

**MINUTES OF THE COUNCIL
OF THE
CITY OF TORONTO**

**MONDAY, SEPTEMBER 22, 2003,
TUESDAY, SEPTEMBER 23, 2003,
WEDNESDAY, SEPTEMBER 24, 2003, AND
THURSDAY, SEPTEMBER 25, 2003**

City Council met in the Council Chamber, City Hall, Toronto.

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11.170 Computer Equipment – End of Lease Transition Issues Preliminary Report

Councillor Ashton moved that the necessary provisions of Chapter 27 of the City of Toronto Municipal Code be waived to permit introduction of the following Notice of Motion J(51), which carried, more than two-thirds of Members present having voted in the affirmative:

Moved by: Councillor Ashton

Seconded by: Councillor Holyday

“WHEREAS the Commissioner of Corporate Services wishes to report on an analysis of the City’s End of Lease options developed for the Toronto Computer Leasing Inquiry and the City’s next steps to address the issue; and

WHEREAS the Assetlinx report was recently introduced at the Inquiry and its contents are no longer confidential; and

WHEREAS it is important that City Council be advised of these pending issues;

NOW THEREFORE BE IT RESOLVED THAT Council give consideration to the report dated September 22, 2003, from the Commissioner of Corporate Services, and that such report be adopted.”

Advice by Deputy Mayor:

Deputy Mayor Ootes advised the Council that the provisions of Chapter 27 of the City of Toronto Municipal Code requiring the referral of Motion J(51) to the Administration Committee would have to be waived in order to now consider such Motion.

Fiscal Impact Statement:

City Council also had before it, during consideration of Motion J(51), a Fiscal Impact Statement from the Chief Financial Officer and Treasurer advising that there was no financial impact resulting from the adoption of this Motion. (See Fiscal Impact Statement Summary, Page 353)

Procedural Vote:

The vote to waive referral of Motion J(51) to the Administration Committee carried, more than two-thirds of Members present having voted in the affirmative.

City Council also had before it, during consideration of Motion J(51), a report dated September 22, 2003, from the Commissioner of Corporate Services, entitled, "Computer Equipment - End of Lease Transition Issues Preliminary Report". (See Attachment No. 12, Page 342)

Vote:

Motion J(51) was adopted, without amendment.

Summary:

In adopting Motion J(51), without amendment, Council adopted, without amendment, the report dated September 22, 2003, from the Commissioner of Corporate Services, entitled "Computer Equipment - End of Lease Transition Issues Preliminary Report", embodying the following recommendations:

"It is recommended that:

- (1) appropriate City staff be instructed to begin preliminary discussions with MFP, through the appropriate legal channels, on all end of lease issues; and
- (2) City staff report, in detail, with respect to the end of lease transition plan and the financial implications to the new Council at its first business meeting of 2004."

NOTICE OF MOTION

Computer Equipment – End of Lease Transition Issues Preliminary Report

Moved by: Councillor Ashton

Seconded by: Councillor Holyday

“**WHEREAS** the Commissioner of Corporate Services wishes to report on an analysis of the City’s End of Lease options developed for the Toronto Computer Leasing Inquiry and the City’s next steps to address the issue; and

WHEREAS the Assetlinx report was recently introduced at the Inquiry and its contents are no longer confidential; and

WHEREAS it is important that City Council be advised of these pending issues;

NOW THEREFORE BE IT RESOLVED THAT Council give consideration to the report dated September 22, 2003, from the Commissioner of Corporate Services, and that such report be adopted;

AND BE IT FURTHER RESOLVED THAT the necessary provisions of Chapter 27 of the City of Toronto Municipal Code be waived to permit introduction and debate of this Notice of Motion at the meeting of Council to be held on September 22, 23 and 24, 2003.”

September 23, 2003

Attachment

According to Chapter 27 of the Municipal Code, the foregoing Notice of Motion:

Notice was previously given	
Meets Municipal Code provisions and only requires a simple majority to introduce and debate	
Requires two-thirds to waive notice	(v)
Requires two-thirds to re-open	
Fiscal Impact Statement provided	*
Should have Fiscal Impact Statement prior to debate	*
Requires two-thirds to waive requirement if Council wishes to debate	
Should be referred to the Administration Committee	(v)
Requires two-thirds to waive referral if Council wishes to debate	
Recommendations are time sensitive	(v)

* Chief Financial Officer and Treasurer to advise.

TORONTO STAFF REPORT

September 22, 2003

To: September 22, 2003
From: Commissioner of Corporate Services
Subject: Computer Equipment – End of Lease Transition Issues Preliminary Report

Purpose:

To report on the City of Toronto's End of Lease options as developed for the Toronto Computer Leasing Inquiry by Assetlinx and the City's next steps to address the issue.

Financial Implications and Impact Statement:

There are no immediate financial implications arising from the adoption of this report. Future financial implications are identified which will be addressed in a detailed report that will be presented in early 2004 to the new Council.

Recommendations:

It is recommended that:

- (1) appropriate city staff be instructed to begin preliminary discussions with MFP through the appropriate legal channels on all end of lease issues, and
- (2) city staff report in detail with respect to the end of lease transition plan and the financial implications to the new Council at its first business meeting of 2004.

Background:

The City must replace the great majority of its computer equipment, and some software, in the near future. Staff have been working for over a year to address end of lease planning to replace ageing computer equipment when it comes off lease, or sooner if required. This is a particularly complex but urgent exercise for a number of reasons:

- The majority of the City's I&T assets are leased until March of 2005 at which point they will be an average of 6 years old.
- I&T assets are now 4.5 years old and well past their useful lifespan. Replacement of these assets should ideally have started early in 2003. However in light of the lease commitments it was necessary to try to maximize their lifespan.
- Operating hardware longer than 4 years presents significant operational and financial risk. Replacement parts are generally not available, new software and security protections will not run on older computers, and failure rates begin to escalate.
- Microsoft is intending to withdraw technical support for the operating system the City currently uses (Windows NT4). This was scheduled to happen in the summer of 2003 and is now estimated for early 2004. The City would then have to enter into an expensive arrangement to receive critical security and operational software patches for NT4.
- The City's software licence maintenance agreement, which until September of 2002 was leased with MFP, provides for the upgrade of a majority of the City's Microsoft Windows and Office licences to the newer XP version. This upgrade cannot take place until the hardware is upgraded. The current computers will not reliably run Windows XP or XP Office.
- While desktop computers can be replaced fairly quickly in the event of failure, the failure of a server can cause major operational disruption for hundreds of staff, and shut down a major business process for days or weeks until a new server is ordered, received and application and data reloaded and tested. A small but growing number of the City's servers are increasingly at risk of failure. Several have failed fully or partially in recent months.
- Replacement of the existing I&T infrastructure must be done over an extended period. Optimistically, the City could replace its computer infrastructure over a 20-month period.
- The end of lease replacement plan is further complicated by the current litigation. Normal lessor to lessee discussions about end of lease planning will need to be done with the assistance of outside legal counsel.
- Existing City budgets for I&T hardware are generally predicated on leasing and there is no budget for short-term replacement of a large number of computers. As with any transition from leasing to owning there is a major one-time capital outlay necessary at the time of transition.
- Ideally any I&T replacement plan should allow for a transition to regular planned lifecycle management that would avoid large cost spikes every four years as hardware needs replacing.
- There is a need to implement a more comprehensive asset management system as the replacement begins to fully track all assets, hardware and software.

Staff have created a team to manage the end of lease transition and Council has approved a variety of policies necessary to support an end of lease plan including disposal of unneeded assets, technology lifecycle standards, and a new acquisition model. Council has previously directed that staff will purchase I&T hardware and software unless an alternative is explicitly approved by Council. Therefore, alternative financing methods like leasing have not been actively examined and would generally not be examined in advance of the final report of the Inquiry.

Much of the end of lease transition planning to date has focused on examining the logistics and planning associated with such a large-scale exercise and working with the CFO and Finance staff to examine budget models.

In the spring of 2003 staff became aware that Commission Counsel for the Toronto Computer Leasing Inquiry engaged an external expert company, Assetlinx, to prepare two reports. The first report addressed financial impacts of the City's lease with MFP. The second report focuses on the options the City has in regards to terminating the lease and replacing the leased computer equipment, as well as the City's I&T asset management capacity. City staff worked with Assetlinx as they prepared the second report both to help Assetlinx understand the City's planning and needs, and to allow City staff to benefit from the analysis done by Assetlinx. Staff have reviewed the Assetlinx analysis to assist in the financial planning that the City will need to carry out.

In July of 2003, Assetlinx submitted their final report to the Inquiry, however the report remained confidential until Assetlinx staff testified at the Inquiry on September 11 and 15, 2003. The I&T Sub-Committee of Administration Committee was briefed generally on the nature of the report and the surrounding confidentiality issues on the 29th of July. Staff were directed by the Sub-Committee to request the Inquiry Commissioner to expedite the public release of the report. A letter to this effect was sent by the CAO to the Inquiry Commissioner. However, as noted above, the report did not become public until Mr. Chris Kerr, General Manager of Assetlinx, gave evidence on September 11, 2003.

Summary of the Assetlinx report

It is critical to recognize that the Assetlinx report is based on a 'best possible world' premise. It sets out what the City should do in a perfect situation and therefore does not address affordability, the budget process, the on-going litigation and Inquiry, or the unusual legislative timetable resulting from the election.

The report makes a number of key recommendations:

- The report states that although the lease contracts run until March of 2005, most of the leased assets are now past their useful life. Drawing on information provided to Assetlinx by City staff the report identifies that 14,083 of the city's 17,474 technology assets are now over 4 years of age. The report draws on a range of industry research into technology lifecycle to argue that there is an unacceptable operational risk and cost to large organizations to attempt

to use technology beyond four years. It argues that many organizations refresh their computer hardware every three years although some are moving to four years.

- The report then argues that because of this risk, the City must immediately commence an aggressive replacement, or refresh, of most of its technology assets, ideally beginning in November of 2003 and continuing for 18 months. The report estimates the total cost of the refresh is \$82,430,322. This includes hardware, labour, some necessary software replacements, and the cost of maintenance on certain software that comes off lease.

The report does a financial analysis of four options available to the city.

1. The City can buy out the leases prior to the refresh project.
2. The City can make remaining payments and purchase the equipment at the end of the term (March 2005).
3. The City can terminate the leases early and return the equipment.
4. The City can negotiate an alternative negotiated settlement with MFP.

The Assetlinx report recommends option one and rejects the other three. Option two would be more expensive than option one. The report argues that option three would be impossible to execute without exposing the City to substantial risk, primary because all equipment must be returned to MFP at the City's cost in full working order. Many hundreds of pieces of equipment would therefore require repair or replacement before being returned to MFP. Option four is deemed to be highly unlikely. Council has rejected previous settlement proposals, and there is ongoing litigation between the City and MFP.

In order to implement option one, the Assetlinx report recommends that the City undertake a buyout on September 30th of 2003. The report suggests that if the City were to buy out the lease on that date it would need to pay MFP an estimated \$29,963,478. This amount is the present value cost of all remaining payments due to MFP, plus the maximum residual costs at 9%. This amount is separate to the replacement costs above.

In addition, the report talks at length about the City's technology asset management capacity and recommends that that City must put in place a more robust and comprehensive asset management process to support the recommended refresh.

The Assetlinx report also examines the I&T spending in the City of Toronto and concludes that spending is in line with other Municipal governments, but may be low in relation to broader industry standards. It also states that the current model of dispersed I&T budgets adds a level of complexity to the management of assets and the refresh project.

Staff Actions to Date and Next Steps

I&T staff have been developing a refresh plan that is based on the key assumptions in the Assetlinx report but would not start until early 2004. It is slightly more conservative in approach than that suggested in the Assetlinx report. Although slightly less expensive than the Assetlinx study it will still present a major financial pressure for the City for at least the next two fiscal years. It is designed to phase the City to a steady state of refreshing one quarter of the City's infrastructure a year beginning in 2007.

This plan will be presented to the first business meeting of the new I&T Sub-Committee and Administration Committee and Council for discussion and decision. As well, the 2004 Capital and Operating Requests will address the budget pressures associated with the plan.

A project manager has been working to build a refresh project team since early 2003. A cross-departmental working group has been created with representatives of all departments and the Library. A test laboratory is being built to allow departments to test business applications under a new operating system. I&T staff are testing 'thin client' and 'slim client' technology to determine their value as replacements for traditional desktop computers. A computer assisted scheduling exercise is now underway with the City departments to determine when it is operationally possible to replace computers down to a detailed working unit level.

Staff have also done a detailed plan for the replacement of the City's servers and key network infrastructure, a portion of which is included in the approved 2003 I&T budget. Budget Advisory Committee has recently pre-approved a portion of the 2004 I&T Capital request so high risk hardware can be replaced pending decision on the full budget submission.

As well, intensive work has started to develop a comprehensive asset management system to track all hardware and software being taken out of service and new hardware/software replacing it. Staff are also doing an internal review and verification of the calculations in the Assetlinx report.

Conclusions :

The purpose of this report is to advise City Council of the complex end of lease issues that will need to be addressed as identified in the Assetlinx report prepared for the Toronto Leasing Inquiry. Staff will be reporting in detail on these issues and the financial and operational impacts which arise from the end of lease to the new Council at its first business meeting of 2004.

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