

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee
From: Anna Lisa Barbon, Deputy City Manager, Finance Supports
Subject: 2020 Annual Reporting of Lease Financing Agreements
Date: August 30, 2021

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 all of the requirements of the Ontario Regulation 653/05. The report shows that for the year ending December 31, 2020, despite Covid-19 Pandemic, Capital lease financing agreements have remained at nil while seeing a decrease in total long-term debt. Operating Lease Financing Agreement future commitments have increased, which is attributable to renewal of real estate lease extensions and equipment contracts.

Linkage to the Corporate Strategic Plan

Council's 2020-2023 Strategic Plan for the City of London identifies 'Leading in Public Services' as a strategic area of focus where this report contributes to the expected result that "maintains London's finances in a transparent and well-planned manner to balance equity and affordability over the long term".

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

2019 Annual Reporting of Lease Financing Agreements –
(September 21, 2020 meeting of Corporate Services Committee – Agenda Item 2.1)
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=74510>

2018 Annual Reporting of Lease Financing Agreements –
(August 13, 2019 meeting of Corporate Services Committee – Agenda Item 2.3)
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=66389>

2017 Annual Reporting of Lease Financing Agreements –
(August 14, 2018 meeting of Corporate Services Committee – Agenda Item 2.2)
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=48226>

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>

1.2 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 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).

2.0 Discussion and Considerations

2.1 Annual Report for the year ending December 31, 2020

Table 1 provides the details of the total outstanding capital lease financing agreements for 2019 and 2020 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 2019 and 2020. The major contributing factor to this nil balance is our change in procurement strategy regarding corporate technology assets (i.e. desk tops, laptops).

Table 1		
Capital Lease Financing Agreements as a % of Long-term Debt		
	2020	2019
Capital Lease Financing Agreements as at December 31st		
Equipment	\$ -	\$ -
Total Long-term Debt	\$ 271,513	\$ 291,702
Total Capital Lease Financing Agreements as a % of Total Debt	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 2019, nor any entered into in 2020, lease repayments in 2020 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, 2019	\$ -
Lease contracts entered into in 2020	-
Lease repayments in 2020	-
Capital Lease Financing Agreements as at December 31, 2020	\$ -

It is the opinion of the Deputy City Manager, Finance Supports (Treasurer) that all capital financing leases outstanding at December 31, 2020 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 2019 and 2020 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 \$20,911,691 at the end of 2019 to \$34,645,236 at the end of 2020. This is mainly attributable to lease extensions at various properties and equipment (i.e. golf carts, copiers).

Table 3		
Operating Lease Financing Agreements		
(000's)		
	2020	2019
Operating Lease Financing Agreements as at December 31st		
Real estate	\$ 24,461	\$ 17,623
Equipment	10,184	3,289
Total Operating Lease Financing Agreements	\$ 34,645	\$ 20,912

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, 2020 is \$34,645,236 (2019 - \$20,911,691). The total includes both material and non-material leases with material leases representing approximately 83% of the total at the end of 2020 (2019 – 57%).

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	
2021	\$ 4,154	\$ 3,290	\$ -	\$ 7,444
2022	4,131	3,338	-	7,469
2023	4,005	3,384	-	7,389
2024	3,659	172	-	3,831
2025	3,372	-	-	3,372
Beyond (2026 - 2029)	5,140	-	-	5,140
Total Lease Financing Agreements as at December 31, 2020	\$ 24,461	\$ 10,184	\$ -	\$ 34,645

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 experienced in 2020.

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, 2020.

There are no capital financing leases outstanding at December 31, 2020 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 2022, subsequent to the finalization of the 2021 year-end audit reporting.

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