Internet services

Based on our discussions with representatives of the CRTC, the current status of GSTI as a non-dominant carrier[2] will be sufficient to allow the Station to provide the internet services anticipated in the business case. As a result, we do not anticipate any need for additional regulatory approval from the CRTC for these services assuming that the Station is owned or otherwise controlled by GSTI.

Video on demand services

The authority of the CRTC to license video on demand services is established in Public Notice 1997-83 – Licensing of New Video on Demand Programming Undertakings[3]. This authority is further demonstrated by the fact that the CRTC has already issued nine video on demand licenses, the most recent being issued on November 24, 2000.

The business case for the Station does not anticipate requiring CRTC approval for the provision of video on demand services. This is based on the assumption that the current status of GSTI as a non-dominant carrier will permit it to carry video on demand services without additional CRTC approval.

Our review of applicable legislation indicates that video on demand services fall under the regulations of the Broadcasting Act, while GSTI's status as a non-dominant carrier relates to telecommunications services, which are covered under the Telecommunications Act. As a result, GSTI's status as a non-dominant carrier has no relevance to the delivery of video on demand services. Accordingly, CRTC approval would be required before video on demand services could be offered.

In the event that the Station does pursue a video on demand license from the CRTC, we anticipate that its efforts would be challenged by at least one local company which indicated that it would "strongly oppose" any attempt by the Station to obtain a license for video on demand services. At this time, however, we cannot determine the effect of such challenges on the outcome of the licensing process.

Alarm monitoring services

We do not anticipate any requirement for the Station to obtain additional CRTC approval for the alarm monitoring services envisioned in the business case.

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[2] A non-dominant carrier represents a provider of telecommunications facilities that does not enjoy market dominance.

[3] The CRTC does provide licensing exemptions for experimental video on demand systems. In order for a system to be considered experimental, it must be used to test and develop video on demand technology. As the Station intends to introduce video on demand services as a commercial product, it would not qualify for this exemption.

NON-PROPRIETARY RIGHTS

The issue of non-proprietary rights relates primarily to video on demand services. Specifically, the Station will require some form of agreement from the motion picture studios that hold the rights to those movies to be distributed over the video on demand system.

As outlined in the business case, the Station intends to offer video on demand services through an agreement with a local video rental company. In exchange for a fixed price per movie shown, the video rental company would make available to the Station movies in digital format to be distributed over the video on demand system. However, the video rental company would need to obtain the non-proprietary rights to distribute the films in digital format over a video on demand network.

While the requirement does exist to obtain the non-proprietary rights for the films to be distributed by the Station's video on demand services, we do not anticipate that the Station will be successful in doing so. Our discussions with representatives of the Canadian Motion Pictures Distributors Association indicate that non-proprietary rights for films to be shown through video on demand services are currently not available due to security concerns. As video on demand entails transmitting movies in digital format, a significant risk of video piracy exists since digital movies can be stored on computers and distributed free of charge over the internet. Video on demand technology is not perceived as being sufficiently advanced to allay this concern and until the technology does provide sufficient security, non-proprietary rights will not be forthcoming.

Our discussions with the Station's proponents indicates that they are aware of both the need to obtain non-proprietary rights for movies to be distributed over a video on demand network and the potential difficulties that may be experienced in obtaining these rights.

SUMMARY OF FINDINGS

Based on our review of the business plan and the proposed financing of the capital and start-up costs of the Station, we have determined the amount of "true" private sector investment in the Station to be approximately $1.6 million. While the business case indicates total private sector investment of $4.2 million, this contribution is in the form of discounts from the list price of equipment to be purchased. Given that a significant portion of these discounts appear to be available to any customer, they cannot be considered as a real contribution to the Station. In addition, two of the companies providing the discounts are expected to sell additional equipment to the Station. These subsequent sales may allow the companies in question to recover some or all of the purchase discounts provided.

As a result of the above, we do not believe that Council's requirement for $6 million of private sector commitment, as outlined in the motion, has been met.

ANALYSIS OF FUNDING CONTRIBUTIONS

In order to finance the projected total start-up costs of $10.8 million (which include capital and developmental costs), the Station intends to rely on a combination of public and private sector contributions.

Public sector contributions

The business case anticipates a total of $6.6 million of public sector funding, the majority of this representing cash contributions[4].

The Northern Ontario Heritage Fund is expected to be the largest public sector contributor. As presented in the business case, $4.6 million of funding will be sought from the Heritage Fund.

The City contribution, amounting to $1 million, is not intended to finance capital costs but rather is required to fund the operating costs incurred during the establishment of the Station, including any costs incurred prior to the Station's revenue generating activities becoming operational.

[4] GSTI is projected to contribute $250,000 of fibre optic infrastructure already purchased by the company. This represents the only inkind contribution from the public sector.

Private sector contributions

The business case identifies total private sector contributions amounting to $4.2 million to be provided by three companies:

- Alcatel - $3.3 million
- IBM Canada Ltd. ("IBM") - $764,000
- Urbana.ca - $157,000

In all instances, these contributions represent discounts provided by the companies on the sale of equipment or software to the Station. In the case of Alcatel and IBM, these contributions represent a percentage discount from the list price of the equipment to be purchased by the Station (68% from Alcatel and 30% from IBM). The Urbana.ca contribution represents the waiving of a licensing fee in connection with software to be sold by Urbana.ca to the Station.

Based on our discussions with representatives of the computer industry, we understand that it is common practice for computer and telecommunications companies to provide discounts from list prices to all customers. Our research indicates that the standard discount from list price offered to government agencies is normally in the range of 30% to 40%. Based on this finding, it would be reasonable to assume that a significant portion of the private sector contributions (60%) represent discounts that are available to any customer and, as such, do not represent incremental contributions to the project.

Summary of routine vs. incremental purchase price discounts

	List Price of Equipment	Standard Discount[5] (A)	Actual Discount (B)	Incremental Contribution (B) – (A)
Alcatel	$ 4,825,000	1,689,000	3,298,000	1,609,000
IBM	2,546,000	891,000	764,000	–
Total	$ 7,371,000	2,580,000	4,062,000	1,609,000

In addition, we note that both IBM and Urbana.ca will be involved in additional equipment sales or leasing arrangements with the Station. These subsequent transactions, which we understand have no associated discounts, could provide these companies with the opportunity to recover some or all of the initial discounts provided. Specifically, IBM is expected to sell to the Station computer servers with a selling price of $485,000, while Urbana.ca will lease set top boxes to the Station at a monthly lease cost of $11.16 per unit.

[5] Represents the estimated discount that is provided to all customers. For the purpose of our analysis, we have assumed that the standard discount is 35% of list price (representing the average of 30% and 40%).

SUMMARY OF FINDINGS

As a result of our review, we have significant concerns over the future financial performance of the Station, due primarily to the small market demand for the services to be offered. Overall, our analysis indicates that the Station will experience total deficits in the order of $200,000 in each of the three years following its inception.

This conclusion differs significantly from the financial projections contained in the business case, which estimates that the Station will generate more than $16 million in profits over three years. A large part of this difference may be due to the intended purpose of the business case, which was to define the concept rather than act as a formal business plan.

As a result of our review, we have concluded that, from a financial standpoint, the Station does not represent a viable initiative. Should the City and GSTI proceed with the project, we caution that the operations of the Station would be characterized by ongoing deficits totaling over $600,000 over a three year period. Responsibility for financing these deficits would likely rest with the City or its wholly-owned subsidiary, GSTI.

ANALYSIS OF FINANCIAL ASSUMPTIONS

Introduction

Included in the business case for the Station are financial projections outlining the anticipated financial performance of the Station over a three year period. As noted earlier, the business case estimates that the Station will generate $16 million of profits over three years.

Our assessment of the likely financial performance of the Station involved a detailed review of the assumptions supporting the financial projections, and we have outlined our findings below.

Projected revenue

The business case anticipates that total revenues for the Station will increase from just under $2 million in its first year of operations to $16.6 million within three years, consisting of the following:

Projected revenues by service line

	2002	2003	2004	Total
Internet services	$ 1,311,000	5,535,000	8,074,000	14,920,000
Video on demand services	97,000	931,000	1,585,000	2,613,000
Alarm monitoring services	64,000	611,000	1,040,000	1,715,000
Local business advertising	136,000	566,000	1,133,000	1,835,000
E-commerce commissions	11,000	46,000	83,000	140,000
National business advertising	352,000	2,723,000	4,684,000	7,759,000
Total	$ 1,971,000	10,412,000	16,599,000	28,982,000

Internet services

Internet services are expected to represent the largest source of revenue for the Station, accounting for more than 50% of total revenues.

As a result of our review of the financial projections, we make the following observations.

- **Capacity levels** – The financial projections are based on the assumption that the number of internet customers will increase to 27,600 customers over the three year projection period, despite the fact that the Station's computer servers have a maximum capacity of 10,000 users, as noted in the business case[6].

Projected internet customers

	2002	2003	2004
Accessing through set top boxes	1,400	10,100	17,200
Accessing through personal computers	2,600	5,300	10,400
Total internet customers	4,000	15,400	27,600

[6] See Table 5.2 of the business case (page 22). These capacity levels have been confirmed by proponents of the Station.

- **Penetration rates** – The business case calls for the installation of fibre optic services to 3,000 in the City of Greater Sudbury (consisting of 1,000 homes in Capreol and 2,000 apartment units in Sudbury). Based on 4,000 internet customers in the first year of operations, this results in a penetration rate of 133% (4,000 customers ÷ 3,000 homes). In comparison, the average penetration rate for high-speed internet services in Canada, while growing, is 11.4% for cable companies and 5.7% for telecommunication companies such as Bell Canada.

National high speed internet penetration rates – cable companies[7]

	1999	2000	2001
Number of high speed internet customers (A)	392,398	796,061	934,270
High speed internet ready homes (B)	6,224,175	7,423,272	8,204,338
Penetration rate (A) ÷ (B)	6.3%	10.7%	11.4%

National high speed internet penetration rates – telecommunications companies[8]

	1999	2000	2001
Number of high speed internet customers (A)	94,037	392,195	n.a.
High speed internet ready homes (B)	3,994,248	6,840,351	n.a.

- **Pricing** – Projected revenues from internet services are calculated based on a monthly customer charge of $29.95 per month. In comparison, other providers of high speed internet services are currently charging $39.95 per month[9].

[7] Source – Scotia Capital Cable Industry Update. Figures for 2001 are for the first quarter only.

[8] Source – Scotia Capital Cable Industry Update. Data for 2001 was not available.

[9] We understand that fees paid by customers for internet service will not be paid to the Station but rather the ISP, who will then pay a third party access fee for the use of the Station's fibre optic network. However, the financial projections are based on the assumption that the Station will collect the revenues from internet customers and forward a commission to the ISP's on a per customer basis. We have therefore structured our comments accordingly.

Based on these observations, we do not believe that the projected internet revenues outlined in the business case are attainable. Rather, we have estimated the total market for high speed internet services in the Station's service area (3,000 households) to be between 363 and 411 customers.

Estimated high speed internet customers in the Station's service area

	2002	2003	2004
Number of homes serviced by the Station	3,000	3,000	3,000
Internet penetration rate[10]	12.1%	12.9%	13.7%
Total high speed internet customers in the Station's service area	363	387	411

As this represents the total number of high speed internet customers in the Station's service area, we anticipate that the actual number of internet customers will be lower than this amount, as it will be extremely difficult for the Station to achieve 100% market share. Based on an assumed market share of 80% (which was arbitrarily determined by us) and a revised customer fee of $39.95 per month (which is consistent with the current pricing structure for high speed internet access), we estimate that the maximum revenue from internet services for the Station will be in the range of $139,000 to $158,000, compared to the $1.3 million to $8.1 million indicated in the business case.

Estimated internet service revenue

	2002	2003	2004
Total high speed internet customers in the Stations service area	363	387	411
Projected market share	80%	80%	80%
Total internet customers	290	310	329
Monthly fee	$ 39.95	$ 39.95	$ 39.95
Projected annual internet service revenue	$ 139,000	149,000	158,000

[10] Based on the average high speed internet penetration rate for Canadian cable companies in 2001, adjusted for annual growth of 6.5% per year (representing the growth in penetration rates from 2000 to 2001).

Video on demand services

Video on demand services are expected to represent a significant portion of the Station's revenues, amounting to $1.6 million in the third year of operations, or 10% of total revenues.

Our review of the business case and the assumptions supporting the financial projection indicate that the Station anticipates a significant increase in the number of movies viewed through its video on demand system.

Estimated annual movie viewings through video on demand services

	2002	2003	2004
Total set top boxes installed	1,400	10,100	17,200
Percentage of set top box customers using video on demand services	60%	60%	60%
Number of video on demand customers	840	6,060	10,320
Monthly movies viewed	8	8	8
Annual movie viewings through video on demand	6,720	48,480	82,560

The business plan anticipates charging customers $4.00 per movie viewed, with 60% of this amount, or $2.40, paid to the local movie rental company. The remaining 40% would be retained by the Station.

As a result of our research, we make the following observations concerning the projected video on demand revenues.

- **Capacity levels** – As with internet services, the business case appears to overestimate the number of video on demand customers by overstating the number of set top boxes installed. The capital expenditures anticipated in the business plan allow for the provision of fibre optic services to 3,000 households. As a result, the maximum number of video on demand customers would likely not exceed this amount without additional capital expenditures. The sole exception would be instances where homes have more than one television and request multiple set top boxes.

- **Penetration rates –** The business case anticipates that 60% of households would utilize video on demand services. This penetration rate appears to be inconsistent with pay per view penetration rates experienced by large cable companies, which average 7% of all households in their service areas.

Estimated pay per view penetration rates

	Digital Cable Customers[11]	Homes in Service Area[12]	Penetration Rate
Rogers Communications Inc.	201,000	2,804,000	7.2%
Shaw Communications Ltd.	131,000	2,008,000	6.5%
Cogeco Cable Inc.	79,000	1,103,000	7.2%
Total/average	411,000	5,915,000	6.9%

- **Pricing –** The projected pricing for the Station's video on demand services of $4.00 per movie viewed appears to be consistent with current pricing for pay per view services.
- **Royalty costs –** While we are unaware of any agreements relating to non-proprietary rights for movies to be distributed through video on demand services, we understand that the anticipated royalty for these rights will likely be in the range of 50% of total revenues[13]. Given that the royalty to be paid by the Station will need to offset both the cost of the non-proprietary rights associated with the films and provide a profit to the video rental company, the 60% royalty cost anticipated by the Station may be too low.
- **Viewing frequency –** While the business case anticipates eight viewings per video on demand customer, our research indicates that a viewing frequency of 2.5 movies per month per customer may be more reasonable[14].

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[11] Source – Company annual reports for the 2000 fiscal year. Digital cable customers have been used as an indicator of pay per view customers as access to pay per view services is only available through digital cable.

[12] Source – Dominion Bond Rating Service Cable Industry in Canada Year-end Update.

[13] Source – Canadian Motion Picture Distributors Association.

[14] Source – Scotia Equity Cable Industry Update.

Based on these observations, we question the ability of the Station to achieve the projected video on demand revenues included in the business case. Rather, we have estimated the maximum video on demand revenues that would likely be realized by the Station (net of royalty fees) to be in the order of $6,000 annually.

Estimated video on demand revenue

	2002	2003	2004
Number of homes serviced by the Station	3,000	3,000	3,000
Projected penetration rate	7.0%	7.0%	7.0%
Number of video on demand customers	210	210	210
Number of monthly viewings per customer	2.5	2.5	2.5
Annual viewings	6,300	6,300	6,300
Revenue per viewing, before royalty payments	$ 4.00	$ 4.00	$ 4.00
Projected video on demand revenue, before royalty payments	$ 25,000	25,000	25,000
Projected royalty provision[15]	75%	75%	75%
Projected video on demand revenue, after royalty payments	$ 6,000	6,000	6,000

The ability of the Station to generate this level of video on demand revenue is contingent upon its success in obtaining a video on demand license from the CRTC. Without this approval, no revenue could be earned from video on demand services.

[15] For the purpose of our analysis, we have assumed that 50% of video on demand revenues would be paid for non-proprietary rights, while the remaining 50% would be divided equally between the Station and the movie rental company.

Alarm monitoring services

Revenues from the monitoring of smoke and carbon monoxide alarms are projected to grow significantly in the three years following the establishment of the Station. Overall, alarm monitoring revenues are projected to increase from $64,000 in the first year of operations to $1.04 million by the third year.

The projected level of alarm monitoring revenue is based on penetration rates of 60% and 30% for smoke and carbon monoxide monitoring services, respectively. The business case establishes a price of $7.00 per month for each type of monitoring service and assumes that a royalty of $4.20 per month will be paid to a third party monitoring company for each carbon monoxide monitoring customer[16].

As a result of our research, we make the following observations concerning the projected alarm monitoring revenue:

- **Penetration rates** – Our research indicates that the average Canadian penetration rate for all residential alarm monitoring services (security, smoke and carbon monoxide detection included) is in the range of 15% to 17%[17]. We further understand that approximately 10% of customers with some form of alarm monitoring services have smoke and carbon monoxide monitoring services[18]. Accordingly, the penetration rate for smoke and carbon monoxide monitoring services is approximately 2% (10% of 17%).
- **Pricing** – In order to provide smoke and carbon monoxide monitoring services to residents, the Station would need to compete with current alarm monitoring companies. Based on inquiries with local alarm companies, we understand that smoke and carbon monoxide monitoring services are provided free of charge by alarm monitoring customers (i.e. customers receiving smoke and carbon monoxide monitoring services pay the regular security monitoring fee).

In light of the extreme competitive advantage faced by the Station with respect to the pricing of alarm monitoring services, we do not anticipate that the Station will be able to generate any revenue from the alarm monitoring services outlined in the business case.

[16] The business case does not mention a royalty for smoke detector monitoring customers.

[17] Source – The Canadian Alarm and Security Association.

[18] Source – The Canadian Alarm and Security Association.

Local business advertising

When set top box customers access the Station, they would first view a community portal that would include, among other items, advertising from local businesses. The business case anticipates generating between $136,000 and $1.13 million in local business advertising revenue. Advertising on the community portal would be available to local businesses through two packages:

- Standard advertising packages – Consisting of a three page business website and banner advertising, the monthly cost of standard advertising packages would be $39.95.
- Enhanced advertising packages – Enhanced advertising packages would have the same content as the standard packages, but would also include an e-commerce capability. The projected cost of the enhanced advertising packages is projected to be $49.95 per month.

While the business case does not indicate the number of local businesses advertising on the Station, it does indicate that two-thirds of all customers would purchase standard packages while the remaining one-third of customers would purchase enhanced packages. Based on this breakdown and the monthly fees listed in the business case, we have determined the number of local businesses expected to advertise on the Station to be as follows:

Projected local business advertising customers

	2002	2003	2004
Total local business advertising revenue	136,000	566,000	1,133,000
Weighted average advertising rate (two-thirds at $39.95 and one-third at $49.95)	$ 43.28	$ 43.28	$ 43.28
Number of local businesses expected to advertise on the Station	3,142	13,078	26,178

While we have been unable to obtain any information relating to local advertising expenditures, we do note that there are only 6,500 businesses in the City of Greater Sudbury[19]. As a result, we do not expect the Station to achieve the levels of projected local business advertising revenue as the number of customers anticipated in the business case exceeds the number of businesses in Sudbury. Based on a projected penetration rate of 2% (which has been arbitrarily selected by us), the Station would generate $68,000 in annual revenues from local business advertising.

Revised local business advertising revenue

	2002	2003	2004
Total local businesses	6,500	6,500	6,500
Penetration rate	2%	2%	2%
Local businesses advertising on the Station	130	130	130
Weighted average advertising rate (two-thirds at $39.95 and one-third at $49.95)	$ 43.28	$ 43.28	$ 43.28
Projected local business advertising revenue	$ 68,000	68,000	68,000

E-commerce commissions

In conjunction with the e-commerce capabilities offered through its enhanced local advertising packages, the Station will levy a commission equal to 2% of the value of e-commerce transactions processed. This commission structure is expected to result in commission revenue of $11,000 in the first year of operations, increasing to $83,000 by the third year.

In order to generate these levels of commission revenues at a 2% commission rate, the total value of e-commerce transactions undertaken through the community portal will need to be in the range of $550,000 to $4.1 million annually.

Projected e-commerce transaction volume

	2002	2003	2004
Total value of e-commerce transactions	$ 550,000	2,300,000	4,150,000
Commission rate	2%	2%	2%
Projected e-commerce commission revenue	$ 11,000	46,000	83,000

[19] Source – Sudbury Regional Development Corporation.

Based on our understanding of e-commerce in Canada, we make the following comments concerning the projected e-commerce commission revenues of the Station.

- **Transaction value per internet user –** The business case anticipates that the Station's internet customers will complete e-commerce transactions with an average value of $137 to $150 per customer.

Projected value of e-commerce transactions per internet customers

	2002	2003	2004
Total internet customers	4,000	15,400	27,600
Total value of e-commerce transactions	$ 550,000	2,300,000	4,150,000
Average value of e-commerce transactions per internet customer	$ 137.50	149.35	150.36

In comparison, the average value of e-commerce transactions in Canada is $517.00 per internet user[20].

- **Number of internet customers –** As noted earlier in our report, we believe that the business case overstates the Station's internet customers, resulting in a corresponding overstatement of e-commerce commission revenue.

Based on these observations, we have revised the Station's projected e-commerce commission revenue to $3,000 per year, calculated as follows:

Projected e-commerce commission revenue

	2002	2003	2004
Projected internet customers	290	310	329
Projected value of e-commerce transactions per internet customer	$ 517.00	$ 517.00	$ 517.00
Projected value of e-commerce transactions processed by the Station	$ 149,900	160,300	170,100
Commission rate	2%	2%	2%
Projected e-commerce commission revenue	$ 3,000	3,000	3,000

[20] Source – Internet Shopping in Canada, published by Statistics Canada.

National business advertising

In addition to generating revenue from local businesses advertising on the Station's community portal, the business case also envisions revenue from national business advertising. This advertising, most likely from companies such as Sears and Canadian Tire, will be calculated based on the number of times the company's advertising banner is viewed by an internet user.

National business advertising is expected to represent a significant source of revenue for the Station, second only to internet service revenues. As outlined in the business case, national business advertising revenues are projected to increase from $352,000 in the first year of operations to almost $4.7 million in the third year, representing 28% of the projected revenue for the Station.

Based on our review, we make the following comments regarding the national advertising revenue projected in the business case.

- **National advertising revenue per internet user –** Given that national business advertising is dependent on the number of times internet pages are viewed by users, it is reasonable to assume that some correlation exists between national business advertising revenue and the number of internet users. Based on this logic, we have calculated that the business plan anticipates national business advertising revenue will range from $88.00 per customer in the first year of operations to $170.00 per customer in the third year following inception.

Projected national advertising revenue per internet user

	2002	2003	2004
Total internet customers	4,000	15,400	27,600
Total national advertising revenue	$ 352,000	2,723,000	4,684,000
Average national advertising revenue per internet customer	$ 88.00	177.00	170.00

The total value of national internet advertising in 2000 was in the order of $109 million[21]. Based on a total of 4.9 million internet users in Canada[22], this translates into an average national advertising revenue of $22.00 per internet user.

- **Number of internet customers –** As noted earlier in our report, we believe that the business case overstates the Station's internet customers.

[21] Source – Profile of the Canadian Multimedia Industry, published by the Interactive Media Producers Association of Canada.

[22] Source – Internet Shopping in Canada, published by Statistics Canada.

Based on the above-noted observations, we believe that the Station will be unable to achieve the projected levels of national advertising revenue indicated in the business case. Our research indicates that a more reasonable estimate of national business advertising revenues would be in the range of $6,000 to $7,000 per year, as follows:

Projected national business advertising revenues

	2002	2003	2004
Projected internet customers	290	310	329
Projected national advertising revenue per internet user	$ 22.00	22.00	22.00
Projected national advertising revenue	$ 6,000	7,000	7,000

Projected expenses

Total expenses for the Station are projected to increase from just under $2 million in the first year of its operations to more than $6.4 million in the third year. Variable costs (such as lease payments on the set top boxes installed and commission payments to ISP's) and wages and benefits represent the largest expenditures for the Station.

Projected expenditures by type

	2002	2003	2004	Total
Commission payments to ISP's	$ 263,000	1,109,000	1,987,000	3,359,000
Lease payments for set top boxes	141,000	1,353,000	2,303,000	3,797,000
Wages, benefits and commissions	1,167,000	1,394,000	1,629,000	4,190,000
Advertising and promotional costs	354,000	400,000	450,000	1,204,000
Other costs	65,000	65,000	65,000	195,000
Total	$ 1,990,000	4,321,000	6,434,000	12,745,000

Commission payments to internet service providers

Commission payments to ISP's are expected to represent a significant cost to the Station. The increase in these costs, from $263,000 in the first year of operations to just under $2 million in the third, is a reflection of the Station's assumption that it could generate a significant increase in the number of high speed internet customers.

With respect to the ISP commission expense, we make the following comments:

- **Number of internet customers –** As noted earlier in our report, we believe that the business case overstates the Station's internet customers. In light of this, the amount of commissions to be paid to ISP's is also overstated.
- **Commission amount -** As outlined in the business plan, the Station anticipates providing a commission to ISP's equal to $6.00 per month per internet customer. However, our research indicates that ISP's are currently receiving commissions in the range of $20.00 per month per customer[23]. In order for the Station to obtain any internet customers, it would need to increase the amount paid to the ISP's to at least this amount (as ISP's would continue to use Regional or Bell's networks if the commission were not increased). The ability to increase the per customer commission amount is facilitated by increasing the monthly charge for internet services from the projected level of $29.95 per month to the industry standard of $39.95 per month.

In light of these assumptions, we have determined that future commission costs to the Station will be significantly lower than those projected, despite the increase in the monthly commission rate from $6.00 per customer to $20.00 per customer. Overall, we estimate that commission costs paid to ISP's will range from $70,000 to $79,000 per year.

Estimated ISP commission expense

	2002	2003	2004
Projected internet customers	290	310	329
Monthly commission paid to ISP's	$ 20.00	20.00	20.00
Projected annual internet service revenue	$ 70,000	74,000	79,000

[23] The 2000 annual report for Regional indicates that Regional receives approximately 50% of the amount charged for high speed internet services. Based on a monthly rate of $39.95, Regional would receive approximately $20.00 per month while the ISP would receive $20.00 per month. In comparison, the Cogeco 2000 annual report indicates that the cable company receives $21.50 per high speed internet customer per month.

Lease payments for set top boxes

We were informed that the set top boxes to be used by the Station can be leased for a monthly rate of $11.16 per set top box. These lease costs are contingent upon the number of set top boxes installed and are projected to increase from $141,000 to $2.3 million as the number of set top boxes installed increases.

As noted earlier in our report, we have determined that the business case overstates the Station's internet and video on demand customers, both of which will use set top boxes to access the Station's services. However, given that the same customer could use set top boxes for internet and video on demand services, the number of set top boxes installed will not be equal to the sum of the internet and video on demand customers. In addition, customers may obtain internet services from the Station via their personal computers and not the set top boxes, further reducing the number of set top boxes installed.

For the purpose of our analysis, we have estimated the number of set top boxes to be installed by the Station will be equal to the number of video on demand customers, based on the following assumptions:

- All video on demand customers will be internet customers; and
- The remaining internet customers will access the Station through their personal computers and not set top boxes.

Projected set top box leasing costs

	2002	2003	2004
Total set top boxes installed (equal to number of video on demand customers)	210	210	210
Monthly lease cost per set top box	$ 11.16	$ 11.16	$ 11.16
Set top box leasing costs	$ 28,000	28,000	28,000

Wages, benefits and commissions

The Station is intended to employ a mix of its own employees and commissioned salespeople. The financial projections envision an initial staffing level of 14 employees, plus a commissioned salesperson paid a rate of 20% of local advertising revenue earned. Benefits are projected to be 35% of wages and commissions paid.

To this point in our report, our research has indicated that the level of activity to be undertaken by the Station, both in terms of customers and revenues, has been significantly overstated. In light of our estimates of the reduced number of customers that will be obtained by the Station (which we believe are a more reasonable representation of future operations), we do not anticipate the Station requiring a staffing complement of 14 employees. Rather, our view is that the Station would be able to deliver its services using a much reduced staffing complement or through contracted services with either GSTI or private companies.

While the ultimate cost of the reduced staffing levels/contracted services cannot be accurately determined at this time, we have considered an amount of $200,000, representing the estimated annual cost of performing customer support and administrative functions.

Advertising and promotional costs

As with wages, benefits and commissions, we consider the projected level of advertising costs to be excessive in light of expected customer levels for the Station. While the Station will need to incur ongoing advertising expenses to maintain its existing customer base and obtain new customers, an annual advertising budget of $350,000 to $450,000 appears to be excessive. As a result, we have projected advertising and promotional costs to be in the order of $75,000 per year.

Other costs

Other expenses, which include such items as office supplies, insurance and professional fees, are projected to be $65,000 per annum.

In addition to those costs noted above, we have identified certain costs which appear to be excluded from the business case, including:

- Service costs arising from the need to repair the fibre optic infrastructure provided to the households
- Contributions (equal to 5% of video on demand revenue) to Canadian film production funds as required by CRTC licensing regulations for video on demand providers

For the purpose of our analysis, we have assumed that these costs would amount to $5,000 per year. As a result, we have increased the projected amount of other costs to $70,000 per year.

Overall conclusion concerning the financial projections

Throughout our report, we have identified instances where we believe the assumptions supporting the financial projections for the Station may be unreasonable when compared to:

- The estimated size of the market for the services to be provided by the Station
- Pricing and cost structures for the telecommunications and broadcasting industries

If the financial projections were adjusted to reflect assumptions which are considered by us to be more reasonable, the expected financial performance of the Station would be altered significantly. For information purposes, we have included as an appendix to this report, revised financial projections for the Station which incorporate the findings contained in our report. As noted below, the use of different assumptions has a significant effect on the projected financial performance of the Station.

Projected vs. revised financial performance – 2002 to 2004

	As Projected	Revised	Difference
Total revenue	$ 28,982,000	697,000	(28,285,000)
Total expenditures (excluding start-up costs)	12,745,000	1,342,000	(11,403,000)
Net profit (loss)	$ 16,237,000	(645,000)	(16,882,000)

The majority of the revisions to the financial projections reflect the reduced customer levels resulting from both capacity issues and market demand for the Station's services. While the Station could attempt to overcome these limitations by expanding to areas other than Capreol, such a strategy would require a significant increase in capital expenditures. As outlined in the business case, the cost of providing fibre optic services to 3,000 households (homes and apartment units) is approximately $10.8 million. Any attempt to expand the service area of the Station would therefore be accompanied by an increase in capital expenditures of $3,600 per household ($10.8 million ÷ 3,000 homes), with a corresponding increase in the City's contribution as well.

OTHER FINDINGS

During the course of our review, we became aware that services similar to those proposed by the Station are either being contemplated or will be introduced by private sector companies. Specifically, we note that a number of cable companies have received licenses for both national and regional video on demand systems with expectations of commercial video on demand services becoming operational in 2002[24]. In addition, 2002 will mark Bell's introduction of set top boxes similar to those proposed by the Station for satellite customers.

The fact that private sector companies are contemplating or will be introducing services similar to those proposed by the Station indicates, in our view, that the concept of the Station is valid. However, it appears that the private sector will be introducing these services to a larger service area in a more cost effective manner than that proposed by the Station (by not providing fibre optic capabilities directly to the home).

In light of this, and given the fact that the Station does not appear to be a financially viable initiative, the City may wish to consider redirecting its efforts with respect to the vision of the Station and the services that it would offer. Instead of attempting to develop a third telecommunications network in Sudbury, Council may wish to encourage and cooperate with companies such as Bell and Regional to expand and improve services for residents of the City. This would provide the City with the opportunity to attain a number of the benefits envisioned by the Station without the need for either an initial capital investment or the assumption of financial risks into the future.

[24] Source – Scotia Equity Cable Industry Update.

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NOTICE TO READER ON THE COMPILATION OF A FINANCIAL PROJECTION

We have compiled the financial projection of **The Station Telecommunications Project** consisting of a statement of projected earnings for the three years ending December 31, 2004 using assumptions with an effective date of May 31, 2001 and other information provided by the City. Our engagement was performed in accordance with applicable guidance on compilation of a financial projection issued by the Canadian Institute of Chartered Accountants.

A compilation is limited to presenting, in the form of a financial projection, information concerning future events and does not include evaluating the support for the assumptions, including the hypotheses, or other information underlying the projection. Accordingly, we do not express an opinion on the financial projection or assumptions, including the hypotheses. Further, since this financial projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material. We have no responsibility to update this communication for events and circumstances occurring after the date of this communication.

KPMG

Chartered Accountants

Sudbury, Canada
May 31, 2001

Financial Projection of

THE STATION TELECOMMUNICATIONS PROJECT

Statements of Projected Earnings

For the three years ending December 31, 2004
(Unaudited - see Notice to Reader)

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CITY OF GREATER SUDBURY
THE STATION TELECOMMUNICATIONS PROJECT

Statement of Projected Cash Flow
For the Three Years Ending December 31, 2004
(Unaudited - See Notice to Reader)

	Reference		2002	2003	2004	Total
Revenue:						
Internet service	*Schedule 1*	$	139,000	149,000	158,000	446,000
Video on demand	*Schedule 2*		6,000	6,000	6,000	18,000
Alarm monitoring			-	-	-	-
Local business advertising	*Schedule 3*		68,000	68,000	68,000	204,000
E-commerce commission	*Schedule 4*		3,000	3,000	3,000	9,000
National business advertising	*Schedule 5*		6,000	7,000	7,000	20,000
			222,000	233,000	242,000	697,000
Variable costs:						
Internet service provider commissions	*Schedule 6*		70,000	74,000	79,000	223,000
Equipment leasing costs	*Schedule 7*		28,000	28,000	28,000	84,000
			98,000	102,000	107,000	307,000
Gross profit			124,000	131,000	135,000	390,000
Expenses:						
Wages and benefits			200,000	200,000	200,000	600,000
Advertising and promotion			75,000	75,000	75,000	225,000
Other costs			70,000	70,000	70,000	210,000
			345,000	345,000	345,000	1,035,000
Surplus (deficit) from operations			(221,000)	(214,000)	(210,000)	(645,000)
Accumulated surplus (deficit), beginning of year			-	(221,000)	(435,000)	-
Accumulated surplus (deficit), end of year			(221,000)	(435,000)	(645,000)	(645,000)

CITY OF GREATER SUDBURY
THE STATION TELECOMMUNICATIONS PROJECT

Schedule 1

Schedule of Projected Internet Service Revenue
For the Three Years Ending December 31, 2004
(Unaudited - See Notice to Reader)

		2002	2003	2004
Number of homes serviced		3,000	3,000	3,000
Internet penetration rate		12.1%	12.9%	13.7%
Potential internet customers		363	387	411
Projected market share		80%	80%	80%
Projected number of internet customers		290	310	329
Monthly fee for internet services	$	39.95	39.95	39.95
Projected internet service revenue	$	139,000	149,000	158,000

CITY OF GREATER SUDBURY
THE STATION TELECOMMUNICATIONS PROJECT

Schedule 2

Schedule of Projected Video on Demand Revenue
For the Three Years Ending December 31, 2004
(Unaudited - See Notice to Reader)

		2002	2003	2004
Number of homes serviced		3,000	3,000	3,000
Video on demand penetration rate		7.0%	7.0%	7.0%
Number of video on demand customers		210	210	210
Number of monthly viewings per customer		2.5	2.5	2.5
Projected number of viewings		6,300	6,300	6,300
Revenue per viewing, before royalty payments	$	4.00	4.00	4.00
Projected video on demand revenue, before royalty payments		25,000	25,000	25,000
Less: royalty payments		(19,000)	(19,000)	(19,000)
Projected video on demand revenue	$	6,000	6,000	6,000

CITY OF GREATER SUDBURY
THE STATION TELECOMMUNICATIONS PROJECT

Schedule 3

Schedule of Projected Local Business Advertising Revenue
For the Three Years Ending December 31, 2004
(Unaudited - See Notice to Reader)

		2002	2003	2004
Standard listings revenue:				
Total customers		87	87	87
Monthly listing fee	$	39.95	39.95	39.95
		42,000	42,000	42,000
Enhanced listings revenue:				
Total customers		43	43	43
Monthly listing fee	$	49.95	49.95	49.95
		26,000	26,000	26,000
Projected local business advertising revenue	$	68,000	68,000	68,000

CITY OF GREATER SUDBURY **Schedule 4**
THE STATION TELECOMMUNICATIONS PROJECT

Schedule of Projected E-Commerce Commission Revenue
For the Three Years Ending December 31, 2004
(Unaudited - See Notice to Reader)

		2002	2003	2004
Projected internet customers		290	310	329
Projected E-commerce transaction value per customer	$	517.00	517.00	517.00
Total value of E-commerce transactions		149,900	160,300	170,100
Commission rate		2%	2%	2%
Projected E-commerce commission revenue	$	3,000	3,000	3,000

CITY OF GREATER SUDBURY
THE STATION TELECOMMUNICATIONS PROJECT

Schedule 5

Schedule of Projected National Business Advertising Revenue
For the Three Years Ending December 31, 2004
(Unaudited - See Notice to Reader)

		2002	2003	2004
Projected internet customers		290	310	329
Projected national advertising revenue per customer	$	22.00	22.00	22.00
Projected national business advertising revenue	$	6,000	7,000	7,000

CITY OF GREATER SUDBURY
THE STATION TELECOMMUNICATIONS PROJECT

Schedule 6

Schedule of Projected Internet Service Provider Commissions
For the Three Years Ending December 31, 2004
(Unaudited - See Notice to Reader)

		2002	2003	2004
Projected internet customers		290	310	329
Projected monthly commission per customer	$	20.00	20.00	20.00
Projected internet service provider commissions	$	70,000	74,000	79,000

CITY OF GREATER SUDBURY
THE STATION TELECOMMUNICATIONS PROJECT

Schedule 7

Schedule of Projected Equipment Leasing Costs
For the Three Years Ending December 31, 2004
(Unaudited - See Notice to Reader)

		2002	2003	2004
Projected number of set top boxes installed		210	210	210
Monthly equipment lease cost per set top box	$	11.16	11.16	11.16
Projected equipment leasing costs	$	28,000	28,000	28,000

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Mr. Jim Rule
Chief Administrative Officer
City of Greater Sudbury
Tom Davies Square, 200 Brady Street
Sudbury, Ontario P3A 5P3

RECEIVED
JUN 08 2001

June 6, 2001

Dear Mr. Rule

The Station Telecommunications Project

INTRODUCTION

Please let this letter serve as an addendum to our report dated June 1, 2001 concerning the Station Telecommunications Project (the "Station").

As noted in our earlier report, our review has left us with significant concerns over the Station's viability from a financial standpoint. This conclusion was based on our analysis of the likely financial performance of the Station based on a total market area of 3,000 homes.

As requested, we have expanded our analysis to consider alternate scenarios that would be reflective of the intent to expand the Station throughout the City. Accordingly, we have reviewed the projected financial performance of the Station under three scenarios:

- Deployment to 10,000 households within the City
- Deployment to 30,000 households within the City
- Deployment to 62,000 households within the City, representing 100% of all households in the municipality

While the underlying assumptions supporting our analysis have changed, we continue to question the financial viability of the Station, regardless of the size of the market area. In addition, we note that an expansion of the Station's market area could result in significant increases in both the capital costs of the required infrastructure and the City's investment in the project.

Our comments concerning our additional analysis follow.

ANALYSIS OF ALTERNATIVE SCENARIOS

As a result of our discussions with the proponents of the Station, we understand that the original vision of the Station was to deploy a pilot project in the former Town of Capreol and ten multi-residential properties in the former City of Sudbury. Following this initial pilot project, the underlying infrastructure supporting the Station would be expanded to other portions of the City. This capital expenditure is intended to be financed by the profits generated by the Station.

Analysis of projected operating results

Based on the results of our analysis, it appears that any increase in the Station's market area would not result in a corresponding increase in operating profits. Our analysis indicates that the Station would continue to be challenged from a financial standpoint, regardless of its total market area.

Projected customers

As noted in our earlier report, we have based our financial analysis on industry penetration rates and other indicators for the services to be offered by the Station. Based on our research, we have determined that the potential market for the services to be offered is relatively low, and expect this to be consistent if the Station's market area were expanded.

Based on our analysis, we have determined the customer levels for the Station, based on the expanded market areas, to be as follows:

Projected customer levels assuming varying market sizes

	Number of homes serviced			
	3,000	10,000	30,000	62,000
Internet customers	1,096	1,096	3,288	6,796
Video on demand customers	700	700	2,100	4,340
Alarm monitoring customers	–	–	–	–

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Projected revenues

As outlined in our earlier report, we have assumed that the Station would generate approximately $697,000 in revenues over a three year period, based on a deployment to 3,000 homes. If an expanded market area is assumed, the total revenue to be earned by the Station would increase accordingly.

Based on our estimates of customer levels for each of the scenarios reviewed, we have estimated that the total revenues that could be earned by the Station over a three year period would be in the range of $1.8 million to $10.4 million, as follows:

Projected revenues earned over a three year period assuming varying market sizes

	Number of homes serviced			
	3,000	10,000	30,000	62,000
Internet service	$ 446,000	1,484,000	4,452,000	9,202,000
Video on demand	18,000	63,000	189,000	390,000
Alarm monitoring	–	–	–	–
Local business advertising	204,000	204,000	204,000	204,000
E-commerce commission	9,000	32,000	96,000	198,000
National business advertising	20,000	68,000	204,000	422,000
Total projected revenue	$ 697,000	1,851,000	5,145,000	10,416,000

Projected expenditures

Based on the assumption that the Station's market area and customer base will increase in the future, the projected operating costs to be incurred by the Station will rise as well. As a result, any increase in the Station's market area will likely result in operating losses as we anticipate expenditures will continue to exceed the higher revenues.

Projected operating results over a three year projection period

	Number of homes serviced			
	3,000	10,000	30,000	62,000
Total projected revenue	$ 697,000	1,851,000	5,145,000	10,416,000
Total projected operating costs	1,342,000	3,035,000	8,817,000	14,510,000
Projected deficit	(645,000)	(1,184,000)	(3,672,000)	(4,094,000)
Average annual operating loss	$ (215,000)	(395,000)	(1,224,000)	(1,365,000)

Required capital expenditures and municipal investment

In addition to our concerns over the financial viability of the Station, we also note that any expansion of the Station's market area could be accompanied by significant increases in the amount of capital spending associated with the project.

As a result of our review, we note that the business case estimates the average cost of installing the infrastructure necessary for the Station to be approximately $1,641 per household, as follows:

Estimated per household cost of infrastructure

	Total Cost	Cost per Household
Switching equipment (net of private sector discounts)	$ 3,309,000	1,103.00
Fibre optic cable (to connect households to existing fibre optic network)	379,000	126.00
Fibre to home equipment	875,000	292.00
Installation costs	359,000	120.00
Total costs	$ 4,922,000	1,641.00

In addition to this amount, approximately $812,000 of expenses will also be incurred for computer servers, software development and other items. However, we do not anticipate significant increases in these costs as the market area of the Station is expanded due to the fact that the capacity of these systems should be sufficient to handle the projected customer base.

In light of the above, we estimate that any expansion in the Station's market area can only be accomplished through capital spending equal to $1,641 per additional household serviced. As a result, the projected capital costs associated with the Station under the scenarios considered will likely be in the range of $17 million to $102 million, as follows:

Estimated capital costs associated with expanded market areas

	Number of homes serviced			
	3,000	10,000	30,000	62,000
Projected capital cost per home	$ 1,641.00	$1,641.00	$1,641.00	$1,641.00
Total projected capital cost before computer components	4,922,000	16,410,000	49,230,000	101,742,000
Estimated cost of computer components	812,000	812,000	812,000	812,000
Total projected capital cost	$ 5,734,000	17,222,000	50,042,000	102,554,000

* *

We trust the above is satisfactory for your purposes. Should you have any questions or require further information, please do not hesitate to contact us at your convenience.

Yours very truly

James G. Corless, FCA

Oscar A. Poloni, CA, CBV

km 20736

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www.city.greatersudbury.on.ca

City Agenda Report

Report To: CITY COUNCIL

Report Date: June 15, 2001 **Meeting Date:** June 28, 2001

Subject: National Child Benefit Reinvestment Plan for 2001

Department Review:	**Recommended for Agenda:**
for / Mark Mieto General Manager, Health and Social Services	J.L. (Jim) Rule Chief Administrative Officer
Report Authored by: Kate Barber, Policy/ Community Developer	

Recommendation:

WHEREAS the National Child Benefit (NCB) reinvestment fund, created with municipal savings from the National Child Benefit program, will be approximately $650,000 in 2001; and

WHEREAS the City's NCB programming strategy "Children First" has created successful and beneficial programs for low income children and families which should be maintained; and

WHEREAS local agencies will be able to access provincial funding for programs for young children through the "Early Years" program if they are able to secure local matching funding;

BE IT RESOLVED that the Year 2001 NCB Workplan be accepted.

Background:

The purpose of this report is to seek approval for the attached "Year 2001 NCB Workplan" which outlines the spending priorities for the National Child Benefit (NCB) reinvestment fund for 2001, estimated to be $650,000.

These priorities have been developed:

1. to maintain a comprehensive and stable program of Children First Initiatives, by providing continued funding to existing programs where appropriate

2. to continue to respond to needs identified by community consultation for "Reinvestment Strategies for the Regional Municipality of Sudbury" (circulated on March 22, 1999)

3. to ensure that community matching dollars are available to leverage provincial and other funding for program that address NCB program objectives and priorities

4. to address City Council priorities, current research and other identified community needs.

Introduction:

Year 2001 is the third year of the National Child Benefit Reinvestment initiative. The fund is created from the municipal portion of social assistance savings created by the National Child Benefit Supplement. The City of Greater Sudbury has been successful in creating programs that respond to the following ministry objectives:

- to help prevent and reduce the depth of child poverty; and
- to promote attachment to the workforce

The six "Children First" 1999 Initiatives provided practical supports to low income and at-risk children and their families. These initiatives were designed to respond to the needs identified by community consultation in the document "Reinvestment Strategies for the Regional Municipality of Sudbury". This first phase of Children First includes programs administered by Social Services and by local community agencies which provide families in need with pre-natal and parenting support, improved food security, access to necessary household and baby items and assistance with child care and extra health expenses.

The Year 2000 NCB Initiatives responded to identified community needs not addressed by the 1999 initiatives, such as transportation for low-income and isolated families and housing support for young mothers. It also responded to current research on the social, health and financial benefits of supporting recreation in McMaster University studies and the importance of investment in early child development in Mustard and McCain's "Early Years" Study. These programs were all offered by non-profit community agencies working with children.

In 2000, the NCB Advisory Committee developed a series of "Focus Areas" based on the community needs identified by the 1999 community consultation to be used for NCB Planning. The committee also developed a protocol for funding requests and an official application form.

Year 2001 Reinvestment Strategy:

In 2001, the workplan proposes a four part strategy for the allocation of NCB dollars.

5. **Continued funding of successful existing programs**

   The following programs which have proven to have a positive impact on area families will receive ongoing funding:

   A. Children First: From the Beginning- prenatal vitamins and healthy food for pregnant women.
   B. Children First: Healthy Eating- Collective kitchens for families; School breakfast and snack programs.
   C. Children First: A Helping Hand- Opportunities for Parents, dental benefits and discretionary items for families in receipt of Ontario Works; layettes for infants, the infant food bank and safe baby equipment for loan.

2. **Community Matching Dollars for Early Years Challenge projects**

   Matching funding will be made available to leverage provincial funding for projects that fall within the NCB guidelines. An Early Years Steering Committee will be overseeing the submission of community Early Years proposals over the next 6 months. The following two new projects have already been able to access Early Years funding with NCB matching dollars:

   A. Big Brothers' Preschool Mentoring Pilot Project which will match preschoolers from single parent families with a screened community volunteer for one on one visits in a community child care setting.
   B. The Sudbury District Health Unit's Preschool Nutrition Screening program which will develop a tool that parents can use to assess their preschooler's nutritional risk.

   Other new projects will be able to benefit from these matching dollars.

3. **Limited dollars for special projects**

   There is a limited amount of funding available to provide partial funding for special one-time projects that serve an established community need. The following two projects have received funding under this program:

   A. "Jeunesse Action" a recreation-based summer program for children with identified behavioural challenges offered jointly by Conseil Scolaire de District du Grand Nord de l'Ontario, the Child and Family Centre and Children's Aid.

B. The Smoke Alarm distribution program offered by the City of Greater Sudbury Fire Services which provides fire safety checks and infomration and smoke alarms and batteries to families who would otherwise not have them

4. NCB Program Evaluation and Support

NCB funds will be used to retain an outside agency/ individual to design and implement an evaluation for the overall NCB program and the individual NCB programs. This evaluation will provide valuable information and recommendations to the NCB Advisory Committee for the future allocation of NCB dollars. NCB funding will also be used to provide support to the Mayor and Council's Children First Roundtable in their work to promote and recognize those in the community who work for the benefit of children.

This combination of existing and new programs will help to provide stability and growth to the NCB program. The addition this year of the evaluation component for the overall program sets the stage for the 2002 allocation which will be able to choose from a wide range of existing programs and initiatives to design an NCB strategy that will best meet the needs of low income children and families in our community.

Financial Impact:

Staff estimate that NCB funds available for 2001 will be approximately $650,000. The NCB 2001 Workplan's proposed total of $644,805 falls within this estimate and the currently unallocated community matching area provides some flexibility for unexpected expenses or shortages.

Focus Area	Programs	Allocated in 2001
Prenatal supports for at-risk mothers	**Children First From the Beginning** Pre-natal Vitamins and Supports (ongoing)	 **70,000**
	Total Allocation	**70,000**
Practical supports for families; child care, necessary household and children's items and equipment	**Children First A Helping Hand:** Infant Layettes/ Infant Food Bank (ongoing) Discretionary Benefits (ongoing) Dental Benefits (ongoing) Opportunities for Parents (ongoing)	 **65,940** **60,000** **20,000** **70,000**
	Total Allocation for 2001	**215,940**
Food security and healthy eating	**Children First Healthy Eating:** Breakfast Programs (ongoing) Collective Kitchens (ongoing)	 **69,746** **54,960**
	Total Allocation for 2001	**124,705**
Transportation	*2000 projects ongoing*	**0**
	Total Allocation for 2001	**0**
School readiness and early identification	School's Cool (ongoing)	**59,160**
	Total Allocation for 2001	**59,160**
Access to recreation	*2000 projects are ongoing*	**0**
	Total Allocation for 2001	**0**
Community matching funds	Pre-School STEP (NEW) Pre-School Mentoring (NEW) Other matching (to be allocated) (NEW)	**10,000** **20,000** **60,000**
	Total Allocation for 2001	**90,000**
Special Projects	Jeunesse Action (NEW) Smoke Alarms for Families (NEW)	**12,000** **3,000**
	Total Allocation for 2001	**15,000**
Program Costs	Evaluation, Planning and Administration	**70,000**
	Total Allocation for 2001	**70,000**
	Total Allocation NCB 2001	**644,805.00**

Greater Grand Sudbury

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June 1, 2001

Your Worship Mayor Jim Gordon
and Members of Council

Your Worship and Members of Council:

I have placed on the Agenda for your consideration a motion which, if adopted, would establish a Sister City affiliation policy for the City of Greater Sudbury.

Why have a Sister City? True understanding between people and nations is not something that can be brokered by officials or legislated by politicians. It begins with individual involvement. The more we learn about others, the more we realize just how much we have in common.

The relationships forged at the local level create opportunities for "grass root" citizen participants to experience and explore other cultures through long-term municipal partnerships. These arrangements generate an atmosphere in which economic development, trade, tourism, education, art, history, foreign languages, international relations and global understanding may be stimulated.

From the vantage point of the City of Greater Sudbury, the "grass roots" contact forged between the peoples of two communities helps to correct any distorted impressions of our community often held by the people of other nations. This process also works in reverse for us.

I hope that my fellow Councillors will join with me and adopt this policy so that we can start the process to select a Sister City for our community.

Sincerely,

Mike Petryna

COUNCILLOR MIKE PETRYNA
Councillor, Ward 6