

Clause 7 in Report No. 7 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on April 20, 2017.

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Financing Leases for 2016

Committee of the Whole recommends adoption of the following recommendation contained in the report dated March 29, 2017 from the Commissioner of Finance:

1. It is recommended that Council receive this report for information.
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Report dated March 29, 2017 from the Commissioner of Finance now follows:

1. Recommendation

It is recommended that Council receive this report for information.

2. Purpose

In accordance with Ontario Regulation 653/05 (the "Regulation") under the *Municipal Act, 2001*, the Region is required to report all financing leases that were in place at December 31, 2016. This report also includes the net present value of those leases in comparison 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.

3. Background

Provincial regulation requires annual reporting on financing leases

The Capital Financing and Debt Policy governs the administration of capital financing leases. This Policy incorporates all of the requirements of Ontario Regulation 653/05, including the need to provide an 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.

A financing lease extends beyond the term of Council

A financing lease is a lease for the provision of municipal capital facilities for which the payments extend beyond the current term of 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. An example of a financing lease is one that commences during one term, but expires during any future term of Council. Financing leases do not include leases that start and expire within the same term of Council.

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 Council and be supported by a formal Treasurer's report. The Treasurer's report not only assesses the costs and risk associated with the proposed lease but also considers other forms of financing. The Capital Financing and Debt Policy defines a material financing lease 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 and Implications

There were three Council-approved material lease extensions in 2016

During 2016, the lease extensions for 8050 Woodbine Avenue, 520 Cane Parkway and 24262 Woodbine Avenue were deemed to be material financing leases. These leases were approved by Council in May 2014, June 2016 and October 2016, respectively. They were reviewed in compliance with provincial regulation and in accordance with the Capital Financing and Debt Policy.

The net present value of financing leases increased by \$11.2 million in 2016

Table 1 shows the net present value of all financing leases at the end of 2016, 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.

Table 1
Net Present Value (NPV) of Financing Leases

Type	Amount as at Dec. 31, 2016 (\$ Millions)	Amount as at Dec. 31, 2015 (\$ Millions)	Change (\$ Millions)
A. Real estate	71.2	60.0	11.2
B. Miscellaneous Equipment	<0.1	–	<0.1
Total NPV of Financing Leases as of Dec 31 (A+B)	71.2	60.0	11.2
Total Long-Term Liabilities*	2,793.9	2,663.2	130.7
Total NPV of Financing Leases as a Proportion of Total Long-Term Liabilities	2.55%	2.25%	

*The sum of outstanding net debt and NPV of financing leases.

As a proportion of total long-term liabilities, the net present value of the financing leases increased from 2.25 per cent in 2015 to 2.55 per cent in 2016.

Table 1 shows that the net present value of the financing leases increased by \$11.2 million from \$60.0 million in 2015 to \$71.2 million in 2016.

The net present value of the leases increased mainly as a result of the following factors detailed in Table 2:

- The lease for 8050 Woodbine Avenue was extended for 7 years from October 1, 2016 to October 2, 2023 (+\$9.2 million);
- The lease for 24262 Woodbine Avenue was extended for 10 years from October 1, 2016 to September 30, 2026 (+\$3.3 million);

Financing Leases for 2016

- The lease for 520 Cane Parkway was extended for 4.5 years from July 1, 2016 to December 31, 2020 (+\$1.6 million); and
- Other factors, including other lease extensions (+\$0.4 million).

Partially offsetting this increase was a reduction in net present value for the remaining life of outstanding lease payments (-\$2.5 million) and an increase in the discount factor to update the Region's current cost of borrowing (-\$0.8 million).

Table 2
Reconciliation of the \$11.2 million increase in NPV of Financing Leases

	Amounts (\$ Millions)
A. Total NPV of Financing Leases as of Dec. 31, 2015	60.0
Reconciling items:	
i. 7 year lease extension for 8050 Woodbine Ave (Miller Operations and Maintenance Facility)	9.2
ii. 10 year lease extension for 24262 Woodbine Ave (Georgina C&HS)	3.3
iii. 4.5 year lease extension for 520 Cane Parkway (EMS Newmarket)	1.6
iv. Other lease extensions	0.4
v. Decrease in the remaining life of outstanding lease payments	(2.5)
vi. Increase in the discount factor	(0.8)
vii. Other	-
B. Total reconciling items (sum of items i to vii)	11.2
Total NPV of Financing Leases as of Dec. 31, 2016 (A+B)	71.2

All financing leases in 2016 conformed to policy guidelines

Attachment 1 details all 42 financing leases for the Region as at December 31, 2016 and shows \$9.5 million in annual payments related to those financing leases.

The Capital Financing and Debt Policy require 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.

Legal Services also reviews the lease agreements prior to their execution and has confirmed that material leases entered into by the Region in 2016 that were reviewed by Legal were considered for material contingent obligations.

All financing leases transacted in 2016 were made, in the opinion of the Commissioner of Finance and Treasurer, in accordance with the lease provisions contained in the Capital Financing and Debt Policy.

5. Financial Considerations

There are no new financial implications associated with this report.

The report identifies that the Region made approximately \$9.5 million in financing lease payments in 2016. Furthermore, the net present value of financing leases at the end of 2016 was \$71.2 million, which represents the Region's financial obligation for the remaining term of the leases.

The net present value of the financing leases increased by \$11.2 million from \$60.0 million to \$71.2 million in 2016. The increase was primarily the result of lease extensions for 8050 Woodbine Avenue, 24262 Woodbine Avenue and 520 Cane Parkway. Partially offsetting this increase was a reduction in net present value for the remaining life of outstanding lease payments and an increase in the discount factor used for the net present value calculation.

6. Local Municipal Impact

There is no direct impact from these recommendations 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.

The Senior Management Group has reviewed this report.

March 29, 2017

Attachments (1)

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Accessible formats or communication supports are available upon request.

**Regional Municipality of York
Financing Leases as at December 31, 2016**

Description	Address	Term of Lease (Years)	Expiry Date	Annual Cost (\$)	Net Present Value (\$)
Police Real Estate					
Community Resource Centre Police Services	10720 Yonge Street, Unit 112, Richmond Hill	8	March 14, 2023	236,495	1,380,903
Whitchurch-Stouffville Substation	111 Sandiford Drive, Whitchurch-Stouffville	10	October 31, 2023	66,067	425,012
Police Real Estate Total				302,562	1,805,915
YRT and VIVA Terminal					
Davis and 404 Car Pool Lot	404/Davis Park and Ride GO Facility, Newmarket	5	November 29, 2020	43,700	166,902
GO Transit Newmarket & Finch Promenade Bus Terminal ¹	320 Eagle Street, Newmarket 1 Promenade Circle, Vaughan	15 10	January 1, 2020 December 31, 2023	586,071 2	1,724,376 13
TTC - Downsview ³	1035 Sheppard Avenue West, Toronto	5	August 31, 2020	40,202	147,161
Yonge Bayview Holdings Inc.	Access way to Richmond Hill Centre Terminal, Richmond Hill	20	September 30, 2025	20,000	160,723
Vaughan Mill Bus Terminal	1 Bass Pro Drive, Vaughan	99	December 1, 2103	44,128	1,166,214
YRT and VIVA Terminals Total				734,103	3,365,389
Other Real Estate Lease					
Bruce's Mill (Community Safety Village)	3291 Stouffville Road, Whitchurch-Stouffville	20	July 18, 2022	14,512	77,600
Community & Health Services Storage	225 Industrial Parkway South, Unit 6 & 8, Aurora	4	February 28, 2019	45,139	96,422
Community Environmental Centre (Elgin Mills Road)	1200 (1150) Elgin Mills Road, Richmond Hill	10	September 30, 2020	82,880	303,387
EMS Aurora-Fire Hall	220 Edward Street, Aurora	5	December 31, 2019	24,863	73,154
EMS Ballantrae-Fire Hall	15400 Hwy. 48, Whitchurch-Stouffville	5	June 30, 2020	21,605	73,931
EMS Markham-Fire Hall	10 Riviera Drive, Markham	20	April 30, 2024	25,658	176,375
EMS Mount Albert ¹	22A Princess Street, East Gwillimbury	20	August 31, 2024	2,155	15,445
EMS Newmarket ³	520 Cane Parkway, Newmarket	5	December 31, 2020	418,500	1,631,515
EMS Schomberg ¹	15 Dillane Drive, King	50	April 14, 2061	1	19
EMS Stouffville	100 Weldon Road, Whitchurch-Stouffville	20	November 26, 2029	9,626	107,047
EMS Thornhill-Fire Hall	835 Clark Avenue, Vaughan	5	December 31, 2020	24,767	96,554
EMS Vaughan-Fire Hall	111 Racco Parkway, Vaughan	10	August 31, 2025	82,078	653,830
Gates of York Plaza (Community & Health Services) ²	17310 Yonge Street, Unit 2A (3), Newmarket	5	December 31, 2019	66,334	195,172
Gates of York Plaza (Community & Health Services) ²	17310 Yonge Street, Unit 5, Newmarket	5	December 31, 2019	193,939	570,620
Gates of York Plaza (Community & Health Services) ²	17310 Yonge Street, Unit 9, Newmarket	5	December 31, 2019	176,483	519,259
Georgina Community & Health Services ³	24262 Woodbine Avenue, Georgina	10	September 30, 2026	370,669	3,287,881
Markham Early Intervention Services - Garden Basket Plaza ²	9275 Markham Road, Units 15, 16 & 17, Markham	8	January 7, 2022	204,732	984,755
Markham Early Intervention Services - Garden Basket Plaza ²	9275 Markham Road, Units 202 & 204, Markham	8	January 7, 2022	40,272	193,709

**Regional Municipality of York
Financing Leases as at December 31, 2016**

Description	Address	Term of Lease (Years)	Expiry Date	Annual Cost (\$)	Net Present Value (\$)
Markham Health Services	4261 Hwy #7E, Suites B6-B9, Suite C-1, Markham	5	November 30, 2019	343,346	982,668
Miller Operations and Maintenance Facility ³	8050 Woodbine Avenue, Markham	7	October 2, 2023	1,447,662	9,206,008
Richmond Hill Storage Facility ³	359 Enford Road, Units 6 and 7, Richmond Hill	2	January 31, 2019	1,005	2,065
Richmond Hill Terminal ³	8675 Yonge Street, Richmond Hill		August 31, 2025	2,108	16,792
South Services Centre	50 High Tech Road, Richmond Hill	30	December 31, 2031	3,345,214	41,622,112
Tannery (Public Health Business Admin Offices) ²	465 Davis Drive, Suites 129-131, 221, 227-242, Newmarket	5	June 30, 2020	281,196	962,219
Tannery (Courtrooms & Admin Offices) ²	465 Davis Drive, Suite 200, Newmarket	5	June 30, 2020	216,550	741,009
Tannery (Court Admin) ²	465 Davis Drive, Suite 206 and 207, Newmarket	5	June 30, 2020	28,968	99,125
Tannery (Court Admin Office) ²	465 Davis Drive, Suite 218, Newmarket	5	June 30, 2020	16,703	57,155
Tannery (Court Admin Office) ²	465 Davis Drive, Suite 224, Newmarket	5	June 30, 2020	49,576	169,643
Tannery (Prosecutor's Office) ²	465 Davis Drive, Suite 226, Newmarket	5	June 30, 2020	56,871	194,606
Tannery (Courtroom) ²	465 Davis Drive, Suites 303-305, Newmarket	5	June 30, 2020	23,909	81,815
Tannery (Courtroom & Community and Health Services) ²	465 Davis Drive, Suites 318,319,320, Newmarket	5	June 30, 2020	200,486	686,041
Tannery (Information Technology Services) ²	465 Davis Drive, Suites 300A & 400A, Newmarket	5	June 30, 2020	619,635	2,120,319
Other Real Estate Lease Total				8,437,442	65,998,252
Mail equipment - Pitney Bowes ⁴	17250 Yonge Street, Mailroom, Newmarket	5	July 31, 2021	3,759	16,625
Mail equipment - Pitney Bowes ⁴	50 High Tech Road, Richmond Hill	5	July 31, 2021	3,291	14,557
Miscellaneous Equipment Total				7,050	31,182
Financing Lease Grand Total				9,481,157	71,200,738

¹ The landlords are area municipalities of York Region; nominal rents were charged for those leases.

² Considered financing leases as the lease agreement was negotiated for the location with multiple units or suites.

³ Lease extended in 2016.

⁴ New lease entered in 2016.