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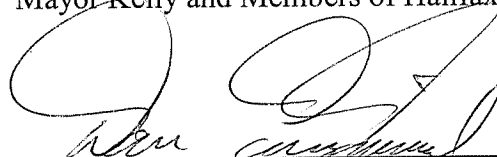


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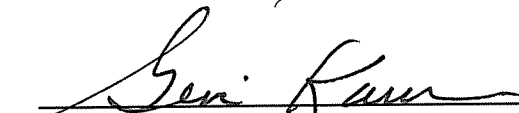
Halifax Regional Council
October 24, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



Dan English, Chief Administrative Officer



Geri Kaiser, Deputy Chief Administrative Officer - Corporate Services
and Strategy

DATE: October 16, 2006

SUBJECT: Funding for Desktop Computers and other Peripherals

ORIGIN

Further to the March 7, 2006 Council Report for the award of RFP 05-422 to XWAVE for the *Supply, Delivery and Services of Desktop Computers, Notebooks and Related Products*.

RECOMMENDATION

It is recommended that Halifax Regional Council:

1. Approve a loan of \$920,700 in fiscal 2006-07, repayable with interest, from the Capital Replacement Reserve (Q130) to operating account A410-6706 to finance the replacement of desktop computers, notebooks, and related products; and
2. Approve a loan of \$495,500 in fiscal 2007-08, repayable with interest, from the Capital Replacement Reserve (Q130) to operating account A410-6706 to finance the replacement of desktop computers, notebooks, and related products.

BACKGROUND

On March 7, 2006 Halifax Regional Council approved the award of RFP 05-422, *Supply, Delivery and Services of Desktop Computers, Notebooks and Related Products* to XWAVE. Included in the RFP was a component that would see XWAVE arrange for bridge financing as HRM transitioned from a lease model to a purchase model.

DISCUSSION

Subsequent to the award of the RFP, XWAVE and HRM did not finalize a financing arrangement. During this time it became apparent to HRM that more favourable interest rates could be obtained if HRM arranged the bridge financing internally during the transition period using reserve balances.

There are other benefits to providing bridge financing internally. By having only a pricing agreement with XWAVE as opposed to the contractual financing arrangement, HRM would not be bound to the vendor. This will provide incentive for the vendor to continue to provide competitive pricing and quality service. This possibility was anticipated in the RFP which was written to provide HRM with the flexibility to choose to either purchase equipment outright at manufacture's list price less an established discount, or utilize the proponents financing options for 36 months.

Even though the ability of the RFP proponents to provide financing was a criteria in the scoring, most proponents indicated they could provide the required arrangements and therefore it was not a deciding factor in the final selection of XWAVE.

A bridge financing loan from the Capital Replacement Reserve (Q130) of \$920,700 is required in 2006-07, and a further loan of \$495,500 in 2007-08. Starting in 2008-09, savings averaging approximately \$400,000 per year will be realized from the switch to a purchase model from a lease model. These savings can then be used to re-pay the Capital Replacement Reserve with interest over four fiscal years with the final re-payment being made in 2011-12. The interest to be re-paid to the reserve is estimated at \$166,000 based on a reserve interest rate of 3.9%. However, this is likely to vary as interest rates will fluctuate during the term of the loan. After 2011-12, the annual savings will be fully reflected in the operating budget.

Normally the Service Improvement Reserve would be utilized to provide loans repayable from the savings generated from initiatives which reduce operational costs. However, the Service Improvement Reserve currently has insufficient funds to provide the amount required. The approved business case for the Capital Replacement Reserve states that "the intent of the reserve is to fund the replacement of existing capital assets which have reached the end of their useful life." Therefore, the use of this reserve for the purpose outlined in this report is appropriate.

BUDGET IMPLICATIONS

Funding of \$1,466,324 is available from the annual approved Operating Budget from Account A410-6706, Information Technology Equipment, Repair & Maintenance. The additional funding required will be provided as a loan from the Capital Replacement Reserve (Q130). The table below provides details of the loan amounts and the amounts repaid each year.

Loan Disbursement and Repayment Schedule

Fiscal Year	Purchase from XWAVE	Phase-Out of Lease	Total Cost	Operating Funds Available	Operating Shortfall (Loan Required)	Operating Excess (to Repay Principle)	Operating Excess (to pay Interest to Reserve)
2006-07	1,136,258	1,250,775	2,387,033	1,466,324	920,709	0	0
2007-08	1,383,606	578,241	1,961,847	1,466,324	495,523	0	0
2008-09	675,627	139,035	814,662	1,466,324	0	560,521	91,141
2009-10	1,136,258	0	1,136,258	1,466,324	0	296,693	33,373
2010-11	1,383,606	0	1,383,606	1,466,324	0	60,916	21,802
2011-12	675,627	0	675,627	1,193,156	0	498,103	19,426
2012-13	1,136,258	0	1,136,258	1,136,258	0	0	0
Total	7,527,240	1,968,051	9,495,291	9,661,032	1,416,233	1,416,233	165,741

After 2011-12, an average annual budget of \$1,065,000 will be required under the purchase model. This is a reduction of about \$400,000 from the current fiscal year. The actual annual budget required fluctuates from year to year, therefore the average annual budget figure of \$1,065,000 is an average over the 3-year replacement cycle.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, and Capital budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation. If the recommendation is approved, the approved Reserve budget will change to reflect the reduction in the balance in the Capital Replacement Reserve (Q130).

ALTERNATIVES

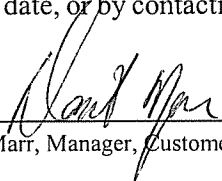
Use of an external financial institution at a cost of borrowing that is higher than the cost of borrowing from internal reserves. This is not a recommended solution

ATTACHMENTS

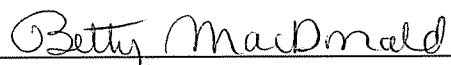
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