



Department of County Management

MULTNOMAH COUNTY OREGON

Budget and Evaluation Office

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TO: Bill Farver, Chief Operating Officer
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FROM: Sherry Swackhamer, Chief Information Officer
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DATE: September 16, 2008

SUBJECT: Proposal for IT Capital Projects

Over the past several years all Information Technology resources have been combined into one fund (3503 – Information Technology Fund). This has tended to limit the visibility of reserves held for asset replacement. The Telecommunications Fund was merged with the IT Fund a number of years ago. The Flat Fee program was merged with the IT Fund in FY 2008. The IT Fund has accumulated a fairly large balance over that time and it is important, from both a management and accounting standpoint, to segregate the various purposes for which that balance is to be used.

We will continue to use the IT Fund to support all costs related to day-to-day operations of desktop computing, applications support, and telecommunications devices. Under this proposal, however, we will establish a fund to account for the reserves which have been accumulated for asset preservation and new applications development. This model is similar to the methodology used by Facilities & Property Management to account for capital projects and replacement reserves.

New Fund for Capital and Asset Replacement

For FY 2010, we propose to dedicate an existing fund (2508 – Capital Asset Acquisition Fund) and rename it the **IT Capital Projects Fund**. We will budget all IT capital projects and expenditures – projects supported by the Innovation and Investment Fund (ITIIF), asset replacement, departmental “small” capital – in this fund. It will be used for central IT as well as departmental IT capital. The IT Division will budget for and manage, when applicable, the centrally funded projects while departments will be responsible for managing and tracking their own small capital expenses in the fund.

We define small capital to be hardware, software, or project development that does not meet the threshold for funding from the ITIIF. It can also account for hardware and software that departments formerly accounted for under the ITAR program.

Revenue sources to the fund will be the following:

- PC Replacement/Flat Fee
- IT Asset Replacement
- IT Innovation/Investment Fund
- IT Fund Balance Reserved for PC/Telecommunications/Asset Replacement

In the budget manual for FY 2010 we will instruct departments to use two cost elements that have been established as service reimbursements. Those are:

- 60390 – Flat Fee
- 60400 – Information Asset Preservation

We propose to change the names of these cost elements to **PC Replacement** and **IT Small Capital**, respectively, to more clearly articulate their purpose.

Issues for Discussion

One of the concerns we have had with the current practice of allocating a portion of the IT Fund balance to the ITIIF is that it is not clear if we have provided adequate funding for asset replacement. We also feel that we need to be conscious of capacity issues – both for ongoing financial support and staff resources – to complete projects that are chosen for funding.

Under this proposal, all of the revenue allocated to projects that have been approved by the IT Advisory Board (ITAB) will be moved to the new IT Capital Fund. This raises the question of how that fund will be supported in the future. There are a number of possible options to consider. We recommend that we continue to allocate part of the operating fund balance to the ITIIF. However, it might also make sense to use excess operating revenue to subsidize rates in future years. Another option could be to dedicate an annual contribution to the ITIIF from the General Fund. This funding would come “off the top” for purposes of calculating constraints.

We have also discussed how the asset replacement funds should be managed. In the past, departments were able to track their individual contributions to the Flat Fee program. If there were excess funds in a department’s Flat Fee cost center those could be applied to the ITAR program. Each department knew what its specific Flat Fee balance was based on the number of PCs allocated to them.

We recommend that PC replacement be managed as a countywide asset. In other words, we will know how many total devices are owned by the County and IT will manage the resources to make sure we have sufficient funds to replace them on an agreed upon schedule.

Departments will not have ownership of those funds and will not be able to divert them for other purposes. If the fund generates more revenue than is necessary for replacement (i.e.; as the price of PCs comes down) we would recommend that the excess be used to reduce the PC replacement fee rate in future years. Alternatively, that excess could also be another source of funding for the ITIIF. We will review the replacement reserves on a regular basis and make recommendations on annual PC replacement rates to the ITAB.

Capital projects that do not meet the threshold for funding from the ITIIF can be purchased through what we are calling a "Small Capital Fund". This fund would provide for projects that cost **more than \$5,000 but less than \$75,000** and are specific to individual departments. We propose that departments be responsible for managing this Small Capital Fund with oversight by a Technology Review Board. The board will have representation from County IT, District Attorney IT, and Sheriff's Office IT. This board will be responsible for ensuring that small capital purchases are compatible with existing County systems and can be supported with existing resources.

This fund will be supported by revenue from two sources. We recommend that a portion of the resources currently allocated to the ITIIF be used as a matching fund that would serve as the seed funding for purchases from the Small Capital Fund. Departments will make application to the fund and will have to commit to fund half the purchase from their own resources.

Departments will need to make a conscious effort to plan and budget an amount for small capital and each department will have its own cost center where revenues will be credited and expenses tracked. If this proposal is accepted it will be important that this be the **ONLY** source of funding for purchases that used to be supported by the ITAR program. Departments will also be responsible for managing the balance in their account and re-appropriating any carryover in the next year's budget. Additional matching funds may be allocated to the Small Capital Fund if the ITAB agrees to transfer funds from the ITIIF.

A proposed allocation of the current IT Fund balance among these various uses is attached. The values are from the FY 2009 budget and are for illustrative purposes only. IT is working on refining the actual values related to asset replacement. It is assumed that there are sufficient resources to complete the projects that have been approved by the ITAB.

cc: Operations Council
Budget Office
General Ledger

IT Capital Fund

FY 2009 Sources/Uses of Revenue

Fund Balance @ 7/1/08 \$ 9,011,191

Proposed Uses

FY 2008 ITIIF Project Carryover		\$ 2,033,687
Facilities Mobile Assets	200,000	
SAP Upgrade	33,723	
Land Use Planning System	200,000	
Web Redesign	250,000	
Corrections Health EMR	650,000	
Disaster Recovery	699,964	
Other IT Capital		
SQL Server Conversion		500,000
Project and Performance Mgmt		266,300
FY 2009 Approved ITIIF Projects		2,585,833
DA Content and Document Mgmt	363,645	
MHAS Case Mgmt and Billing	1,098,964	
JJIS Supplemental Information	950,000	
Defendants' Supervision Kiosks	100,000	
Find A Home Website	73,224	
Desktop Asset Replacement		2,286,457
Telecom Asset Replacement		548,850
Server Asset Replacement		236,264
Total - Capital/Asset Replacement		\$ 8,457,391
Unallocated Balance		553,800