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ANNUAL REPORT ON OUTSTANDING FINANCING LEASES

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, May 11, 2006, 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, 2005 as well as the present value of financing leases outstanding compared to total long-term financial obligations. It also includes a statement by the Commissioner of Finance that, in his opinion, all financing leases were made in accordance with the statement of 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 could be a lease that commenced in May 2005 and expires any time beyond the current term of Council which is November 2006. However, it would not include a lease which started in May 2005 but ended September 2006.

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 is a summary of the present value of financing leases itemized by purpose and type. A detailed summary of all existing financing leases is provided in *Appendix 1* attached. The table provides a comparison with outstanding financing leases from the prior year and also calculates the proportion of financing leases compared to the Region's total long-term financial obligations.

As Table 1 indicates, the proportion of financing leases to total long-term liabilities fell from 9.56 per cent in 2004 to 7.31 per cent in 2005, despite the fact that outstanding financing leases as at December 31, 2005 slightly increased to $55.4 million from $54.2 million as at December 31, 2004. The proportion substantially declined due to the significant increase in the amount of outstanding debentures at the end of 2005 ($702.2 million compared to $512.9 million in 2004).

Approximately three-quarters of these leases relate to the rental of office and administrative space housing various Regional departments and services. Annual payments relating to these financing leases total $12.3 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.

Table 1
Present Value (PV) of Financing Leases

	December 31, 2005		December 31, 2004	
Real Estate		$39,696,636		$38,851,488
IT Equipment				
General	$11,637,993		$11,273,305	
Police	2,443,259		2,096,777	
Sub-total		14,081,252		13,370,082
Vehicles & Equipment				
General	$ 366,184		$ 450,513	
Police	1,267,446		1,518,958	
Sub-total		1,633,630		1,969,471
Total PV of Financing Leases		**$55,411,518**		**$54,191,041**
Total Long-term Liabilities (TLL)		**$757,610,986**		**$567,086,959**
Financing Leases as a Proportion of TLL		**7.31%**		**9.56%**

4.2 Financing Leases Transacted in 2005

Table 2 is a summary of the larger leases (over $100,000 per year) transacted during the year. All financing leases transacted in 2005 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.

Table 2
Financing Leases over $100,000
Transacted or Renewed in 2005

Description	Annual Payment	Present Value
Real Estate		
Health Services (465 Davis Drive)	$ 253,472	$1,003,249
Police Emergency Response, Field Services K-9 (200 Industrial Parkway)	104,250	239,767
Police Community Resource Centre (Hillcrest Mall, suite A17)	137,834	564,197
Sub-total Real Estate	**$495,556**	**$1,807,213**
General I.T. Equipment		
HP19 (Network)	$151,782	$592,545
HP 23-3 (Network)	147,035	604,244
Subtotal General I.T.	**$298,817**	**$1,196,789**
Police I.T. Equipment		
Nexcap 8511101-021 (Network Core)	**$118,460**	**$254,551**
Total All Classes	**$912,833**	**$3,258,553**

Attachment 1 provides a summary of all outstanding financing leases for the Region as at December 31, 2005. The Health Services office located at 465 Davis Drive (the Tannery) was the only one material lease transacted in 2005. This lease was the subject of a report approved by Council on April 21, 2005.

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 valuable 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 is presented in response to 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.

Although the amount of outstanding financing leases as at December 31, 2005 slightly increased by approximately $1.2 million from December 31, 2004, relative to total outstanding long-term liabilities, their proportion declined from 9.56 per cent to 7.31 per cent.

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 June 8, 2006 Committee meeting.)