

**APPENDIX A**  
(MFP Reply Submissions)

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**Appendix "A"**

**Comparison of MFP leases  
to Debenture and Capital Lease options**

	5 Year Debenture	MFP leases (Without rewrite)	Current MFP leases (With rewrite)	Bombardier Capital Lease (Spot Rate)	Capital Lease (90 day rate)
PV of cash outlay .....	80.5	81.0 - 83.7	83.0 - 85.7	81.7	82.5
Gross cash outlay .....	98.9	94.4 - 98.3	97.1 - 101.0	95.1	96.1

**Debenture:**

The debenture analysis reflects a City of Toronto funding spread of 35 bps over the Government of Canada 5 year weighted average Bond Yield, as of the start date of each lease. This allows for a equitable comparison to the other options, as all options are being compared assuming the same interest rate environment. For the purpose of the Sinking Fund Installments, I have assumed a rate of 1.5% below the debenture rate, which is consistent with the normal estimate used by the City (COT014411). The calculations used are consistent with the approach taken by the City in their report to council dated February 2002 (COT030084 and COT012287) except that the interest rates used have been adjusted to reflect interest rates at the time the leases started. Had the City used these adjusted interest rates the conclusion of their analysis would have shown, that had the City returned all of the equipment, prior to the end of the lease term, they would have spent \$1.8m less under the lease vs debenture. On the other hand if they had purchased all of the equipment at the end of the lease term, for the maximum purchase option amount, then they would have spent \$2.1m more under the lease vs debenture.

**MFP Lease:**

The MFP lease numbers have been shown in two columns. The first shows the leases as if the rewrite had not occurred (this will help isolate the impact of the 60 month leases excluding the rewrite). The second includes the rewrite and represents the deals as they currently stand. It is important to remember when looking at these two columns that after the rewrite the City has the use of approx. \$20.1m of equipment for an additional 6 months and \$6.1m of equipment for an additional 3 months, hence the higher gross rent.

For each of the two MFP lease columns shown above, the cost has been shown as a range. The range results from the different choices the City can make at the end of the lease term (i.e Purchase or return). The lower number assumes the City would return all of the equipment prior to the end of the lease term, while the higher number assumes the City purchases all of the equipment for the maximum purchase option at the end of the lease term (the purchase option is equal to the lower of fair market value and the max purchase option). The leases were written under the assumption that the City would build a plan to refresh the equipment over a 2 to 3 year period of time to be completed no later than the end of the lease term. This would allow the City the opportunity to transition from a Y2K size refresh every 3 years to one of perhaps 1/3 every year following the transition. The lower number of the range was considered the most likely scenario prior to the current 2 1/2 year delay imposed by City Council for the Computer Leasing Inquiry.

This analysis does not attribute any value for Asset Management and Reporting services provided by MFP. When considering the different options, the City should include a value for these services given that they are not available under the other options.

**Capital Lease:**

Dan O'Neil formerly from Bombardier Capital indicated that had Bombardier been asked, they would have priced a 60 month capital lease at 200bps over the Canada Bond Yield. It is assumed that this was a spot rate to be determined at the time the capital lease contracts were prepared. This would be consistent with Bombardiers response to the 36 month lease RFQ which indicated that lease rates would be adjusted at the time lease contracts were prepared to reflect then current Canada Bond Yields. On the other hand, MFP's lease rates are set at the beginning of each quarter for contracts to be executed 90+ days later (i.e. a 90 day forward lease rate). I have prepared two Capital Lease scenarios. The first assumes a 200 bps spot rate and for the second 50bps has been added to the spot rate (200bps + 50bps = 250 bps) to represent the 90 day forward rate.

**Summary of Leases vs Council Approval**

Lease Start Date	Signed	Originating Lease Number	Department Budgeted Costs via ITLA process	Department Budgeted Costs prior to ITLA process	Y2K Budgeted Costs prior to ITLA process	Total
1999 - Oct	Signed	838-1	\$ -	37,941	20,061,771	\$ 20,099,712
1999 - Dec	Signed	838-3	-	-	8,268,344	8,268,344
1999 - Dec	Signed	838-4	-	-	13,888,713	13,888,713
2000 - Jan	Signed	PA1-1	-	70,860	6,077,265	6,148,125
2000 - Feb	Signed	838-2	-	-	11,336,651	11,336,651
2000 - Apr	Signed	PA1-2	-	1,477,731	4,160,466	5,638,197
2000 - Jul	Signed	838-5	-	8,593	291,454	300,047
2000 - Jul	Signed	838-6	-	-	8,518	8,518
2000 - Jul	Signed	838-7	-	27,323	154,417	181,740
2000 - Jul	Signed	838-8	-	9,298	124,259	133,557
2000 - Oct	Signed	PA1-3	503,641	-	18,432	522,073
2001 - Jan	Signed	838-10	720,908	-	-	720,908
2001 - Jan	Signed	PA1-4	4,604,052	-	4,519,162	9,123,214
2001 - Apr	Signed	PA1-5	4,083,212	-	6,541	4,089,753
Total Equipment on signed Lease's per supplier invoice list .....			9,911,813	1,631,746	68,915,992	80,459,550
Adjustment required for 838-3 .....			-	-	60,728	60,728
Adjustment required for 838-6 .....			-	-	(1,195)	(1,195)
Total Equipment on signed Lease's per lease schedules .....			9,911,813	1,631,746	68,975,525	80,519,083
2001 - Jul Unsigned PA1-6			1,510,773	-	6,734	1,517,507
2002 - Jul Unsigned PA1-7			154,808	-	-	154,808
2003 - Jul Unsigned PA1-8			1,720,544	-	-	1,720,544
Total Equipment on signed & unsigned Lease's .....			\$ 13,297,938	\$ 1,631,746	\$ 68,982,259	\$ 83,911,942

**Reconciliation to Council Approval:**

Approved by council July 27, 1999 (Non-Program Y2K) .....	Note 1	43,150,000
Approved by council April, 2001 (Non-Program Y2K) .....	Note 2	24,350,000
Total Non-Program Y2K Leasing Budget Approved by council .....	Note 5	67,500,000
Total Program Department Budget approved by council each year (via ITLA process) .....	Note 3	13,297,938
Total Program Department Budget approved by council each year (prior to ITLA process) .....	Note 4	1,631,746
Total Approved by council .....		82,429,683
Total Equipment on Lease per lease schedules .....		83,911,942
Difference to be further researched (This may be part of the Department Program Budget) .....		1,482,259

**Note 1:**

P & F Report No.4 Clause 11 (COT029847) which approves \$43m for lease but also contemplates additional equipment to be leased as indicated in item 4 on page 2 of the report.

**Note 2:**

P & F Report No.5 Clause 1 (COT034847) item 13 on page 74 which adopts the Budget Advisory Report COT034554 item 4 page 236 and COT031991 from the Budget Advisory meeting. This represents an additional \$24.35m of software relating to Y2K which was leased.

**Note 3:**

P & F Report No.5 Clause 2 (COT034554) deals with the departmental operating budgets for 2001. Note the computer lease payments for each fiscal year that are assigned to departments are approved through the department budgets and are only a small part of the overall budget and therefore do not show as a reported line item. These items are approved for the departments through the process established by the City as described in COT013070 & COT036620 (the final process document does not appear to have been provided).

**Note 4:**

This represents an estimate of equipment ordered through the department budgets (not part of Y2K) prior to the establishment of the Contract Management office ("CMO") and the ITLA process which was put in place by the City in mid 2000. This information was derived from COT031429 page 14 to 17 which shows the non-Y2K items prior to the ITLA process. The number of \$1,672,425 has been adjusted down by \$40k to reflect some invoices later assigned ITLA's.

**Note 5:**

This is a subset of the \$161m Y2K budget