

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON SEPTEMBER 12, 2017</b>
<b>FROM:</b>	<b>ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2016 ANNUAL REPORTING OF LEASE FINANCING AGREEMENTS</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, this report **BE RECEIVED** for information.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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Lease Financing Policy –  
(June 17, 2014 meeting of Corporate Services Committee)  
<http://sire.london.ca/mtgviewer.aspx?meetid=697&doctype=agenda&itemid=27367>

New Municipal Act, Financial Aspects – Interim statement established on Guidance regarding financing leases –  
(December 11, 2002 meeting of Board of Control Committee)

<b>BACKGROUND</b>
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In accordance with Ontario Regulation 653/05 of the *Municipal Act, 2001* and Council Policy 8(27) - 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 all of the requirements of the Ontario Regulation 653/05.

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
- 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).

**Annual Report for the year ending December 31, 2016**

Since the implementation of the policy, staff have been formalizing the process over and above the annual reporting included within the audited financial statements. This is the first annual reporting under the lease financing policy.

The following table provides the details of the total outstanding capital lease financing agreements for 2014, 2015 and 2016 fiscal year ends for the City, exclusive of boards and commissions. The table shows that the balance has decreased over the past 2 years from \$1,686 at the end of 2014 to \$882 at the end of 2016.

<b>Table 1</b>			
<b>Capital Lease Financing Agreements as a % of Long-term Debt</b>			
<b>(000's)</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Capital Lease Financing Agreements as at December 31st</b>			
Equipment	\$ 882	\$ 1,298	\$ 1,686
<b>Total Long-term Debt</b>	<b>\$ 312,038</b>	<b>\$ 343,177</b>	<b>\$ 360,392</b>
<b>Total Capital Lease Financing Agreements as a % of Total Debt</b>	<b>0.28%</b>	<b>0.38%</b>	<b>0.47%</b>

This next table explains the changes over the previous years.

<b>Table 2</b>	
<b>Analysis of Annual Change in Capital Lease Financing Agreements</b>	
<b>(000's)</b>	
<b>Capital Lease Financing Agreements as at December 31, 2014</b>	<b>\$ 1,686</b>
<b>Lease extensions and new contracts in 2015</b>	554
<b>Lease repayments in 2015</b>	(942)
<b>Capital Lease Financing Agreements as at December 31, 2015</b>	<b>1,298</b>
<b>Lease extensions and new contracts in 2016</b>	473
<b>Lease repayments in 2016</b>	(889)
<b>Capital Lease Financing Agreements as at December 31, 2016</b>	<b>\$ 882</b>

It is the opinion of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer that all capital financing leases outstanding at December 31, 2016 for the City were made in accordance with this 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. The following table provides the details of the total outstanding operating lease financing agreements for 2014, 2015 and 2016 fiscal year ends for the City, exclusive of boards and commissions. The table shows that the balance has increased over the past 2 years from \$15,838 at the end of 2014 to \$29,455 at the end of 2016.

<b>Table 3</b>			
<b>Operating Lease Financing Agreements</b>			
<b>(000's)</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Operating Lease Financing Agreements as at December 31st</b>			
Real estate	\$ 21,691	\$ 12,238	\$ 12,526
Equipment	7,765	9,754	3,312
<b>Total Operating Lease Financing Agreements</b>	<b>\$ 29,455</b>	<b>\$ 21,992</b>	<b>\$ 15,838</b>
<sup>1</sup> The increases in 2015 and 2016 are due to the new contracts negotiated for office space related to the movement of Ontario Works staff to the north, east and west areas of the City as well as the consolidation of staff at the new work space at Citiplaza.			

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, 2016 is \$30,337. The total includes both material and non-material leases with material leases representing approximately 71% of the total at the end of 2016.

The minimum future annual payments on all lease financing agreements are as follows:

<b>Table 3</b>				
<b>Minimum Future Principal Payments of Lease Financing Agreements</b>				
<b>(000's)</b>				
	<b>Operating Leases</b>		<b>Capital Leases</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Equipment</b>	<b>Equipment</b>	
2017	\$ 4,179	\$ 2,899	\$ 609	\$ 7,688
2018	3,756	2,408	260	6,424
2019	3,142	2,457	13	5,612
2020	2,890	-	-	2,890
2021	2,684	-	-	2,684
Beyond	5,040	-	-	5,040
<b>Lease Financing Agreements as at December 31, 2016</b>	<b>\$ 21,691</b>	<b>\$ 7,765</b>	<b>\$ 882</b>	<b>\$ 30,337</b>

On a go forward basis, this report will be prepared annually, subsequent to the finalization of the annual audited Financial Statements for the year.

### **Financial Impact**

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 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 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.

<b>PREPARED BY:</b>	<b>CONCURRED BY:</b>
<b>SHARON SWANCE MANAGER, ACCOUNTING FINANCIAL SERVICES</b>	<b>IAN COLLINS DIRECTOR, FINANCIAL SERVICES</b>
<b>RECOMMENDED BY:</b>	
<b>ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>	