TO:	GENERAL COMMITTEE
SUBJECT:	FINANCING LEASE AGREEMENT - COMPUTER EQUIPMENT
WARD:	ALL
PREPARED BY AND KEY CONTACT:	F. BARBARO, MANAGER OF TECHNOLOGY SERVICES, X 4708
SUBMITTED BY:	C. GLASER, DIRECTOR OF INFORMATION TECHNOLOGY
GENERAL MANAGER APPROVAL:	E. ARCHER, GENERAL MANAGER OF CORPORATE SERVICES
CHIEF ADMINISTRATIVE OFFICER APPROVAL:	C. LADD, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That the Director of Information Technology be authorized to execute financing lease agreements with Compu-Solve Technologies Inc. to supply computer equipment as outlined in the terms and conditions set out in Request for Proposal document 2012-124P for a period of 3 years with a 2 year renewal.

PURPOSE & BACKGROUND

2. The purpose of this staff report is to obtain Council approval to enter into a financing lease agreement with Compu-Solve Technologies Inc. for the lease of the City's computer fleet over a period of up to five years.

3. As a result of the service review undertaken in 2011 it was recommended that the City move to a three year lifecycle on desktop and laptop computers. The benefits of the shorter lifecycle come in the form of reduced help desk support, on-site vendor support, and reduced cost of warranty. It was also recommended to investigate lease options as this has proven to further reduce costs over purchasing.

4. In accordance with the Purchasing By-Law 2008-121 the City conducted a competitive Bid process for the Supply, Deployment and Decommissioning of computer equipment for a period of three years with an option to renew for an additional two years. The City received four submissions in response to this Request for Proposal.

5. The submissions included options for purchasing and leasing the computer equipment. Staff evaluated the submissions based on pre-determined criteria focused on technical specifications, support services, warranty, quality control, and pricing.

6. Based on this evaluation, the submission from Compu-Solve Technologies Inc. was identified as the highest ranked response. A Net Present Value (NPV) analysis, included in Appendix "A" to this report identified leasing as the preferred option, resulting in a savings of $102,083 for the Corporation over the five year term of the contract.

ANALYSIS

7. In addition to the financial analysis within Appendix "A", staff considered the benefits and risks of both purchasing and leasing the computer equipment.

8. In the purchasing option, the benefits include fixing the long term financial liability associated with the equipment, as it would be paid for at the time of purchase.

   The risks of purchasing include added responsibilities and work for IT service desk and Finance staff in the recycling/disposal of the computer equipment's eWaste; potential service interruptions to City staff associated with unplanned outages or software incompatibility as a result of computer equipment being kept in circulation beyond its recommended useful life; and an additional cost of $102,083 would be incurred by the City over the term of the contract to be entered into with Compu-Solve based on the bid provided through the RFP process.

9. In the leasing option, the benefits included a formalized approach to the 'refresh' of the City's computer equipment aligned with industry standards of a three year lifecycle, mitigating the risk of computer outages for staff with aged equipment as the vendor, not staff, would be responsible for the initial delivery and then recycling/disposal of the computer equipment - this would enable the IT department to focus staff activities in moving the business forward rather than being forced to react to issues and outages; incurring a savings of $102,083 over the term of the contract; and providing a cost avoidance to the Corporation of approximately $370,400 over the first two years of the contract. The City's approach to computer replacement has been "use-to-failure", which results in unscheduled down-time for the end-user and emergency work for IT staff.

   The risks of leasing include the commitment of lease payments to the vendor for the full term of the contract, with a financial penalty being incurred if the lease were to be cancelled. Leasing computer equipment would be a new approach for IT staff, and additional policies/procedures would need to be prepared to ensure staff activities align with the lease agreement conditions (e.g. currently IT staff install software and prepare the computer prior to delivery to the end-user; the new process would include the computer being shipped directly to the end-user pre-configured). In addition, the lease agreement would meet the City's requirements including, among other items, a termination clause to address any equipment malfunction or substandard vendor performance.

10. The computers would be obtained on a three year lease, phased in over a three year period. At the end of the initial three year term for the first group of computers deployed, the City would have the opportunity to either refresh the equipment with the current vendor for up to an additional two years or execute a new RFP process and re-evaluate the lease vs. buy decision.

11. The lease interest rate from the vendor is 5.5% and includes the optional buyback cost that decreases the amount charged per computer to the lease. As outlined in "Appendix A", and assuming a cost of capital of 3%, the lease option provides a cost savings versus the purchase option. This agreement covers 100% of the City's personal computer fleet over the three year lifecycle.

12. Compu-Solve Technologies Inc. have met the technical requirements stipulated by the City in the RFP, and is considered a reputable supplier which has been previously used by the City of Barrie.

13. The Manager of Accounting and/or the Insurance Risk Examiner would review the Lease Agreement prior to acceptance and confirm that the terms outlined meet the City's policies and that the City's insurance is adequate to cover the new equipment.

ENVIRONMENTAL MATTERS

14. The leasing option provides the opportunity for the vendor to refurbish and sell remaining inventory back into the market after the lease term. The vendor has confirmed that they have a eWaste recycling procedure, thus ensuring appropriate recycling of all decommissioned computer equipment.

ALTERNATIVES

15. The following alternatives are available for consideration by General Committee:

Alternative #1 General Committee could decline the lease approach, resulting in staff purchasing the computer equipment.

This alternative is not recommended as it will cost an additional $102,083 (9.7%) over the contract term for the same equipment that could be leased (refer to Appendix A).

FINANCIAL

16. No additional funds are required in 2013 for the leasing of the computer equipment as they have been included in the Capital Plan under Capital Project (14-11-1303-1450) with an approved 2013 addition of $350,827. The funds required for 2014 and 2015 are reflected in Appendix A.

17. Since the lease term (three years) covers the economic (useful) life of the equipment, the lease is considered to be a capital lease with reference to Public Sector Accounting Handbook Section PSG-2.

18. From a reporting perspective, the Director of Finance will be required to record the lease transaction in the Debt and Financial Obligations Limit. The total lease payments for all 1,050 computers would be approximately $371,000, which would represent a 0.7% increase in the utilization of the 2013 Annual Debt Repayment Limit as calculated by the Province for 2013. Additionally, the annual lease payments are to be reported on the annual financial statement as a commitment and the computers are to be recorded as pooled capital assets.

19. The equipment will be subject to HST, with the normal HST rebate allowed for municipalities.

LINKAGE TO 2010-2014 COUNCIL STRATEGIC PLAN

20. The recommendation included in this Staff Report support the following goals identified in the 2010-2014 City Council Strategic Plan:

☒ Strengthen Barrie's Financial Condition

Through the recommended motion the City will incur a net savings of $102,083 and reduce the cash outlay in the first two years.

APPENDIX "A"
FINANCIAL ANALYSIS
April 22nd, 2013

Purchase Option

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Configure and Deployment	$ 4,338	$ 4,338	$ 4,338			$ 12,637
Disposal Revenue	$ (563)	$ (563)	$ (563)			$ (1,639)
Computer Cost	$ 349,262	$ 349,262	$ 349,262			$ 1,017,564
Warranty Cost	$ 38,931	$ 38,931	$ 38,931			$ 113,424
One-time Audit Services	$ 13,013					$ 13,013
Total Purchase Option Cost	**$ 404,980**	**$ 391,968**	**$ 391,968**			**$ 1,154,998**

Lease Option for 3 Year Period

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Configure and Deployment	$ 4,338	$ 4,338	$ 4,338			$ 12,637
Disposal Revenue	$ (563)	$ (563)	$ (563)			$ (1,639)
Computer Cost	$ 109,383	$ 218,765	$ 328,148	$ 218,765	$ 109,383	$ 915,480
Warranty Cost	$ 38,931	$ 38,931	$ 38,931			$ 113,424
One-time Audit Services	$ 13,013					$ 13,013
Total Lease Option Cost	**$ 165,101**	**$ 261,471**	**$ 469,558**	**$ 317,469**	**$ 208,087**	**$ 1,052,915**

Notes:

- 3% Cost of Capital used
- HST Excluded for simplicity
- Both scenarios are based on a 3 year lifecycle. The leases commencing in years 2 and 3 will carry into years 4 and 5.

The Comparison between the Purchase Option and the Lease Option captures the time value of money. Cash payments that can be deferred to a future time are more valuable as the funds can be used to pay down debt, earn interest, or invest in capital projects to increase efficiency and/or earn investment income.