Sparks City Council Wildly Important Goal (WIG)
Information Technology Sustainability
Project Summary and Estimated Cost Proposals
(WIG Determined at September 30, 2013 City Council Workshop)

Problem

- As a result of the recent recession, IT spending has been curtailed for several years. No mechanism currently exists to systematically identify IT needs within the City, nor is there a current funding plan to meet those needs on a sustainable basis.

WIG Defined

- *"Create an IT Sustainability Model for Council Consideration by 2/25/14"*

Project Process Summary -- Utilizing a 3 Pronged Approach

1. Creating an IT Equipment Master Database

   - Department representatives met each week over a 4 week period to create an inventory of IT hardware and software by user within each Department

   - Each Department then created an estimated timeline to replace or refresh each separately identified hardware or software that was included in the inventory

     - During this process, it became clear that making a plan to replace/refresh software was not feasible during this project timeline as software presented complexities during the initial start-up phase of this project. In order to avoid overwhelming this project timeline, it was decided to only include IT equipment for this initial FY '15 budget phase and complete the plan for software replace/refresh during the next year to be included in the FY '16 budget process. Thus, this analysis **_excludes_** software implications at this time.

   - Each item on the resulting inventory database was then further defined as either "Departmental Discretionary" or "Central Non-Discretionary"

     - The idea is to identify those items that are used only by specific Departments (for example, computers, monitors, printers, etc.), compared to equipment used by the City as a whole in a more central capacity (for example, servers, central printers, etc.)

   - This Master Database will be maintained and updated every annual budget cycle to estimate IT equipment replacement needs on a 5 year rolling basis

2. Create a Funding Mechanism -- 3 Options for Consideration (details of implementing each option is discussed later in this document)

   - Option 1: "Pay-As-You-Go"

   - Option 2: "Pay-As-You-Go + 20%"

   - Option 3: "Pay-As-You-Go + 25% Prefunding Future 4 Year Cycle"

3. Recommend IT staffing to accomplish the replace/refresh plan as documented in the database

    o To carry out the results from this WIG, we are recommending increasing the IT staffing complement from 7 to 8 positions including filling 1 current vacancy. 2 new hires would be needed, filling 1 current vacancy and 1 net new complement position. Additional personnel costs are estimated at $58,300 FY '15

    o Additionally, $75k of budget authority is being requested for FY '15 to provide external professional services (Services & Supplies) to help the IT staff catch up on computer installations, server upgrades, network issues, etc.

Creating a Funding Mechanism -- Option #1 (Recommended if no prefunding is preferred)

- "Pay-As-You-Go"

- Each fiscal year, a transfer of funds from the General Fund to the Capital Projects Fund would be included in the budget in an amount equaling the estimated cost of that year's IT needs as identified on the master database that are applicable to only the General Fund and any other Fund receiving an operational subsidy from the General Fund (currently, the Parks & Rec. Fund)

    o The CIP will track any residual balance within the Capital Projects Fund that would be derived from underspend (if available) that could be rolled over to help fund the next fiscal year's identified IT needs for both the General Fund and the Parks & Rec. Fund

- All other Funds would pay for any IT needs that are identified as needs of that particular Fund on the master database for each year

- No pre-funding for future IT needs would be considered for any Fund or Department

- This follows our current funding procedure, except we now have a database showing IT equipment within each Department and an estimated funding plan to sustain that equipment

- Fiscal Policy Impact: To be sustainable, a "Pay-As-You-Go" funding policy would require a commitment to fund each year's needs in full within each Department and Fund so as to avoid falling behind and incurring presumably greater costs in the future. This also would assume that the master database of IT equipment continues to be maintained, planning for IT equipment replacement as part of the 5 year CIP, and utilized during each fiscal year budget cycle

Creating a Funding Mechanism -- Option #2 (Recommended if only minimal prefunding is preferred)

- "Pay-As-You-Go + 20%" -- Fully fund next year's IT budget + 20% of the subsequent year

- Similar to Option #1 in that each year a transfer would be made from the General Fund to the Capital Projects Fund to pay for the General Fund and Parks & Rec. Fund IT needs for each fiscal year, as part of the approved 5 year CIP

- Option #2 would expand that funding such that the amount transferred would cover the IT needs for the next fiscal year + 20% of the IT needs identified in the year following

    o For example, if $100k of needs were identified for FY '15, and another $300k of needs are identified for FY '16, then a total of $160k would be transferred from the General Fund to the Capital Projects Fund in FY '15 to pay 100% of needs in FY '15 + prefunding 20% of the needs identified for FY '16

- The amount that is considered "prefunding" will only be tracked at a Fund level….meaning how much is available for the General Fund and the Parks & Rec. Fund is accounted for separately. No prefunding allocation will be made to individual Departments

- All other Funds (i.e., not subsidized by the General Fund) would be on a Pay-As-You-Go basis only with no prefunding considered

- The limitations on prefunding abilities is due to practical limitations from the City's accounting structure and financial system abilities

- Fiscal Policy Impact: This would mirror the sustainability aspects covered under Option #1 with the added feature of setting aside an additional 20% of IT needs identified within the Master Database under year #2 of each budget cycle. This will help ensure that IT needs of the immediate next 2 fiscal years are met, but doesn't provide any prefunding for future needs

Creating a Funding Mechanism -- Option #3 (Recommended if greater prefunding and accounting by Department is preferred)

- "Pay-As-You-Go + 25% Prefunding Future 4 Year Cycle" -- Fully fund next year's IT budget + 25% of the replacement costs identified in the Master Database over the subsequent four fiscal years

- This option involves creating a new Information Technology Internal Services Fund in order to create a vehicle to account for prefunding set aside for future specific Department and Central IT needs

- Central and Departmental IT costs (including central personnel costs) would be accounted for within the new IT Fund

- Each Department and Fund would be charged a fee to fund the IT Internal Services Fund covering central personnel and equipment costs. This would show up in each Departmental Non-Discretionary Services & Supplies budget under the line item titled "Central IT Costs"
    - Since central IT costs will be moved from the General Fund to the new IT Internal Services Fund, the current Cost Allocation Plan which is used to charge a portion of central functions to other Funds will need to be modified. Likely a new allocation method would need to be utilized

- Each Department and Fund would also be charged a fee to fund the new IT Internal Services Fund covering Departmental specific IT costs. This would show up in each Departmental Discretionary Services & Supplies budget under the line item titled "Departmental IT Costs"

- Both Discretionary and Non-Discretionary charges will become revenue to the new IT Internal Services Fund as "Charges for Services"

- The revenue into the new IT Internal Services Fund will be tracked in the City's financial system as resources covering both Central Non-Discretionary costs and Departmental Discretionary costs

- The Central Non-Discretionary costs will consist of city wide IT costs including items such as central servers, IT personnel, central printers, etc. and will be allocated annually to all City Departments and Funds pro-ratably according to the personnel complement within each Department and Fund (i.e., according to head-count published in the complement)

- Departmental Discretionary costs will consist of Department-specific costs such as new computers, printers, etc. Each Department will need to analyze their 5 year IT equipment replacement plan and update the IT equipment Master Database each budgetary cycle

- The new IT Internal Service Fund will be used to accumulate resources to pay for identified IT costs each fiscal year as well as to partially prefund future IT costs with any accumulated balances tracked by Department and Fund
  - Both Central and Departmental needs over a 5 year period will be identified within the Master Database. Resources will then accumulate within the new IT Internal Services Fund and tracked to help meet the short and long-term IT equipment needs for each Department and Fund that is charged

  - For example, charges to the Police Department will help fund both current and future Non-Discretionary Central IT needs of the City, prorated according to personnel headcount, as well as to help fund Police Department-specific short and long-term IT needs. Those charges to the Police Department budget will become resources within the new IT Internal Services Fund from which costs will be administered

- Prefunding future IT needs will be a function of charging Departments and Funds for needs identified in the Master Database for the upcoming fiscal year _**plus**_ a portion of future IT needs on a rolling 5 year basis. The likely outcome is that a certain level of fund reserves will be maintained in the new IT Internal Services Fund in perpetuity identified separately as resources available to pay for identified Central and Departmental-specific IT needs. However, those resources accumulated over time for General Fund and Parks & Rec. Fund IT purposes could be made available for other purposes should Council choose to do so. This would be effected by way of a transfer back to the General Fund as deemed necessary in any given year (i.e., only those resources accumulated for General Fund and Parks & Rec. Fund needs)
  - However, to move money back to the General Fund from the IT Internal Services Fund would also require a determination of the amount of money to remove that are otherwise earmarked for specific Departmental use within the new Fund

- These accounting methods to meet IT needs would be available to all City Funds

- Fiscal Policy Impact: Option #3 would require a City Council resolution creating and outlining the purpose of a new IT Internal Services Fund. Annual funding recommendations will be made at the Department and City Manager level as part of the annual budget cycle that are ultimately approved by the City Council as part of the annual budget. However, separate funding decisions by Council in theory won't be needed any more than are annual decisions to fund other Departmental requested operating Services & Supplies

- The risk to Option #3 is that if prefunding for future IT needs isn't placed into the new IT Internal Services Fund (either initially or in future years), then we would essentially be creating a more complex method of accounting for IT transactions than is necessary
  - In other words, we would be creating a fairly complex accounting structure for no real purpose other than to perhaps create more visibility of IT costs

  - Without committing to prefunding future IT needs, Option #3 would not be recommended by the Financial Services staff

Est. Budget Impact Summary -- All Funds (Excluding Treatment Plant)

IT Expenditures by Fund w/in Master Database by Fiscal Year -- Equipment Only (Excluding Treatment Plant)						
	FY '15	**FY '16**	**FY '17**	**FY '18**	**FY '19**	**Total**
General / Parks & Rec. Funds						
Discretionary	$457,145	$80,535	$112,820	$96,810	$74,060	$821,370
Central Non-Discretionary	$162,693	$130,183	$264,730	$118,547	$76,364	$752,517
Total (Option #1: Pay-As-You-Go)	$619,838	$210,718	$377,550	$215,357	$150,424	$1,573,887
Total (Option #2: FY '15 + 20% of FY '16)	$661,981	$244,084	$345,111	$202,370	Unk	Unk
Total (Option #3: FY '15 + 25% of FY '16-FY '19)	$858,350	Unk	Unk	Unk	Unk	Unk
Development Services Enterprise Fund						
Discretionary	$1,825	$2,900	$700	$690	$240	$6,355
Central Non-Discretionary	$5,358	$4,287	$8,718	$3,904	$2,515	$24,781
Total (Pay-As-You-Go)	$7,183	$7,187	$9,418	$4,594	$2,755	$31,136
Sewer Enterprise Fund						
Discretionary	$53,855	$5,240	$1,340	$3,770	$970	$65,175
Central Non-Discretionary	$17,909	$14,331	$29,142	$13,050	$8,406	$82,838
Total (Pay-As-You-Go)	$71,764	$19,571	$30,482	$16,820	$9,376	$148,013
Other Capital Projects & Internal Service Funds						
Discretionary	$5,230	$4,000	$3,680	$3,040	$0	$15,950
Central Non-Discretionary	$12,623	$10,101	$20,541	$9,198	$5,925	$58,388
Total (Pay-As-You-Go)	$17,853	$14,101	$24,221	$12,238	$5,925	$74,338
Total All Funds (Analysis Excludes TMWRF)						
Discretionary	$518,055	$92,675	$118,540	$104,310	$75,270	$908,850
Central Non-Discretionary	$198,583	$158,902	$323,130	$144,698	$93,211	$918,524
Total (Pay-As-You-Go)	$716,638	$251,577	$441,670	$249,008	$168,481	$1,827,374

FY '15 Proposed Est. Budget Impact Summary (General & Parks & Rec. Fund)			
	Option #1	**Option #2**	**Option #3**
Equipment	$619,838	$661,981	$858,350
IT Personnel Costs	$58,300	$58,300	$58,300
IT Services & Supplies Costs (Professional Services)	$75,000	$75,000	$75,000
Subtotal Costs	$753,138	$795,281	$991,650
Less: Current IT "Tech Refresh" Budget Allocation	($210,000)	($210,000)	($210,000)
Net New Costs Est. for FY '15	**$543,138**	**$585,281**	**$781,650**
Level of Administrative Complexity:	**Low** ⟹		**High**

Executive Summary

- "IT Sustainability" requires committed funding at least on a Pay-As-You-Go minimum
- Funding Options #1 & #2 provide the most funding flexibility during the annual budget cycle
- Funding Option #3 is complex and requires an on-going annual commitment to prefund and a new IT Internal Services Fund to be effective
- Financial Services Staff recommends implementing funding option #1 or #2. Option #3 would require too much funding commitment to be effective as City finances remain uncertain.