

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON AUGUST 14, 2018
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2017 ANNUAL REPORTING OF LEASE FINANCING AGREEMENTS

RECOMMENDATION

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

PREVIOUS REPORTS PERTINENT TO THIS MATTER

2016 Annual Reporting of Lease Financing Agreements –
(September 12, 2017 meeting of Corporate Services Committee – Agenda Item 4)
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=33633>

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>

BACKGROUND

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 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; 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).

Annual Report for the year ending December 31, 2017

Table 1 provides the details of the total outstanding capital lease financing agreements for 2016 and 2017 fiscal year ends for the City, as at December 31, exclusive of boards and commissions. The table shows that the capital lease financing balance has decreased over the past year from \$882,000 at the end of 2016 to \$227,000 at the end of 2017. The major contributing factor is our change in procurement strategy regarding corporate technology assets (i.e. desk tops).

Table 1		
Capital Lease Financing Agreements as a % of Long-term Debt		
(000's)		
	2017	2016
Capital Lease Financing Agreements as at December 31st		
Equipment	\$ 227	\$ 882
Total Long-term Debt	\$ 299,299	\$ 312,038
Total Capital Lease Financing Agreements as a % of Total Debt	0.08%	0.28%

Table 2 explains the change over the previous year. Lease repayments in 2017 totalled \$655,000 related to computer leases. There were no new capital lease contracts entered into in 2017.

Table 2	
Analysis of Annual Change in Capital Lease Financing Agreements	
(000's)	
Capital Lease Financing Agreements as at December 31, 2016	\$ 882
Lease contracts entered into in 2017	-
Lease repayments in 2017	(655)
Capital Lease Financing Agreements as at December 31, 2017	\$ 227

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, 2017 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 2016 and 2017 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 increased over the past year from \$29,455,000 at the end of 2016 to \$33,255,000 at the end of 2017. This is mainly attributable to existing real estate lease renewals.

Table 3			
Operating Lease Financing Agreements			
(000's)			
	2017		2016
Operating Lease Financing Agreements as at December 31st			
Real estate	\$	27,598	\$ 21,691
Equipment		5,657	7,764
Total Operating Lease Financing Agreements	\$	33,255	\$ 29,455

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, 2017 is \$33,482,000 (2016 - \$30,337,000). The total includes both material and non-material leases with material leases representing approximately 62% of the total at the end of 2017 (2016 – 71%).

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 Agreements								
(000's)								
	Operating Leases		Capital Leases	Total				
	Real Estate	Equipment	Equipment					
2017	\$	4,149	\$	3,047	\$	217	\$	7,413
2018		4,018		2,610		10		6,638
2019		3,993		-		-		3,993
2020		3,783		-		-		3,783
2021		2,193		-		-		2,193
Beyond (2022 - 2032)		9,462		-		-		9,462
Total Lease Financing Agreements as at December 31, 2017	\$	27,598	\$	5,657	\$	227	\$	33,482

This report is 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. The multi-year budget has accounted for the decrease experienced in 2017.

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.

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