

Analyst Briefing Notes

Administration Committee Review

(November 7, 2005)

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PART I: CAPITAL PROGRAM**Executive Summary**

- The 2005 Approved Capital Budget of \$62.474 million was 39% spent as at September 30, 2005. Actual expenditures by year-end are anticipated to be \$44.021 million, or 70% of the Approved Budget, resulting in a projected 2005 under spending of \$18.453 million. The End of Lease project is expected to be wrapped up early in 2006 with payments of \$2.800 million being carried forward into 2006 and the balance of the preliminary under spending of \$15.653 million deposited into the Information & Technology Equipment Reserve to fund the sustainment program. This projected under expenditure is primarily attributed to excellent pricing based on the City RFP for desktops/laptops and associated implementation services, and solid planning/testing of business applications.
- The 2005 Approved Capital Budget of \$62.474 million was the final phase in the End of Lease Strategy. The 2006 End of Lease/Technology Asset Sustainment Proposed Capital Budget represents a transition year to on-going replacement of the City's Information Technology assets, funded through a reserve.
- A long-term sustainment strategy that would provide a stable source of funding for routine replacement of technology assets at the end of their established life includes:
 - ⇒ Equipment that is older than four (4) years, including servers, printers and other peripherals will be replaced;
 - ⇒ Funding of \$17.500 million from the TELS initiative will be reallocated to the sustainment reserve annually to fund the upgrades.
 - ⇒ New equipment are to be purchased by the Programs as required and will be added to the replacement schedule.
- The 2006 Proposed Capital Budget requires new 2006 cash flow of \$16.138 million gross funded from Non-Program and Other Programs' contribution from Operating. This cash flow combined with carry forward funding of \$2.800 million for 2005 projects brings the total 2006 Proposed Capital Budget to \$18.938 million gross.
- 100% of the 2006 proposed new cash flow is allocated to State-of-Good-Repair projects.
- The 2006-2015 Revised Capital program totals \$209.880 million of which \$101.387 million is the Program's 2007-2010 cash flow projections, with 2006 cash flow of \$18.938 million, \$18.977 million in 2007, \$18.335 million in 2008, \$23.751 million in 2009 and \$21.386 million in 2010.
- The 2007-2010 cash flow projections for the End of Lease/Sustainment Program be referred to the Deputy City Manager & Chief Financial Officer for review and report back to the Budget Advisory Committee in the Spring of 2006 on a recommended Firm 5-Year Capital Plan within Council's approved debt affordability limits.

Recommendations

It is proposed that:

1. the 2006-2015 End of Lease/Sustainment capital program request with a total 10-year project cost of \$98.587 million be received;
2. the 2006 Proposed Capital Budget for the Post-End of Lease Sustainment with a total project cost of \$16.138 million and a 2006 cash flow of \$18.938 million with no future year commitments be approved. The 2006 Proposed Capital Budget consists of the following:
 - a) new Cash Flow Funding for 1 new sub-project with a 2006 total project cost of \$16.138 million that requires cash flow of \$16.138 million in 2006 with no future year commitment;
 - b) 2006 approved cash flow for 3 previously approved sub-projects with carry forward funding from 2005 into 2006 totalling \$2.800 million;
3. the revised cash flow projections of \$18.977 million in 2007, \$18.335 million in 2008, \$23.751 million in 2009 and \$21.386 million in 2010 for the End of Lease/Sustainment Program be referred to the Deputy City Manager & Chief Financial Officer for review, in consultation with appropriate staff, and report back to the Budget Advisory Committee in the Spring of 2006 on a recommended Firm 5-Year Capital Plan within Council's approved debt affordability limits; and
4. approval for the Asset Sustainment funding strategy as described in this briefing note, be approved including the following funding strategy as follows:
 - (a) funding of the Technology Asset Sustainment for the purpose of providing capital funding for the City's long-term sustainment strategy for routine replacement of technology assets at the end of their established life, be from the Information & Technology Equipment Reserve XQ1508;
 - (b) the Information & Technology Equipment Reserve be administered by the Information & Technology Division;
 - (c) the balance of the 2005 under spending from the Technology End of Lease Strategy be deposited in the Information & Technology Equipment Reserve XQ1508;
 - (d) financing for the asset sustainment be from an annual contribution of \$17.500 million in the Non Program operating budget that was previously budgeted to finance the lease payments on the equipment replaced through the End of Lease Strategy; an additional program annual contribution of \$0.619 million residing in the Non Program operating budget and annual contributions of \$1.182 million from Public Health's operating budget be reallocated to the Information & Technology Equipment Reserve XQ1508. (See table, page 13);
 - (e) funding for the Information & Technology 2006 Technology Asset Management project ITP906883 in the amount of \$1.022 million be funded from the Information & Technology Equipment Reserve XQ1508; and
 - (f) the appropriate City Officials be authorized and directed to take necessary action to give effect thereto, and that leave be granted for the introduction of any necessary bills in Council to give effect thereto.

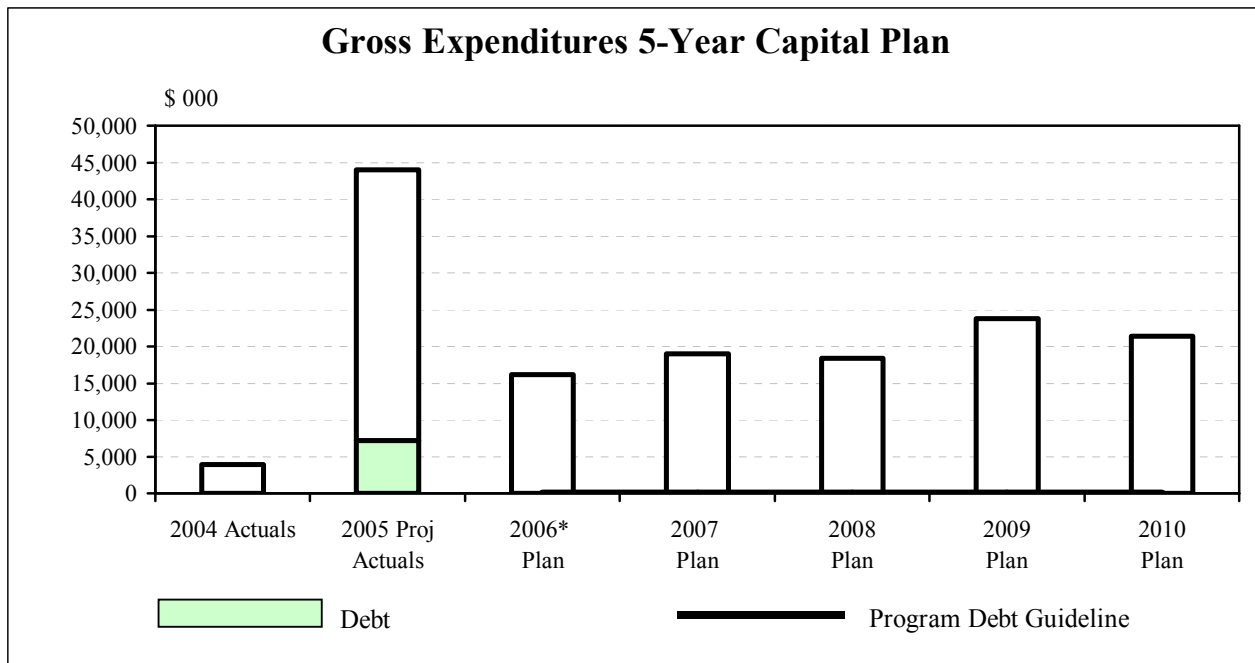
2005 Capital Variance Review

2005 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2005 Approved	Actuals as of Sept. 30 Y-T-D (3rd Qtr Variance)		Projected Actuals to Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
62,474	24,366	39	44,021	70	18,453

Comments / Issues:

- During the first nine months of 2005, \$24.366 million or 39% of the approved cash flow of \$62.474 million was spent. The project is expected to be completed by year end well under budget. The Program is anticipating a 70% spending rate by year-end, with a projected under expenditure of 30% or \$18.453 million.
- The under expenditure is the result of:
 - ⇒ Lower unit pricing for equipment due to favourable RFP;
 - ⇒ Fewer desktop units and monitors replaced than originally budgeted (some equipment had already been replaced as it failed, some units were re-imaged and retained, only monitors that were defective were replaced);
 - ⇒ Less labour per unit required for deployment; and
 - ⇒ A significantly lower requirement for software upgrade/replacement than originally anticipated due to extensive product testing and establishment of workarounds to avoid replacement costs.
- The preliminary surplus of \$15.653 million will be deposited into the Information & Technology Equipment Reserve, to begin funding the sustainment, after transfer of \$1.737 million to fund the 3-1-1 Capital project in 2005.

5-Year Capital Plan (2006-2010)



	5 Year Plan							2006-2010
	2004	2005	2006	2007	2008	2009	2010	
Gross Expenditures:								
Budget (Excluding 1-Yr. Carry/Fwd)	48,147	28,146	16,138	18,977	18,335	23,751	21,386	98,587
1-Yr Carry/Fwd Gross (Reference only)	0	34,328	2,800					
Sub-Total Gross Exp. Including 1-Yr. Carry/Fv	48,147	62,474	18,938					
Actuals	3,913	44,021						
Financing:								
Proposed Debt	0	13,857	0	0	0	0	0	0
Debt Actuals (including 1-Yr Carry/Fwd)	0	7,184						
Program Debt Target			0	0	0	0	0	0
Other Financing Sources:								
Reserves/Reserve Funds			16,138	18,977	18,335	23,751	21,386	98,587
Development Charges								0
Federal								0
Provincial								0
Other Revenue								0
By Category:								
Health & Safety								0
Legislative								0
SOGR			16,138	18,977	18,335	23,751	21,386	98,587
Service Improvement								0
Growth Related								0

Yearly SOGR Backlog Estimate (not addressed by current year projects)
Accumulated Backlog Estimate (end of year)

*Note: 2006 Proposed Debt excludes 1-year carry forward

- The server and desktop replacement of leased units from MFP is expected to be substantially completed in 2005. The new desktop operating system and corporate image are working well with existing City business applications.
- The sustainment project will not be funded from debt. The financing strategy has included various financing sources in order to minimize the financial impact on the City. This strategy includes the preliminary under spending of \$15.653 million carried over from 2005 to the sustainment reserve.
- The five year plan is to ensure that the City's technology assets are replaced at the end of their established lifecycles to enable a secure, high performance technology infrastructure and systems environment that is maintained in a state of good repair, and can be flexible enough to responsively adapt to changing business priorities.
- The 2006 Proposed Capital Budget is allocated 100% to State of Good Repair.

2006 Capital Budget Submission Summary (\$000)

2006 Capital Projects		Total Project Cost		2004 Carry Forward		2006 Previous Commitment		2006 New		Total 2006 Request (w/o 2005 C/Fwd)		2005 Carry Forward		Total 2006 (Incl 2005 C/Fwd)	
Project / Sub-Project Name	Cat	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources
	*	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Carryforwards:															
Hardware - Net (Desktop)	3	41,814	6,464									910	0	910	0
Software (Desktop Environment)	3	7,796	3,898									130	0	130	0
Servers	3	13,382	7,794									1,350	0	1,350	0
Sub Total												2,390	0	2,390	0
Previously Approved:															
Sub Total															
New and Change in Scope Projects															
Asset Lifecycle - Technology Asset Refresh	3	16,138	0					16,138	0	16,138	0		0	16,138	0
Sub Total		16,138	0					16,138	0	16,138	0	-	0	16,138	0
Total 2006		16,138	0					16,138	0	16,138	0	2,390	0	18,528	0

2006 Proposed Capital Budget Changes (\$000)

		2006 Requested Cash Flow		Proposed Changes			2006 Proposed Cash Flow	
Project/Sub Project Name	Cat.	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Comments / Issues	Gross	Debt/ Internal Sources
2005 Carryforwards Other Carry Forwards (details on previous page)	3	2,390	0	410	0	revised 2005 cash flow requirements	2,800	0
Sub Total		2,390	0	410	0		2,800	0
2004 Carryforwards Other Carry Forwards (details on previous page)	3							
Sub Total								
2006 Previously Approved Commitments Other Previously Approved (details on previous page)	3							
Sub Total								
New Projects Other New (details on previous page)	3	16,138	0				16,138	0
Sub Total New Projects		16,138	0	0	0		16,138	0
Total 2006 Proposed (Incl. 2005 C/Fwd)		18,528	0	410	0		18,938	0
Less 2005 Carry Forwards		(\$2,390)	0	(410)	0		(\$2,800)	0
Total 2006 Proposed (Excl. 2005 C/Fwd)		16,138	0	0	0		16,138	0

**Total 2006 Proposed Cash Flow & Future Year Commitments
(\$000s)**

	2004 & Prior Year Carry Forward	2006 Previous Commitments	2006 New Proposed	2006 Total Cash Flow Proposed	2006 Guidelines	2005 Carry Forward	Total 2006 Cash Flow (Incl 2005 C/Fwd)	2007	2008	2009	2010	2011- 2015	Total Cost
Expenditures													
Previously Approved						2,800	2,800						2,800
Change in Scope													
New			16,138	16,138			16,138						16,138
New w/Future Year				0									
Total Expenditure	0	0	16,138	16,138		2,800	18,938	0	0	0	0	0	18,938
Financing													
Debt													
Subsidy (SCPI)													
Prov. Subsidy/Grant													
Development Charges													
Other						2,800	2,800						2,800
Federal Grants													
Reserves/Res Funds	0	0	16,138	16,138			16,138						16,138
Total Financing	0	0	16,138	16,138		2,800	18,938	0	0	0	0	0	18,938

Comments / Issues:

- The 2006 Proposed Capital Budget is \$18.938 million gross, including \$2.800 million for projects carried forward from 2005 to 2006. The 2006 Proposed Capital Budget will not result in any Future Year Commitments.

Operating Budget Impact

There are no Operating Budget impacts.

On-going maintenance software costs continue to be budgeted in the Information and Technology Operating Budget.

PART II: ISSUES FOR DISCUSSION

2006 Issues

2006 Proposed Capital Budget versus Guideline

The 2006 Proposed Capital Budget for Technology Asset Sustainment will be funded from the Equipment Reserve, and does not affect the debt level for the City. See below for the financing of the deployment strategy and funding for the sustainment program.

5-Year Capital Plan Overview

The five year plan is to ensure that the City's technology assets are replaced at the end of their established lifecycles to enable a secure, high performance technology infrastructure and systems environment that is maintained in a state of good repair, and can be flexible enough to responsively adapt to changing business priorities.

The Technology Asset Sustainment is a perpetual program, having a four year replacement cycle for all City hardware, software and servers.

The assets that are in the sustainment program are those that are presently under the control of Corporate I & T at present, including

- Desktops/laptops that were replaced or re-imaged under TELS
- Printers, scanners and related peripherals
- Servers / storage equipment in the 703 Don Mills Data Center
- Network equipment (routers, switches, hubs etc)
- Security equipment
- Software: operating system, productivity suite, and agent software for virus protection/security

The Technology Asset Sustainment plan does not include replacement for the following:

- Servers and other equipment in the Divisions, directly supported by decentralized I & T units.
- Copiers and fax machines

Business application software such as SAP, CAPTOR, Tax and Water will not be included in the Technology Sustainment Program, because it is not possible to assign a replacement cycle to this type of asset.

The 5-Year Technology Asset Sustainment Capital plan is based on a number of key assumptions:

- Unit prices are estimated based on mid-year 2005 pricing. These estimates will be updated annually.
- Some cascading of equipment may allow the extension of some high end equipment to lower end equipment.
- Some general smoothing of the “spike” in desktop/laptop implementation seen in TELS in 2005 is undertaken, however, given the number of desktops/laptops replaced in 2005, the plan shows a reduction in units replaced in 2006-2007, with lifecycle replacements being heavier in 2008 – 2010.
- The server replacement schedule is relatively smooth over the five year period, although it again ramps up in 2009-2010 as the units replaced through TELS in 2004-2005 reach the end of their useful life.

Capacity

In 2005, the TELS project is expected to have successfully completed the replacement of the City’s obsolete IT Assets that were leased through MFP. This includes:

- Desktops/laptops: 17, 250
- Peripherals equipment (including printers, scanners): 2,500 units.
- Servers: By the end of 2005, all leased servers/SAN storage equipment will be replaced. Server consolidation has been part of this program. 349 servers were replaced with 309 more powerful servers, offering the same or greater net processing capability.
- Software: Software upgrades associated with the equipment rollout have been included in the TELS project, notably for the desktop/laptop Microsoft XP operating system, Microsoft Office productivity suite and the security/monitoring/software distribution product set, as well as the Operating Systems associated with the Intel, Sun and IBM servers.

Backlog of Projects

There is no backlog of projects.

CITY OF TORONTO
IT -END OF LEASE / SUSTAINMENT STRATEGY
\$000's
2006 Proposed Financing

	Technology End of Lease Strategy				Technology Asset Sustainment					
	2005 Approved Budget	2005 Projected Actual	2005 C/Fwd.	2005 Preliminary Surplus	2006 Proposed	2007	2008	2009	2010	TOTAL 2006- 20010
Beginning Balance					(15.653)	(19.403)	(19.727)	(20.693)	(16.243)	(16.243)
Gross Capital Expenditures										
Payments to End of Lease	5.995	5.995	0.000	0.000						
Hardware-net	39.446	24.200	1.350	13.896						
Software	6.907	6.248	0.100	0.559						
Servers and Storage	10.126	7.578	1.350	1.198						
Network-Lifecycle Asset Management					16.138	18.977	18.335	23.751	21.386	98.587
Total Capital Expenditures	62.474	44.021	2.800	15.653	16.138	18.977	18.335	23.751	21.386	98.587
Source of Funds:										
Capital Financing Reserve	19.581	19.581	0.000	0.000						
Development Charges Reserve Funds	2.000	2.000	0.000	0.000						
Emergency Acquisition Technology Reserve Fund	2.030	2.030	0.000	0.000						
Capital from Current	15.982	7.184	1.450	(7.348)						
Non-Program contribution to Capital	21.132	11.477	1.350	(8.305)	17.500	17.500	17.500	17.500	17.500	87.500
Programs Operating contribution in Non Program	0.857	0.857	0.000	0.000	0.619	0.619	0.619	0.619	0.619	3.095
Public Health contribution	0.892	0.892	0.000	0.000	1.182	1.182	1.182	1.182	1.182	5.910
On-going Funding Available	62.474	44.021	2.800	(15.653)	19.301	19.301	19.301	19.301	19.301	96.505
I & T Equipment Reserve					1.609					1.609
Funding I & T 2006 Technology Asset Management project ITP906883					(1.022)					(1.022)
Sub-total funding (available)/required	0.000	0.000	0.000	(15.653)	(3.750)	(0.324)	(0.966)	4.450	2.085	1.495
Ending Balance				(15.653)	(19.403)	(19.727)	(20.693)	(16.243)	(14.158)	(14.158)

Financing Strategy

The deployment in 2005 is expected to be near 100% complete with a preliminary surplus of \$15.653 million projected after consideration of unbilled expenditures in the amount of \$2.800 million carried forward cash flow to 2006.

It is proposed that this preliminary surplus be transferred to the Information & Technology Equipment Reserve upon Council approval to support the sustainment program and other related I & T Capital Initiatives. A staff progress report with a recommendation that the disposition of the TELS preliminary surplus be determined in consultation with the Deputy City Manager & Chief Financial Officer at year-end was received by eCity committee on October 31, 2005.

The reserve will be funded annually through contributions from the Non-Program operating budget of \$17.500 million. This funding was previously budgeted to finance the lease payments on the equipment replaced through the End of Lease Strategy. A further \$0.619 million in additional funding from other city Programs that was transferred to Non Program in 2005 will be utilized to replenish the reserve. Public Health will also contribute \$1.182 million annually through interdepartmental charges.

The following table outlines the 2005 budget and actual use of funds for purchases and the proposed funding for the sustainment program. It is expected that funding in this reserve will not solely be held for Sustainment strategy, but will also fund other corporate I & T initiatives in the City, including 3-1-1 and various projects of a corporate nature.

Issues Referred to 2006 Capital Budget

There are no issues referred to the 2006 Budget Process.

Outstanding Issues from Prior Years

There are no outstanding issues from prior years.

Appendix 1
2006 Proposed Capital Budget
and 2007 to 2015 Revised Program

Appendix 2
2006 Proposed Capital Budget
& Future Year Commitments

Appendix 3
2006 Proposed Capital Projects
with Financing Details

Appendix 4
Reserve / Reserve Fund Review
(\$000)

Project / SubProject Name and Number	Balance as of September 30	Proposed Withdrawals			
		2006	2007	2008	2009 & Beyond
Technology Asset Sustainment ITP906983	\$1.609	\$16.138	\$18.977	\$18.335	\$45.137
	\$1.609	16.138	\$18.977	\$18.335	\$45.137

Note:

Refer to page 12 (IT-END OF LEASES/SUSTAINMENT STRATEGY) for complete funding strategy.