidelines

Total annual payments were \$7.3 million for all 50 financing leases of the Region as at December 31, 2021, that expire beyond 2022, the current term of Council. Details are

provided in Attachment 1 and Private Attachment 1, which include both material and non-material financing leases.

The Capital Financing and Debt 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 did not enter into any material leases in 2021.

The net present value of all financing leases was \$51.6 million as at December 31, 2021

Table 2 shows the net present value of all financing leases at the end of 2021, 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 2021 was \$51.6 million, which represents the Region's financial obligation over the remaining term of the leases.

The net present value of the financing leases increased by \$5.2 million, from \$46.4 million in 2020 to \$51.6 million in 2021. The increase was primarily the result of the extension of some existing lease agreements and the confirmation of renewal options in 2021 which made 13 non-financing leases from 2020 become financing leases in 2021 and the addition of 4 new leases in 2021. As well, both the short-term and long-term discount rates have been updated which resulted in an overall increase of the net present value.

Financing leases represented approximately 1.99% of the total long-term debt of the corporation.

Table 2
Net Present Value (NPV) of Financing Leases

Type	Amount as at Dec. 31, 2021 (\$Million)	Amount as at Dec. 31, 2020 (\$Million)	Change (\$Million)
A. Real estate	51.4	46.4	5.0
B. Miscellaneous Equipment	0.2	0.0	0.2
C. Total NPV of Financing Leases as at Dec 31 (= A + B)	51.6	46.4	5.2
D. Total Long-Term Debt* plus NPV of financing leases	2,592.1	2,770.7	(178.6)
E. Total NPV of Financing Leases as a Proportion to the Total Long-Term Debt plus NPV of financing leases (= C / D)	1.99%	1.67%	0.32%

*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.

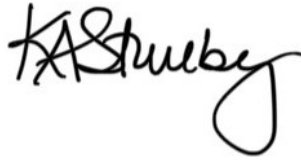
6. Local Impact

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:

Kelly Strueby

Acting Commissioner of Finance and Regional Treasurer



Approved for Submission:

Bruce Macgregor

Chief Administrative Officer

April 19, 2022

Attachment (1)

Private Attachment (1)

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