

# Analyst Briefing Notes

## Budget Committee Review

(February 8, 2007)

Page

### **PART 1: CAPITAL PROGRAM**

Executive Summary .....	2
Recommendations .....	3
2006 Capital Variance Review .....	4
5-Year Capital Plan (2007 Recommended Budget, 2008-2011 Plan).....	6
5-Year Capital Plan Overview.....	7
Recommended Changes to 5-Year Plan.....	7
Total 2007 Recommended Cash Flow & Future Year Commitments.....	9
Operating Budget Impact.....	10

### **PART II: ISSUES FOR DISCUSSION**

2007 Capital Budget Issues.....	11
5-Year Capital Plan Issues.....	11

### **APPENDICES**

<b>Appendix 1:</b> 2007 Rec'd Capital Budget; 2008 to 2011 Plan and 2012 to 2016 Estimates .....	A1 to A2
<b>Appendix 2:</b> 2007 Recommended Cash Flow & Future Year Commitments.....	A3 to A4
<b>Appendix 3:</b> 2007 Recommended Capital Projects with Financing Details .....	A5
<b>Appendix 4:</b> Reserve / Reserve Fund Review .....	A6

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

Ron Budhu, Senior Financial Planning Analyst  
 Tel: (416) 397-4559

January 31, 2007

**PART I: CAPITAL PROGRAM****Executive Summary**

- The 2006 Approved Capital Budget of \$20.914 million was 33% spent as at September 30, 2006. Actual expenditures by year-end are anticipated to be \$14.441 million, or 69% of the Approved Budget, resulting in projected 2006 under-spending of \$6.473 million, of which \$2.800 million will be carried forward into 2007. Additional carry forward adjustments will be reported to Budget Committee during its review of the 2007 Recommended Capital Budget. A slight delay was experienced due to efforts to co-ordinate the new RFP for desktops and notebooks with Toronto Police Services. Monitor deployment was temporarily suspended until storage space was obtained as Computer For Schools Ontario (CFSO) was no longer accepting the City's displaced equipment.
- The 2007 Recommended Capital Budget; 2008 to 2011 Plan and 2012 to 2016 Estimates total \$185.042 million of which \$97.431 million is projected for the Program's 5-Year Capital Plan, funded from the Information and Technology Equipment Reserve, which receives its financing through annual contribution from Non-Program and Other Programs' Operating Budgets.
- The 5-Year Capital Plan, including carry forward funding from 2006 to 2007, totals \$97.431 million with 2007 cash flow of \$16.202 million; \$13.435 million in 2008; \$25.614 million in 2009; \$23.662 million in 2010 and \$18.518 million in 2011.
- The 2007 Recommended Capital Budget including previously approved commitments requires new 2007 cash flow of \$13.402 million gross. This cash flow combined with carry forward funding of \$2.800 million for 2006 projects brings the total 2007 Recommended Capital Budget to \$16.202 million gross.
- 100% of the 2007 recommended new cash flow is allocated to State-of-Good-Repair projects.
- The I & T Sustainment Program replaces equipment as it becomes obsolete; no backlog exists.
- The Information & Technology asset inventory is based on assets that are presently under the control of Corporate I & T. These include:
  - Desktops and laptops that were replaced or re-imaged under the Technology End of Lease Strategy.
  - Printers, scanners and related peripherals.
  - Servers and storage equipment in the Don Mills Data Centre.
  - Network equipment (routers, switches, hubs, etc.)

**Recommendations**

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Capital Budget for I & T Sustainment with a total project cost of \$13.402 million and a 2007 cash flow of \$16.202 million with no future year commitments be approved. The 2007 Recommended Capital Budget consists of the following:
  - a) New Cash Flow Funding for 1 new sub-project with a 2007 total project cost of \$13.402 million that requires cash flow of \$13.402 million in 2007 with no future year commitment;
  - b) 2007 approved cash flow for 1 previously approved sub-project with carry forward funding from 2006 into 2007 totalling \$2.800 million; and
2. the 2008-2011 Capital Plan for I & T Sustainment \$81.229 million in project commitments and estimates, comprised of \$13.435 million in 2008; \$25.614 million in 2009; \$23.662 million in 2010; and \$18.518 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
20,914	6,928	33	14,441	69	6,473

**Comments / Issues:**

- At the end of the 3rd quarter, approximately \$6.928 million or 33% of I & T Sustainment Program's 2006 Approved Capital Budget of \$20.914 million was spent. For 2006, this program was comprised of 2 components – Technology End of Lease (TELS) and I & T Sustainment.

**Technology End of Lease**

\$3.148 million or 65.9% of the \$4.776 million 2006 adjusted cash flow was spent on the Technology End of Lease project. The Program is projecting to spend \$3.836 million or 80.3% of this project's 2006 cash flow in its final stages, leaving \$0.940 million of the unspent cash flow to be deposited in the I & T Equipment Reserve.

- 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.

A final TELS project report was submitted to the eCity Committee in July, 2006 and the Administration Committee and Council in September, 2006. Approximately \$22.728 million of unspent 2005 contributions has been deposited in the Information and Technology Equipment Reserve to fund the ongoing IT lifecycle refresh.

**I & T Sustainment**

The Program spent \$3.780 million or 23.4% of the 2006 approved cash flow of \$16.138 million on the I & T sustainment project. The project is on track to have expenditures of \$10.605 million or 65.7% of the project's approved cash flow at year end. The project experienced a slight delay due to efforts to co-ordinate the new RFP for desktops and notebooks with Toronto Police Services.

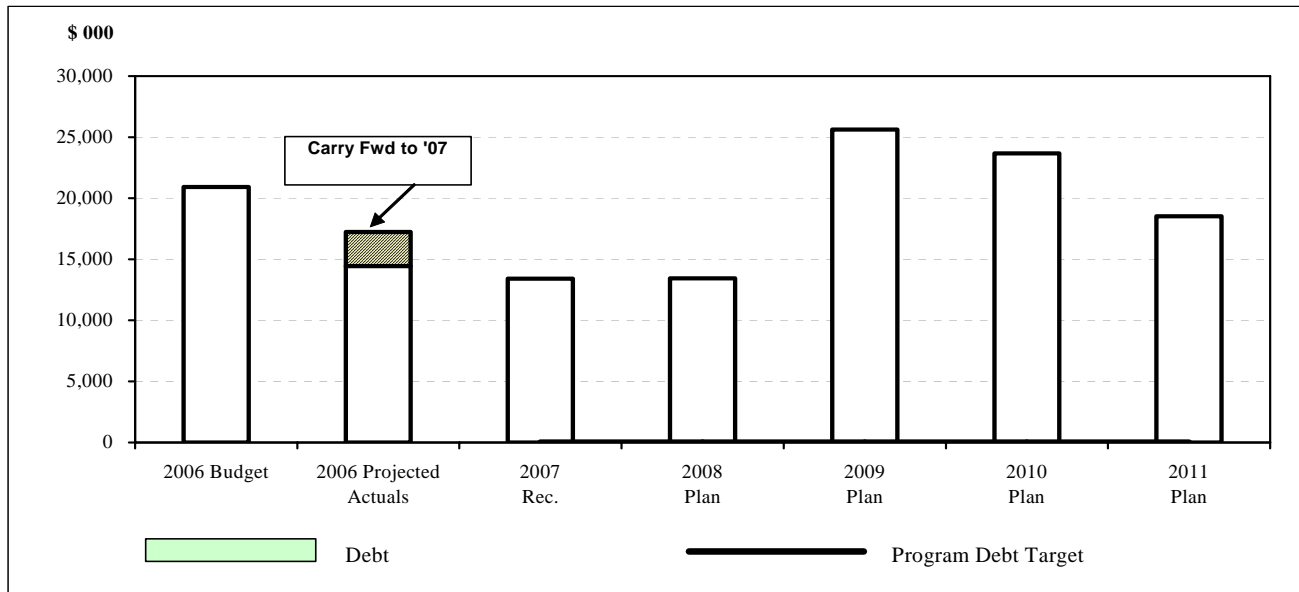
Monitor deployment was temporarily suspended for two months while alternate monitor storage space was found due to Computer For Schools Ontario no longer accepting the City's displaced equipment.

Carry forward funding included in the 2007 Recommended Capital Budget is \$2.800 million and is lower than the 3<sup>rd</sup> quarter projected under-spending of \$6.473 million.

- \$3.673 million of the unspent balance is due to savings realized in this capital program.
- The Technology End of Lease project has been completed under budget, resulting in savings of \$0.940 million.
- The Sustainment project experienced savings totalling of \$2.733 million due to the following factors:
  - an overestimation of the allowance made for items requiring replacement that were not previously part of the City's inventory resulted in savings of \$1.659 million;
  - reduction in the number of monitors deployed due to Toronto Public Library deciding to not proceed with their roll out of monitors created a savings of \$0.875 million; and
  - realignment of staff resources including the use of in house staff for monitor deployment resulted in savings of \$0.090 million.

Final 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	
<b>Gross Expenditures:</b>								
Capital Budget & Future Year Commitments	20,914	14,441	13,402					13,402
New Plan Estimates			0	13,435	25,614	23,662	18,518	81,229
1-Year Carry Forward to 2007		2,800						
<b>Total Gross Annual Expenditures &amp; Plan</b>	<b>20,914</b>	<b>17,241</b>	<b>13,402</b>	<b>13,435</b>	<b>25,614</b>	<b>23,662</b>	<b>18,518</b>	<b>94,631</b>
<b>Program Debt Target</b>								
<b>Financing:</b>								
Recommended Debt								0
<b>Other Financing Sources:</b>								
Reserves/Reserve Funds	20,914		13,402	13,435	25,614	23,662	18,518	94,631
Development Charges								0
Federal								0
Provincial								0
Other Revenue								0
<b>Total Financing</b>	<b>20,914</b>		<b>13,402</b>	<b>13,435</b>	<b>25,614</b>	<b>23,662</b>	<b>18,518</b>	<b>94,631</b>
<b>By Category:</b>								
Health & Safety								0
Legislative								0
SOGR	20,914		13,402	13,435	25,614	23,662	18,518	94,631
Service Improvement								0
Growth Related								0
<b>Total By Category</b>	<b>20,914</b>		<b>13,402</b>	<b>13,435</b>	<b>25,614</b>	<b>23,662</b>	<b>18,518</b>	<b>94,631</b>
Yearly SOGR Backlog Estimate (not addressed by current plan)								0
Accumulated Backlog Estimate (end of year)								0
<b>Operating Impact on Program Costs</b>								0
<b>Debt Service Costs</b>								0

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

## **5-Year Capital Plan Overview**

### **Overview**

The City's End of Lease computer equipment replacement program is complete. The 2006 Approved Capital Budget included the transition from the End of Lease to an IT Sustainment strategy for the on-going replacement of the City's technology assets. All on-going replacement purchases will be funded from the Information and Technology Equipment Reserve.

The continued emphasis of this capital program is to ensure that the City's technology assets are replaced at the end of their established lifecycles to ensure 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 5-Year Capital Plan would provide a stable source of funding for routine replacement of technology assets that are older than four (4) years, including servers, printers and other peripherals.

### **Multi Year Debt Affordability Target**

The Sustainment project has a \$0 debt target. All hardware, software and server acquisitions will be funded from the Information and Technology Equipment Reserve which is financed through annual contribution from Non-Program and Other Programs' Operating Budgets.

### **Capacity**

Given the success of the desktop replacement project, the Program is focusing on replacing server, desktop and network technology assets based on the lifecycle of the asset utilizing funding in the Plan.

Capital Program funding provides \$0.720 million for 17 staff to support this on- going basis.

Plans are in place for the on-going cyclical replacement of equipment.

### **State of Project Readiness**

This Program is ready to proceed. The procurement process for these equipment purchases is on-going.

Cash flows represent annual requirements each year to replace desktop computers, printers, servers and other related peripherals, on a timely basis.

The 2007 – 2011 Capital Plan is comprised of state of good repair projects only.

### **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 reflected in the 2007-2011 5-Year Capital Plan are summarized below:

- Unit prices were estimated based on mid-year 2006 pricing (to be updated annually). While price reductions in technology were evident in past years, it is expected that there will be minimal price reductions in the future (however higher performance equipment will be provided at similar pricing).
- Some cascading of equipment that may allow the extension of some high-end equipment to lower end requirements.
- The server replacement schedule remains relatively smooth over the 5 year period, although it is increased in 2009-2010 as the units replaced through TELS in 2004-2005 reach the end of their useful life.

The overall lower costs over the 5 year period resulted in savings of \$0.482 million.

### **State of Good Repair Backlog and Unmet Needs**

This Program is designed to replace equipment as it reaches the end of its useful life (4 year cycle), given the City has just replaced its entire inventory, there is no IT backlog.

### **Pre-approvals**

City Council on December 5 and 6, 2006, adopted the recommended pre-approval cash flow of \$1.380 million for the Sustainment Program which was necessary to ensure the continuity and timing of planned refreshes across various City Divisions. The Sustainment Program is an annual refresh of computer hardware, software and peripherals approved by City Council as part of the End of Lease Initiative.

**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
<b>Expenditures</b>													
Previously Approved		13,402		13,402		2,800	16,202						16,202
Change in Scope				0			0						0
New				0			0						0
New w/Future Year				0			0						0
<b>Total Expenditure</b>	<b>0</b>	<b>13,402</b>	<b>0</b>	<b>13,402</b>		<b>2,800</b>	<b>16,202</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16,202</b>
<b>Financing</b>													
Debt													
Subsidy (SCPI)													
Prov. Subsidy/Grant													
Development Charges													
Other													
Federal Grants													
Reserves/Res Funds	0	13,402		13,402		2,800	16,202		0	0			16,202
<b>Total Financing</b>	<b>0</b>	<b>13,402</b>	<b>0</b>	<b>13,402</b>		<b>2,800</b>	<b>16,202</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16,202</b>

**Comments / Issues:**

- The 2007 Recommended Capital Budget is \$16.202 million gross, which includes \$2.800 million to be carried forward from 2006 to 2007 and \$13.402 million as previously approved commitment for IT replenishments. The 2007 Recommended Capital Budget will not result in any future year commitments.

## **2007 Recommended Capital Budget**

### **2007 Recommended Capital Budget versus Debt Target**

The 2007 Recommended Capital Budget for Technology Asset Sustainment will be funded from the Technology Equipment Reserve, and does not affect the debt level for the City.

2007 will focus on replacing server, desktop and network technology assets purchased in the 2002-3 timeframe, depending upon the lifecycle of the asset. Exceptions include:

- Monitors (as stated above, the final replacement of the 1998-2002 vintage monitors will occur in 2007)
- Voice Mail system replacement (this asset is 10 years old and has reached/exceeded the end of its useful life).

## **Operating Budget Impact**

### **Incremental Operating Impact Summary**

#### **Program Operating Impacts**

There are no operating impacts on the Information and Technology Operating Budget.

On-going maintenance with server and storage off-warranty costs associated with replacement equipment in this Program continue to be budgeted in the Information and Technology Operating Budget and funded from the Non-Program Operating Budget.

The Program conducts continuous reviews of required maintenance and has advised that there is no expectation of additional operating costs as a result of approval of the 5-Year Capital Sustainment Plan.

**PART II: ISSUES FOR DISCUSSION****5-Year Capital Plan Issues****Future Year Targets**

The Capital Plan estimates have been revisited to consider the price reductions in technology available at the time of submission. Business priorities are constantly changing and so is the emergence of new technologies which makes prediction of required funding difficult. However, the Program has used current inventories along with the lifecycle and pricing changes to plan the next 10 years' required funding to maintain the City's high performance technology infrastructure and systems environment.

**Adequacy of the Information & Technology Reserve Over Time**

Funding for the Sustainment Program averaging \$19.000 million annually is provided to the Information and Technology Equipment Reserve. In addition, unspent funding from the 2005 End of Lease strategy in the amount of \$24.337 million was added to the reserve as approved by Council. The Information and Technology 5-Year Capital Plan requires \$94.631 million for the replacement strategy and recommends that some projects be funded from the Information and Technology Equipment Reserve. These projects are itemized in the Analyst Briefing Notes for the Information and Technology - Development and the Financial Services Capital Programs. Should the financing of these projects be approved, funding in the amount of approximately \$15.0 million will be used to fund corporate I & T projects.

The Sustainment Program expenditures required over the course of the 5-Year Capital Plan of \$94.631 million is below the available funding of \$95.249 million by \$0.618 million.

Projections to the end of 2011 indicate that approximately \$14.754 million will remain in the Reserve after funding \$15.0 million of I & T projects. It is not known whether the current level of annual contributions to the Reserve will be sufficient to help to pay for additional purchases in inventory as new equipment is added.

## 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
XQ1508 -Information & Technology Equipment Reserve	EOL906983 Technology Asset Sustainment	\$5,877	\$13,402	\$13,435	\$25,614	\$23,662	\$18,518
<b>Total Reserve / Reserve Fund</b>		<b>\$5,877</b>	<b>\$13,402</b>	<b>\$13,435</b>	<b>\$25,614</b>	<b>\$23,662</b>	<b>\$18,518</b>

Appendices 1-3 not available online.