TO: Chair and Members  
Public Works Committee  

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: November 21, 2011

SUBJECT/REPORT NO:  
Transit Tires Leasing Approval and Approval for Purchasing to Release a Tender for the Supply of Leased Transit Tires (PW11083) - (City Wide)

SUBMITTED BY:  
Gerry Davis, CMA  
General Manager  
Public Works Department

PREPARED BY:  
Douglas H. Murray  
Manager, Transit Fleet Maintenance  
(905) 546-2424, Extension 2804

SIGNATURE:

RECOMMENDATION

(a) That Council receive the consultants report entitled Lease vs. Buy Analysis for Bus Tires as set out in Appendix A attached to report PW11083;

(b) That Council approve this report so as to be in compliance with City of Hamilton Lease Financing Policy (FCS0414) as set out in Appendix B attached to report PW11083;

(c) That Council give approval for Purchasing to tender for the supply and delivery of leased Transit tires.

EXECUTIVE SUMMARY

Transit has a long established historical practise of leasing Transit tires that has been in effect for in excess of 30 years. The current contract expired on June 31, 2011. Staff initiated the tendering process prior to the expiry date, however, within the process Purchasing identified the need for Council’s approval to tender in view of the proposed Term of the Agreement and high dollar value of the tender.

In consultation with the City Treasurer it was decided that an in depth report was required for Lease vs. Buy Analysis for Bus Tires. SNC –Lavalin Inc. was contracted to complete this analysis. This firm was chosen from the City’s consultant roster. Currently tires for Transit are being provided through an approved Policy 11 contract extension to Bridgestone, who has held the contract for the last 10 year term.
Alternatives for Consideration - See Page 2

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS**

**Financial:** As per the Council approved Lease Policy, the City Treasurer has reviewed the Lease/Buy analysis provided by SNC Lavalin, and is in agreement with the Consultants recommendations that the lease option is the preferred method for Transit’s tire replacement program.

**Staffing:** There are no staffing implications.

**Legal:** There are no legal implications.

**HISTORICAL BACKGROUND**

Transit currently operates a fleet of 217 conventional buses. Transit has a long history of utilizing a tire leasing program that dates back to at least 30 years. The current 10 year contract with Bridgestone originally expired in June 2011. This report to Council is required to be compliant with Council's approved Lease Financing Policy.

**POLICY IMPLICATIONS**

N/A

**RELEVANT CONSULTATION**

Staff has consulted with Tony Tollis, City Treasurer, and Barbara Kinrade from Purchasing.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

Staff is recommending to continue the long standing practise of leasing bus tires. This approach has been determined to be the most cost effective, which flattens costs, uses fewer personnel, and eliminates the “cradle to grave” responsibility of hazardous waste tire disposal.

**ALTERNATIVES FOR CONSIDERATION**

Council could direct Transit to purchase tires out right, rather than to lease. This is not desirable or a recommended alternative because of the increased overhead cost, the large initial capital cost of buying new tires and the added responsibility of properly disposing hundreds of used tire casings.
CORPORATE STRATEGIC PLAN


Skilled, Innovative & Respectful Organization

- A skilled, adaptive and diverse workforce, i.e. more flexible staff
- More innovation, greater teamwork, better client focus
- An enabling work environment - respectful culture, well-being and safety, effective communication

APPENDICES / SCHEDULES

Appendix “A” - Lease vs Buy Analysis for Bus Tires
Appendix “B” - City of Hamilton Lease Financing Policy (FCS0414)
Title: Lease vs. Buy Analysis for Bus Tires

Customer: The Hamilton Street Railways Company

Project: Tire leasing justification for Transit buses

Prepared by: Stéphane Bisailon

Signature(s):

Approved by: Raynald Thibaudeau

Signature:
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1.0 CONTEXT AND MANDATE

The Hamilton Street Railway Company (HSR) operates a fleet of approximately 217 buses. HSR entered a tire leasing program over 36 years ago and has been leasing its tires ever since. The current 10-year contract with Bridgestone originally expired in June 2011 and City Council needs justification as to whether or not, leasing tires is still the most viable option.

In order to support a decision in any direction, HSR has determined that a “lease vs. buy” analysis would be required. HSR has decided to extend the contract with Bridgestone until 2012 year end to allow sufficient time to study all options adequately. HSR is therefore soliciting professional assistance in deciding which tire strategy represents the best alternative.

2.0 METHODOLOGY

In order to meet HSR’s schedule and budget constraints while observing the most professional standards, SNC-Lavalin proposed the following methodology:

**Baseline**

- Hold a meeting with Mr. Murray to understand the context.
- Telephone interview with the tire shop supervisor/foreperson and staff
- Other relevant interviews as required (Procurement, Finance, City Manager, etc...)
- Review of all relevant data (costs, mileage, labour, contracts, budgets, etc...) received electronically

**Data formatting**

- Format all data
- Calculate basic performance indicators ($/km, MDBF, etc...)
- Summarize all relevant strategies, policies, processes, practices, perceptions
- Validate current situation with Client

**Benchmarking**

- Telephone interviews with comparable or “best of class” organizations, for example:
  - Toronto’s TTC who has been leasing tires for 40 years
  - Montreal’s STM who has always preferred buying
  - Others
## Lease vs. Buy Analysis for Bus Tires

### Hamilton Street Railway Company

- **Tire leasing justification for Transit buses**

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- Telephone Interview with top three Canadian tire manufacturers (Goodyear, Michelin, Bridgestone) to obtain insight from the tire industry
- Summarize best practices, lessons learned, pros and cons, do's & don’ts of tire leasing
- Validate results with Client

### Analysis

- Perform high level financial analyses
- Perform comparative and gap analyses
- Validate results with Client

### Recommendations

- Identify and compare potential scenarios
- Select and recommend the best option
- Validate results with Client
- Prepare draft report and submit to Client for comments and approval

### Final report

- Make final corrections and adjustments as required and issue final document
3.0 SUMMARY OF FINDINGS

3.1 BASELINE

Based on the data received, following meetings and the phone interviews that were conducted, you will find below a picture that depicts the situation as far as tire management is concerned for HSR's fleet:

3.1.1 THE FLEET AT A GLANCE

Currently, HSR's fleet is composed of 217 units that are divided in the following manner:

- 2, 35' buses
- 190, 40' buses
- 25, 60'articulated buses

The 35' and 40' vehicles are equipped with 6 wheels however the 60' articulated vehicles are equipped with 10 wheels.

Therefore, if we multiply the number of wheels by the different bus types in service, this amounts to 1402 tires in use. In addition, a 30 to 50 tire inventory is in place to ensure tire change due to normal wear & tear or used to overcome damage incurred to tire casings during usage.

The HSR provides public transportation services to residents of Hamilton, which has a population of about 490,000. The CHTC transports about 21 million passengers a year.

In 2010, HSR's fleet travelled 14,226,766 km compared to 5,960,287 km in the first five months of 2011. On average, 65,561 km per bus was traveled last year.
3.1.2 TIRE FACTS AND CONTRACT PORTRAIT

HSR and Bridgestone entered the Agreement that became effective as of October 1st, 2001, relating to the supply of tires and services. The original Agreement (#C11-53-02), which was amended from time to time, expires on September 30, 2011. But July 14th, the parties agreed to extend it through December 31, 2011.

Basically, according to contract # C11-53-02, the main conditions are:

1. An applicable monthly charge for mileage travelled. The applicable rate ($/km) is presented in section 3.1.5.

2. An applicable monthly charge based on remaining tread wear of the damaged tires. The applicable rate ($/32") is presented in section 3.1.5

3. Repairs (patch or section repair) are HSR's responsibility

Currently, for the global bus fleet, the following tires are used:

- Bridgestone, Model R192 (24/32 tread depth)
- Firestone, Model City Transport Radial (CTR) (27/32 tread depth)

The main sizes are:

- 305/70R22.5
- 12R22.5 (this tire size is in phase-out)

Facts and ratios regarding HSR's tire management are:

1. Minimum tread wear to replace a tire is 4/32.

2. Estimated tire lifespan by Bridgestone can vary between 80,000 km to 120,000 km depending on tire location on the vehicle. On average, the reference is 100,000 km.

3. HSR does not «regroove» tires

4. HSR doesn't use retreaded tires, but always new tires.

5. HSR does a rotation at every 10,000km on the tires

6. During summer or winter, the tire tread pattern is the same.

1 Technical Specification available in Appendix C
7. Traction or Steer/Directional Tires are the same.

8. Tire casings belong to Bridgestone, who takes care of disposal.

9. All tires are identified (branded) with an HSR code and another one for Bridgestone. This is to ease/help on follow-up of tire casings.

10. Repairs (if fixable) are HSR's responsibility.

11. When a new bus is purchased, a credit is obtained by the vehicle manufacturer because Bridgestone takes care of supplying the buses with new tires.

12. When an old bus is sold, the tread wear measurement is taken and Bridgestone will charge according to the remaining tread wear on each tire that is on the vehicle.

13. Personnel and tools needed for tire management and repairs falls under HSR's responsibility and ownership.

14. In 2010, 851 tires were changed because of damages and 103 were sold because of scrapped buses, for a total of 954 tires.

15. In 2010, the Mean Distance between Failure (MDBF) was 16,718 km for the entire fleet, on tire issues.

16. In 2010, the number of replaced damaged tires per bus averaged to 3.9/bus for the year.
3.1.3 PORTRAIT OF TIRE ROOM AND MAINTENANCE EQUIPMENTS

To follow-up, tire maintenance and repair tasks are carried out by two (2) attendants. Tools, equipment as well as personnel designated to carry-out maintenance work are all under HSR's management and ownership.

On the left, the work area dedicated to tire intervention. This work bay includes a hoist that lifts the bus high enough for most of the work to be performed and also includes all the necessary tools for wheel mounting and dismounting, including a calibrated torque wrench to ensure nuts are properly torqued.

Next to the work bay, is an area with a tire mounting machine for tire mounting and dismounting on steel rims, a wheel balancer and all the tools and supplies to perform flat repairs. In addition, this room is used by the attendants as an office where they follow-up on files pertaining to tires.

This last picture illustrates rims, tires and wheel inventories that are ready to be mounted on a vehicle. Between 30 to 50 spares are kept on hand for immediate installation.
3.1.4 BILLING PROCESS

As per contract #C-11-53-02 and subsequent amendments, the billing process can be defined as follows:

1. Every two weeks, a Bridgestone representative shows-up at the workshops to follow-up on inventory. During this visit, he cross-checks with the tire attendant, used or damaged tires and writes a report with “Removal Codes”\(^2\), which will be used for billing. (see appendix A for a report example). This report includes identification of the withdrawn tire, size and remaining tread wear in 32\(^{nd}\) as well as the “Removal Code” that specifies the withdrawal reason. Once the report is completed, it is signed by the attendant to confirm information accuracy and at the same time, for approval of related costs.

2. Once the representative returns to his office, following his visit to HSR, he will send his report to Bridgestone’s head-office. In addition to his report, around the 10\(^{th}\) of the month, he will be informing Bridgestone of kilometres travelled by all of HSR’s fleet during the last month. This will enable Bridgestone to bill in accordance to monthly usage.

3. On a monthly basis, bills are sent to HSR by Bridgestone. These bills include two (2) sections: One for costs related to mileage usage and the second, for costs related to damages incurred which require replacement of a tire before term.

   a. For mileage based billing, the contract rate (\(\$\) per kilometre) is multiplied by mileage travelled per bus and then by the number of tires it is equipped with.

   b. For billing concerning withdrawals before term, the contract rate (\(\$\) in 32\(^{nd}\), is multiplied by the remaining tread left on the tire.

4. Upon bill reception, HSR processes bills in accordance to delays outlined in the contract.

\(^2\) See appendix B
3.1.5 **TIRE OPERATIONAL COSTS**

Asides from costs for maintenance personnel, tools and facilities are the same whether tires are purchased or leased. Below is a summary for amended contractual costs for years 2010 and 2011. Note that as of September 1st, 2011, mileage cost was increased, however the cost per 32nd (damage cost), was unaltered for the remainder of the agreement. Moreover, the costs of tire repairs such as patches or section repairs were not included in the following tables as they were not provided initially and non significant in this case.

<table>
<thead>
<tr>
<th>Cost per 32nd (damage cost)</th>
<th>$15.92</th>
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<tr>
<td>Cost per km (12R225)</td>
<td>$0.00277</td>
</tr>
<tr>
<td>Cost per km (12R225) after September 1st</td>
<td>$0.00304</td>
</tr>
<tr>
<td>Cost per km (305/70R22.5)</td>
<td>$0.003157</td>
</tr>
<tr>
<td>Cost per km (305/70R22.5) after September 1st</td>
<td>$0.00304</td>
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**YEAR 2010**

<table>
<thead>
<tr>
<th>Month</th>
<th>Cost/km</th>
<th>Damage (cost per 32nd)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>22,703.04 $</td>
<td>52,795.20 $</td>
</tr>
<tr>
<td>February</td>
<td>21,035.00 $</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>5,882.35 $</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>22,503.20 $</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>22,117.47 $</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>22,431.16 $</td>
<td>87,407.52 $</td>
</tr>
<tr>
<td>July</td>
<td>13,519.53 $</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>20,716.99 $</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>20,359.00 $</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>20,661.73 $</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>21,186.60 $</td>
<td>88,086.36 $</td>
</tr>
<tr>
<td>December</td>
<td>21,118.77 $</td>
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</tr>
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</table>

**Total**: $234,233.83 $ \( \approx \) $178,288.08 $  
**Grand total**: $412,521.91 $  

For year 2010, direct costs for tire replacement came up to $412,521.91, for a total of 14,226,766 km travelled. From this amount, 57% is related to mileage travelled (normal wear) and 43% is related to tire change before term due to damage. Finally, the global cost per kilometre for all the fleet is 0.029$/km.
As for the first five month of 2011, the costs come up to $151,094.85 for 5,960,287 km travelled for the global fleet. Therefore, 69% of costs are due to mileage done (normal wear) and 31% are related to damage costs. As for the global cost per kilometre for all the fleet, it averages at 0.025$/km.

**YEAR 2011**

<table>
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<tr>
<th>Month</th>
<th>Cost/km</th>
<th>Damage (cost per 32nd)</th>
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<tbody>
<tr>
<td>January</td>
<td>20,982.50 $</td>
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<td>February</td>
<td>18,693.18 $</td>
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<td>March</td>
<td>20,380.66 $</td>
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<td>April</td>
<td>24,023.81 $</td>
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<td>May</td>
<td>19,939.26 $</td>
<td>47,075.44 $</td>
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<td>June</td>
<td></td>
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<td>July</td>
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<td>August</td>
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<td>September</td>
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<td>October</td>
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<tr>
<td>November</td>
<td></td>
<td></td>
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<tr>
<td>December</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>104,019.41 $</strong></td>
<td><strong>47,075.44 $</strong></td>
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**Grand total** 151,094.85 $

For reference purposes and for a better understanding of various costs associated to tires, you will find a cost related to mileage billing example as well as a costs related to tire damage example in appendix D.
3.2 BENCHMARKING

Following interviews with tire manufacturers and fleet operators of transit buses and the documentation collected, this section presents the advantages / disadvantages, similarities and differences in the tire management.

3.2.1 PROS AND CONS OF LEASING

The principal advantages related to leasing are:

No Capital Investment

It provides the tires to equip your vehicles, plus an adequate reserve supply of tires, and you pay by the mile. You are paying only when the tires are rolling, relieving you of the need for substantial capital outlay. And there is no tire inventory investment.

Easy Monthly Payment

A simplified procedure that includes a monthly payment for tire mileage operated and/or damaged tires. It flattens-out expenses throughout the year with no freight or tire disposal charges added. It's all included in the cost/km rate.

Documented Costs per Mile

The tire lease program is designed to assist the operator in obtaining the best mileage performance possible with documented costs.

Guaranteed Source of Supplies

The tire lease programs are established through a contract between the operator and manufacturer, obligating the manufacturer to equip your vehicles and provide an adequate reserve supply.

Known Cost for Future Budgeting

The tire lease program prices are set, based on commodity price changes, and provides defined cost information to assist the operator in forecasting costs and budgeting expenses.

Simplified Purchasing and Inventory Control

The tire lease program guarantees the cost structure by your contract, thus eliminating time spent in calling for prices, availability and adjustments.

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3 Information mainly came from manufacturers and interviews conducted.
The manufacturer assists you in maintaining proper inventory control and provides a central ordering location to handle and follow your tire orders.

**Tire Damages Report**

Provide a codified damages report on regular basis to track the causes of replacing tire before the expecting lifespan.

**Tire Casing Managing**

The manufacturer will take care of old tire casing whether it's for retread or disposal.

**Fewer Personnel**

Fewer personnel needed to track, control and purchase tires.

**Equipment and Personnel**

The lease tire program may include Equipment and Personnel for maintaining and managing tire. Mostly in the United States and European side.

**The principal disadvantages related to leasing are:**

**Product range limitations (captive to one manufacturer)**

Captive and limited to products of a single manufacturer but with the possibility of having needs that require the products of another manufacturer.

**Entry Barrier**

The initial capital cost is important for a new supplier and this could limit bids and could result in a less competitive market.

**Exit Barrier**

The initial capital cost is important factor for a Transit operator to move from leasing to buying. And it will require a lot of energy to justify this new orientation.

**Loss of "subsidy"**

When buying a new bus, there is loss of the subsidy and therefore capitalized cost of the tires falls directly into the operating budget.
Tires damage cost

There is no incentive to reduce the cost of tire damage for the manufacturer.

**Truth about leasing or buying with one supplier:**

Tires Tailored for your Service

The tire manufacturer evaluates your tire requirements, operating conditions and load to recommend the tire that will give you the maximum performance.

Service & Engineering Assistance

The manufacturer uses tire engineering and service specialists to evaluate maintenance and tire conditions to assist and counsel the operator on methods to achieve greater tire performance.

Standardisation of Tires

Having one manufacturer as your tire supplier and providing one tire design, helps provide matched tires to your vehicle and easier mating.

Product Range

The manufacturer will offer a range of new tires and retreads in popular sizes available for your fleet.
3.2.2 BENCHMARKING WITH OTHER TRANSIT BUS COMPANY

To get an overview of the various practices related to tire management, the following transit operators were contacted and interviewed on this subject:

<table>
<thead>
<tr>
<th>OPERATOR THAT LEASE</th>
<th>OPERATOR THAT BUY</th>
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<tbody>
<tr>
<td>Toronto (1811 buses)</td>
<td>Montréal (1680 buses)</td>
</tr>
<tr>
<td>Brampton (264 buses)</td>
<td>Québec (588 buses)</td>
</tr>
<tr>
<td>Mississauga (437 buses)</td>
<td>Longueuil (404 buses)</td>
</tr>
<tr>
<td>London (192 buses)</td>
<td>And most of others Quebec Transit Operators are under Montréal's purchasing Agreement</td>
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<tr>
<td>Gatineau (285 buses)</td>
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Highlights on Tire Management Practices

Regroove tire

Regrooving tires is not a regular practice whether you buy or lease. It’s only a matter of getting the same tread depth of different tires on the same axle to maximize the lifespan.

Retread tire

Retreading is mostly used when you buy, to get the most of your tire casing (up to 3 X) and for those who need a more aggressive tread on winter time. On average, a retreaded tire is about 50% of the cost of the new tire. In the case of leasing, when tires are retreaded, there is not a significant difference in the cost per kilometre.

Tread pattern

Most of the leasers use the same tire pattern year long and all positions. However for those in the Northern region and those who buy, more aggressive tread patterns and traction tires are used for the winter.

Traction tire vs. Steer tire

Most of the leasers use the same tire all positions and performed rotations to maximize tread wear.
Tire lifespan

This question is not much of an issue for those who lease because should the tire not meet the expected lifespan, it is most likely related to a manufacturer problem. So when we asked for the expected tire lifespan, there was no specific answer. In the case of buying tires, this is a specific criteria that determines whether you get a refund/ or can claim on a minimum of durability expected.

Minimum Tread wear

The minimum tread wear before a tire is removed can range from 3/32" to 5/32". And HSR is in the middle at 4/32".

Dashboard on tire management

None, among the leasers have a specific dashboard on tires, but only the manufacturer report. For those who buy, they’re currently working on a way of benchmarking so they can claim should the product not meet the needs and requirements. Furthermore, a dashboard will help determine the root cause of tire replacement.

Tire Rotation

The tire rotation is part of the maintenance procedure to maximize the tire lifespan. The periodicity may change depending on the tire position and the bus’s use.

Leasing term

Most of the leasers have a long term relationship of more than 30 years.
3.2.3 INDUSTRY’S TREND/COMMENTS

From the tire manufacturer’s perspective, three main players were contacted to obtain comments and associated trends. These are:

- Bridgestone
- Goodyear
- Michelin

Currently, all offer a tire lease program and are able to support leasing or buying options for any Transit operator.

One important fact is that the tire lease program is mainly and mostly dedicated to transit buses operator because they have a specific route and itinerary which result in a large mileage amount per month. This is not true with, for example, a Public Fleet such as a City.

Secondly, the tire lease program rates are based only on the Transit operator history/habits and may differ from one transit operator to another.

In Europe or in the United States, when enrolled in a tire leasing program, the mileage rate may include, if desired, all the maintenance equipment and maintenance personnel. In Canada, with the Unions this is not a common reality.

With the rapid technological advance on tire construction, it is quite important for a transit operator to watch for new products on the market every year and to benchmark them. The ideal is to improve the cost per kilometre and to orient the choice towards a performing tire.

One trend in Europe, presently, is the used of RFID technology in the tire casing to keep track of the tire. With the RFID device, this technology offers the following data:

- ID number of the tire;
- Bus number;
- Position on the bus;
- Mileage, dates and tread wears.

With such a system it becomes much easier to benchmark and obtain accurate information on the tire lifespan.

Moreover, there is a technology that is growing to be popular, where the tire tread is scanned while the tire is rolled over this device. It could be positioned, for example, at an entry/exit door. This will help tire management in predicting tire replacement or uneven tread wear. This technology has yet to be improved and adapted for our Canadian reality.
3.3 ANALYSIS

3.3.1 PRICES/COSTS

Generally, prices are based on the operator's history and this makes it difficult to accurately compare. For example, a high average speed means a lower wear of the tires, a vehicle moving through a sector undergoing construction increases damages, whereas narrow streets will increase the wearing down of sidewalls. Poor maintenance (or lack of) as well as bad driving habits are all conditions that will make the mileage rate vary and impact the manufacturer's bid.

In HSR's situation, we will take in consideration the rates from September 1st 2011, of 0.003504$/km and 15.92$/32nd. These rates are for the most common tire size, which is 305/70R22.5 with a tread depth of 27/32nd.

- **Tire cost at mileage rate**

To calculate tire cost per mileage rate, we multiply the rate by the tire lifespan estimated by Bridgestone as such:

\[
0.003504$/km \times 100,000\text{km} = 350.04\
\]

- **Tire cost at remaining tread wear rate**

To calculate the maximum cost of a tire based on the 32nd rate, we multiply this rate by the maximum tread depth of 27/32nd as such:

\[
15.92$/32nd \times 27/32nd = 429.84\
\]

- **Tire cost (if purchased)**

After a discussion with Bridgestone and based on the fleet size of HSR, a price tag of about 530$ should be the in the range. Compared to a fleet about 10 times bigger, the price tag is around 428$.

- **Cost of a retreaded tire**

An average, retreaded tire cost will represent about 50% of a new tire, depending on the tread pattern and the expected tire longevity.

To conclude this section, we noticed that the average cost for HSR is very competitive if the tire lasts its normal lifespan expectancy, which is 350.04$. However, if the tire falls below this value, the supplier will be on the loosing end and should the tire's value go beyond 100,000 km, it become in Bridgestone's interest to maintain this contract.

Furthermore, upon verifying with companies who purchase tires, we noticed that the general mileage cost, which normally falls under 0.03$/km, is similar to HSR's global rate at 0.029$/km.
(Year 2010). However, it would be possible to improve this rate and make it as low at 0.022$/km like with certain transit operators.

This brings us to say, at this stage, that currently, the choice stems more from organizational practices than from an economic perspective.

### 3.3.2 CAUSES OF DAMAGED TIRES

Regardless whether you buy or lease, enumerated below are the principal causes of premature tire replacement, which explain the 43% costs related to damaged tires in 2010:

- Misalignment of the wheels
- Low tire air pressure
- Tire rotation
- Driver abusive habits
- Road under construction
- Tight road/corner
- Lack of training on the maintenance side and on the driver side
- Insufficient procedures and lack of a Fleet Management System for tire tracking that provides a Dashboard

Keeping track and managing these causes may significantly reduce HSR's tire costs. But this is conditional to the return on your investment. No procedures or tools justify a capital investment if you don't get your money back and decrease of your overall costs. This is the reason why we recommend that HSR perform a cost analysis on the major causes of tire damage prior to making improvements.

### 3.3.3 RISK MANAGEMENT

Generally speaking, managing or sharing risk in tire management sector can be outlined in the following manner:

- **With a leasing** tire program, the risk lies with the tire manufacturer because if the tire wears-out faster than the expected mileage it will represent a loss for the supplier.

- **When buying**, the risk lies mainly with the Transit operator as he will need to prove that the tire did not meet minimum mileage performance. Should this situation arise, it will require a system and personnel to back the proof.
4.0 RECOMMENDATIONS

After analyzing HSR’s data and processes on tire management, and following a benchmarking exercise with other transit operators, here are some recommendations and/or areas of improvement that can help HSR improve tire management:

**One alternative** to the current tire lease program would be to purchase the tires, rather than lease them and have HSR personnel provide the required tire service. This is not a desirable or recommended alternative because of the increased overhead cost, the large initial capital cost of buying new tires (743 060$) and the added responsibility of properly disposing hundreds of used tire casings. As presented in section 3.3.1, the costs of buying or leasing are about the same.

**The proposed contracting** method of leasing greatly reduces HSRS’s risk, flattens costs, uses fewer personnel and eliminates "cradle to grave" responsibility of hazardous waste tire disposal. This means that it is a method that makes more sense to maintain.

Below are some areas of improvement that need to be addressed to be more cost efficient on tire management:

**Areas of improvement**

- **Need to take action** to reduce costs associated with damaged tires which accounted for 43% of costs in 2010.

- **A root cause analysis** on damaged tires needs to be performed to save money.

- **Have a management system** that tracks tires for its entire lifespan and identifies the causes of withdrawals.

- **Make dashboards** to track tire lifespan and damage causes.

- **Consider Retreading** in a future bid and assess whether there is a positive impact on the tendered cost.

- **Add performance criteria for the tire** in the tender: minimum service life, type of construction of the tire, protection on sidewall, more rigid casing.

- **Have incentives for the manufacturer** to reduce the damaged tires.

- **Specify the minimum tread wear** (eg, 4 / 32) in the tender, and that the tire will be removed for the calculation of the remaining tread costs.

- **In the tender, specify the acceptable limits (criteria)** that will determine the removal of a damaged tire.
- Consider using a different tire for the direction vs. traction which is more sought to increase its longevity.

- **Optimizing tire maintenance:** Review frequency of tire rotation, valve with pressure indicator (TPMS), wheel alignment, etc. The dashboard will reveal the findings and enable you to identify the main causes and trends for damage.
5.0 CONCLUSION

The first part of this report was to provide context for this analysis by presenting the current situation at HSR on the tire management.

Afterwards, a benchmark, an analysis and a series of findings were presented. These latter elements followed from the interviews and from various documents provided by HSR for the years 2010 and 2011.

Consequently, based on the history of the organization, the current situation at HSR and following the findings that were identified, a series of recommendations and areas for improvement were presented.

To conclude this analysis, SNC Lavalin directs HSR therefore to mainly:

- Continue leasing tires
- Clarify and improve its tender for the lease of tires
- Conduct a detailed analysis of the causes for the high number of damaged tire replacements, and this, in order to reduce costs.
- Develop procedures and a management system to get a dashboard on tire management

These recommendations will therefore help HSR optimize its processes in tire management, improve the financial aspect and positively influence other internal departments as well as be proactive in providing efficient services at a lower cost.

With these recommendations we conclude this report.
# APPENDIX B – REMOVAL CODES

**Bridgestone/Hankook Mileage Sales Tire Removal Codes (2010)**

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|------| |
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| 131  | 101      |

| INTERIOR | |
|----------| |
| 132      | 102      |
| 133      | 103      |
| 134      | 104      |
| 135      | 105      |
| 136      | 106      |

| GENERAL | |
|---------| |
| 137     | 701      |
| 138     | 702      |
| 139     | 703      |

| SHOULDER | |
|----------| |
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| 141      | 705      |
| 142      | 706      |
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| SHOULDER | |
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| 146      | 710      |

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APPENDIX C – TIRE SPECS

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BRIDGESTONE A192

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9.0 APPENDIX D - INVOICE EXAMPLES

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**PLEASE SHOW INVOICE NUMBER AND YOUR ACCOUNT NUMBER ON CHECK. FOR BILLING INQUIRIES, CALL 900-342-HILE, OPTION 3.**

INVOICE

| GST NO.: R161353576 | GST NO.: 1514459900 TQ0061 |

SNC LAVALIN

Ref: 608444

© 2011 SNC-Lavalin Inc.
**Lease vs. Buy Analysis for Bus Tires**  
**Hamilton Street Railway Company**

«Tire leasing justification for Transit buses »

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**BRIDGESTONE CANADA, INC**  
**MILEAGE SALES DEPARTMENT**  
**5770 HURONTARIO STREET, SUITE 400**  
**MISSISSAUGA ON L6R 3G5**

**DATE:** 05/19/11  
**APPROVED BY:**  
**P.O.:** 11050  
**INVOICE #:** 05-76553

**SOLD TO:**  
**CITY OF HAMILTON**  
**HAMILTON STREET RAILWAY**  
**2200 HWY 6 SOUTH - RR#1**  
**HAMILTON, ON L8N 1W6**

**REMIT TO:**  
**BRIDGESTONE/FIRESTONE**  
**CANADA INC. - MILEAGE SALES**  
**P.O. Box 8787 Postal Station A**  
**Toronto, Ontario M5W 3C2**

**SHIPPED TO:**  
**HAMILTON CANADA ON LOR 1W6**

**TERMS:** NET 30 DAYS

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**$4119.81**  
|  |  | **TOTAL** | **$51195.25** |

**INVOICE**  
**GST NO.: R101003575**  
**QST NO.: 1015622960 TQ0001**  
**RECEIVED**

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ref: 608444  
© 2011 SNC-Lavalin Inc.
SUBJECT: City of Hamilton Lease Financing Policy - FCS04014 - (City Wide)

RECOMMENDATION:

a) That the Lease Financing Policy as set out in Appendix I to FCS04014 be approved.

b) That the Lease Financing Policy as set out in Appendix I to FCS04014 be forwarded for information to the following boards: Hamilton Entertainment and Convention Facilities Inc., Hamilton Police Services, and Hamilton Public Library.

Joseph L. Rinaldo, General Manager
Finance & Corporate Services

EXECUTIVE SUMMARY:

The purpose of this report is to seek Council approval of the Lease Financing Policy which is now a requirement of the new Municipal Act. The City under Ontario Regulation 46/94, as amended to 401/02 under the Municipal Act, requires all cities to adopt a "Lease Financing Policy".

The attached Appendix is the proposed policy with the relevant section of the Municipal Act attached. This policy governs all lease agreements entered into by the City. The intent of legislation and this policy is to treat all leases as debt substitutes, encouraging in depth analysis and overall monitoring of lease liabilities.
BACKGROUND:

The City does not, in general, encourage leasing, however, many circumstances require leasing of a good or service. Prime examples are the leasing of real property, leasing of proprietary goods and leasing of certain depreciating or re-useable items. The new Act treats leasing as a financing alternative. In order to control financial risk, the Proposed "Lease Financing Policy" defines a higher level of analysis for individual material leases and allows non-material leases to be controlled through pooling. There are administrative requirements for each type of lease which limits their potential financial impact on the City.

The new Municipal Act requires that all cities adopt a "Lease Financing Policy". Staff has reviewed policies which were adopted by five other regions and municipalities in the development of this proposed policy. The Regions of Halton, Niagara and York were reviewed along with the policies of the City of Mississauga, and the Town of Orangeville. The proposed policy differs in definition of a non-material lease and the limit proposed. All of the afore-mentioned policies, including Hamilton's, are developed to meet particular Municipal needs and comply with the Act.

ANALYSIS OF ALTERNATIVES:

N/A

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

The proposed policy separates leases into two distinct categories of material and non-material leases. Material leases are defined as any lease which will require payment beyond the term for which the current Council has been elected. These leases all require a report to Council by the Treasurer comparing the lease to other methods of financing, calculating the effective rate of interest, a summary of contingent payments, a summary of assumptions, and any other matters deemed advisable by the Treasurer. Council and the Treasurer are responsible for considering independent legal and financial advice if the scope of the lease requires it.

All material leases must be approved by Council. If one or more material leases subsist in a fiscal year, a detailed report must be made at least annually to Council by the Treasurer. The report is to include the ratio of lease payments to long-term debt of the municipality and a description of the change, if any, in that proportion since the previous year's report. The Treasurer is to include a statement as to whether, in his or her opinion, all material leases were made in accordance with the City's leasing policy and other information that may be required or should be recorded.

In order to facilitate the lease approval process and reduce the cost and staff time spent on lease administration, the legislation permits a category of non-material leases may be created by Council. After consulting with other departments and reviewing other municipal policies, the policy, as proposed, defines a non-material lease as any financial
lease requiring annual payments of less than $150,000, any building or property lease with a term of less than five years and any leases in place at Council approval of this policy.

Non-material leases must be tracked and recorded City wide as they form a pool of lease obligations which may have a material impact on the City’s finances. The policy that annual repayment obligation cannot exceed 20% of the annual repayment limit as prescribed under Ontario Reg. 799/94 as amended to 403/02. If this limit is exceeded by a proposed non-material lease, the non-material lease is to be reported and reviewed by City Council as if it were a Material lease under this policy. All leases (material, non-material, and exempt) are to be reviewed by the General Manager, Finance and Corporate Services and Treasurer for classification, compliance with this policy and calculation of total annual lease obligation. Final execution of lease documents will require the signature of the Mayor, City Clerk, and the General Manager, Finance and Corporate Services and Treasurer.

The policy also requires the Treasurer to submit an annual report to Council highlighting the total financial lease obligations (material or non-material) for the city, the ratio of lease financing to long-term debt, a description of any changes and a statement confirming that in the Treasurer’s opinion all financial leases were made in accordance with the Council approved policy.

In order to implement this policy, there will be an additional cost in terms of staff processing time and depending upon the volume and requirements further resources may be required.

**POLICIES AFFECTING PROPOSAL:**

N/A

**CONSULTATION WITH RELEVANT DEPARTMENTS/AGENCIES:**

Planning & Development and Legal Services were consulted

**CITY STRATEGIC COMMITMENT:**

The City’s goal of achieving a City “that spends wisely” and its’ commitment to “best value for services” requires a thorough analysis of financing alternatives including leasing. This policy allows the City to finance using leases maximizing financing alternatives and control the risks involved as required by the legislation.
APPENDIX I

The City of Hamilton

"Lease Financing Policy"
The City of Hamilton
Lease Financing Policy and Goals

Policy Statement

This policy constitutes the statement of The City of Hamilton's Lease Financing Policies and Goals under Ontario Regulation 46/94 (copy attached) as amended to 401/02 under the Municipal Act.

Purpose

The purpose of this policy is to provide guidance to staff when contemplating lease agreements for the provision of municipal equipment and facilities. Financial Leases may be preferred to outright purchase and/or debt financing of equipment and facilities. The City may enter into lease arrangements in order to acquire the rights to use capital property and equipment, including some or all of the benefits and risks of ownership for specific periods of time and stipulated rental payments.

Definitions

<table>
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<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>Combined Material Impacts -</td>
<td>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 an amount of payment exceeding 20% of the annual repayment limit as prescribed under Ontario Regulation 799/94 as amended to Ontario Regulation 403/02.</td>
</tr>
<tr>
<td>Financial Lease -</td>
<td>A financial arrangement whereby equipment or Municipal capital facilities are provided to the City by a third party in exchange for a series of payments that extend beyond the term for which Council was elected (includes renewal options).</td>
</tr>
<tr>
<td>Lease Terms -</td>
<td>The term of the lease shall be the entire term of the lease including any possible extensions or renewals as stated in the lease.</td>
</tr>
<tr>
<td>Material Lease -</td>
<td>A Financial Lease which extends beyond the term of Council which requires annual payments of $150,000 or a lease term of more than five years for commercial real property.</td>
</tr>
<tr>
<td>Non-Material Lease -</td>
<td>A Financial Lease which requires annual payments of less than $150,000 annually with a lease term of less than 5 years.</td>
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</table>
Classes of Capital Municipal Facilities:

Financing Lease agreements may be entered into for the provision of the following classes of municipal capital facilities:

- facilities used by Council
- facilities used for the general administration of the municipality
- municipal roads, highways and bridges
- municipal facilities related to the provision of telecommunications, transit and transportation
- municipal facilities for water, sewers, sewage, drainage and flood control
- municipal facilities for the collection and management of waste and garbage
- municipal facilities related to policing and by-law enforcement
- municipal facilities related to the provision of social and health services, including homes-for-the-aged
- municipal housing project facilities

Required Contents

Every financing lease must include a schedule of all fixed amounts of payment, if any, required under the lease and that may be required under any possible extensions or renewals of the lease. All financing leases (material, non-material, and exempt) are to be reviewed by the General Manager, Finance and Corporate Services and Treasurer for classification, compliance with this policy and calculation of total annual lease payment obligation. Final execution of lease documents is to require the signature of the Mayor, City Clerk and the General Manager, Finance and Corporate Services and Treasurer.

Non-Material Leases

In the opinion of the General Manager, Finance and Corporate Services and Treasurer and City Council, the following types of Financing Leases will not result in a Material Impact for the municipality and are therefore Non-Material Leases:

- any lease requiring annual payments of less than $150,000.00
- any lease requiring annual payments of less $150,000.00 entered into in accordance with the City's “Purchasing Policies and Procedures” as approved by council, including, but not limited to, leases of: office equipment; automobiles; information technology infrastructure, hardware and software; communications equipment; machinery and equipment
- any building or property lease entered into with a term of less than five years.
- Any leases in place at the time of Council approval of this policy.
Even if a Non-Material Lease does not have to be reported to Council under this policy, the Lease shall be reported to Council when required by the City's "Purchasing Policies and Procedures" as approved by council, or equivalent policy then in effect, or by any other applicable by-law or approved policy and procedure.

If, at any time after a report is made, but before the Financing Lease is entered into, the General Manager, Finance and Corporate Services and Treasurer becomes of the opinion that a changed circumstance with respect to the proposed lease may result in a Material Impact or a Combined Material Impact for the municipality, the report must be updated as soon as is reasonably possible and presented to Council.

**Council Report on Non-Material Leases With a Combined Material Impact**

Where a proposed Non-Material Lease in combination with all other Non-Material Leases entered into or proposed to be entered into in a particular year by the municipality would have a Combined Material Impact as defined (section below), the proposed Non-Material Lease is to be reported and reviewed by City Council as if it were a Material Lease under this policy.

**Meaning Of Combined Material Impact**

In the opinion of the General Manager, Finance and Corporate Services and Treasurer and City Council, a proposed Non-Material Lease in combination with all other Non-Material Leases entered into or proposed to be entered into in any particular year would have a Combined Material Impact ONLY if the annual payment of all such Non-Material Leases were greater than 20% of the City's debt repayment limit prescribed under Ontario Regulation 799/94, as amended to Ontario Regulation 403/02. Where such total annual payment is less than 20%, a proposed Non-Material Lease is not required to be reported to and reviewed by Council under this policy.
Process For Approval Of A Material Lease

Treasurer's Report

Before entering into a Material Lease, the General Manager, Finance and Corporate Services and Treasurer shall prepare a report to Council assessing the costs and financial and other risks associated with the proposed Material Lease, including any possible extensions or renewals. The report will include:

- a comparison between the fixed and estimated costs and the risks associated with the proposed Material Lease and those associated with other methods of financing;
- a statement summarizing, as may be applicable, the effective rate or rates of financing for the Material 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 statement summarizing any contingent payment obligations under the lease that, in the opinion of the General Manager, Finance and Corporate Services and Treasurer, would result in a Material Impact for the municipality, including lease termination provisions, equipment loss, equipment replacement options and guarantees and indemnities;
- a summary of the assumptions applicable to any possible variations in the lease payment and contingent payment obligations; and
- any other matters the General Manager, Finance and Corporate Services and Treasurer or City Council considers advisable.

Council's Role

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

In considering the report and recommendation from the General Manager, Finance and Corporate Services and Treasurer, 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.

If Council decides to approve entry into the Financing Lease, such approval shall be by By-law.
Annual Report To Council

Once in every fiscal year, the General Manager, Finance and Corporate Services and Treasurer shall provide a report to Council containing the following:

- a description of the estimated proportion of the total financing arrangements of the municipality that is undertaken through Financial Leases to the total long-term debt of the municipality;
- a description of the change, if any, in that estimated proportion since the previous year's report;
- a statement by the General Manager, Finance and Corporate Services and Treasurer as to whether, in his/her opinion, all Financial Leases (Material or non-material) were made in accordance with this policy;
- any other information that may be requested by Council or that, in the opinion of the General Manager, Finance and Corporate Services and Treasurer, should be recorded.
Municipal Act, 2001
ONTARIO REGULATION 46/94

Amended to O. Reg. 401/02

MUNICIPAL AND SCHOOL CAPITAL FACILITIES - AGREEMENTS
AND TAX EXEMPTIONS

Notice of Currency:* This document is up to date.

*This notice is usually current to within two business days of accessing this document. For more current amendment information, see the Table of Regulations (Legislative History).

This Regulation is made in English only.

1. In this Regulation,

"financing lease" means 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;

"housing project" means a project or part of a project designed to provide or facilitate the provision of residential accommodation, with or without any public space, recreational facilities and commercial space or buildings appropriate thereto;

"housing unit" includes a unit in a housing project owned or rented by an occupant;

"material impact" means costs or risks that significantly affect, or would reasonably be expected to have a significant effect on, the debt and financial obligation limit prescribed under Ontario Regulation 799/94;

"municipal capital facilities" and "school capital facilities" include land, as defined in the Assessment Act, works, equipment, machinery and related systems and infrastructures.

O. Reg. 46/94, s. 1; O. Reg. 189/01, s. 1; O. Reg. 266/02, s. 1; O. Reg. 401/02, s. 1.

2. The council of a municipality may enter into an agreement under subsection 110 (1) of the Act for the provision of the following classes of municipal capital facilities:
1. Facilities used by the council.

2. Facilities used for the general administration of the municipality.

3. Municipal roads, highways and bridges.

4. Municipal local improvements and public utilities, except facilities for the generation of electricity.

5. Municipal facilities related to the provision of telecommunications, transit and transportation systems.

6. Municipal facilities for water, sewers, sewage, drainage and flood control.

7. Municipal facilities for the collection and management of waste and garbage.

8. Municipal facilities related to policing, fire-fighting and by-law enforcement.

9. Municipal facilities for the protection, regulation and control of animals.

10. Municipal facilities related to the provision of social and health services, including homes under the *Homes for the Aged and Rest Homes Act*.

11. Municipal facilities for public libraries.

12. Municipal facilities that combine the facilities described in paragraphs 1 to 11.

13. Parking facilities ancillary to facilities described in any of paragraphs 1 to 12.

14. Municipal community centres.

15. Parking facilities ancillary to facilities described in paragraph 14.

16. Municipal facilities used for cultural, recreational or tourist purposes.

17. Municipal general parking facilities and parking facilities ancillary to facilities described in paragraph 16.

18. Municipal housing project facilities. O. Reg. 46/94, s. 2; O. Reg. 189/01, s. 2; O. Reg. 401/02, s. 2.

3. The classes of municipal capital facilities described in section 2 are also eligible municipal capital facilities for the purpose of a tax exemption under
subsection 110 (6) of the Act. O. Reg. 46/94, s. 3; O. Reg. 266/02, s. 2; O. Reg. 401/02, s. 3.

4. Municipal capital facilities may be the subject of an agreement under subsection 110 (1) of the Act or a tax exemption under subsection 110 (6) of the Act even if they are contiguous with or part of land or works that are not municipal capital facilities. O. Reg. 46/94, s. 4; O. Reg. 401/02, s. 4.

5. The council of a municipality may enter into an agreement respecting municipal capital facilities described in paragraphs 14 and 15 of section 2 only if,

(a) the municipal capital facilities are primarily used for local community activities; and

(b) the council has declared by resolution that the municipal capital facilities are for the purposes of the municipality and are for a public use. O. Reg. 46/94, s. 5; O. Reg. 537/96, s. 1.

6. (1) The council of a municipality may enter into an agreement respecting municipal capital facilities described in paragraphs 16 and 17 of section 2 only if,

(a) the municipality or another municipality or a public sector entity described in subsection (2) owns or agrees to purchase or will own on reversion of the property, the municipal capital facilities, including the land where they are situate; and

(b) the council has declared by resolution that the municipal capital facilities are for the purposes of the municipality and are for public use. O. Reg. 537/96, s. 2.

(2) The following are public sector entities for the purposes of clause (1) (a):


2. A local board as defined in section 1 of the Municipal Affairs Act.

3. The board of governors of a college of applied arts and technology established under section 5 of the Ministry of Training, Colleges and Universities Act.

4. A person authorized to grant degrees by an Act of the Assembly or by the Minister of Training, Colleges and Universities under the Post-secondary Education Choice and Excellence Act, 2000. O. Reg. 537/96, s. 2; O. Reg. 266/02, s. 3.
6.1 (1) The council of a municipality may enter into an agreement respecting municipal capital facilities described in paragraph 18 of section 2 only if,

(a) before the by-law authorizing the agreement is enacted, the municipality has enacted a municipal housing facility by-law that complies with subsection (2);

(b) the municipality has determined that all the housing units to be provided as part of the municipal capital facilities fall within the definition of "affordable housing" contained in the municipal housing facility by-law; and

(c) the municipality is a delivery agent under the Ontario Works Act, 1997 authorized to operate and manage housing projects under the Social Housing Reform Act, 2000. O. Reg. 189/01, s. 3; O. Reg. 266/02, s. 4.

(2) A municipal housing facility by-law shall contain at least the following:

1. A definition of "affordable housing".

2. Policies regarding public eligibility for the housing units to be provided as part of the municipal capital facilities.

3. A summary of the provisions that agreements respecting municipal capital facilities described in paragraph 18 of section 2 are required to contain. O. Reg. 189/01, s. 3.

7. Under subsection 110 (12) of the Act, a school board may exempt from taxation as a school capital facility anything that the school board is authorized to provide under the Education Act, the Day Nurseries Act, the Public Libraries Act, the Community Recreation Centres Act or The Essex County French-language Secondary School Act, 1977. O. Reg. 266/02, s. 5; O. Reg. 401/02, s. 5.

8. (1) The council of a municipality may enter into a financing lease only if,

(a) before the by-law authorizing the financing lease is enacted, the municipality has adopted a statement of the municipality's lease financing policies and goals; and

(b) the financing lease includes a schedule of all fixed amounts of payment, if any, required under the lease and that may be required under any possible extensions or renewals of the lease. O. Reg. 266/02, s. 5.

(2) The statement mentioned in clause (1) (a),
(a) shall include, at a minimum, a discussion of the financial and other risks for the municipality of financing leases; and

(b) may provide for a special category of financing leases, to be composed of financing leases which, in the opinion of both the treasurer and the council, would not result in a material impact for the municipality. O. Reg. 266/02, s. 5.

9. (1) Before entering into a financing lease, the council of a municipality shall,

(a) have its treasurer prepare a report with a recommendation, assessing, in the opinion of the treasurer, the costs and financial and other risks associated with the proposed financing lease, including,

(i) a comparison between the fixed and estimated costs and the risks associated with the proposed lease and those associated with other methods of financing,

(ii) a statement summarizing, as may be applicable, 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,

(iii) a statement summarizing any contingent payment obligations under the lease that in the opinion of the treasurer would result in a material impact for the municipality, including lease termination provisions, equipment loss, equipment replacement options and guarantees and indemnities,

(iv) a summary of the assumptions applicable to any possible variations in the lease payment and contingent payment obligations, and

(v) any other matters the treasurer or council considers advisable;

(b) obtain legal advice and financial advice with respect to the proposed financing lease;

(c) consider if the scope of the proposed transaction warrants obtaining legal advice or financial advice with respect to the proposed financing lease that is from a source independent of the source of the advice mentioned in clause (b);

(d) advise in writing the regional municipality of which it forms a part of the proposed financing lease before the lease is entered into, in the case of a lower-tier municipality; and

(e) consider and give its assessment of the report prepared under clause (a), including whether, in its opinion, the costs of financing for the proposed financing
lease are lower than other methods of financing available to the municipality, and whether the risks associated with the financing lease are reasonable. O. Reg. 266/02, s. 5.

(2) The costs and risks associated with a proposed financing lease in a report made under subsection (1) shall be assessed as of the date the report is made. O. Reg. 266/02, s. 5.

(3) At any time after a report under subsection (1) is made, but before the financing lease is entered into, if the 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 update the report and present the updated report to the council. O. Reg. 266/02, s. 5.

(4) A report made under subsection (1) shall summarize the information required by that subsection for the entire term of the financing lease, including any possible extensions or renewals. O. Reg. 266/02, s. 5.

(5) Despite this section, a municipality may enter into a financing lease without complying with the requirements of subsection (1) if,

(a) the statement of lease financing policies and goals includes the category referred to in clause 8 (2) (b); and

(b) in the opinion of the treasurer and the council, the proposed lease is within that category, and its costs and risks, in combination with all the others leases of that category entered into or proposed to be entered into in that year by the municipality, would not result in a material impact for the community. O. Reg. 266/02, s. 5.

(6) In this section,

"costs" includes the costs of any advice obtained under clause (1) (b) or (c). O. Reg. 266/02, s. 5.

10. (1) If a municipality has one or more financing leases subsisting in a fiscal year, the treasurer of the municipality shall prepare and present to council of the municipality once in that fiscal year, or more often if the council so desires, a detailed report containing the information described in subsection (2). O. Reg. 266/02, s. 5.

(2) The detailed report mentioned in subsection (1) shall contain,
(a) a description of the estimated proportion of the total financing arrangements of
the municipality that is undertaken through financing leases to the total long-term
debt of the municipality and a description of the change, if any, in that estimated
proportion since the previous year's report;

(b) a statement by the treasurer as to whether, in his or her opinion, all financing
leases were made in accordance with the statement of leasing policies and goals
adopted by the municipality; and

(c) any other information that the council may require or that, in the opinion of the
treasurer, should be recorded. O. Reg. 266/02, s. 5.