5
ANNUAL REPORT ON OUTSTANDING FINANCING LEASES

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, April 11, 2007, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that:
1. This report be received for information.

2. PURPOSE

In accordance with Ontario Regulation 46/94 as amended, this report identifies those financing leases that were in place as at December 31, 2006 as well as the present value of financing leases outstanding compared to total long-term financial obligations. It also states that in the opinion of the Commissioner of Finance, all financing leases were made in accordance with the leasing policies and goals adopted by Council.

3. BACKGROUND

The Region's Capital Financing and Debt Policy governs the administration of its capital financing leases. This Policy incorporates all of the requirements of Ontario Regulation 46/94 as amended. This regulation requires that Council adopt a statement of leasing policies and goals. Furthermore, it requires that all material leases (as defined below) be approved by Council prior to being entered into by a municipality and that the Treasurer prepare an annual report identifying all outstanding financing leases and the estimated proportion of financing leases to the total long-term financial obligations of the Region.

The Capital Financing and Debt Policy includes a statement of leasing policy and goals which include:

- Adhering to statutory requirements
- Ensuring long term financial flexibility
- Limiting financial risk exposure
- Minimizing long-term cost of financing; and
- Matching the term of capital financing to the useful life of the related asset.

A financing lease is defined by provincial regulation to be a lease for the provision of municipal capital facilities for which the payments extend beyond the term of the current Council.

An example of a financing lease would be one that commences during one-term of Council (eg. May 2006), but expires during any future term of Council (eg. November 2010). As such, financing leases would not include a lease which both starts in and expires within the same term of Council.

This regulation also requires a municipality to differentiate between material and non-material financing leases and requires that all material leases be approved by Council. The Capital Financing and Debt Policy defines a material lease as a class of financing leases in which the annual payment for individual leases will be more than $250,000 and as a class exceeds one percent of the Region's net tax levy.

4. ANALYSIS AND OPTIONS

4.1 Present Value of Financing Leases

Table 1 shows the present value of all financing leases itemized by purpose and type. The table also compares the outstanding financing leases with those from the prior year and calculates the proportion of financing leases compared to the Region's total long-term financial obligations.

The table shows that although the financing leases have increased in their present value from $55.4 million as of December 31, 2005 to $59.5 million as of December 31, 2006, they fell as a proportion of total long-term liabilities from 7.31 percent in 2005 to 5.97 percent in 2006 due to the sharp increase in debt which grew by more than 33% from $702 million as of December 31, 2005 to $936 million as of December 31, 2006.

The two main changes to the nominal value of outstanding financing leases from December 31, 2005 to December 31, 2006 were the result of the following:

- Real estate leases increased by $8.3 million mainly due to a new ten year lease agreement with Miller Transit Ltd. for the transit operations and maintenance facility located at 8050 Woodbine Avenue, Markham, at a year one rate of $97,700/month. The payments for the facility were previously included in the hourly rate of $68.08 for the YRT Division 1, which as of June 1, 2006 (commencement of new lease agreement) was reduced to $63.57 for the June – December 2006 period.

- IT equipment leases decreased by $3.8 million mostly due to the change in IT capital acquisition policy, from leases to purchases in the non-police area. This change of policy guarantees that future IT financing leases will always be relatively low.

Table 1
Present Value (PV) of Financing Leases

	December 31, 2006		December 31, 2005	
Real Estate		$48,022,108		$39,696,636
IT Equipment				
General	$8,279,147		$11,637,993	
Police	$1,958,414		2,443,259	
Sub-total		$10,237,561		$14,081,252
Vehicles & Equipment				
General	$595,673		$ 366,184	
Police	$632,751		1,267,446	
Sub-total		$1,228,424		$1,633,630
Total PV of Financing Leases		**$59,488,093**		**$55,411,518**
Total Long-term Liabilities (TLL)		**$995,912,926**		**$757,610,986**
Financing Leases as a Proportion of TLL		**5.97%**		**7.31%**

4.2 Financing Leases Transacted in 2006

Only two large leases (over $100,000) were transacted during 2006:

	Annual Payment	Present Value
- 8050 Woodbine Avenue, Markham (YRT Division 1 Operations and Maintenance Facility)✶	$1,172,400	$10,400,146
- 17310 Yonge Street, Unit 9 ,South (renewal) (Solid Waste Management and Health and Safety)	$103,665	$397,580

✶ This was the only material financing lease transacted in 2006 and was the subject of a report approved by Council on May 25, 2006.

All financing leases transacted in 2006 were in the opinion of the Commissioner of Finance and Treasurer, made in accordance with the lease policy contained in the Capital Financing and Debt Policy approved by Council.

Appendix 1 provides a detailed summary of all outstanding financing leases for the Region as at December 31, 2006. That appendix shows that annual payments relating to all financing leases total $13.7 million. There is no municipal standard or guideline set by the Province relating to the amount or proportion of outstanding financing leases undertaken by a municipality.

5. FINANCIAL IMPLICATIONS

The annual report summarizing outstanding financing leases serves as an effective means to monitor the Region’s use of this method of financing and provides year over year comparisons. It conforms to provincial regulations and meets the objectives of the Region’s Capital Financing and Debt Policy. There are no budget implications to the recommendations presented in this report as all lease charges are included in the Region’s annual budget.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact to this report.

7. CONCLUSION

This report meets the reporting requirements set out by the Province and incorporated in the Region’s Capital Financing and Debt Policy. It provides Council with a comprehensive summary of existing financing leases and their relative value in proportion to the Region’s total debt obligations.

The present value of outstanding financing leases increased from $55.4 million as of December 31, 2005 to $59.5 million as of December 31, 2006, but their proportion declined from 7.31% to 5.97% relative to total outstanding long-term liabilities as of the same dates.

All financing leases, in the opinion of the Commissioner of Finance, were made in accordance with the lease policy contained in the Region’s Capital Financing and Debt Policy.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the agenda for the May 3, 2007 Committee meeting.)