



## STAFF REPORT ACTION REQUIRED

### Extension of City of Toronto Telecommunications Infrastructure (COTTI) Contracts

<b>Date:</b>	November 19, 2007
<b>To:</b>	Government Management Committee
<b>From:</b>	Chief Information Officer, Information & Technology Division Director, Purchasing and Materials Management Division
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\pmmd\gm07038pmmd (AFS #6440)

#### SUMMARY

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The purpose of this report is to request City Council's authority for the City to exercise its option to extend the existing City of Toronto Telecommunications Infrastructure (COTTI) voice and data contracts for an additional two years to January 14, 2011.

The timelines required to complete this complex procurement call and possible implementation cutover to a new vendor necessitate the extension period requested.

The alternatives of moving to a month to month agreement is not considered feasible as this would result in a 92% increase in monthly telephone line rates and a 65% increase in data communications rates, which could cost the City several million dollars.

#### RECOMMENDATIONS

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**The Chief Information Officer, Information & Technology Division, and Director, Purchasing and Materials Management Division recommend that:**

1. City Council grant approval, subject to Divisional Operating Budget approval in each year, to extend the City of Toronto Telecommunications Infrastructure (COTTI) voice and data contracts with Bell Canada for an additional two years from January 15, 2009 to January 14, 2011 at a cost not to exceed \$17,010,872 net of GST for 2009 and \$18,711,959 net of GST for 2010 for a total potential cost of \$35,722,831 net of GST.

## Financial Impact

The total potential upset cost for the contract extension is \$37,707,432.72 including all taxes and charges. The total potential cost to the City is \$35,722,831 net of GST for 2009 and 2010. The cost of the COTTI voice and data contracts will be funded from Divisions' Operating Budgets. Funding for the contracts extensions will be included in future operating budget submissions by Divisions in 2009 and 2010. The rates and prices for the data and voice infrastructure services will not increase for the contract extensions, however, the total annual authority limit will increase by about 10% per year to accommodate the City's potential demand increases for data bandwidth and voice communications services.

Year	Voice cost net of GST	Data cost net of GST	Cost net of GST
2009	\$10,772,711	\$6,238,161	\$17,010,872
2010	\$11,849,982	\$6,861,977	\$18,711,959
Total	\$22,622,693	\$13,100,138	\$35,722,831

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

## DECISION HISTORY

Purchasing and Materials Management Division issued Request for Proposal (RFP) 9155-03-7029 for the City of Toronto Telecommunications Infrastructure on January 27, 2003. At its meeting of September 22, 23 and 24, 2003, City Council approved the award of RFP 9155-03-7029 to Bell Canada for a period of 5 years at a cost not to exceed \$75,130,434 net of GST, with optional annual extensions in each of years 6 and 7 at the sole option of Council.

<http://www.toronto.ca/legdocs/2003/agendas/council/cc030922/adm9rpt/cl050.pdf>

At the Government Management Committee meeting of November 8 2007, the Staff Report entitled "Extension of City of Toronto Telecommunications Infrastructure (COTTI) Contracts" was referred back to staff to consider the following motions:

1. The possibility of limiting or not invoking the contract extension with Bell Canada.
2. The possibility of entering into a month to month agreement.

<http://www.toronto.ca/legdocs/mmis/2007/gm/decisions/2007-11-08-gm09-dd.pdf>

## ISSUE BACKGROUND

The current COTTI contracts cover all of the City's voice and data needs. The products and services included are as follows:

- **Voice Infrastructure:**  
The voice infrastructure provides telephone service to 943 locations in the City of Toronto and consists of 22,625 telephone lines, installation and service charges, long distance and maintenance for 15,733 voicemail boxes and 966 Contact Centre agents.
- **Data Infrastructure:**  
The Wide Area Network links connect over 700 locations to the City's computer network. These links consist of high speed circuits using copper and fibre facilities. There are over 37,000 network access ports in the City today.

## COMMENTS

### The Future Role of Voice over Internet Protocol (VoIP) Technology

City business needs and technology changes over the past few years have warranted a review of the City's strategy related to both voice and data communications technologies. To this end, staff issued an RFP for a Voice over Internet Protocol (VoIP) strategy review in late 2006 with a consultant-lead project starting June 2007. This project will be complete March 2008, with Executive Committee and City Council approval expected by June, 2008. A Wireless strategy review was initiated in October 2007 and will be substantially complete by summer 2008. The results of these detailed reviews will provide key input into the next competitive procurement call to meet the City's long-term telecommunications infrastructure needs.

VoIP is a technology that allows voice to be carried over the same network as data; voice is digitized and sent as data packets over the computer network. Our current Centrex voice network is separate from our computer network. This is an important industry trend and other governments are taking a similar approach to convert to VoIP for cost savings and other functional benefits while at the same time ensuring that service levels are maintained. It is also important to note that when it comes to implementing this technology, one size does not fit all organizations. Careful planning is required to ensure the realization of maximum potential benefits and minimum risks.

The COTTI contract extension will allow the City the time to take full advantage of the emerging VoIP and Wireless technologies, to ensure that the most cost effective and efficient networks are used to suit our telecommunications needs.

### Timelines for New COTTI RFP, Contract Execution and Implementation Cutover

The total timeline to implement a complex new COTTI contract if RFP preparations started in December 2007 is up to 30 months if a vendor other than the incumbent is successful - without awaiting the input from the VoIP study. This is 1.5 years into the extension period. An additional 4 months would be required to incorporate the VoIP

study into the RFP specifications. This is comprised of the following steps and associated estimated timelines:

<b>Procurement/Implementation Step</b>	<b>Estimated Timeline</b>
1. Completing new telecommunications RFP specifications and associated documentation and release it to the marketplace for proponent response.	6 months
2. RFP on street sufficient time for proponents to provide quality responses	3 months
3. Evaluate proponent responses	3 months
4. Obtain City Staff Executive and Council approval to award contract to successful proponent	2 months
5. Negotiate contract	6 months
6. Implementation cutover, if new vendor successful	10 months
<b>Total RFP and Contract Implementation Time</b>	<b>30 months</b>
• Additional time for step 1 to accommodate VoIP Strategy	<b>4 months</b>

If RFP specification preparation started today, it is possible that a new vendor contract would not be implemented until June 2010, about 18 months past the current contract expiry date. On this basis alone exercising the 2 year extension option approved for inclusion in the original contract is warranted.

Deferring the release of the RFP by an additional 4 months to incorporate the results of the VoIP study, including time for Executive Committee and City Council approval of the strategy will not materially impact the contract timeline extension requested. This will ensure the best RFP specifications to match City requirements are issued for vendor proposal response. A better and lower risk solution to meet the City's needs is the expected result.

This timeline analysis demonstrates that the recommended extension of two years is required and not invoking a contract extension is not feasible.

#### Options for Contract Extension: Impact of Month to Month Extension

Given the projection that the next COTTI contract could extend well into 2010 to be fully executed and cutover implemented, options include:

- Extend for 2 years
- Extend for 1 year, then extend for another 1 year
- Extend for 1 year, then proceed month-month
- Extend on month to month basis.

Since the COTTI Centrex telephone services are subject to CRTC tariffed rates depending upon contract type, the following table shows the financial impact.

<b>Extension Term</b>	<b>Monthly Telephone Rate</b>	<b>% Increase</b>	<b>Monthly Impact</b>	<b>Two Year Impact</b>
2 year	\$25.90	0%	\$0	\$0
1 year and 1 year	\$36.75	42%	\$245,481	\$5,891,550
1 year then 12 x 1 month	\$36.75 and \$49.85	42% then 92%	\$245,481 then \$541,869	\$9,448,200
Monthly	\$49.85	92%	\$541,869	\$13,004,850

In the event that a single year extension is required, the premium to the City would be 42% for that 1st year, costing approximately \$2.9 million plus another \$2.9 million if another single year extension is required for a total two year impact of approximately \$5.9 million. In the event that this extension requirement was closer to 2 years, the option of going month to month for the 2nd year would cost the City \$ millions more.

The alternative of adopting a month to month agreement at the end of the initial contract is even less feasible as this would result in a 92% increase in monthly telephone line rates, which could cost the City several million dollars above the contract extension rates.

Data communications rates would see a similar (65%) increase.

#### Financial Authority vs. Actual Expenditures

As shown in the graph in Appendix 1, the requested authority levels represent a linear extension of the prior approved authority escalation over 2004-2008. This increase was granted to accommodate any growth in requirements plus possible tariff rate increases. The actual expenditures have historically come in below the authorized level by at least 20%. Staff have proactively managed the growth in tariffed Centrex charges, and data communications costs have been controlled by network optimization and have also been reduced in response to competitive market pricing.

While it is difficult to project actual expenditures 2-3 years into the future, the requested authority levels for 2009 and 2010 will be upset amounts.

#### VoIP Trial Timelines and Next Steps for VoIP

Appendix 2 shows that the City initiated VoIP trials (with various technology options) is part of the Bell contract. These trials were conducted in 2005 and concluded with a final report from Bell in June, 2006. The Bell report indicated that there was no clear VoIP technology winner. It recommended that careful analysis factoring costs, quantifiable benefits and ease of implementation would be required before any decision be made.

This established the need for the City to conduct a VoIP strategy review. Initial findings of this study (due for completion in March, 2008 with approvals then sought by Executive Committee and City Council) indicate that a solid network and building electrical infrastructure foundation must be in place before moving voice network traffic

over to the data network. The City of Toronto network will require some upgrades before voice and data can be merged onto a single network while providing the same level of reliability and sound quality.

The VoIP strategy will show how, where and when to deploy this technology to achieve maximum financial and functional benefits while reducing implementation risk. Proceeding to issue an RFP without a clearly defined VoIP strategy may result in the City failing to achieve the financial and functional benefits that this technology can deliver if implemented properly.

### Conclusion

As a result of the minimum timelines to complete the complex COTTI RFP, the benefits associated with ensuring that the best RFP specifications based on the VoIP strategy review be incorporated into this RFP, and the prohibitive costs associated with month to month extensions, staff believe that the full 2 year extension to the existing COTTI contract, which was an approved option in the original award, is warranted.

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## **SIGNATURE**

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