

Analyst Briefing Notes

Budget Committee Review

(February 8, 2007)

Page

PART 1: CAPITAL PROGRAM

Executive Summary	2
Recommendations	4
2006 Capital Variance Review	5
5-Year Capital Plan (2007 Recommended Budget, 2008-2011 Plan).....	6
5-Year Capital Plan Overview.....	7
Recommended Changes to 5-Year Plan	8
Total 2007 Recommended Cash Flow & Future Year Commitments	10
Operating Budget Impact.....	11

PART II: ISSUES FOR DISCUSSION

2007 Capital Budget Issues.....	13
5-Year Capital Plan Issues	13

APPENDICES

Appendix 1: 2007 Rec'd Capital Budget; 2008 to 2011 Plan and 2012 to 2016 Estimates.....	A1 to A2
Appendix 2: 2007 Recommended Cash Flow & Future Year Commitments.....	A3 to A4
Appendix 3: 2007 Recommended Capital Projects with Financing Details	A5
Appendix 4: Reserve / Reserve Fund Review	N/A

Contacts: Judy Broughton, Manager, Financial Planning
 Tel: (416) 392-8393

Maria Djergovic, Senior Financial Planning Analyst
 Tel: (416) 397-4559

January 31, 2007

PART I: CAPITAL PROGRAM

Executive Summary

- The 2006 Approved Capital Budget of \$8.318 million was 16% or \$1.314 million spent as at September 30, 2006. Actual expenditures by year-end are anticipated to be \$2.690 million, or 32% of the Approved Capital Budget, resulting in projected 2006 cash flow funding of \$5.628 million being carried forward into 2007. This projected under expenditure is primarily attributed to the extension of the Core Technology Project schedule. A review carried out by an independent consultant identified that, given the complexity of the technology model, the initially proposed schedule was too aggressive and placed unacceptable risk on the project.
- The 2007 Recommended Capital Budget; 2008-2011 Plan and 2012 to 2016 Estimates total \$18.451 million of which \$18.451 million is projected for the Program's 5-Year Capital Plan, requiring debt funding of \$18.451 million and cash flow of \$11.311 million in 2007; \$6.722 million in 2008 and \$0.418 million in 2009.
- The 2007 Recommended Capital Budget, including previously approved commitments, requires new 2007 cash flow of \$11.311 million gross with debt funding of \$11.311 million. This cash flow combined with carry forward funding of \$5.628 million for 2006 projects brings the total 2007 Recommended Capital Budget to \$16.939 million gross, of which \$11.311 million is funded by new debt.
- The 3-1-1 Customer Service Strategy is categorized as 100% Service Improvement.
- The 2007 recommended cash flow will fund the following functional components of this Program:
 - ⇒ Knowledge base content development and business process reviews requiring funding in the amount of \$0.500 million;
 - ⇒ Metro Hall Council Chamber retrofit and 3-1-1 contact centre facility construction in the amount of \$1.520 million, which will be completed in 2007;
 - ⇒ 3-1-1 Technical Solution RFP award and core technology acquisition of \$8.754 million;
 - ⇒ Electronic integration between the 3-1-1 system and other service order systems in the amount of \$0.100 million;
 - ⇒ Design and development of training courses in the amount of \$0.297 million;
 - ⇒ Privacy consultant services to complete privacy and risk analysis in the amount of \$0.100 million;
 - ⇒ Communication strategy in the amount of \$0.040 million.

- The Metro Hall Council Chamber retrofit and 3-1-1 contact centre facility construction will be completed in 2007, while work on other components will continue in 2008 and 2009. Funding of \$6.722 million in 2008 and \$0.418 million in 2009 is required to complete all outstanding business process reviews, acquire most of the core technology and implement the remaining work order system integration and communications plan. The 3-1-1 Customer Service Strategy is scheduled to be completed in 2009.
- Additional capital funding may be required for business process changes since the participating Programs' work order systems are at different levels of readiness. The extent of additional requirements will be determined during the business process reviews which will take place in 2007.
- Once implemented, the project will result in the establishment of the new 3-1-1 Division, which could have an incremental net operating budget impact in 2008 and beyond. In order to assess potential incremental operating budget requirements, further information concerning the 3-1-1 technology infrastructure is required. This information will not be available until later during project implementation. It is recommended that the Deputy City Manager for Citizen Services "A" report to Budget Committee on operating costs for the 3-1-1 Division prior to the 2008 Operating Budget Process.
- The 3-1-1 Customer Service Strategy represents a new corporate service delivery model. By establishing direct and simple access to City Hall, the 3-1-1 Customer Service Strategy will greatly increase efficiency and accountability of the public service. It is included in the Mayor's Mandate as one of the key points in support of "Making a Stronger Economy" initiative.

Recommendations

The City Manager and Chief Financial Officer recommends that:

1. the 2007 Recommended Capital Budget for 3-1-1 Customer Service Strategy with a 2007 cash flow of \$16.939 million and future year commitments of \$7.140 million be approved. The 2007 Recommended Capital Budget consists of the following:
 - a) New cash flow funding for 8 previously approved sub-projects with a 2007 cash flow of \$11.311 million and future year commitments of \$6.722 million in 2008 and 0.418 million in 2009;
 - b) 2007 approved cash flow for 8 previously approved sub-projects with carry forward funding from 2006 into 2007 totalling \$5.628million;
2. the 2008-2011 Capital Plan for 3-1-1 Customer Service Strategy totalling \$7.140 million in project commitments and estimates comprised of \$6.722 million in 2008 and \$0.418 million in 2009, be approved; and
3. the Deputy City Manager for Citizen Services “A” report to the Budget Committee on operating costs for the 3-1-1 Division prior to the 2008 Operating Budget Process.

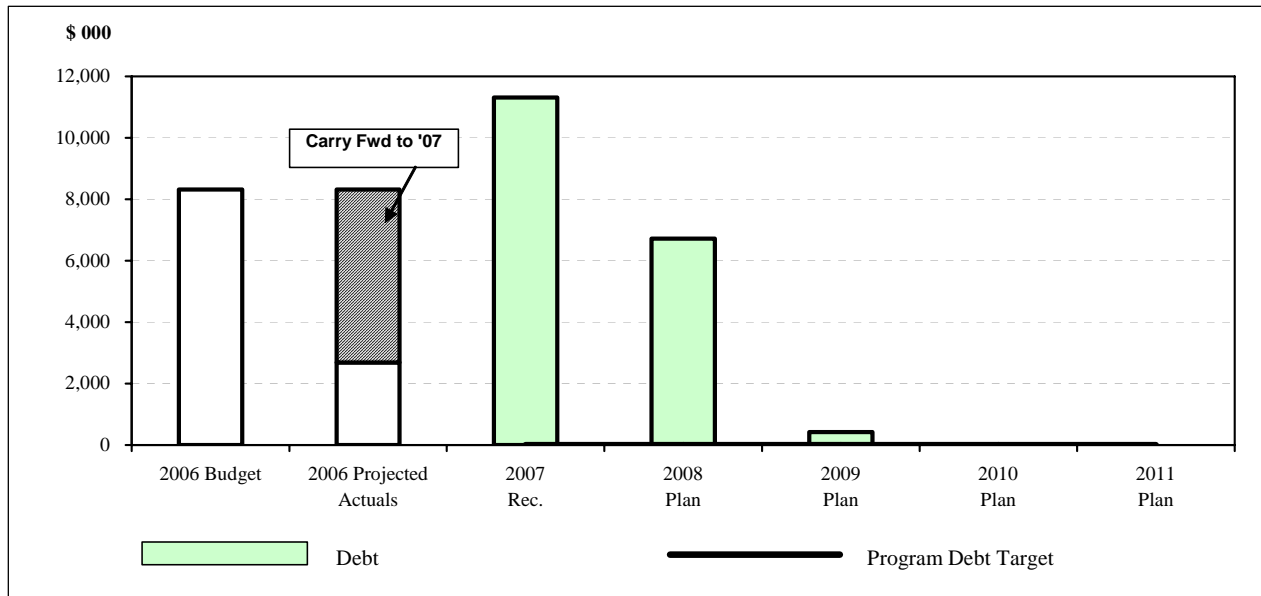
2006 Capital Variance Review

2006 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2006 Approved	Actuals as of September 30 (3rd Qtr Variance)		Projected Actuals at Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
8,318	1,314	16	3,711	45	4,607

Comments / Issues:

- At the end of the 3rd quarter, approximately \$1.3 million or 16% was spent on the 3-1-1 Customer Service Strategy of its 2006 approved cash flow budget of \$8.3 million. The following are primary contributors to this variance:
 - A review carried out by an independent consultant identified that, given the complexity of the technology model, the initially proposed schedule anticipating the project completion in 2008, was too aggressive and placed unacceptable risk on the project. As a result, the core technology component schedule was extended by five months, which affected other sub-projects such as training, system integration and privacy/security testing which can not begin until a vendor is selected.
 - All Facility Retrofit RFP responses received were above the budget and the RFP had to be reissued, resulting in a delay in the start of construction.
 - Due to delays in hiring, activities on the knowledge base content development and business process reviews were significantly restricted.
- The 3-1-1 Customer Service Strategy Program projected a year-end spending rate for 2006 approved projects at 45% or \$4.607 million in its September 30, 2006 Variance Report. Under spending in Content Development and Business Process Review sub-projects were expected to be reduced in the 4th Quarter due to the addition of five staff to these areas. The impact of the Core Technology project implementation date extension, however, has resulted in \$3.711 million funding to be carried forward into 2007.
- The recommended carry forward funding included in the 2007 Recommended Capital Budget of \$5.628 million is based on the preliminary year-end variance estimates and is higher than the projected under spending in the 3rd quarter variance report. This variance is attributable to the factors outlined above, which continued to negatively impact the implementation of the 2006 projects throughout the 4th Quarter. Any further adjustments to carry forward funding will be reported through to Budget Committee during its review of the 2007 Recommended Capital Budget.

5-Year Capital Plan (2007-2011)



	2006		5-Year Plan					2007-2011
	Budget	Projected Actual	2007 Rec.	2008	2009	2010	2011	
Gross Expenditures:								
Capital Budget & Future Year Commitments	8,318	2,690	11,311	6,722	418			18,451
New Plan Estimates								0
1-Year Carry Forward to 2007		5,628						
Total Gross Annual Expenditures & Plan	8,318	8,318	11,311	6,722	418	0	0	18,451
Program Debt Target						0	0	0
Financing:								
Recommended Debt			11,311	6,722	418			18,451
Other Financing Sources:								
Reserves/Reserve Funds								0
Development Charges								0
Federal								0
Provincial								0
Other Revenue	8,318							0
Total Financing	8,318		11,311	6,722	418	0	0	18,451
By Category:								
Health & Safety								0
Legislative								0
SOGR								0
Service Improvement	8,318		11,311	6,722	418			18,451
Growth Related								0
Total By Category	8,318		11,311	6,722	418	0	0	18,451
Yearly SOGR Backlog Estimate (not addressed by current plan)								0
Accumulated Backlog Estimate (end of year)								0
Operating Impact on Program Costs								0
Debt Service Costs			339	1,446	752	46		2,583

* Note that the 1-Year Carry Forward reflects the preliminary year-end estimate.

5-Year Capital Plan Overview

Overview

The 3-1-1 Customer Service Strategy represents a new corporate service delivery model. The 5-Year Capital Plan provides for the implementation of the Councillor Staff Working Group (CSWG) approved 3-1-1 service model, which includes several functional components (Appendix 1). CSWG has determined that a phased-in implementation over several years will best mitigate risk factors and optimize use of City resources and build early public confidence in 3-1-1 services.

The originally proposed project schedule, which was approved during the 2006 budget process, has been revised to reflect findings of an independent review carried out to assess potential implementation risks. The review identified that the original schedule was too aggressive and that it should be extended in order to reduce potential risks during the implementation period. Subsequently, the 2006 approved funding commitments were revised to reflect a recommended schedule extension, which mostly affected implementation of the core technology and work order system integration components. Based on the current planning strategy, the 3-1-1 Customer Service Strategy is scheduled to be completed in 2009, instead of 2008 as originally anticipated.

This revised schedule was reflected in the 5-Year Plan (2006-2010), which City Council considered and endorsed in principle, at its meeting of July 25, 26 and 27, 2006 and the current 5-Year Capital Plan recommended for adoption.

Mayor's Mandate

The 5-Year Capital Plan is aligned with the following priorities in the Mayor's Mandate:

- *Establish a 311 hotline so that every resident has a direct and simple access to a person at City Hall who can help resolve problems*

By establishing direct and simple access to City Hall, the 3-1-1 Customer Service Strategy will greatly increase efficiency and accountability of the public service.

- *Create a coordinated Litter Action Team that will quickly clean up serious litter and dumping problems*

Litter and dumping problems identified by residents' calls to a new "311" telephone service and through all other 3-1-1 channels of communication will be used to coordinate efforts of a Litter Action Team, which will be created to enable quick response to any serious problem area.

- *Ensure Multilingual access to City Services through the 311 Project*

The 3-1-1 Customer Service Strategy will incorporate options for a multilingual access to City Services.

Multi Year Debt Affordability Target

There are no debt targets for 3-1-1 Customer Service Strategy. The 2007-2011 Capital Plan has met Council approved cash flow projections for all years. This has been achieved by revising the original

implementation schedule and extending the time commitment for the completion of the core technology and work order system integration projects.

As a result, the 2007-2011 Capital Plan includes changes to future year cash flow commitments approved by Council during the 2006 Capital Budget Process - the 2007 cash flow of \$4.174 million was deferred to future years. The total project cost has not changed since original approval and all changes have been accommodated within the approved cash flow projections established for this Program.

Capacity

The extension of the Core Technology Project implementation date has resulted in funding of \$5.628 million being carried forward into 2007. Since the 3-1-1 Customer Service Strategy implementation schedule has already been revised to reflect issues of under spending in 2006, it is expected that all project components will be carried out and completed as reflected in the Recommended 2007-2011 Capital Plan.

However, issues related to the integration of multiple existing IT systems and components will pose significant challenges during the implementation period of this strategy. Any unanticipated delays in the awarding of the 3-1-1 technology RFP could impact projected cash flow requirements and affect the project completion schedule.

State of Project Readiness

The program is ready to continue implementation of this initiative as scheduled. There are no changes in project scope and costs.

Recommended Changes to the 5-Year Plan

City Council considered the 5-Year Plan (2006-2010) at its meeting of July 25, 26 and 27, 2006 and endorsed the Plan in principle. The recommended 2007-2011 Capital Plan is consistent with the 2006-2010 Capital Plan approved in principle in July 2006 and does not reflect any further changes.

Operating Impact of the 5-Year Capital Plan

Once implemented, the project will result in the establishment of the new 3-1-1 Division, which could have an incremental operating budget impact in 2008 and beyond. In order to assess potential incremental operating budget requirements, further information concerning the 3-1-1 technology infrastructure is required. Issues such as working hours, health and safety, ergonomics, job evaluation and labour relations will affect the assessment of incremental operating impacts and will not be known until later during the project implementation, most likely 2007. They will be considered during the 2008 Capital and Operating Budget processes.

Pre-approvals

At its meeting of September 25, 26 and 27, 2006 City Council adopted Policy and Finance Report 7, Clause 77, containing recommendations of the Budget Advisory Committee concerning the report from the Deputy City Manager and Chief Financial Officer, entitled 'Pre-Approval of 2007 Capital Projects Commitment and Spending'. The report was subsequently considered and adopted by City Council at its meeting of December 5 and 6, 2006. The approved pre-approval funding for 3-1-1 Customer Service Strategy was \$1.010 million.

The approved pre-approval cash flow for 3-1-1 Customer Service Strategy is comprised solely of previously approved projects and represents 2006 unspent funding being carried forward to 2007. Extension of the Core Technology Project implementation date has resulted in an extension to the schedule of some project deliverables, such as the work order system integration and training for 3-1-1 staff, requiring carry forward funding in the total amount of \$5.628 million. Pre-approval was required to continue work during the first quarter of 2007.

**Total 2007 Recommended Cash Flow & Future Year Commitments
(\$000s)**

	2005 & Prior Year Carry Forward	2007 Previously Approved Cash Flow Commitments	2007 New Cash Flow Recommended	2007 Total Cash Flow Recommended	2007 Debt Target	2006 Carry Forward	Total 2007 Cash Flow (Incl 2006 C/Fwd)	2008	2009	2010	2011	2012-2016	Total Cost
Expenditures													
Previously Approved		11,311		11,311		5,628	16,939	6,722	418				24,079
Change in Scope													0
New													0
New w/Future Year													0
Total Expenditure	0	11,311	0	11,311		5,628	16,939	6,722	418	0	0	0	24,079
Financing													
Debt		11,311		11,311	11,311		11,311	6,722	418				18,451
Subsidy (SCPI)													0
Prov. Subsidy/Grant													0
Development Charges													0
Other						5,628	5,628						5,628
Federal Grants													0
Reserves/Res Funds													0
Total Financing	0	11,311	0	11,311		5,628	16,939	6,722	418	0	0	0	24,079

Comments / Issues:

- The 2007 Recommended Capital Budget is \$16.939 million gross, including \$5.628 million to fund projects carried forward from 2006 to 2007.
- The funding relates to previously approved projects as follows: a) knowledge base service content documentation and business process reviews in the amount of \$0.500 million; b) Metro Hall Council Chamber retrofit and 3-1-1 contact centre facility completion in the amount of \$1.520 million; c) 3-1-1 Technical Solution RFP award and initial core technology acquisition of \$8.754 million; d) electronic work system integration in the amount of \$0.100 million; e) 3-1-1 staff training program design of \$0.297 million; f) internal/external communication plan development in the amount of \$0.040 million; and g) privacy impact professional services of \$0.100 million.
- All future year commitments resulting from the approval of the 2007 Recommended Capital Budget (\$6.722 million in 2008 and \$0.418 million in 2009) have been previously approved. This funding is required to complete all outstanding business process reviews, acquire the core technology and implement the remaining work order system integration and communications plan.

2007 Recommended Capital Budget

2007 Recommended Capital Budget versus Debt Target

The 2007 Recommended Capital Budget requires debt funding of \$11.311 million. There are no debt targets for 3-1-1 Customer Service Strategy. The 2007-2011 Capital Plan has met Council approved cash flow projections for all years.

Capacity /Readiness

The Program is ready to proceed with the capital work to be approved for 2007. The actual completion rate may depend on a number of factors mostly associated with a successful and timely contract award for the core technology component.

Operating Budget Impact

Incremental Operating Impact Summary

Incremental Operating Budget Impact	2007	2008	2009	2010	2011
Program Costs (net) (\$000s)	(1,394)	(929)	(946)		
Debt Service Charges (\$000s)	0.0	0.0	0.0		
Approved Positions		(11)	(10)		

Program Incremental Operating Costs

The incremental operating impacts include the following:

- At its meeting of July 25, 26 and 27, 2006 Council considered and endorsed in principle the 5-Year Plan (2006-2010). The 5-Year Capital Plan also included a recommendation to increase the 2006 operating gross expenditure for 3-1-1 Customer Service Strategy by \$3.103 million to be fully recovered from capital funding. The funding was required for work on front-end content development, business process reviews, core technology implementation, work order system integration, service page development and privacy impact assessment, resulting in a requirement for up to 29 temporary positions by the end of 2006. Based on the current work plan, it is anticipated that 23 positions will be required in 2007, and that the remaining number of positions will be further reduced by 11 positions in 2008 and another 10 positions in 2009. The required funding for these positions is included in the 2007-2011 Capital Plan.
- Once implemented, the project will result in the establishment of the new 3-1-1 Division, which could have an incremental net operating budget impact in 2008 and beyond. In order to assess potential incremental operating budget requirements, further information concerning the 3-1-1 technology infrastructure is required. Issues such as working hours, health and safety, ergonomics, job evaluation and labour relations will affect the assessment of incremental operating impact and will not be known until later during the project implementation, most likely 2007. It is recommended that the Deputy City Manager for Citizen Services “A” report to

Budget Committee on operating costs for the 3-1-1 Division prior to the 2008 Operating Budget Process.

The funding for 3-1-1 Customer Service Strategy has been previously approved. There are no new debt service costs resulting from the approval of the 2007 Recommended Capital Budget.

PART II: ISSUES FOR DISCUSSION**2007 Capital Budget Issues****Implementation Schedule**

The Toronto 3-1-1 solution incorporates best practices from several North American 3-1-1 installations to provide the most comprehensive and responsive 3-1-1 system envisioned to date. There are inherent challenges of integrating multiple existing IT systems – any unanticipated delays to major components such as the awarding of the 3-1-1 technology RFP and/or completion of the facility construction could impact not only the 2007 cash flow, but also the overall project implementation schedule.

The major activities to be completed in 2007 are Metro Hall Council Chamber Retrofit, 3-1-1 staff recruitment, 3-1-1 staff training program design, and internal/external communications plan development.

The award of a vendor software solution is planned for March 2007, with an anticipated commencement of the 3-1-1 Technology Solution implementation in April 2007. Engagement of a validation expert is also planned to verify the selected vendor's implementation schedule. These activities will continue in 2008.

5-Year Capital Plan Issues**Future Year Targets**

There are no debt targets for 3-1-1 Customer Service Strategy. The 2007-2011 Capital Plan has met Council approved cash flow projections for all years.

Issues and challenges related to the IT integration of individual work order systems and customer Web access to online service order submission will remain in place during the entire implementation period. These challenges are recognized and steps taken to reduce and mitigate any risks.

Appendices not available online.