Regional Municipality of York Police Services Board

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To Make a Difference in Our Community

April 30, 2007

Mr. Denis Kelly
Regional Clerk
The Regional Municipality of York
17250 Yonge Street
Newmarket, Ontario
L3Y 6Z1

Dear Mr. Kelly:

At its April 25, 2007 meeting, the Regional Municipality of York Police Services Board received a report entitled *Acquisition of Information Technology Equipment* from Chief Armand P. La Barge and approved the following three recommendations contained therein:

1. That the Police Services Board approve the transition to a purchase option to acquire further computer and network equipment; and

2. That leasing proposals for I.T. Equipment be considered when and if a business case analysis indicates that leasing is clearly more beneficial than purchasing for a particular situation; and,

3. That the Police Services Board forward a request to Regional Council to draw from Regional reserves totaling $2,886,000 in 2007, 2008 and 2009 and that repayment shall be made from future lease financing savings and Police Operating surpluses (if applicable).

Therefore, in accordance with the Board's resolution, I request that you forward this correspondence to Regional Council for its consideration.

Yours truly,

C Phillipson

Connie Phillipson
Executive Director

Attachment

c. Mayor David Barrow, Chair

York Regional Police

Chief of Police
Armand P. La Barge

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THE REGIONAL MUNICIPALITY OF YORK
POLICE SERVICES BOARD

REPORT OF THE CHIEF OF POLICE

25 APRIL 2007

Re: Acquisition of Information Technology Equipment

RECOMMENDATIONS:

(1) That the Police Services Board approve the transition to a purchase option to acquire further computer and network equipment; and

(2) That leasing proposals for I.T. Equipment be considered when and if a business case analysis indicates that leasing is clearly more beneficial than purchasing for a particular situation; and,

(3) That the Police Services Board forward a request to Regional Council to draw from Regional reserves totalling $2,886,000 in 2007, 2008 and 2009 and that repayment shall be made from future lease financing savings and Police Operating surpluses (if applicable).

SYNOPSIS:

During its 2007 budget deliberations, the Board adopted the 2007 Capital Budget including a transition from lease financing to acquisition for I.T. Equipment. The transition requires Regional Council approval to draw from reserve during the period when existing leases are discontinued 2007 to 2009. Financial analysis shows that in addition to the reserve repayment the estimated cash flow residual is $271,000. by 2016.

FINANCIAL IMPLICATIONS:

The ten-year impact of the purchase of I.T. Equipment and repayment of the reserve draw is anticipated to be a cash flow residual of $271,000. These savings are primarily the result of extending the useful life of printers, servers and other network equipment from three to five years and interest savings.

Ten Year Forecast	2007	2008	2009	2010-2016	Ten Year Totals
Equipment Acquisitions	$2,029,000	$1,752,000	$1,809,000	$9,800,000	$15,390,000
Lease Costs Remaining	$1,686,000	$814,000	$349,000	$0	$2,849,000
Total I.T. Equipment Cost	$3,715,000	$2,566,000	$2,158,000	$9,800,000	$18,239,000
Existing Funding	($1,851,000)	($1,851,000)	($1,851,000)	($12,957,000)	($18,510,000)
Reserve Financing	$1,864,000	$715,000	$307,000	($3,157,000)	($271,000)

Transitioning from lease financing to purchasing will require a draw from regional reserves in 2007, 2008 and 2009 totalling $2,886,000. The reserve draw will be repaid from:

- Lease payments discontinue after 2009 with the funds redirected to pay back the reserve draw; and,
- Operating budget surpluses, if applicable.

BACKGROUND:

At its February 2, 2006 meeting, the Finance and Administration Committee adopted a report titled "*Acquisition of Computer and Network Communications Equipment*" for the Regional Information Technology department (attached Appendix I). The Regional report considers several factors including:

1. the changing nature of software and technology
2. leasing benefits and drawbacks
3. practices of other Municipalities
4. operational and financial impacts

York Regional Police Information Technology staff have been in discussions with Regional staff regarding the benefits and efficiencies of their acquisition experience including issues pertinent to York Regional Police, as follows:

1. **Life cycle estimates of equipment are often beyond standard 3-year lease terms**

   The acquisition of I.T. Equipment will allow a change from three year to five year replacement cycles for printers, servers and other I.T. Equipment. Existing replacement will continue at three years for laptops, mobile workstations, desktop computers and monitors.

I.T. Equipment Life Cycle	Lease Term	Buy Term
Laptop, MWS and Desktop Computers	3	3
Monitors	3	3
Printers	3	**5**
Servers	3	**5**
Other Equipment	3	**5**

2. Operational and administrative considerations

Region I.T. staff have found the following benefits and efficiencies of their acquisition experience:

- **Equipment return issues**

    1. Inflexibility on ending dates – lease terms include penalties for modifying or extending lease end dates. An acquisition process will allow planning for workload considerations during equipment replacement;

    2. Lease terms include minor penalties for returning equipment not in working order or missing minor peripherals (i.e. mice or keyboards);

- **Component loss** – Replaced, worn or upgraded components are currently returned to the lessor. These newer parts will be salvageable under an acquisition methodology;

- **Administrative costs** - keeping lease schedules and processing accounts payable invoices will be eased through purchasing; and,

- **Pre-qualified I.T. Vendor** - I.T. Equipment procurement at the Region is through a pre-qualified vendor (currently Compugen Inc.). A pre-qualified vendor eliminates the administrative and timing issues related to the purchasing process.

A key topic in I.T. Equipment leasing is Justice Denise E. Bellamy's September 12, 2005 report on Toronto's Computer Leasing Inquiry. Her report outlined 241 recommendations in areas of: ethics; governance; lobbying; procurement and other recommendations. With respect to leasing, the report recommends that leasing should remain a viable financing alternative. Future leasing proposals will be considered when and if a business case analysis indicates that leasing is clearly more beneficial than purchasing for a particular situation

Armand P. La Barge, O.O.M.
Chief of Police.

APL:jc

THE REGIONAL MUNICIPALITY OF YORK

Finance and Administration Committee
February 2, 2006
Report of the
Commissioner of Finance

ACQUISITION OF COMPUTER AND NETWORK COMMUNICATIONS EQUIPMENT

1. RECOMMENDATIONS

It is recommended that:

1. The Region transition to a purchase option to acquire future computer and network equipment (I.T. equipment).
2. Leasing proposals for I.T. equipment be considered when and if a business case analysis indicates that leasing is clearly more beneficial than purchasing for a particular situation.
3. Capital funds in the amount up to $1.2M budgeted for the Data Centre Infrastructure project be partially re-allocated as required.

2. PURPOSE

The purpose of this report is:

1. To inform Committee and Council on a review of the current practice of leasing to acquire I.T. equipment.
2. To seek Council approval for the Region to transition to purchasing as the preferred method of financing future acquisitions of I.T. equipment.

3. BACKGROUND

In 2000, Council approved a Technology Life Cycle (TLC) management program and the use of lease financing for the acquisition of computer and network communications equipment. The TLC management program covered the following equipment: desktop and notebook computers and peripheral devices such as monitors and keyboards (collectively referred to as PCs); computers used as servers, plus disk drives and tape devices for severs (collectively referred to as servers); printers - (PCs servers and printers collectively are referred to as computer equipment) - and network devices such as firewalls, routers, switches, hubs, telephone private branch exchanges (PBXs) and voice mail systems (collectively referred to as network equipment).

In August of 2002, Council authorized a 3-year master lease and financing agreement with Hewlett-Packard Financial Services Canada (HPFS) for any subsequent leases. All new acquisitions of I.T. equipment are now done with lease financing through HPFS.

As the term of the HPFS master lease and financing agreement will expire July 31, 2006, the Region is reviewing the need to issue an RFP for a new master lease and financing agreement for I.T. equipment acquisitions versus considering other options.

4. ANALYSIS AND OPTIONS

Many things have changed since the decision was made to lease I.T. equipment. The Region now has several different types of equipment that it can effectively keep for other than a 3 or 5 year life cycle. The present rate of software change, which is a major driver forcing the replacement of computer technology, has slowed. Therefore hardware devices are useable for longer periods of time. Furthermore, the Region experienced favourable lease financing rates over the past few years. Also, vendors indicate that there are now more opportunities in the market place to dispose of purchased equipment at reasonable residual value rates should the needs of the Region change as it grows. The following analysis looks at the current environment and re-examines the leasing versus purchasing alternative.

Leasing provides benefits including:

- Avoiding the use of capital up front for the purchase of I.T. equipment when capital can be better spent on alternative projects.
- Evening out cash flows over the term of the lease.
- Easy disposal since the equipment is returned to the leasing company at the end of the lease term.

However leasing has drawbacks:

- Additional costs if the equipment is kept for either less than or longer than the lease term.
- Unrealized value if the equipment is upgraded or the configuration changed after the start of the lease term.
- Additional charges if the equipment is returned with missing or broken components or with excessive wear and tear.
- Equipment must be replaced at the end of the lease term versus the end of the useful life of the equipment.
- The master lease agreement contains quarterly lease rate review points. When interest rates increase, lease rates can increase as well resulting in increased cost of leasing to the Region.

The purchasing alternative can compensate for these drawbacks.

To review the options of lease versus purchase of I.T. equipment, staff looked at three aspects: the practices of other municipalities; the financial impact; and the operational aspects of lease versus purchase of I.T. equipment.

4.1 Practices of Other Municipalities

During 2005, Information Technology Services staff conducted a survey of other major Canadian municipalities concerning their practices for funding PC's, servers, and printer equipment. Responses were received from thirteen municipalities: nine from Ontario, one from Saskatchewan and three from British Columbia. They are summarized below in Table 1.

Respondents Who Lease Equipment	Respondents who Purchase Equipment	Notes
1 Municipality Leases PC's and servers but purchases printers. 3 Municipalities purchase printers but lease "multi-function" devices that are used as both copiers and printers.	12 Municipalities Purchase PC's, printers and servers.	The length of time that the equipment is kept varies among Municipalities.

Table 1

Respondents provided a number of reasons for their practices. Common themes included having the option to extend the useful life of the device; whether or not favourable leasing terms are available to them; the work required to adhere to the lease terms and conditions for the return of the equipment versus having better control of the utilization of the equipment if it were purchased.

In summary, it appears that the current practice of many municipalities is to move to capital purchase for I.T. equipment rather than lease financing.

4.2 Operational Impacts of Lease versus Purchase

The Region's experience with lease financing of I.T. equipment illustrates the following.

- The Region has entered into lease and financing contracts with leasing companies, typically for a 3-year terms using the tender process. However, because the lease schedules survive the 3-year term, the business relationship with the leasing company can be as long as 9 years. For example, a 5-year lease for servers in the 3rd year of the master lease term extends the relationship with the original leasing company to eight years, even if a new leasing vendor is chosen.
- The Region pays for a repair and maintenance contract for the term of the lease to keep leased equipment in good operating condition. However when broken equipment is returned to the leasing company at the end of the term, out-of-term repairs are being charged to the Region.
- When components of the equipment, such as a PC mouse or key board cannot be located at the end of the lease term, the leasing company charges the Region for replacement of the missing item.
- Keeping the equipment for a shorter or longer term than specified by the lease, because of unforeseen operational reasons, results in additional charges to the Region.
- The Region experiences significant overhead costs managing and administrating leasing schedules and invoices. Specifically, they verify finance rate changes

quarterly against contract clauses and lease schedules against ordered and installed equipment. Many staff are involved in carrying out the above tasks.

- The Region is identifying new technology life cycles such as a 72-month term for flat panel computer screens. This results in an additional number of lease schedules and additional administration costs.

4.3 Financial Impact of Lease versus Purchases for the Base Model PC that the Region Deploys

The Region leases PC's using operating leases with a three year term. Servers, network equipment and printers are leased for a five year term. Thin client devices are leased for a six year term. At the end of the lease term the equipment is returned to the leasing company. During 2005, staff conducted an analysis comparing leasing costs versus the cost of purchasing PCs and thin client devices, printers and servers. Table 2 below illustrates that purchasing computer equipment result in savings over the term of the Technology Life Cycle compared to continuing to lease I.T. equipment.

Financial Comparison of Purchase versus Lease of I.T. Equipment

	PCs & Thin Clients 3-year term	PCs & Thin Clients 4-year term	Printers 5-year term	Servers 5-yr term
Present Value of Lease Alternative for 1 complete cycle	$5,900,345	$6,697,207	$1,760,269	$15,825,535
Present Value of Buy Alternative for 1 complete cycle	$5,731,305	$6,245,392	$1,675,253	$14,442,927
Savings of Purchase vs. Lease per equipment life cycle	$169,039	$451,815	$85,017	$1,382,608
Average savings of Purchase vs. Lease each year	$56,346	$112,954	$17,003	$276,522

Table 2

Note: Discount Rate for PV Calculations = 4%

4.4 Summary of Analysis

Purchasing I.T. equipment now appears to consistently benefit the Region to a greater or lesser degree which varies with quantity and type of equipment acquired. In addition to the cost savings shown above, there are additional "soft cost" savings such as the savings in staff time from elimination of the need for lease administration and lease schedule management.

It is possible that in the future there may be occasions where it will be better for the Region to lease - for example when the equipment has a defined life cycle or where it is difficult to dispose of and the Region can negotiate beneficial leasing terms. In such situations it is recommended that staff bring forward proposals to lease such I.T. equipment together with the business case for leasing.

5. FINANCIAL IMPLICATIONS

Lease costs for I.T. equipment leases are paid from the General Capital Reserve. Migrating from lease financing to purchasing will require that the Region fund "cost spikes". During the transition period from leasing to purchasing, these spikes will put additional pressures on the reserve in 2006, 2007, 2008, 2009 and 2011 as shown in Table 3 below. Leasing payments are discontinued as the transition progresses. The lease payment funds are then "freed-up" and will reduce the pressures on reserves, eventually providing net savings to the Region over the ten year period.

The 2006 equipment purchases can be accommodated through the reallocation of capital funds from the Data Centre Infrastructure project, which will be partially deferred to 2007.

Table 3 below illustrates an annual snap-shot view over a ten year period of the differentials between the cash flow to fund I.T. equipment purchases minus funds freed-up by I.T. equipment coming off lease. Positive numbers indicate that additional funds are required. Numbers in brackets indicate less funding is required. In the early years, most equipment is still on lease. Therefore the need for lease funds from reserves together with the need for purchase funds creates additional pressures. In the later years, most equipment is purchased and the funds freed-up from leasing reduce pressures on General Capital Reserve.

Cash Flow Net Differential

	Aug 1, 2006	2007	2008	2009	2010	2011	2012 - 2015	10 Year Totals
PCs, Laptops	$370,432	$1,662,484	($405,318)	($1,642,770)	($1,646,815)	$679,428	($3,400,007)	($4,328,566)
Thin Clients	$10,524	$269,227	$0	$0	$0	$91,347	$279,751	$650,849
Printers	$350,623	$16,412	$302,996	$204,686	($169,875)	($734)	($255,605)	$448,503
Servers	$500,469	$1,799,600	$1,382,037	$2,131,082	($830,323)	$392,505	($3,221,313)	$2,154,057
Annual Totals	$1,232,048	$3,747,723	$1,279,715	$692,998	($2,647,013)	$1,162,546	($6,597,174)	($1,129,157)

Table 3

Notes:
PCs are kept for 4-years in the above analysis
The above analysis has no allowance for inflation or equipment price increases.

6. LOCAL MUNICIPAL IMPACT

With purchased equipment, Council has the option to donate equipment that the Region no longer requires to local public service agencies or other charitable organizations.

7. CONCLUSION

The results of the above analysis indicate that today the reasons that favoured leasing in the past have changed. A new policy transitioning to the purchase of I.T. equipment will be cost effective to the Region over time. In addition to significant cost savings, purchasing eliminates some of the staff intensive overheads associated with managing leasing terms while allowing the flexibility to keep equipment for a lifecycle term that suits staff needs of the Region today. Furthermore, decisions on when to replace I.T. equipment will be under control of the Region.

The Senior Management Group has reviewed this report.

Prepared by:

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Reviewed by:

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Director, Information Technology Services

Reviewed by:

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Recommended by:

Sandra Cartwright
Commissioner of Finance

Approved for Submission:

Michael R. Garrett
Chief Administrative Officer

January 10, 2006

Attachment(s)

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