

Clause 4 in Report No. 8 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on April 23, 2015.

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Financing Leases for 2014

Committee of the Whole recommends adoption of the following recommendations contained in the report dated April 1, 2015 from the Commissioner of Finance:

1. Recommendations

It is recommended that this report be received for information.

2. Purpose

In accordance with Ontario Regulation 653/05 (the “Regulation”), this report identifies all financing leases that were in place as at December 31, 2014, and shows the present value of those leases in comparison to the total long-term financial obligations of the Region. It also states 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 defined to be 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 those which 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 present value of financing leases increased in 2014

Table 1 shows the present value of all financing leases at the end of 2014, 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
Present Value (PV) of Financing Leases

Type	Amount as at 12/31/2014 (\$000s)	Amount as at 12/31/2013 (\$000s)	Change (\$000s)
A. Real estate	52,777	44,431	8,346
B. Miscellaneous Equipment	–	215	(215)
Total PV of Financing Leases as of Dec 31 (A+B)	<u>52,777</u>	<u>44,646</u>	8,131
Total Long-Term Liabilities	<u>2,554,633</u>	<u>2,292,493</u>	262,140
Total PV of Financing Leases as a Proportion of Total Long-Term Liabilities	2.07%	1.95%	

Table 1 shows that the present value of the financing leases increased by \$8.1 million from \$44.6 million in 2013 to \$52.8 million in 2014.

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

- i. the lease for 50 High Tech Road being extended in 2014 for 10 years from August 1, 2021 to August 1, 2031; and
- ii. a decrease in the discount factor that better reflects the Region's current cost of borrowing.

Partially offsetting this increase was a net reduction of 33 financing leases relative to last year, because they will expire within the term of the new Council.

As a proportion of total long-term liabilities, the present value of the financing leases increased from 1.95 per cent in 2013 to 2.07 per cent in 2014.

All financing leases in 2014 conformed to policy guidelines

Attachment 1 details all 17 financing leases for the Region as at December 31, 2014 and shows annual payments related to those financing leases of \$4.8 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 2014 were considered for the above factors.

All financing leases transacted in 2014 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.

Only one material lease approved by Council in 2014

The lease extension for 50 High Tech Road was deemed to be a *material financing lease* in 2014. The Council report with the attached Treasurer's report for the 10 year lease extension was reviewed and approved by Council in June 2014. The Treasurer's report recommended that the Region lease 50 High Tech Road, after considering alternative forms of financing and/or purchase. This lease was reviewed in compliance with provincial regulation and in accordance to the Capital Financing and Debt Policy.

Link to key Council-approved plans

One of the cornerstones of the Region's 2011-2015 Strategic Plan is to manage the Region's finances prudently and more specifically to practice sound fiscal management. 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 financial implications related to the recommendations in this report.

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.

April 1, 2015

Attachments (1)

Edocs # 6033670

Accessible formats or communication supports are available upon request.

**Regional Municipality of York
Financing Leases as at December 31, 2014**

Description	Address	Expire Date	Annual Cost	Net Present Value
<i>Police Real Estate</i>				
Community Resource Centre Police Services*	10720 Yonge Street, Unit 107 and part of 108, Richmond Hill	March 14, 2023	151,200	1,126,626
Whitchurch Stouffville Substation	111 Sandiford Drive, Whitchurch-Stouffville	October 31, 2023	63,000	504,064
Police Real Estate Total			214,200	1,630,690
<i>YRT and VIVA Terminal</i>				
GO Transit Newmarket & Finch	320 Eagle Street, Newmarket	December 31, 2020	417,022	1,995,050
Promenade Bus Terminal**	1 Promenade Circle, Thornhill	December 31, 2023	2	16
Vaughan Mill Bus Terminal	1 Bass Pro Drive, Vaughan	December 1, 2103	48,281	1,030,165
YRT and VIVA Terminals Total			465,305	3,025,231
<i>Other Real Estate Lease</i>				
Alternative Community Living Program (Water Street)	20 Water Street, Markham	June 30, 2020	13,980	73,253
Bruce's Mill (Community Safety Village)	3291 Stouffville Road, Whitchurch-Stouffville	September 30, 2023	14,192	112,581
Community Environmental Centre (Elgin Mills Road)	1200 (1150) Elgin Mills Road, Richmond Hill	September 30, 2020	79,915	436,834
EMS Aurora-FH	220 Edward Street, Aurora	December 31, 2019	23,783	113,779
EMS Markham-FH	10 Riviera Drive, Markham	April 30, 2024	35,858	301,490
EMS Mount Albert**	22A Princess Street, East Gwillimbury	August 31, 2024	2,155	18,701
EMS Schomberg **	15 Dillane Drive, King	April 14, 2061	1	19
Markham Early Intervention Services - Garden Basket Plaza*	9275 Markham Road, Units 15, 16 & 17, Markham	January 7, 2022	198,973	1,298,164
Markham Early Intervention Services - Garden Basket Plaza*	9275 Markham Road, Units 202 & 204, Markham	January 7, 2022	38,035	248,152
Markham Health Services	4261 Hwy #7E, Suites B6-B9, Suite C-1, Markham	November 30, 2019	340,790	1,604,331
South Services Centre	50 High Tech Road, Richmond Hill	August 1, 2031	3,292,725	43,554,077
Yonge Bayview Holdings Inc.	Access way to RHCT, Richmond Hill	September 30, 2025	38,150	360,099
Other Real Estate Lease Total			4,078,557	48,121,480
Financing Lease Grand Total			4,758,062	52,777,401

* New leases entered into in 2014

** The landlords are area municipalities of York Region; nominal rents are charged for these leases.

