

Clause 11 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 21, 2016.

11

Financing Leases for 2015

Committee of the Whole recommends adoption of the following recommendations contained in the report dated March 23, 2016 from the Commissioner of Finance:

1. Council receive this report for information.
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Report dated March 23, 2016 from the Commissioner of Finance now follows:

1. Recommendations

It is recommended that Council receive this report for information.

2. Purpose

In accordance with Ontario Regulation 653/05 (the "Regulation"), this report identifies all financing leases that were in place at December 31, 2015, and shows 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 of 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 lease 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 Options

The net present value of financing leases increased in 2015

Table 1 shows the net present value of all financing leases at the end of 2015, 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 12/31/2015 (\$000s)	Amount as at 12/31/2014 (\$000s)	Change (\$000s)
A. Real estate	59,997	52,777	7,220
B. Miscellaneous Equipment	–	–	–
Total NPV of Financing Leases as of Dec 31 (A+B)	<u>59,997</u>	<u>52,777</u>	7,220
Total Long-Term Liabilities	<u>2,663,221</u>	<u>2,554,633</u>	108,588
Total NPV of Financing Leases as a Proportion of Total Long-Term Liabilities	2.25%	2.07%	

Table 1 shows that the net present value of the financing leases increased by \$7.2 million from \$52.8 million in 2014 to \$60.0 million in 2015.

The net present value of the leases increased mainly as a result of the following factors:

- The lease for 465 Davis Drive being extended for 5 years from July 1, 2015 to June 30, 2020 and additional space acquired (+\$6.4 million);
- The lease for 17310 Yonge Street being extended for 5 years from January 1, 2015 to December 31, 2019 (+\$1.7 million);
- A decrease in the discount factor that better reflects the Region's current cost of borrowing (+\$1.4 million);
- The lease for 111 Racco Parkway being extended for 10 years from September 1, 2015 to August 31, 2025 (+\$0.7 million); and
- Other factors, including other lease extensions (+\$1.0 million).

Partially offsetting this increase was a reduction in net present value for the remaining life of outstanding lease payments (-\$4.0 million).

As a proportion of total long-term liabilities, the net present value of the financing leases increased from 2.07 per cent in 2014 to 2.25 per cent in 2015.

All financing leases in 2015 conformed to policy guidelines

Attachment 1 details all 33 financing leases for the Region as at December 31, 2015 and shows annual payments related to those financing leases of \$6.8 million.

The Capital Financing and Debt Policy requires 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 leases prior to their execution and has confirmed that all leases entered into by the Region in 2015 were considered for the above factors.

All financing leases transacted in 2015 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.

Two material leases approved by Council in 2015

The lease extension for 465 Davis Drive and 17310 Yonge Street were deemed to be material financing leases in 2015. The Council reports with the attached Treasurer's reports for the 5 year lease extensions were reviewed and approved by Council in June 2015 and April 2015, respectively. The Treasurer's report recommended that the Region lease these two properties, after considering alternative forms of financing and/or purchase. These leases were reviewed in compliance with provincial regulation and in accordance with the Capital Financing and Debt Policy.

[Link to key Council-approved plans](#)

One of the cornerstones of the Region's 2015-2019 Strategic Plan is to ensure a fiscally prudent and efficient Region. This report directly supports these objectives, as the Region is maintaining financial accountability for its leasing activities and meeting its legislated operating and reporting requirements.

5. Financial Implications

There are no new financial implications associated with this report.

The report identifies that the Region made \$6.8 million in financing lease payments in 2015. Furthermore, the net present value of financing leases at the end of 2015 was \$60.0 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 \$7.2 million from \$52.8 million to \$60.0 million in 2015. The increase was mainly the result of lease extensions for 465 Davis Drive, 17310 Yonge Street and 111 Racco Parkway and a decrease in the discount factor used for the net present value calculation. Partially offsetting this increase was a reduction in net present value for the remaining life of outstanding lease payments.

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 ext. 71644.

The Senior Management Group has reviewed this report.

March 23, 2016

Attachments (1)

#6694876

Accessible formats or communication supports are available upon request.

**Regional Municipality of York
Financing Leases as at December 31, 2015**

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	235,191	1,600,284
Whitchurch-Stouffville Substation	111 Sandiford Drive, Whitchurch-Stouffville	10	October 31, 2023	63,000	466,329
Police Real Estate Total				298,191	2,066,613
YRT and VIVA Terminal					
GO Transit Newmarket & Finch	320 Eagle Street, Newmarket	15	January 1, 2020	417,022	1,636,390
Promenade Bus Terminal ¹	1 Promenade Circle, Vaughan	10	December 31, 2023	2	15
Vaughan Mill Bus Terminal	1 Bass Pro Drive, Vaughan	99	December 1, 2103	50,000	1,328,568
YRT and VIVA Terminals Total				467,024	2,964,973
Other Real Estate Lease					
Bruce's Mill (Community Safety Village)	3291 Stouffville Road, Whitchurch-Stouffville	20	September 30, 2023	14,192	103,993
CHS Storage- Unit 6 & 8	225 Industrial Parkway South, Aurora	4	February 28, 2019	45,482	141,843
Community Environmental Centre (Elgin Mills Road)	1200 (1150) Elgin Mills Road, Richmond Hill	10	September 30, 2020	82,103	378,817
EMS Aurora-Fire Hall	220 Edward Street, Aurora	5	December 31, 2019	24,139	94,720
EMS Ballantrae-Fire Hall	15400 Hwy. 48, Whitchurch-Stouffville	5	June 30, 2020	21,344	93,436
EMS Markham-Fire Hall	10 Riviera Drive, Markham	20	April 30, 2024	25,658	199,549
EMS Mount Albert ¹	22A Princess Street, East Gwillimbury	20	August 31, 2024	2,155	17,386
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	115,987
EMS Thornhill-Fire Hall	835 Clark Avenue, Vaughan	5	December 31, 2020	24,411	118,383
EMS Vaughan-Fire Hall	111 Racco Parkway, Vaughan	10	August 31, 2025	82,078	732,535
Gates of York Plaza (Human Resources) ^{2,3}	17310 Yonge Street, Unit 9, Newmarket	5	December 31, 2019	173,387	680,366
Gates of York Plaza (Water for Tomorrow) ^{2,3}	17310 Yonge Street, Unit 2A (3), Newmarket	5	December 31, 2019	65,170	255,726
Gates of York Plaza (Human Resources) ^{2,3}	17310 Yonge Street, Unit 5, Newmarket	5	December 31, 2019	190,537	747,663
Markham Early Intervention Services - Garden Basket Plaza	9275 Markham Road, Units 15, 16 & 17, Markham	8	January 7, 2022	202,517	1,171,507
Markham Early Intervention Services - Garden Basket Plaza	9275 Markham Road, Units 202 & 204, Markham	8	January 7, 2022	39,887	230,733
Markham Health Services	4261 Hwy #7E, Suites B6-B9, Suite C-1, Markham	5	November 30, 2019	340,790	1,309,907
South Services Centre	50 High Tech Road, Richmond Hill	30	August 1, 2031	3,203,411	42,737,945

**Regional Municipality of York
Financing Leases as at December 31, 2015**

Description	Address	Term of Lease (Years)	Expiry Date	Annual Cost	Net Present Value
Tannery (Public Health Business Admin Offices) ²	465 Davis Drive, Suites 129-131, 221, 227-242, Newmarket	5	April 30, 2020	277,235	1,213,633
Tannery (Information Technology Services) ^{2,3}	465 Davis Drive, Suites 300A & 400A, Newmarket	5	June 30, 2020	610,908	2,674,329
Tannery (Courtrooms & Admin Offices) ²	465 Davis Drive, Suite 200-205, Newmarket	5	June 30, 2020	213,500	934,625
Tannery (Court Adm) ²	465 Davis Drive, Suite 206 and 207, Newmarket	5	June 30, 2020	28,560	125,025
Tannery (Court Admin Office) ²	465 Davis Drive, Suite 218, Newmarket	5	June 30, 2020	16,468	72,089
Tannery (Court Admin Office) ^{2,3}	465 Davis Drive, Suite 224, Newmarket	5	June 30, 2020	48,878	213,968
Tannery (Prosecutor's Office) ²	465 Davis Drive, Suite 226, Newmarket	5	June 30, 2020	56,070	245,454
Tannery (Courtroom) ²	465 Davis Drive, Suites 303-305, Newmarket	5	June 30, 2020	23,573	103,192
Tannery (Courtroom & Community and Health Services) ²	465 Davis Drive, Suites 318,319,320, Newmarket	5	June 30, 2020	197,663	865,294
Yonge Bayview Holdings Inc.	Access way to Richmond Hill Centre Terminal, Richmond Hill	20	September 30, 2025	39,338	353,875
Other Real Estate Lease Total				6,059,081	55,931,999
Financing Lease Grand Total				6,824,296	60,963,585

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 New lease entered in 2015.