

The Regional Municipality of York

Committee of the Whole
Finance and Administration
April 11, 2019

Report of the Commissioner of Finance

Financing Leases as at December 31, 2018

1. Recommendation

Council receive this report for information.

2. Summary

In accordance with Ontario Regulation 653/05 (the “Regulation”) under the Municipal Act, 2001, the Region reports all financing leases that were in place as at December 31, 2018. This report also includes the net present value of those leases compared to the total long-term financial obligations of the Region. It also verifies that, in the opinion of the Commissioner of Finance and Treasurer, all the financing leases were entered into in accordance with the policies and goals set out in the Capital Financing and Debt Policy (the “Policy”).

3. Background

Provincial regulation requires an annual reporting of financing leases

The Capital Financing and Debt Policy governs the administration of capital financing leases. The Policy incorporates all of 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 financial obligations of the municipality, and contain a statement by the treasurer that all of 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 is a very specific definition 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 a council. According to the provincial definition, a municipal capital facility includes works, equipment, machinery, and administrative facilities used to carry out the functions of a municipality. Leases that start and 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 includes the net present value of all lease payments, over the entire term of a lease, but only for leases that meet the definition of Financing Lease per Ontario Regulation 653/05.

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

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 into the future
Scope	Subset of leases extending beyond the term of Council	All leases
Value of money	Net present value	Nominal dollars

Material financing leases with annual payments more than \$250,000 or a net present value of \$2 million or more must be approved by Council

The Regulation also requires that a municipality differentiate between material and non-material financing leases. All material leases entered into during the year must be approved by the council and be supported by a formal treasurer's report. The treasurer's report not only assesses the costs and risks associated with the proposed lease but would also consider other forms of financing. The Capital Financing and Debt Policy defines a material financing lease for York Region 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.

4. Analysis

All financing leases in 2018 conformed to policy guidelines

Attachment 1 details \$6.2 million of annual payments for all 23 financing leases for the Region as at December 31, 2018 that expire beyond 2022, the current term of Council. This list includes both material and non-material financing leases.

The Capital Financing and Debt Policy requires that the following cost and risk factors be considered when assessing all financing leases:

- The ability for lease payments to vary, if based on an underlying benchmark debt instrument, or if 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 reviews all lease agreements prior to their execution and has confirmed that the Region did not enter into any material leases in 2018 that would require consideration for material contingent obligations.

All new financing leases entered into in 2018 were considered non-material under the Policy and were made, in the opinion of the Commissioner of Finance and Regional Treasurer, in accordance with the lease provisions contained in the Capital Financing and Debt Policy.

The net present value of all financing leases was \$58.9 million as at December 31, 2018

Table 2 shows the net present value of all financing leases at the end of 2018, itemized by type, as well as the proportion of financing leases relative to the Region's total long-term financial obligations in comparison to last year.

The net present value of financing leases at the end of 2018 was \$58.9 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 \$18.2 million from \$77.1 million in 2017 to \$58.9 million in 2018. The decrease was primarily the result of a reduction of 47 financing leases relative to last year, because they will expire within the term of the new Council as well as a reduction in net present value for the remaining life of outstanding lease payments.

Partially offsetting this decrease were two new leases and three lease extensions.

As a percentage of total liabilities, financing leases represented approximately 2.15% of the total net long-term liabilities of the corporation.

Table 2
Net Present Value (NPV) of Financing Leases

Type	Amount as at Dec. 31, 2018 (\$ Millions)	Amount as at Dec. 31, 2017 (\$ Millions)	Change (\$ Millions)
A. Real estate	58.9	76.8	(17.9)
B. Miscellaneous Equipment	0.0	0.3	(0.3)
C. Total NPV of Financing Leases as of Dec 31 (= A + B)	58.9	77.1	(18.2)
D. Total Net Long-Term Liabilities* plus NPV of financing leases	2,739.6	2,921.8	(182.2)
E. Total NPV of Financing Leases as a Proportion of Total Net Long-Term Liabilities plus NPV of financing leases (= C / D)	2.15%	2.64%	

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

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 the Regulation, which have been incorporated in the Capital Financing and Debt Policy.

For more information on this report, please contact Edward Hankins, Director, Treasury Office 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

March 19, 2019
Attachments (1)
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