

# *-on-line- update*

Issue 4

Website: [www.mfalease.com](http://www.mfalease.com)

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## LAND and BUILDING LEASES

A recent Vancouver Sun article (see our website "Online Update" tab) outlines how municipalities have saved millions of dollars through leasing. On-Line has purchased and leased to municipalities raw land, and municipal halls, libraries, cultural centres, ambulance centres, recycling centres, and water treatment plants. The most striking example, as reported in the Vancouver Sun article, is a six-storey 60,000 sq.ft. municipal complex leased to the City of Quesnel, B.C.

### Land Leases

A municipality may arrange a lease of raw land in order to take advantage of a market opportunity, and hold it for future development. The land lease interest rate is less than an equivalent mortgage interest rate, and no principal repayment is required. The municipality has the exclusive option (but not the obligation) to purchase the land from On-Line at any time for the same amount paid for the land by On-Line. (See Renewal)

The municipality negotiates the purchase of the land on behalf of On-Line, including its price and all terms and conditions, e.g. environmental review etc. Municipalities may engage a lawyer to develop a purchase agreement, as long as the purchase agreement does not conflict with the On-Line lease agreement, and On-Line is the purchaser of the land. On-Line will arrange for the settlement documentation, legal conveyancing, and registration etc.

### Building Leases

If the land has buildings, a separate building lease is required in order to ensure a principal repayment equivalent to the depreciation allowance. Most buildings can be depreciated to 80% of their original price over a 5-year period.

In many cases, newly acquired buildings also require renovation and/or leasehold improvements. A series of non-payment interim leases (usually of 3-month duration) are successively renewed to provide interim construction financing. The municipality provides the project management and forwards approved invoices to On-Line for payment. At completion of the renovation, the funds advanced and the interest on the funds advanced to suppliers is capitalized and the original building lease is renewed to add the renovations amount to pay out the last renovation lease. The original building lease payments are adjusted accordingly.

A municipality can sell and lease back land and buildings (see previous On-Line Update – Issue 3). Renovations can then be carried out as outlined above. On-Line cannot lease building renovations without owning the building.

## PUBLIC/PRIVATE PARTNERSHIPS

The leasing program complements public/private partnerships (PPP) which involve facility operation and maintenance agreements. The On-Line lease reduces the asset's capital cost to a monthly operating expense but leaves ultimate control over the asset with the municipality, rather than with an operating and maintenance contractor.

The City of Port Hardy, B.C. has entered into a three-party PPP with EPCOR (who built the water treatment plant and now operates and maintains it) and with On-Line (who purchased the water treatment plant and leases it to the city).

### Property Transfer Tax

The British Columbia property transfer tax is added as a separate security on the land lease (including the buildings' property transfer tax where buildings are involved). The tax is amortized over the first 5 years of the lease. The tax is not applicable when the title passes to the municipality as a result of exercising their purchase option.

### Renewal

The Municipal Finance Authority of B.C., in a separate Letter of Understanding with the municipalities, allows a renewal of leases every 5 years. The renewal is based upon the residual value and therefore, in the case of buildings, the lease payments will be reduced to 80% of the previous payment amount with each renewal.

### Cost per Square Foot

A comparison of the equivalent cost per square foot of leasing buildings through other companies should be undertaken by the municipality, in order to determine the competitive advantage of leasing through On-Line. In many cases, the cost per square foot is less than 70% of any alternative leasing costs.

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### CLICK PRICING TAB FOR CURRENT LEASE RATE

(PRIME MINUS 1%)

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