TORONTO
Corporate Services Department
M. Joan Anderton, Commissioner

100 Queen Street West
City Hall, 4th Floor East
Toronto, Ontario M5H 2N2

Technology End of Lease Strategy

BRIEFING NOTE

Issue/Background:

A report on the Technology End of Lease Strategy Initiative was before the City's Policy and Finance Committee on February 24, 2004. The report identified the need for the City to address its corporate technology infrastructure requirements before the end of the current leases.

Computer equipment leased in 1999 has passed its useful life, although lease payments are to continue into 2005. The City must replace the majority of its computer equipment, and upgrade desktop-related software in the near future. Achieving eCity goals, and efforts such as 311 and eService depend on replacing this equipment and software. Expert testimony at the Toronto Computer Leasing Inquiry has confirmed that the City should immediately start replacing most of the leased computers.

The Strategy outlined in the report features a plan to ensure the continuity of business operations, as well as create a more manageable environment, reducing total cost of technology acquisition, and improving services and support.

Council has directed that technology acquisitions be made through purchase, not by leasing.

Key Points:

- This initiative would replace all leased equipment with City-owned and supported assets.

- Approximately 15,000 desktops are planned to be replaced along with servers and software upgrades. Only non-functional monitors will be replaced. Between 600 and 800 units per month will be replaced over an 20-month period. All City departments, Toronto Public Library, Exhibition Place, and Toronto Zoo are included.

- The aging computer equipment must be replaced urgently because:

    - Technical support for the operating system the City currently uses (*Windows NT*) is scheduled to be withdrawn in mid-2004. It is critical that the City move to a fully supported version of the operating system before the support on *Windows NT* becomes unavailable. The City's software maintenance license agreement provides for the upgrade of a majority of the *Windows* and *Office* licenses to the more recent releases, *Windows XP* and *Windows Office XP*.

- The current desktop computers will not reliably run *Windows XP* or *Windows Office XP*.

- The majority of the assets are past their useful lifespan. There is an operational and financial risk in using these technology assets beyond four years. Replacements parts are generally not available for these computers, new application software often will not run on the older computers, and failure rates begin to escalate. Replacement of such a large number of assets will require 20 months to accomplish, meaning that some of the equipment would be six years old by the time it was replaced, even if the replacement project started immediately.

- Older hardware and software environments create increased security vulnerability for the City network environment. The upgraded hardware and software environment will provide more advanced security features, resulting in improved protection for all of the City's technology platforms

- Current technology improves manageability of the environment, enables use of new business technology solutions, and provides support for various required peripherals (e.g. printers). Faster system performance results in improved user productivity. Existing installed technology limits the City's ability for all of the above

- Implementing the strategy will result in a more manageable environment, and improved services and support. Any additional delay will expose the City to higher costs of support and maintenance. Problematic issues that are arising include: poor response time, instability of services, and the inability to take advantage of current software applications or operating system upgrades or new product offerings. Staff is currently dealing with increased maintenance costs of supporting end-of-lifecycle hardware, which leads to increased pressure on the operating budget.

- This strategy also positions the City to address future and ongoing computer lifecycle management requirements.

- The financial implications of the end of lease strategy are significant in 2004 and 2005. These pressures are eased in the "sustainment" phase (2006 and beyond), during which time existing budget allocations will be sufficient to meet ongoing needs.

Questions & Answers:

Q. Why do we have to start now?

A. Even with this very aggressive schedule for replacement (over 20 months), some of the equipment will be six years old by the end of December 2005. Expert advice to the Toronto Computer Leasing Inquiry has recommended that the City of Toronto commit to a useful life of four years for its standard desktop user systems. Any additional delay will expose the City to higher costs of support and maintenance. Mounting hardware and software compatibility issues, lack of hardware reliability and performance issues are resulting in lost productivity and increased operational downtime.

Q. Have alternatives to the City-ownership model been considered?

A. Yes. In general, the City's cost of borrowing is lower than the private sector. From a risk-management perspective, ownership provides the City with more flexibility and control of assets

in an environment where both the hardware and software can change dramatically in a relatively short period of time.

Q. What are the financial implications of this strategy?

A. Payments to the end of the leases are $20.4 million. The cost of the actual asset replacement project is $63 million.

Table 1

	END of LEASE			SUSTAINMENT				
Gross Capital Expenditures	**2004**	**2005**	**Total 2004-2005**	**2006**	**2007**	**2008**	**Total 2006-2008**	**TOTAL**
Payments to End of Leases	20.444	0.0	20.444	0.0	0.0	0.0	0.000	**20.444**
Hardware-net	16.850	24.964	41.814	11.903	11.903	11.438	35.244	**77.058**
Software	3.898	3.898	7.796	0.000	0.000	0.000	0.000	**7.796**
Servers	6.955	6.427	13.382	3.240	4.501	5.580	13.321	**26.703**
Total Capital Expenditures	**48.147**	**35.289**	**83.436**	**15.143**	**16.404**	**17.018**	48.565	**132.001**
Source of Funds:								
Non-Program contribution to Capital	18.500	18.500	37.000	18.500	18.500	18.500		
Programs' contribution to Operating	0.857	1.749	2.606	2.039	2.039	2.039		
Capital Financing Reserve Fund	20.444	0.000	0.000	0.000	0.000	0.000		
Development Charges Reserve Funds	3.200	0.000	3.200	0.000	0.000	0.000		
Emergency Acquisition Technology Reserve Fund	2.030	0.000	2.030	0.000	0.000	0.000		
Capital from Current	3.116	15.040	18.156	0.000	0.000	0.000		
Total Financing	48.147	35.289	62.992	20.539	20.539	20.539		

IMPACT ON OPERATING BUDGET

Gross Expenditures	**2004**	**2005**	**Total 2004-2005**	**2006**	**2007**	**2008**	**Total 2006-2008**	**TOTAL**
Compliance Testing	0.031	0.031	**0.062**	0.031	0.031	0.031	0.093	0.155
Software Support	2.931	2.931	**5.862**	6.371	6.876	7.458	20.705	26.567
Total Expenditures	**2.962**	**2.962**	**5.924**	**6.402**	**6.907**	**7.489**	20.798	26.722

Date: February 20, 2004.