# *Funding Technology*

Response to Staff Direction from
Ways & Means/Budget Committee

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# Government Finance Officer's Association (GFOA) Guidance

- Strategic Planning for Technology Investments
  - Alignment with City goals
  - Business case should analyze cost-benefit
- Recommended Practice on Budgeting for Technology "under development"
  - Governance
  - Cost of decision making

# City Financial Policies

- *Debt Management*
  - *Bond terms should be no longer than the useful life of the project*
  - *Departments receiving capital funds (such as bonds) must account for increased operating costs*
- *Pre-payment of Technology Projects [adopted in March 2006]*
  - Many of the same criteria as rollover funds
  - Requires any canceled or remaining project funds be returned to the general fund contingency
  - Similar to bonded projects, funds allocated under this section expire after four years

# City Financial Policies

- Payment of Ongoing Operating Costs
  *[adopted with the 2007 Budget]*
  - Departments must identify within existing resources funds used for the ongoing costs related to technology.
  - Operating cost report must be submitted to the Ways & Means/Budget Committee before technology is purchased when maintenance costs exceed $50,000/year.

# What is the City's Current Approach for Funding Technology?

- City bonds for roughly $1.5M annually for technology projects
- Departments pre-paid $3.7M in technology last year
- Recently, some projects have been funded through cash in the capital budget on a "one-time" basis
- Grant funding when available

# What does it Cost to Bond?

| Financing Technology in the Capital Budget (From Lowest Cost to Highest Cost) | Annual Levy Increase Needed | # of Years Committed to Levy | Total Amount Levied Over Time | Estimated Real Cost per $1 of New Spending |
|---|---|---|---|---|
| Pay As You Go - Capital Levy - per $1 million | $ 1,015,228 | 1 | $ 1,015,228 | $ 1.00 |
| (Assuming 98.5% collection percentage) | | | | |
| 5 Year - Net Debt Bond Financing - per $1 million | $ 234,495 | 5 | $ 1,172,475 | $ 1.12 |
| (Mandatory 105% Levy) | | | | |
| ***Note: Current NDB financing generally uses this approach.*** | | | | |
| 10 Year - Net Debt Bond Financing - per $1 million | $ 129,752 | 10 | $ 1,297,520 | $ 1.24 |
| (Mandatory 105% Levy) | | | | |
| 20 Year - Net Debt Bond Financing - per $1 million | $ 80,960 | 20 | $ 1,619,200 | $ 1.54 |
| (Mandatory 105% Levy) | | | | |

Note: Everything above shows what would be required to finance an additional $1 million of new capital spending on a one-time basis.

# What have we done in the Past?

- Did not increase charges to departments or the property tax levy to pay the debt for bonded technologies
- Assumed savings would cover debt payments—savings did not materialize
- Practices led to a $40M deficit in internal service funds
- Extended debt from 7 years to 12 years (refunding done in 2000, City debt is still outstanding through 2012 for obsolete systems)

# Tenets of the Workout Plan

- Restrain level of technology investment from $12M to $2M annually
- Reduce expenditures (including outsourcing desktop services)
- Increase GF transfer by $1.2M annually
- Develop rate model to reflect ongoing costs of technology investments

# Policy Considerations

- Pay as You Go approach is preferable, but there are other considerations
  - What can the City afford?
  - Which departments can afford PAYGO (system may create winners and losers)?
  - How long will the technology last?
  - What are the staffing and training implications for the purchase of the technology?
- Ongoing costs related to maintenance and technology replacement remain the most challenging issues

# Questions?