3
FCI BROADBAND TELEPHONY PROPOSAL

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, September 9, 2003, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The competitive bidding requirements of the Purchasing By-law be waived and

2. The Chief Administrative Officer be authorized to award a one year pilot project to FCI Broadband for telephony services at an approximate total cost of $220,000 plus taxes beginning April 1, 2004.
3. Staff be directed to bring a report to Council in late 2004 with recommendations relating to the continued provision of the telephony services being proposed by FCI Broadband.

4. Regional Legal Services be directed to review and approve the proposed contract.

2. PURPOSE

This report provides Council with information and recommendations regarding an unsolicited proposal received from FCI Broadband.

3. BACKGROUND

At a meeting requested by FCI Broadband (FCI) on August 1, 2003, FCI presented an unsolicited proposal to supply telephony services. This proposal was based on information requested by FCI on May 30, 2003.

FCI operates a telecommunications network as a competitive local exchange carrier (CLEC) under CTRC regulations. They have their own switching equipment and a fibre-optic network backbone that extends through York, Durham and Peel Region's. As a CLEC, FCI is able to offer toll free calling throughout their service area. In addition they can offer local connections at less than an ILEC (Incumbent Local Exchange Carrier).

The proposal will service 14 of the Region's largest sites estimated by Regional staff to provide a savings of approximately $9,800 per month on local access lines. FCI estimates savings of $2,724.00 in long distance charges as well but conservatively estimated at $2,200 by Regional staff. In addition our Network Analysts indicate there can be additional savings through changes in the Region's call routing arrangements for the 416 area code and total trunk line requirements due to the extended local calling area provided by FCI. These items will save an additional $1,600 per month. When fully implemented the savings are estimated at $13,600 per month or $163,000 per year.

4. ANALYSIS AND OPTIONS

The Region has three options:

1. Continue with our present telephony service arrangements.
2. Enter into a one year pilot with FCI to validate the technical, operational and cost savings of using a carrier that offers an extended toll free calling area.
3. Determine our total long term telephony needs and strategy and issue an RFP.

4.1 Continue recent Telephony service arrangements

If the Region takes no action it will not benefit from the potential savings being proposed. The savings are detailed in the next section.

4.2 Contract with FCI for a one year pilot based on their proposal

Contracting with FCI to pilot a telephony service that offers extended long distance calling and reduced local telephone service access will save the Region an estimated $70,000 in the proposed 12 month pilot period. Saving in the first 12 months have been reduced by a $25,000 FCI setup fee, $26,000 for reprogramming and other implementation costs as well as phasing the implementation in over 4 months. If the Region continues with the FCI service, savings in year 2 and beyond will be approximately $163,000 over our present service arrangements. FCI is offering an increased reduction of $1.75 per month for 360 local access lines in subsequent years that will further increase these savings.

Current contractual obligations require that transition to the new service not occur until April 2004 with 10 sites being implemented throughout the month. The remaining 4 sites would be phased in over the following 3 months. FCI has agreed to transfer services back to our present arrangements at no cost to the Region if the expected results are not realized within a reasonable time of full implementation.

This option will also enable Regional staff to evaluate the technical, operational and business case associated with the use of a competitive local exchange carrier that has facilities to offer extended toll free calling and may assist in evaluation of a broader communications solution. Time required for a competitive bid that addresses the Region's longer term needs is planned for next year with implementation not to begin until 2005. This is further described in the next section. It is therefore recommended that Council approve this option and to achieve the savings available in the short term.

4.3 Issue an RFP

The time required to develop the total long term telephony needs, strategy and metrics for issuance of an RFP is estimated at 6 months. This process is presently underway. This will be a very complex RFP and will take an additional 6 months for solicitation and analysis of responses and the selection process. Implementation of the selected solution will take several years. To issue an RFP to address local access and long distance based on our present telecommunications model would delay making advances toward a more flexible and cost effective overall solution. Given the time lines for moving to the next generation converged communications service the Region can benefit from the savings being offered by FCI.

5. FINANCIAL IMPLICATIONS

The existing services are in the ongoing annual budgets for Regional telephony services. It is estimated that the cost of the services provided by FCI will be $220,000 during the proposed 12 month pilot period. This is $70,000 less than the cost of the Region's present arrangements for these services. These costs and savings take into consideration present contractual obligations, setup costs and an implementation phase in period. Regional staff are aware that the current provider has applied to the CRTC for a rate reduction which if approved and implemented could reduce savings related to the pilot project with FCI.

6. LOCAL MUNICIPAL IMPACT

There is no municipal impact resulting from the implementation of the recommendations contained in this report.

7. CONCLUSION

Accepting the proposal made by FCI Broadband will save the Region $70,000 during the proposed 12 month pilot project. It will also enable Regional staff to evaluate the technical, operational and business case associated with the use of a competitive local exchange carrier that has facilities to offer extended toll free calling. Potential for savings in future years is estimated at $163,000 annually.

The Senior Management Group has reviewed this report.