

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee
From: Anna Lisa Barbon, Deputy City Manager, Finance Supports
Subject: 2022 Annual Reporting of Lease Financing Agreements
Date: September 11, 2023

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, this report **BE RECEIVED** for information.

Executive Summary

The Lease Financing Policy governs the administration of Lease Financing Agreements entered into by the City and incorporates the requirements of the Ontario Regulation 653/05. The report shows that for the year ending December 31, 2022 Capital Lease Financing Agreements have remained at nil while seeing a decrease in total long-term debt. Operating Lease Financing Agreement future commitments are decreasing, which is mainly attributable to lease expirations.

Linkage to the Corporate Strategic Plan

Council's 2023 – 2027 Strategic Plan for the City of London identifies 'Well-Run City' as a strategic area of focus where this report contributes to the expected result that "London's finances are maintained in a transparent, sustainable, and well-planned manner, incorporating intergenerational equity, affordability and environmental, social, and governance considerations."

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

2021 Annual Reporting of Lease Financing Agreements
(November 28, 2022, meeting of Corporate Services Committee – Agenda Item 2.3)
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=95686>

SS16-11 Single Source Corporate Technology Assets –
(April 12, 2016, meeting of Corporate Services Committee – Agenda Item 2)
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=23930>

Lease Financing Policy –
(June 17, 2014, meeting of Corporate Services Committee – Agenda Item 3)
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=13686>

1.2 Policy Background and Highlights

In 2014, Municipal Council approved the Council Policy “Lease Financing Policy” to provide a statement of lease financing policies and goals as required by Ontario Regulation 653/05 of the *Municipal Act, 2001*.

Policy Outline

The policy provides guidance to staff when contemplating lease agreements for the provision of municipal equipment and facilities. The policy:

- governs all Lease Financing Agreements entered into by the City, exclusive of boards and commissions;
- defines material and non-material Lease Financing Agreements;
- states the goals and objectives of the policy;
- discusses the financial and other risks of this form of financing;
- defines the Lease Financing Agreement approval process;
- requires an annual report to Council.

Delegation of Council’s Authority and Authorization

The policy delegates Council’s authority and authorization to the Deputy City Manager, Finance Supports (City Treasurer) or designate for certain categories of Lease Financing Agreements that, in the delegate’s opinion, would not result in a material impact for the City. In the policy, these categories are defined as:

- 4(c) Non-Material leases that do not or may not require the City to make payments after the expiry of the term for which the Council authorizing the agreement was elected; and
- 4(d) Non-Material leases that require or may require the City to make payments after the expiry of the term for which the Council authorizing the agreement was elected and that have a combined material impact less than 20% of the City’s annual debt and financial obligation limit.

These categories of Lease Financing Agreements are not required to comply with the approval process as laid out in section 6 of the policy. All Lease Financing Agreements, regardless of category, will however, be reported to Council as part of the annual report on Lease Financing Agreements.

Annual Report of Outstanding Lease Financing Agreements

The annual report is completed and represented to Council, subsequent to the finalization of the annual audited Financial Statements each year. This annual reporting is based on the unconsolidated City entity, excluding boards and commissions (although these entities are consolidated for financial statement purposes).

1.3 Annual Reporting Requirements

In accordance with Ontario Regulation 653/05 of the *Municipal Act, 2001* and Council Policy - [Lease Financing Policy](#), the Treasurer is required to report to Council annually on the total of outstanding Lease Financing Agreements in a fiscal year.

The Lease Financing Policy governs the administration of Lease Financing Agreements entered into by the City and incorporates the requirements of the Ontario Regulation 653/05 related to Lease Financing Agreements.

A Lease Financing Agreement is defined in the policy as “a financial agreement for the purposes of obtaining long term financing of a capital undertaking of the municipality”.

The purpose of the Lease Financing Policy is to provide guidance to Civic Administration and Council when contemplating entering into agreements for use of capital property and equipment. At times, lease financing agreements may be preferred over purchase or debt financing, depending on factors such as:

- the number of years the facility or equipment is required for;
- the annual rental payments; and,
- the bargain purchase option at the end of the term, if any.

The policy also provides guidance on the need to provide an annual report to Council. The report should contain:

- A description of the estimated proportion of Lease Financing Agreements to the total long-term debt of the City (Table 1);
- A description of the change, if any, in the estimated proportion since the previous year (Table 2);
- A statement by the Treasurer that the Lease Financing Agreements were made in accordance with the policy; and,
- Any other pertinent information (Table 3 and Table 4).

2.0 Discussion and Considerations

2.1 Annual Report for the year ending December 31, 2022

Table 1 provides the details of the total outstanding capital lease financing agreements for 2022 and 2021 fiscal year ends for the City, as at December 31, exclusive of boards and commissions (consolidated entities for financial statement purposes). The table shows that the capital lease financing balance has no change over the past year, with the balance being nil at the end of 2022 and 2021. The major contributing factor to this nil balance is our change in procurement strategy regarding corporate technology assets (i.e., desktops, laptops). In 2016, Information Technology Services along with Procurement and Supply undertook a Lease vs. Purchase Option Analysis to investigate and determine the best approach and methodology for the continuous sourcing of corporate technology assets. Since then, the City has been leveraging the purchase option through the Province of Ontario Master Agreement for desktop management services and products.

Table 1
Capital Lease Financing Agreements as a % of Long-Term Debt
(000's)

Capital Lease Financing Agreements as at December 31st	2022	2021
Equipment	\$ 0	\$ 0
Total Long-term Debt	\$214,036	\$240,198
Total Capital Lease Financing Agreements	0.000%	0.000%

Table 2 explains the change over the previous year. As identified in Table 1 above, as there were no capital lease agreements at the end of 2022, nor any entered into in 2022, lease repayments in 2022 totalled nil related to capital leases.

Table 2
Analysis of Annual Change in Capital Lease Financing Agreements
(000's)

Capital Lease Financing Agreements as at December 31, 2021	\$0
Lease contracts entered into in 2022	0
Lease repayments in 2022	0
Capital Lease Financing Agreements as at December 31, 2022	\$0

It is the opinion of the Deputy City Manager, Finance Supports (City Treasurer) that all capital financing leases outstanding at December 31, 2022, for the City were made in accordance with the Lease Financing Policy.

In addition to the capital lease financing agreements listed above, the City has also entered into numerous operating lease financing agreements for use of capital property and equipment. Table 3 provides the details of the total outstanding operating lease financing agreements for 2022 and 2021 fiscal year ends for the City, as at December 31, exclusive of boards and commissions. The table shows that the operating lease financing balance has decreased over the past year from \$29,323,610 at the end of 2021 to \$21,606,585 at the end of 2022. This is mainly attributable to lease expirations as set out in agreements.

Table 3
Operating Lease Financing Agreements
(000's)

Operating Lease Financing Agreements as at December 31st	2022	2021
Real estate	\$ 18,050	\$ 22,429
Equipment	3,557	6,895
Total Operating Lease Financing Agreements	\$ 21,607	\$ 29,324

The City is committed to future annual payments on both Capital and Operating lease financing agreements. The total outstanding balance of all lease financing agreements as at December 31, 2022 is \$21,606,585 (2021 - \$29,323,610). The total includes both material and non-material leases with material leases representing approximately 22% of the total at the end of 2022 (2021 – 76%).

Table 4 identifies the minimum future annual payments on all lease financing agreements, which are as follows:

Table 4
Minimum Future Principal Payments of Total Lease Financing Agreements¹
(000's)

	Real Estate Operating Leases	Equipment Operating Leases	Equipment Capital Leases	Total
2023	\$ 4,509	\$ 3,384	\$ 0	\$ 7,893
2024	4,100	173	0	4,273
2025	3,750	0	0	3,750
2026	3,518	0	0	3,518
2027	1,290	0	0	1,290
Beyond (2028 - 2029)	883	0	0	883
Total Lease Financing Agreements as at December 31, 2022	\$ 18,050	\$ 3,557	\$ 0	\$ 21,607

¹ Payments may fluctuate upward or downward, from year to year, due to factors such as renewal periods beginning or ending during the year and incremental inflationary costs.

This report is prepared annually, subsequent to the finalization of the annual audited Financial Statements for the year.

3.0 Financial Impact/Considerations

From a budgetary perspective, lease charges have been allocated on an annual basis in the current operating budget to the appropriate service, as an amount that would need to be levied each year, similar to debt charges. The multi-year budget has accounted for any fluctuation based on lease financing agreements entered into.

From an accounting perspective, a distinction is made between a capital lease and an operating lease.

- Operating leases are usually found in property or equipment rentals where there is no intent to acquire the item. Lease charges are charged against operating business units over the term of the lease and expensed in the year incurred.

These types of leases are not considered long-term debt on the Statement of Financial Position but are disclosed in the financial statements within Note 18 as commitments of the City.

- Capital leases are usually structured so that a majority of the benefits and risks incident to the ownership of the item is transferred to the lessee (City of London). In these cases, the City would record a debt obligation on the City's Statement of Financial Position as well as a capital asset. The capital asset would be amortized over the life of the capital asset. The lease payments would be recorded as a decrease to the debt obligation and only the interest component would be expensed in the year incurred.

These types of leases are considered long-term debt on the Statement of Financial position and further detailed in the notes to the financial statements within Note 10 as Capital Lease Obligations.

Conclusion

In accordance with the Lease Financing Policy, this report represents the annual reporting under the policy for the year ending December 31, 2022.

There are no capital financing leases outstanding at December 31, 2022 for the City. In addition to the reporting on capital financing leases, this report includes information related to operating financing lease agreements and the City's future commitments under those arrangements.

The next expected reporting under this policy will be in Q3 of 2024, subsequent to the finalization of the year ending 2023 audited Financial Statements.

Prepared by:	Sharon Swance, CPA, CGA, Manager, Accounting Services, Financial Services
Submitted by:	Ian Collins, CPA, CMA, Director, Financial Services
Recommended by:	Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports