

EDMONTON

ADMINISTRATIVE PROCEDURE



TITLE

LEASE FINANCING

NUMBER

A1441

DEPARTMENT

CORPORATE SERVICES DEPARTMENT

DELEGATED AUTHORITY

GENERAL MANAGER – CORPORATE
SERVICES

CONTACT

BRANCH MANAGER - FINANCE 496-5120

DEFINITIONS

DATE

MARCH 30, 2006

Bargain Purchase Option - A provision which allows the lessee, at its option, to purchase the Tangible Asset for a price that is sufficiently lower than the expected fair value of the asset at the date the option becomes exercisable.

Borrowing - (certain leases are deemed to be considered a Borrowing)

- a lease of a Tangible Asset with a fixed term beyond 5 years or a fixed term of 5 years or less but with a right of renewal that would, if exercised, extend the original term beyond 5 years; or
- an agreement to purchase a Tangible Asset that creates an interest in the asset to secure payment of the capital property's purchase price if payment of the purchase price under the agreement exceeds 5 years.

Borrowing Bylaw - A bylaw referred to in section 251 of the *Municipal Government Act*, R.S.A. 2000, C.M-26

Capital Lease - A lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee.

Debt Limit – The debt limit of the municipality as calculated under the *Debt Limit Regulation*.

Economic Life - The estimated remaining period during which the Tangible Asset is expected to be economically usable by one or more users, with normal repairs and maintenance for the purpose for which it was intended at the inception of the lease and without limitation by the lease term.

Generally Accepted Accounting Principles (GAAP) - Broad principles and conventions of general application, as well as rules and procedures that determine accounting principles at a particular time, generally as set out by the Canadian Institute of Chartered Accountants (CICA).

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Lease - The conveyance, by a lessor to a lessee, of the right to use a tangible asset usually for a specified period of time in return for a rent.

Lease Payments - The periodic rent or payments due under a lease.

Lease Term - The lease term is the fixed, non-cancelable period of the lease, plus periods covered by bargain renewal options, renewals at the lessor's option, or periods likely to be renewed (as set out in PSAB PSG-2 Leased Tangible Capital Assets)

Master Lease Agreement - A lease agreement entered into between the City and a third-party lease financing provider whose pricing and terms governs all associated lease transactions throughout a specified period.

Operating Lease - A lease in which the lessor does not transfer substantially all the benefits and risks incident to ownership of property.

Public-Private Partnership (P3) - A cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.

Sale and Leaseback - The sale of property by a government and the leasing of the same property, or a portion thereof, back to the government.

Tangible Asset - A non-financial asset that has physical substance and a useful life extending beyond one year. For the purposes of this Administrative Procedure software is considered a Tangible Asset.

Total Cost of Ownership (TCO) - A costing model whereby all direct and indirect costs incurred throughout the asset life cycle are considered in calculating the total cost to the City of acquiring a given asset. TCO analysis forms the basis for determining financial impacts in a lease versus buy evaluation.

PROCEDURES AND GUIDELINES

These procedures apply to all lease financing arrangements, not including real estate leases.

Lease/Buy Financing Decision

- A cost/benefit analysis is required to support any decision to use lease financing (see Attachment I)
- The cost analysis should be based on a Total Cost of Ownership approach to calculating costs and should include all relevant financial impacts. The time period used for the purposes of a Lease/Buy TCO analysis should be equivalent to the useful life of the Tangible Asset(s) under consideration
- The benefits analysis should consider all non-financial factors impacting the Lease/Buy decision
- Contact your Finance Business Partner to assist in the preparation of the cost/benefit analysis and to provide guidance regarding Corporate requirements relating to Lease transactions

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Buy

If a buy decision results, refer to *Purchasing Directive A1439*.

Lease

If a Lease decision results, then the following applies:

Planning and Budget

- Where lease financing is being considered for the acquisition of Tangible Assets, the leasing option should be built into Departmental planning and budgeting processes.
- Significant Leases should be identified in the Long Range Financial Plan (LRFP) and aligned within the budget process. Assessment of Leases to be included in the LRFP should follow the same principles that are applied to purchases.
- For Operating Leases, budget authority must exist for the value of the annual Lease Payments.
- For Capital Leases, budget authority must exist for the value of the entire Lease obligation (including all extension periods allowable under the Lease).

Authorization

- In the case of Capital Leases that are deemed to be a Borrowing, a Borrowing Bylaw is required prior to entering into a Lease (the Borrowing Bylaw process takes approximately 6-8 weeks to complete).
- In all other cases, authorizations are as outlined in *City Administration Bylaw 12005* and current delegations of authority.

Procurement

- Contact your designated Materials Management representative to assist with the preparation of tender documents and to manage the tendering process where lease options are being considered.
- All procurements must follow *Purchasing Directive A1439*

Lease Agreements

- The City has established certain Master Lease Agreements.
- For lease expenditures that fall under an existing Master Lease Agreement, contact your designated Materials Management representative to assist with the execution of all necessary Lease documentation.
- Where a lease expenditure does not fall under an existing Master Lease Agreement and where the lease Agreement was not included in a City standard tendering process managed by Materials Management, then Departments are responsible for ensuring that the lease agreement has been reviewed and approved as acceptable in form to the Law Branch.

Lease Expenditures

- Finance Business Partners are available to provide further clarification on how lease expenditures would be recognized throughout the Lease, including the accounting treatment required for any lease inducements, bargain purchase options or other benefits.
- Lease expenditures are not necessarily equal to the cash payments out in a given year. Accounting for Leases must follow Generally Accepted Accounting Principles.
- Treatment of Capital Leases is outlined within the PSA Handbook PSG-2 – Leased Tangible Capital Assets. Treatment of an Operating Lease is set out in the CICA Handbook section 3065 – Leases.

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- Leases which form part of a Sale and Leaseback transaction are subject to additional considerations as outlined in the PSA Handbook PSG-3 – Sale-Leaseback Transactions.
- Certain Public-Private Partnership (P3) types include financing components that may be treated as a Capital Lease.

Reporting

- Operating areas entering into lease agreements must provide a copy of the signed lease agreement to the Finance Business Partner.
- Information with respect to lease obligations is accumulated annually by the Finance Branch as part of the year end financial reporting process. The annual consolidated financial statements for the City include a summary schedule of operating lease obligations for each of the next 5 years and thereafter.
- Capital Lease obligations that are considered Borrowings are included in the City's Debt Limit and debt servicing limit calculations, as set out by Regulation to the MGA. The calculations are monitored by Finance Branch with each Borrowing Bylaw, and formally calculated annually for disclosure in the consolidated financial statements for the City of Edmonton.

Monitoring

Departments are responsible for the following activities associated with lease agreements:

- Performance of all work supplied by suppliers and contractors.
- Ensuring that all terms, conditions and responsibilities of the City as described in the lease agreement are fulfilled.
- In the event of performance issues or other contract disputes, contact your designated Materials Management and Law Branch representatives to provide assistance and support.
- Roles and responsibilities for leasing are outlined in Attachment II.

ATTACHMENTS

Attachment I Lease/Buy Considerations
Attachment II Leasing Roles Matrix