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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, June 2, 2005, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

Council approve the financing leases for police computer equipment as described in Section 4.1 of this report with annual lease payments totalling $652,693 previously approved by the Police Services Board.

2. PURPOSE

In accordance with Ontario Regulation 401/02, this report identifies those financing leases that were in place as at December 31, 2004 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 her 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 401/02. 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 the Province in O. R. 401/02 to be a lease for the provision of municipal capital facilities for which the payments extend beyond the term of the current Council.

A financing lease, by way of example, would include a lease commencing in May 2005 and expire any time beyond November 2006. It would not include a lease which started in May 2005 and 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 or as a class exceeds one percent of the Region’s net tax levy.

4. ANALYSIS AND OPTIONS

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 to the Region’s total long-term financial obligations.

As indicated, the proportion of financing leases to total long-term liabilities fell from 10.98 per cent in 2003 to 9.56 per cent in 2004. However, the total present value of outstanding financing leases as at December 31, 2004 increased by $10.7 million to $54.2 million compared to $43.5 million at December 31, 2003. 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 $9.6 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, 2004		December 31, 2003	
Real Estate		$38,851,488		$34,940,971*
IT Equipment				
General	$11,273,305		$8,318,362	
Police	2,096,777		24,214	
Sub-total		13,370,082		8,342,576
Vehicles & Equipment				
General	$ 450,513		$ 31,533	
Police	1,518,958		222,065	
Sub-total		1,969,471		253,598
Total PV of Financing Leases		**$54,191,041**		**$43,537,145**
Total Long-term Liabilities (TLL)		**$567,086,959**		**$396,605,744**
Financing Leases as a Proportion of TLL		**9.56%**		**10.98%**

*restated to account for changes in expiry dates, escalation clauses and updated property lists as approved by Council.

The increase in the outstanding financing leases from 2003 to 2004 amounts to $10.7 million primarily as a result of numerous new leases which came into effect during 2004. Table 2 is a summary of the larger leases (over $100,000 per year) transacted during the year.

Table 2
Financing Leases over $100,000
Transacted or Renewed in 2004

Description	Annual Payment	Present Value
Real Estate		
Court Administration (465 Davis Drive)	$ 261,868	$1,264,796
T&W Swing Space (465 Davis Drive)	168,563	530,901
Police Recruitment (16775 Yonge St.)	206,629	943,099
Markham Health Services (4261 Hwy 7 East)	183,268	822,355
Sub-total Real Estate	**$820,328**	**$3,144,732**
General I.T. Equipment		
HP10-6 (PC)	$181,196	$435,567
HP13-2 (PC)	128,119	337,315
HP 15 (PC)	137,696	593,781
HP 7 (PC)	391,735	852,515
HP 6 (Network)	145,798	544,866
Subtotal General I.T.	**$984,544**	**$2,564,044**
Police Equipment		
Computer Equip. (Relational YPSB-002,003,004)	**$652,693**	**$1,860,837**
Total All Classes	**$2,457,565**	**$7,569,613**

Attachment 1 provides a summary of all outstanding financing leases for the Region as at December 31, 2004.

4.1 Leases Approved by Police Services Board

During the review and analysis of existing financing leases the following leases were identified as being approved by the Police Services Board but still require Council approval as stipulated by the Region's Capital Financing and Debt Policy as annual payments exceed $250,000.

Description	Annual Payment	Present Value
Computer Equipment including office and hardened mobile workstation laptops (Relational YPSB-002, 003, 004)	$652,693	$1,860,837

The leases for this computer equipment was the subject of a report of the Chief of Police to the Police Services Board and received approval on April 28, 2004.

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 increased by approximately $10.7 million from 2003, relative to total outstanding long-term liabilities, their proportion declined from 10.98 per cent to 9.56 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 2, 2005 Committee meeting.)