

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON JUNE 17, 2014</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>LEASE FINANCING POLICY</b>

**RECOMMENDATION**

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the attached proposed by-law (Appendix “A”) appended to the staff report dated June 17, 2014 **BE INTRODUCED** at the Municipal Council meeting on June 24, 2014 to add Council Policy 8(27) entitled “Lease Financing Policy” to provide a statement of lease financing policies and goals as required by Ontario Regulation 653/05 under the Municipal Act, 2001:

- (a) **TO APPROVE** the attached proposed “Lease Financing Policy” (Schedule “A” of the attached by-law) with respect to governing all lease financing agreements entered into by the City; and
- (b) subject to the approval of (a), above, the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer or designate **BE DIRECTED** to report, on an annual basis, concerning the lease financing activity and its proportion to the City’s total outstanding long-term debt, including a statement indicating whether, in his or her opinion, that all lease financing agreements were made in accordance with the City’s Lease Financing Policy as well as any other information that is deemed to be relevant.

**PREVIOUS REPORTS PERTINENT TO THIS MATTER**

December 11, 2002, Board of Control Report, New Municipal Act, Financial Aspects  
– Interim Statement Established on Guidance Regarding Financing Leases.

**BACKGROUND**

In December 2002, staff brought forward a report and introduced an interim guideline on financing leases in accordance with Ontario Regulation 266/02 under the *Municipal Act, 2001* (the “Act”).

The above recommendations formalize a Lease Financing Policy, in accordance with Ontario Regulation 653/05 of the *Municipal Act, 2001*. The prior guideline was based on regulations that have since been revoked and replaced by subsequent regulations.



**Policy Outline**

This 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;
- 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 Managing Director, Corporate Services and City Treasurer, Chief Financial Officer 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 statements include opinions of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer or designate and if adopted, will be opinions of the Council. These categories of Lease Financing Agreements would not be required to comply with the approval process as laid out in section 6 of the policy. All Lease Financing Agreements, regardless of category, would however, be reported to Council as part of the annual report on Lease Financing Agreements.

**Annual Report of Outstanding Lease Financing Agreements**

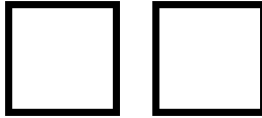
The annual report will be completed and represented to Council, subsequent to the finalization of the annual audited Financial Statements each year.

**Financial Impact**

From a budgetary perspective, lease charges would be allocated on an annual basis in the current operating budget, as an amount would need to be levied each year, similar to debt charges.

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;
- 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 balance sheet as well as a capital asset. The capital asset would be amortized over the life of the capital lease. The lease payments would be recorded as a decrease to the debt obligation.



**Acknowledgements**

This report was prepared with assistance from J. Smout, Solicitor and J.P. McGonigle, Business Planning Process Manager.

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<b>RECOMMENDED BY:</b>	
<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>	

Attach: Appendix "A"  
Schedule "A"