

Analyst Briefing Notes
Budget Committee Review
(February 8, 2007)

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January 31, 2007

PART I: CAPITAL PROGRAM**Executive Summary**

- The 2006 Approved Capital Budget of \$6.868 million was 22% spent as at September 30, 2006. Actual expenditures by year-end are anticipated to be \$3.020 million, or 44% of the Approved Budget, resulting in projected 2006 cash flow funding of \$3.442 million being carried forward into 2007. This projected under expenditure is primarily attributed to the delays in the Document Management and Imaging Initiatives, the Workflow and Document Management Project and the Accounts Payable Process Improvement Project due to a breakdown in negotiations with the selected vendor. Additional carry forward adjustments will be reported through to Budget Committee during its review of the 2007 Recommended Capital Budget.
 - The 2007 Recommended Capital Budget; 2008 to 2011 Plan and 2012 to 2016 Estimates totals \$40.281 million of which \$28.771 million is projected for the Program's 5-Year Capital Plan, requiring debt funding of \$17.400 million, or an average of \$3.500 million per year.
 - The 5-Year Capital Plan, including carry forward funding from 2006 to 2007, totals \$28.771 million with 2007 cash flow of \$10.197 million; \$6.809 million in 2008; \$4.850 million in 2009; \$3.915 million in 2010 and \$3.000 million in 2011.
 - The 2007 Recommended Capital Budget including previously approved commitments requires new 2007 cash flow of \$6.755 million gross with debt funding of \$3.900 million which is on target with the debt affordability guideline. This cash flow combined with carry forward funding of \$3.442 million for 2006 projects brings the total 2007 Recommended Capital Budget to \$10.197 million gross, of which \$5.844 million is funded by debt.
 - 71% of the 2007 recommended new cash flow is allocated to Service Improvement projects at \$4.829 million; 18% is allocated to State-of-Good-Repair projects at \$1.183 million and 11% to Legislative or contractually required projects at \$0.743 million.
 - The 2007 Recommended Capital Budget includes carry-forward funding for the following projects to be completed in 2007:
 - ⇒ Accounts Payable Process Improvements Document Management sub-project
 - ⇒ Collective Agreements Implementation to finalize wage harmonization
 - ⇒ E-Procurement Feasibility Studies
 - ⇒ Parking Tag Management Software Upgrade feasibility study
 - ⇒ Spadina Subway Extension Financing project to provide financing advisory support
- With the following projects to continue in 2007 and into 2008:
- ⇒ Revenue Services Unified Cashiering and Integrated Voice Recognition System
 - ⇒ Workflow & Document Management
 - ⇒ Fixed Assets Record Systems

New funding for projects to commence in 2007 and continue over the 5-Year Capital Plan period includes:

- ⇒ Planning and Scoping of the Financial Planning, Analysis and Reporting System with the implementation of new SAP technologies to manage the information flows from source divisional systems into SAP;
 - ⇒ Upgrade of the current outdated Parking Tag Management Software due to changing technology after completion of the feasibility studies;
 - ⇒ E-Procurement Implementation after the feasibility studies are completed, to utilize corporate technology to streamline the purchasing functions;
 - ⇒ Tax and Water Upgrade with feasibility study in 2007 and implementation in 2008 through 2011;
 - ⇒ Tax/Water/Parking Tags Counter Relocation to merge the customer service operations on the same floor as the security desk for improved customer accessibility;
 - ⇒ Development Charges Background Study to undertake a review of the current development charges to adapt to the new by-law by 2009.
- The Financial Services' 5-Year Capital Plan has been developed to balance a commitment to maintain current technology in a state of good repair and to maximize the use of the City's current financial information systems while meeting the assigned debt targets. The majority of the capital projects in this Capital Plan are systems-oriented, focussing on technological improvements to enhance City-wide financial processes. The 5-Year Plan includes projects that maintain existing systems in a state of good repair and that facilitate the need for flexible and timely information such as:
 - ⇒ Tax and Water Upgrade
 - ⇒ Parking Tag Revenue Management and Parking Tag Scanner Replacement
 - ⇒ Workflow & Document Management Technology
 - ⇒ Captor Migration to New System
 - ⇒ Business Information Warehouse
 - The 5-Year Capital Plan also contributes to the Mayor's Mandate:
 - ⇒ Better Transit Today by financing a consultant who will provide advisory support to the City in connection with the financing of the Spadina Subway Extension to York University and beyond into Vaughan; and
 - ⇒ Efficiency and Accountability at City Hall by implementing a multi-year planning and budgeting system to support a performance based service model with the Financial Planning, Analysis and Reporting System project.
 - There is no backlog for this Program.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Capital Budget for Financial Services with a total project cost of \$9.655 million and a 2007 cash flow of \$10.197 million and future year commitments of \$9.244 million be approved. The 2007 Recommended Capital Budget consists of the following:
 - a) New Cash Flow Funding for:
 - i) 7 new & change in scope sub-projects with a 2007 total project cost of \$9.655 million that requires cash flow of \$2.848 million in 2007 and a future year commitment of \$3.342 million in 2008, \$2.815 million in 2009 and \$0.650 million in 2010;
 - ii) 9 previously approved sub-projects with 2007 cash flow commitments of \$3.517 million and a future year commitment of \$2.437 million in 2008;
 - iii) 1 sub-project from previously approved projects with carry forward funding from 2005 and prior years requiring 2007 cash flow of \$0.390 million which forms part of the affordability targets that requires Council to reaffirm its commitment; and
 - b) 2007 approved cash flow for 8 previously approved sub-projects with carry forward funding from 2006 into 2007 totalling \$3.442 million;
2. new debt service costs of \$0.032 million in 2007 and incremental costs of \$0.187 million in 2008, \$0.319 million in 2009, \$0.237 million in 2010 and \$0.036 million in 2011 resulting from the approval of the 2007 Recommended Capital Budget, be approved for inclusion in the 2007 and future year operating budgets;
3. operating savings of \$0.035 million for 2007, operating costs of \$0.526 million for 2008, and savings of \$0.130 million for 2010 and costs of \$0.052 million in 2011 emanating from the approval of the 2007 Capital Budget be considered within the overall scope of the Financial Services' 2007 and future years' operating budget submissions; and
4. the 2008-2011 Capital Plan for Financial Services \$18.574 million in project commitments and estimates, comprised of \$6.809 million in 2008; \$4.850 million in 2009; \$3.915 million in 2010; and \$3.000 million in 2011, be approved.

2006 Capital Variance Review

2006 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2006 Approved	Actuals as of Sept 30 (3rd Qtr Variance)		Projected Actuals at Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
6,868	1,530	22	3,020	44	3,848

Comments / Issues:

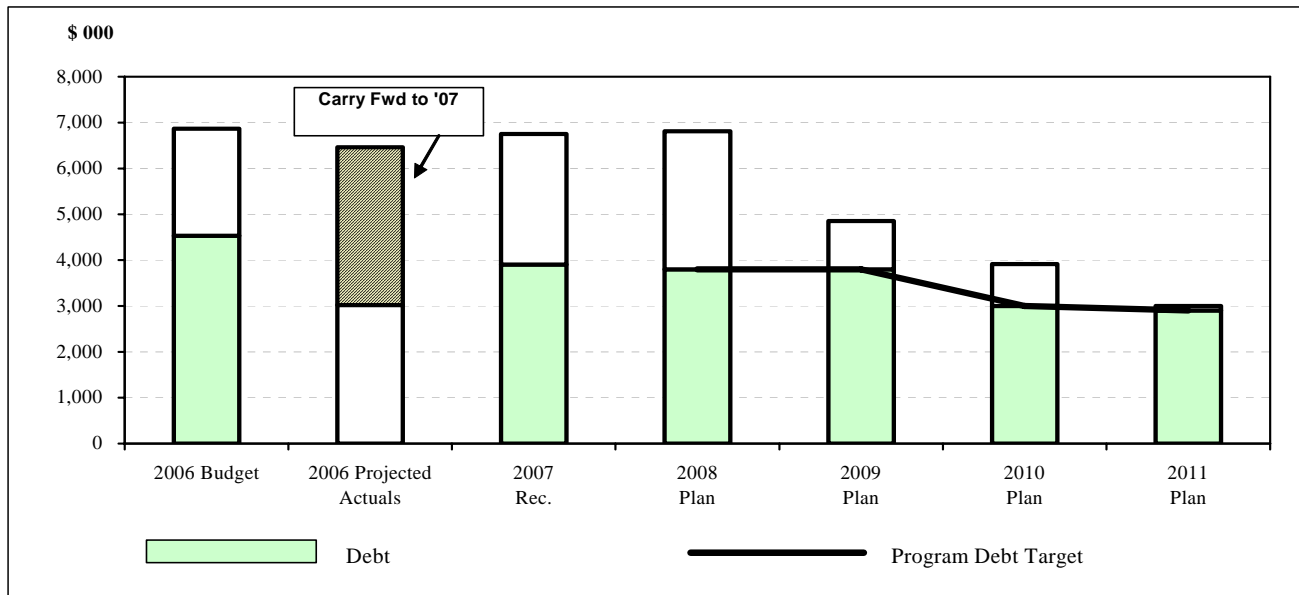
- At the end of the 3rd quarter, Financial Services spent approximately \$1.530 million or 22% of its 2006 approved cash flow budget of \$6.868 million. Under spending is mainly due to the breakdown in negotiations with the selected vendor regarding the Accounts Payable- Document Management and Imaging Initiatives and the Workflow and Document Management Project for the Revenue Services Division. The need to negotiate with the next vendor has resulted in the delay of these projects.
- Financial Services' projected year-end spending rate for 2006 is 44% which represents an improvement over the 34% achieved in 2005. The controllable spending rate at the end of the 3rd quarter is at 34% while the projected year-end rate is 62%.

Of the \$3.848 million in under-spending, \$2.610 million is a result of uncontrollable delays related to the Workflow and Document Management Project (\$0.716 million), Accounts Payable Process Improvement Project (\$1.447 million) and the Collective Agreement Implementation (\$0.447 million) system changes.

- The recommended carry forward funding included in the 2007 Recommended Capital Budget is \$3.442 million and is lower than the 3rd quarter projected under-spending of \$3.848 million. Final adjustments to carry forward funding will be reported through to Budget Committee during its review of the 2007 Recommended Capital Budget.
 - The Accounts Payable Process Improvement project, including the Document Management sub-project, has been delayed with funding of \$1.383 million to be carried into 2007.
 - \$0.600 million gross and \$0 net funding for the Revenue Systems Unified Cashiering and Integrated Voice Recognition (IVR) System implementation will be carried forward to 2007 due to a delay in issuing the Request for Proposal. This project is expected to be completed in 2007.
 - Finalizing wage harmonization for part-time employees has delayed project activities for the Collective Agreement Implementation and related spending of \$0.447 million to 2007.
 - The delay in the Workflow and Document Management Project for the Revenue Services Division has resulted in carry forward funding of \$0.326 million into 2007.

- The Spadina Subway Extension Financing project approved by City Council on September 25, 26 and 27, 2006 provided for funding to retain a qualified and experienced consultant to provide advisory support to the City in connection with the financing of the proposed subway extension. The total approval of \$0.300 million will not be spent by year-end; \$0.225 million will be carried forward into 2007.
- The E-Procurement project is scheduled to be completed in 2007 as the Request for Proposal was issued in late 2006 to hire a consultant to conduct the feasibility study. As a result, \$0.202 million will be carried forward to 2007.
- The Parking Tag Management Software Upgrade feasibility study deferred \$0.200 million spending to 2007, pending evaluation of the handheld ticket writers and identification and analysis of need for the System upgrade.
- Competing demands for limited available resources combined with efforts to consolidate like initiatives across various Divisions have impacted the ability to meet projected time lines in previous years. Despite these challenges, Financial Services has improved its spending performance in 2006 over 2005 and is actively monitoring these issues and mitigating delays where possible. It is expected in 2007 that the Program will see a marked improvement in spending rates due to collaborative efforts and partnerships with key Divisions.

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	6,868	3,020	6,755	5,779	2,815	650	0	15,999
New Plan Estimates				1,030	2,035	3,265	3,000	9,330
1-Year Carry Forward to 2007		3,442						
Total Gross Annual Expenditures & Plan	6,868	6,462	6,755	6,809	4,850	3,915	3,000	25,329
Program Debt Target			3,900	3,800	3,800	3,000	2,900	17,400
Financing:								
Recommended Debt	4,533		3,900	3,800	3,800	3,000	2,900	17,400
Other Financing Sources:								
Reserves/Reserve Funds	618		1,473	560	0	500		2,533
Development Charges	369		275	125	0	0	0	400
Federal								0
Provincial								0
Other Revenue	1,348		1,107	2,324	1,050	415	100	4,996
Total Financing	6,868		6,755	6,809	4,850	3,915	3,000	25,329
By Category:								
Health & Safety								
Legislative	196		743	445				1,188
SOGR	1,011		1,183	2,317	4,350	3,015	2,000	12,865
Service Improvement	5,661		4,829	4,047	500	900	1,000	11,276
Growth Related								
Total By Category	6,868		6,755	6,809	4,850	3,915	3,000	25,329
Yearly SOGR Backlog Estimate (not addressed by current plan)								0
Accumulated Backlog Estimate (end of year)		0						0
Operating Impact on Program Costs			(35)	526	0	(130)	52	413
Debt Service Costs			117	543	532	508	417	2,117

* Note that the 1-Year Carry Forward reflects current projection and as reflected in CAPTOR.

5-Year Capital Plan Overview

Overview

The 2007-2011 Recommended 5-Year Capital Plan calls for \$25.329 million gross (\$17.400 million debt) funding, excluding one-year carry forwards, over the next five years. This includes recommended cash flow of \$6.755 million gross (\$3.900 million debt) for 2007, an amount that is comparable with the Program's 2006 Approved Capital Budget of \$6.868 million. The Plan estimates capital funding needs of \$6.809 million gross (\$3.800 million debt) in 2008; \$4.850 million gross (\$3.800 million debt) in 2009; \$3.915 million gross (\$3.000 million debt) in 2010 and \$3.000 million gross (\$2.900 million debt) in 2011.

Mayor's Mandate

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

- ***Better Transit Today:***

The 5-Year Capital Plan includes the Spadina Subway Extension Financing Project (\$0.225 million) and the Development Charges Background Studies (\$0.400 million); projects which will specifically further a "Better Transit Today" objective.

The Spadina Subway Extension Financing project was approved by City Council on September 25, 26 and 27, 2006. The Deputy City Manager and Chief Financial Officer, in consultation with the City's Chief Planner and Executive Director, is authorized to retain the services of a qualified and experienced consultant, to provide advisory support to the City in connection with the financing of the proposed subway extension at a cost not to exceed \$0.300 million funded from the Development Charge Reserve Fund for Development-Related Studies.

Staff are currently working on a Tax Incremental Financing (TIF) strategy and update of the Development Charges By-Law to help finance the City's share of the required funding.

The Deputy City Manager and Chief Financial Officer will report to Council in 2007 on a financing strategy for the City's share of the Spadina Subway line.

- ***Efficiency and Accountability at City Hall:***

The 5-Year Capital Plan includes funding for the Financial Planning, Analysis and Reporting System project (\$2.400 million) which is an "end to end" operating budget process review of City programs and ABCs to assist in the development of specifications for budget technologies that will continue to manage the City efficiently and responsibly.

The project will provide a budgeting system to support a multi-year performance based service model for tracking and reporting of quantitative and qualitative performance measures; service level indicators with a cost performance metric to assess efficiency; and activity level based operating budget presentations. It will also include analytical tools that permit sensitivity and scenario analysis; and will provide the flexibility to incorporate and track long-term business planning initiatives.

The new operating budget system is projected to be operational for the City's 2008 Operating Budget review process.

Multi Year Debt Affordability Target

The 2007-2011 Capital Plan has met the Council approved debt affordability targets for each of the five years.

The 2007-2011 Capital Plan includes cash flow changes to commitments previously approved by Council, due to the acceleration of specific projects from 2009 to 2007 and 2008, and the deferral of cash flow for four projects to 2007 based on recommended spending. There is no change to the overall project cost for these projects and the changes have been accommodated within the approved debt targets established for this Program.

Capacity

The start up and completion of previously approved projects is a priority for Financial Services and these projects form the basis of the 2007 Recommended Capital Budget. The 5-Year Plan reflects the Program's goal to complete previously approved projects. As most projects are underway, capacity is not an issue.

State of Project Readiness

The Financial Services 5-Year Capital Plan is ready to proceed. The 5-Year Plan includes projects that maintain existing systems in a state of good repair that facilitate the need for flexible and timely information while maximizing non-debt funding sources and utilizing Development Charges funding for future years' Development Charges Bylaw Background Studies.

The Financial Planning, Analysis and Reporting System project's estimated total project cost has increased by \$1.840 million over the previously approved budget. This is a result of the increased costs to enable integration of the new SAP Strategic Enterprise Management and Business Warehouse modules with information from Divisional source systems to provide the data for cost and performance measures to support multi-year service planning and budgeting in accordance with Council's approved mature budget process. This will enable the alignment of performance measures and costs to City services and activities provided by City Programs and establish service levels and objectives that support Council in allocating resources to overall priorities. The modules will also provide the analytical tools for staff that will enable sensitivity and scenario analysis with the flexibility to incorporate and track long term service planning initiatives including those that cross City Programs.

The project also includes the development and implementation of new program maps for all City Divisions that will establish a consistent service and activity framework to enable multi-year service planning and budgeting. This approach will facilitate the linking of Council's priorities, strategies, goals and objectives to the City's multi-year Service Plans and Budgets.

The 2007-2011 Capital Plan is comprised of 51.1% SOGR and 44.2% Service Improvement projects.

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.

Highlights of the changes made to the 2007-2011 Recommended Capital Plan are summarized below:

- The Central Property Database/One-Address Reposit project has been advanced from the five year period 2011-2015 to \$0.900 million in 2010 and \$0.500 million in 2011.
- The Financial Planning, Analysis and Reporting System Upgrade has been reduced in 2010 by \$1.250 million and in 2011 by \$1.000 million.
- Parking Tag Management Software Upgrade for 2011 has been deferred to 2013 reducing the 2010 plan by \$0.950 million and 2011 plan by \$0.255 million.
- City Council approved \$0.300 million in September, 2006 to finance the services of a experienced consultant for the Spadina Subway Extension Financing Project. \$0.225 million is included in the 2007 Capital Plan as carry forward funding.

Backlog of Projects – Unmet Needs

The Program does not have a backlog of projects.

Operating Impacts of the 5-Year Capital Plan

The following operating impacts will result from the approval of the 5-Year Plan:

- Storage and maintenance of the Program Planning Information System; \$0.250 million in 2008;
- Maintenance of the corporate Fixed Assets Records System; \$0.120 million in 2008;
- The Workflow & Document Management Technology project development of a new Customer Service Model for the Revenue Services Division; \$0.141 million in 2008;
- The 2010 savings of \$0.385 million will be realized upon the completion of the Workflow & Document Management Technology project. This project to link electronic images directly to a customer's account resulting in more efficient, cost effective customer services will realize efficiencies due to improved workflow and document management resulting in the reduction of 15 approved positions in 2010; and
- The Tax and Water Upgrade system will require \$0.175 million in 2010 for system maintenance and training services.

Pre-approvals

City Council on December 5 and 6, 2006, adopted the recommended pre-approval cash flow for Financial Services in the amount of \$2.357 million which is comprised solely of previously approved projects. Of this total, \$1.381 million represents 2006 unspent funding being carried forward to 2007 to continue on-going projects such as the Accounts Payable Improvement Project, Workflow & Document Management and Parking Tag System Upgrade. In addition, \$0.976 million of pre-approval cash flow is necessary to ensure continuity of projects underway for which 2007 funding has been previously approved and will be required to be spent in the first few months of the year. These projects include the Fixed Asset Record System, the Time Entry Replacement System, and the Financial Planning, Analysis and Reporting System project.

**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	390	3,517		3,907		3,442	7,349	2,437					9,786
Change in Scope			1,500	1,500			1,500	455					1,955
New			0	0			0						0
New w/Future Year			1,348	1,348			1,348	2,887	2,815	650			7,700
Total Expenditure	390	3,517	2,848	6,755		3,442	10,197	5,779	2,815	650	0	0	19,441
Financing													
Debt		2,837	1,063	3,900	3,900	1,944	5,844	3,275	2,065	325	0		11,509
Subsidy (SCPI)													0
Prov. Subsidy/Grant													0
Development Charges			275	275		225	500	125					625
Other	390	592	125	1,107		826	1,933	1,924	750	325	0		4,932
Federal Grants													0
Reserves/Res Funds		88	1,385	1,473		447	1,920	455	0	0			2,375
Total Financing	390	3,517	2,848	6,755		3,442	10,197	5,779	2,815	650	0	0	19,441

Comments / Issues:

- Approval of the 2007 Recommended Capital Budget will result in future year commitment funding for new/change in scope projects of \$3.342 million in 2008; \$2.815 million in 2009 and \$0.650 million in 2010.
- The 2007 cash flow includes \$0.250 million to conduct the feasibility study for the Revenue Services Tax and Water Systems Upgrade. The 2008, 2009 and 2010 cash flow includes a total of \$3.000 million to complete the replacement of this system. This upgrade is 50% funded from debt and 50% from other revenue.
- The Collective Agreements Implementation project is funded from Reserve Funds while the Financial Planning, Analysis and Reporting System SAP sub project Planning and Scoping is funded from the Information and Technology Equipment Reserve.

2007 Recommended Capital Budget

2007 Recommended Capital Budget versus Debt Target

The 2007 Recommended Capital Budget of \$3.900 million debt meets the allocated debt target for this Program. The Program will be focusing on improvements and enhancements in systems and processes that will result in better financial and management information for divisional and corporate reporting.

Capacity /Readiness

The Program has experienced several delays in the first half of 2006 that has resulted in under spending but the overall 2006 spending rate projection at September 30, 2006, of 44% exceeds the rate experienced in 2005 of 34%. The Program is addressing the issues and is expected to be on target to complete the projects carried forward to 2007. It is expected that 2007 will see a marked improvement in spending rates over 2006.

Operating Budget Impact

Incremental Operating Budget Summary

Incremental Operating Budget Impact	2007	2008	2009	2010	2011
Program Costs (net) (\$000s)	(35)	526	0	(130)	52
Debt Service Charges (\$000s)	32	187	319	237	36
Approved Positions	0	0	0	(13)	1

Program Incremental Operating Costs

The 2007 Recommended Capital Budget will increase the Program's Operating Budget, with incremental impacts in 2007 and future years as a result of the following capital projects/subprojects:

2007 Capital Projects/Sub-Projects		2007 (\$000s)	2007 approved position change	2008 (\$000s)
Time Entry Replacement System	Time Entry Replacement System	(35.00)	0.00	(35.00)
Financial Planning, Analysis and Reporting	Business Plan Information System	0.00	0.00	150.00
Financial Planning, Analysis and Reporting	Planning & Scoping	0.00	(2.00)	100.00
Accounts Payable Process Improvement	Accounts Payable Process Improvement	0.00	0.00	50.00
Fixed Asset Records System	Fixed Asset Records System	0.00	2.00	120.00
Workflow and Document Mangement	Workflow and Document Mangement	0.00	0.00	141.00
TOTAL		(35.00)	0.00	526.00

The incremental operating costs outlined above include the following:

- Time Entry System is projected to be completed in first half of 2007 with internal staff instead of contracted consultants generating operating cost savings of \$0.035 million in 2007 and the balance of the annualized savings of \$0.035 million in 2008.
- Storage and maintenance of the Financial Planning, Analysis and Reporting System will result in operating cost of \$0.250 million in 2008 as well as \$0.120 million for maintenance of the corporate Fixed Assets Records System.
- The Workflow & Document Management Technology project development of a new Customer Service Model for the Revenue Services Division will incur costs of \$0.141 million in 2008.

PART II: ISSUES FOR DISCUSSION

2007 Capital Budget Issues

There are no 2007 outstanding issues.

5-Year Capital Plan Issues

Future Year Targets

The future years' capital debt target has been revisited to consider the needs of the Program and the required funding to maintain existing technology infrastructure in a state of good repair and provides for improvements in the current system to enhance delivery of the City's financial information.

Appendix 4

Reserve / Reserve Fund Review (\$000s)

Reserve / Reserve Fund Name	Project / SubProject Name and Number	Uncommitted balance as of September 30, 2006	Proposed Withdrawals				
			2007	2008	2009	2010	2011
XR1002 Employee Benefits Reserve Fund XQ1508 - Information and Technology Equipment R	TRE906813 Collective Agreements Implementation CFO906795-3 Planning and Scoping	\$139,720 \$5,877	\$535 \$1,385	\$455			
Total Reserve / Reserve Fund		\$145,597	\$1,920	\$455	\$0	\$0	\$0

Appendices 1-3 not available online.