

4.03—Project to Automate the Land Registration System (POLARIS)

(Follow-up to VFM Section 3.03, *Special Report on Accountability and Value for Money—2000*)

BACKGROUND

In 1980, the Ministry (at the time of our audit named the Ministry of Consumer and Commercial Relations, but since renamed the Ministry of Consumer and Business Services) established POLARIS (Province of Ontario Land Registration System) to automate the province's land registration system. The project involves the conversion and automation of paper-based records to permit the searching and registration through computers of real property documents. In 1991, the Ministry transferred ownership and responsibility for the implementation and operation of POLARIS to Teranet Land Information Services Inc., since renamed Teranet Inc. (Teranet), a corporation owned jointly by the province, with 40% of the voting shares, and a private-sector company, with 60% of the voting shares. As of March 31, 2000, approximately 2.5 million of the estimated 4.3 million properties in the province had been fully converted to electronic format.

Teranet receives fees collected by the Ministry out of the Consolidated Revenue Fund for certain land-registration-related services that the Ministry processes using POLARIS. In addition, Teranet receives fees directly for land-registration-related services provided remotely. In return, the Ministry receives royalties from Teranet. From Teranet's inception in 1991 to March 31, 2000, Teranet received \$235 million from land-registered-related service fees, of which Teranet had paid back \$45 million in royalties to the Ministry.

During our review, we identified a number of significant concerns with the Ministry's arrangement with Teranet and the status of its project to automate the province's land registration system, including:

- In 1991, the POLARIS project had an anticipated 1999 completion date, but at the time of our review, ministry information received from Teranet indicated a 2010 project completion date.
- Cost estimates to complete the project had substantially increased from the original 1991 estimate of \$275 million. As of April 1999, Teranet estimated that total costs for the project would be more than \$700 million—an estimate based on Teranet's assumption that certain cost-saving methods could be implemented. A consultant engaged by the Ministry to provide advice on the Ministry's financial risk with respect to the project noted that under other less favourable scenarios, the total project costs could exceed \$1 billion.

- The consultant also noted that the cost to convert the remaining 1.8 million properties using existing workflows and processes exceeds the anticipated revenues from conversions.
- There is a risk that if the Ministry were required to terminate its agreement with Teranet and assume operation and control of the POLARIS project, it would have to address Teranet's \$280-million obligation to its bondholders. As well, the Ministry may have to compensate Teranet for all or part of the \$300 million in costs Teranet has incurred.

At the time, the Ministry advised us that it had not agreed to changes to the contractual obligations of Teranet for completing the project and that it was in the process of deciding on an appropriate course of action.

In 2002, POLARIS was renamed the Electronic Land Registration System (ELRS).

CURRENT STATUS

Based on information we received from the Ministry during our follow-up in April 2002, the Ministry had renegotiated its arrangements with Teranet to address concerns regarding the project's costs and completion date. The project is now estimated to cost \$680 million, its completion date is expected to be September 2007, and its scope has been reduced such that only 87% of all properties are to be fully converted and automated.

Comparison of Original POLARIS and Current ELRS Project Plans

	Under Original Plan (1991)	Under Renegotiated Plan (2002)
Implementation costs	\$275 million	\$680 million
Completion date	1999	2007
Percentage of properties to be converted and automated	100%	87%

Source of data: Ministry of Consumer and Business Services

After an extensive negotiation process, in March 2002 the Ministry and Teranet entered into new agreements, which entail major changes to the Ministry's old arrangements with Teranet and include the following:

- Teranet is required to substantially complete the conversion and automation process by September 2007. The project's completion has been redefined from converting and automating 100% of properties in the province to converting and automating about 87% of properties; the agreements require that the 87% of properties include all properties in communities with a population of 5,000 or more. The revised estimated number of properties in the province as of July 1, 2001 was 4.7 million, and 4.1 million

of these properties were expected to be fully converted under the reduced project scope by the new completion date. As of March 31, 2002, approximately 3 million properties had been fully converted and automated, leaving 1.1 million properties remaining to be converted and automated.

- The new implementation plan, which forms part of the revised agreements, summarizes previous actual costs and expected future costs for the completion of the project as follows:

**Incurred POLARIS and Expected ELRS
Project Implementation Costs**

	(\$ million)
Costs incurred from 1991 to March 31, 2002:	
Direct implementation costs	333
Interest and depreciation costs	58
Total	391
Expected costs from April 1, 2002 to September 2007:	
Direct implementation costs	214
Interest and depreciation costs	75
Total	289
Total expected project cost (1991 to 2007)	680

Source of data: Ministry of Consumer and Business Services

- The completion date and costs and revenues are at risk if the assumptions on which the implementation plan is based do not prove to be correct. Under the new arrangements, a joint committee is to be established to monitor the progress of actual implementation against the implementation plan. Teranet is required to report quarterly to the committee on its costs, efforts, and progress, as well as how real estate market activity, which can impact the conversion timetable, compare to assumptions in the implementation plan. Should a substantial variance occur over several quarters, the committee may investigate the cause of the variance and make recommendations for corrective action. However, Cabinet authority is required to adjust the total cost of implementation or extend the completion date.
- Teranet, which holds a conditional, exclusive licence for providing automated land registration services, receives fees collected by the Ministry for basic services that are processed using ELRS such as registrations and certain ancillary transactions. In 2017, the exclusive licence is expected to end. The Ministry estimates that Teranet will have received almost \$2 billion in fees for basic ELRS services up to 2017. In addition, it is estimated that Teranet's other land-registration-related revenues over this period, such as fees charged for remote access to ELRS and other premium services, will total about

\$1 billion. In consideration of Teranet's estimated revenues up to 2017, the Ministry forecasts it will receive \$466 million in royalties from Teranet over the same period. Teranet is not expected to pay any dividends to its shareholders during this period.

The following table summarizes Teranet's actual and expected revenues and expenditures for its core business related to land registration services from its inception to 2017, when its conditional exclusive licence is expected to end.

**Teranet's Actual and Expected Core Business Revenues
and Expenditures for Land Registration Services, 1991–2017**

	(\$ million)
Revenues	
Fees paid either from the Consolidated Revenue Fund or directly to Teranet for basic registration services using POLARIS/ELRS (land title registrations, searches, certain ancillary fees)	1,976
Fees paid directly to Teranet for premium services (remote access, maps)	498
Fees paid either from the Consolidated Revenue Fund or directly to Teranet for execution of writs searches	<u>521</u>
Total Revenues	2,995
Expenditures	
POLARIS/ELRS project implementation costs	680
Investment in system development	160
Investment in capital	124
Operations	319
Marketing	201
Royalties to the Ministry of Consumer and Business Services	466
Other	308
Interest and taxes	<u>362</u>
Total Expenditures	2,620
Net Revenues	375

Source of data: Ministry of Consumer and Business Services

- The new agreements further clarify the Ministry's rights should Teranet become insolvent or default on its obligations. If Teranet should, for example, fail to provide a minimum production capacity or willfully fail to perform according to the implementation plan (in the absence of extenuating circumstances such as the incurring of a significant operational cash deficit or an economic downturn), an arbitrator may determine that termination of the agreements is necessary. In that case, the new

agreements detail the Ministry's right to assume uninterrupted operation and control of ELRS. A transition period would be required, during which Teranet or its trustee would be required to ensure continuity of basic services until a successor service provider was established.

The new agreements also require that a transition plan be developed and approved by a joint committee before March 31, 2003. The transition plan is to allow for, if necessary, the orderly transfer of responsibility for the operation and control of the basic ELRS system and components from Teranet to a new service provider. The plan is required to be reviewed annually by the joint committee.

- The Ministry also negotiated improvements in the areas of information privacy, system performance and disaster recovery, land registration information quality, liability for errors, and control over setting fees for the use of ELRS for basic services.