

Corporate Policies & Procedures			
SECTION: GENERAL ADMINISTRATION			POLICY #: GA-04
POLICY: Statement of Lease Financing Policy and Goals			
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POLICY STATEMENT:

The following is the Statement of Leasing Policy and Goals for the Corporation of the County of Renfrew. In certain circumstances, it may be economically advisable for the County to enter into a Financing Lease to acquire the rights to use capital property and equipment rather than an outright purchase. This policy establishes the procedures regarding the evaluation of potential financing lease agreements and the requirements for reporting the results of those procedures to County Council as required under the Municipal Act, 2001, as amended, and Ontario Regulations thereto. Annual reporting of financing lease agreements and transactions is also included.

STATEMENT OF POLICY AND GOALS:

In accordance with the County's Purchasing Policy, goods and services provided to the County of Renfrew must be of the quality, service level and best value for the dollar. When staff considers the option of a financing lease agreement, their evaluation of the option must ensure that this goal is achieved.

Adherence to the policies and procedures herein will result in a report presented to County Council which clearly gives an opinion as follows:

- whether or not the costs of the financing lease agreement are lower than other methods of financing available to the County; and
- whether the risks associated with the financing lease are reasonable.

SCOPE

This policy applies to all financing leases for Municipal Capital Facilities. See definitions below.

DEFINITIONS

Financing Lease

Financing Lease is a lease allowing for the provision of municipal capital facilities if the lease may or will require payment by the municipality beyond the term for which the Council was elected. Financing leases include both material leases and non-material leases.

Material Lease

A Material Lease is a financing lease which would result in a material impact for the municipality.

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Non-Material Lease

A Non-Material Lease is a financing lease which would not result in a material impact or a combined material impact for the municipality.

Material Impact

Material impact is one where the costs or risks significantly affect, or would reasonably be expected to have a significant affect on the debt and financial obligation limit prescribed under Ontario Regulation 799/94, as amended.

Combined Material Impact

Combined Material Impact is one where the costs or risks of a proposed non-material lease which, when combined with all other non-material leases entered into or proposed to be entered into in a particular year by the municipality, would result in a material impact.

Municipal Capital Facility

Municipal Capital Facilities includes land, works, equipment, machinery and related systems and infrastructures.

PROCESS FOR APPROVAL OF A MATERIAL LEASE

1. A financing lease agreement must include a schedule of all fixed payments, if any, required under the lease and that may be required under any possible extensions or renewals of the lease.
2. Before entering into a material lease, the County Treasurer must present a report to County Council which:
 - evaluates the financial costs of the lease, and
 - evaluates the potential risks of the lease.
3. Evaluating the Financial Costs of the Lease
 - (a) Summary of Financing Lease Payments

The report of the County Treasurer to County Council must include a report and evaluation of the Schedule of Financing lease Payments included in the Financing Lease Agreement.

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This report must include:

- A summary of all fixed payments, if any, required under the lease and that may be required under any possible extension or renewals of the lease.
- A comparison between the fixed and estimated costs and the risks associated with the proposed lease and those associated with other methods of financing.
- A summary of any contingent payment obligations under the lease that, in the opinion of the Treasurer would result in a material impact for the County, including lease termination provisions, equipment loss, equipment replacement options and guarantees and indemnities.
- A summary, as may be applicable, of the effective rate or rates of financing for the lease, the ability for lease payment amounts to vary, and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the lease.
- A summary of the assumptions applicable to any possible variations in the lease payment and contingent payment obligations, and
- Any other matters that the Treasurer or Council consider advisable.

(b) Evaluating the Payment Schedule

To evaluate the Payment Schedule, the total costs must be compared to the costs of other methods of financing. This comparison may include an estimation of the costs of borrowing funds to finance an outright purchase or the cost of interest income foregone as a result of purchase. All assumptions made in preparing this comparison must be stated in the report to County Council.

If circumstances exist which indicate that a financing lease is the only method of financing available, the County Treasurer must indicate this fact in his evaluation and state the reasons that this is the case.

4. Evaluating the Risks of the Lease

The report must include an assessment and recommendation indicating whether the risks associated with the financing lease are reasonable. The risks evaluated may include:

- Effective interest rate implicit in the lease (as compared to current and estimated future market interest rate fluctuations)
- Risk of obsolescence - rapidly changing technology may cause an asset to become obsolete before the lease expires. A lease may provide options to permit exchanges for more advanced equipment as it becomes available.
- Residual value - if an asset is expected to have a residual value at the end of the lease term, any future benefit of this residual value is lost if the asset is leased.

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- Lease term - the lease is a contractual agreement and generally non-cancellable prior to its expiration.
- The risks associated with the proposed lease as compared to those associated with other methods of financing.

The costs and risks associated with a proposed financing lease in the report shall be assessed as of the date the report is made. The summary of information in the report shall include all information required for the entire term of the financing lease, including any possible extensions or renewals.

5. Legal Advice

The report shall include legal advice from the County Solicitor on the provisions of the proposed financing lease agreement. In addition, if in the opinion of the County Solicitor, the scope of the proposed transaction warrants obtaining legal advice independent of the Corporation, the report should recommend the same to County Council.

6. Change in Circumstances

If the County Treasurer becomes of the opinion that a changed circumstance with respect to the proposed lease may result in a material impact for the municipality, the Treasurer shall, as soon as is reasonably possible and before the agreement is entered into, update the report and present the updated report to County Council.

7. Council's Role

Council is responsible for determining whether the costs of financing for the proposed financing lease agreement are lower than other methods of financing available to the municipality, and whether the risks associated with the financing lease agreement are reasonable.

Council is responsible for ensuring that legal and financial advice has been obtained, and must consider whether the scope of the proposed lease warrants further legal or financial advice from an independent source.

ANNUAL REPORTING REQUIREMENTS

In addition to the aforementioned reporting requirements for new financing lease agreements, an annual report shall be prepared by the County Treasurer and presented to County Council if the Corporation has any financing leases existing in the fiscal year.

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The report shall contain the following:

1. A description of the estimated proportion of the total financing arrangements of the municipality that have been undertaken through financing leases to the total long-term debt of the municipality.
2. A description of the change, if any, in that estimated proportion since the previous year's report.
3. A statement by the County Treasurer as to whether, in his opinion, all financing leases were made in accordance with this Statement of Leasing Policies and Goals.
4. Any other information that County Council may require or that, in the opinion of the County Treasurer should be recorded.

EXEMPTIONS - NON-MATERIAL LEASES

A financing lease agreement is exempted from the requirements of this policy if it will not result in a material impact for the County and is therefore a non-material lease. This includes the following types of leases:

1. Any lease entered for office equipment; automobiles; communications equipment; machinery and equipment.
2. Any building or property lease entered into in accordance with approved policies and procedures.
3. Any leases in place at the time of Council approval of this policy.

Process for Approval of a Non-Material Lease

Prior to entering into a financing lease within this category, the County Treasurer will prepare a report for presentation to County Council which expresses the opinion that the proposed lease is within the exemption category and its costs and risks, in combination with all other leases of that category entered into or proposed to be entered into in that year by the municipality, will not result in a material impact, as defined in this policy.

Although the reporting requirements differ, the staff process of evaluating the financial costs and the risks of the lease (versus other methods of financing) should still be utilized.