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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, April 14, 2004, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. This report be received for information.

2. PURPOSE

As required by Ontario Regulation 266/02, this report identifies for Council those financing leases that were in place as at December 31, 2003 as well as the present value of financing leases outstanding compared to total long-term financial obligations. It also includes a statement by the Treasurer that, in her opinion, all financing leases were made in accordance with the statement of leasing policies and goals adopted by Council.

3. BACKGROUND

In September 2002, the Province introduced new legislation to ensure that municipal councils were fully aware of the long-term implications of financing leases. Ontario Regulation (O.R.) 266/02 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.

On January 9, 2003, Council approved a revised Capital Financing and Debt Policy that governs the administration of its capital financing and debt programs. The Policy incorporates the changes required by O.R. 266/02, including a statement of leasing policies and goals.

The statement of leasing policy and goals is contained within the objectives of the Capital Financing and Debt Policy itself 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. 266/02 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 2004 and expire any time beyond November 2006. It would not include a lease which started in May 2004 and ended September 2006, nor would it include a lease which started prior to when the current Council was in office but ended prior to November 2006.

This regulation also differentiates between material and non-material financing leases and requires that all material leases be approved by Council. A financing lease is considered to be non-material if, in the opinion of the Treasurer and Council, it would not result in a material impact for the municipality. The Capital Financing and Debt Policy goes on to define a non-material lease as a class of financing leases in which the annual payment for individual leases will be less than $250,000 or as a class does not exceed one percent of the Region’s net tax levy.

An individual financing lease whose annual payment is greater than $250,000 or as a class exceeds one percent of the Region’s net tax levy by definition therefore is a material financing lease. Before entering into a material financing lease the Treasurer must prepare a report with a recommendation assessing the costs and financial and other risks associated with the proposed financing lease.

The only material leases signed in 2003 were with Hewlett-Packard Financial Services Canada Corporation for the supply and service of new computers and peripheral equipment. These leases are referenced in Attachment 1 under General IT Equipment as HP 1**,** 3 and 4, and were approved by Council at its meeting on September 19, 2002.

4. ANALYSIS AND OPTIONS

Table 1 is a summary of the present value of financing leases itemized by purpose and type. 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 13.3 per cent in 2002 to 9.7 per cent in 2003. The total present value of outstanding financing leases as at December 31, 2003 was $37.9 million compared to $40.6 million at December 31, 2002. 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 $4.8 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.

The decrease in the amount of outstanding financing leases from 2002 to 2003 and the proportion of financing leases to total long-term debt is due for the most part to the definition of a financing lease; i.e. that it extends beyond the term of Council. As at December 31, 2002 more leases were classified as financing leases as the remaining term of Council was less than one year. Whereas as at December 31, 2003 the term of Council was almost three years and fewer leases would therefore extend beyond the end of term.

Table 1
Present Value (PV) of Financing Leases

	December 31, 2002		December 31, 2003	
Real Estate		$30,502,611		$29,313,256
IT Equipment				
General	$7,667,859		$8,318,362	
Police	793,138		24,214	
Sub-total		8,460,997		8,342,576
Photocopiers and Fax Machines				
General	$475,473		$10,551	
Police	141,662		Nil	
Sub-total		617,135		10,551
Vehicles & Equipment				
General	$616,390		$ 20,982	
Police	438,928		222,065	
Sub-total		1,055,318		243,047
Total PV of Financing Leases		**$40,636,061**		**$37,909,430**
Total Long-term Liabilities (TLL)		**$305,480,724**		**$390,978,030**
Financing Leases as a Proportion of TLL		**13.3%**		**9.70%**

Attachment 1 provides a summary of all outstanding financing leases for the Region as at December 31, 2003.

Upon review of all financing leases undertaken by York Region and currently outstanding, it is the opinion of the Treasurer that all said leases were made in accordance with the statement of leasing policies and goals contained in the Debt Policy adopted by Council on January 9, 2003.

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 will provide valuable year over year comparisons going forward. It conforms to provincial regulations and meets the objectives of the Region's revised Debt policy.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact to this report.

7. CONCLUSION

This report is presented in response to reporting requirements enacted by the Province and incorporated in the Region's updated 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 amount of outstanding financing leases did not significantly change compared to the prior year and all financing lease, in the opinion of the Commissioner of Finance, were made in accordance with the Region's lease policy.

The Senior Management Group has reviewed this report.

(A copy of the attachment referred to in the foregoing is included with this report and is also on file in the Office of the Regional Clerk.)