

Signature Report

September 18, 2003

Motion 11793

Proposed No. 2003-0266.2

Sponsors Constantine

1 A MOTION approving the finance and business operations
2 division revised report on establishing an equipment
3 replacement plan for the finance services internal service
4 fund and requesting the executive to develop a plan to
5 standardize and centralize personal computers and file
6 servers.

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9 WHEREAS, Ordinance 14517 contains a proviso requiring the finance and
10 business operations division to develop an equipment replacement report by June 1, 2003
11 that includes the following elements:

- 12 A. An inventory of existing equipment;
13 B. A description of the function the equipment performs;
14 C. The age and useful life of the equipment;
15 D. Equipment replacement standards;
16 E. A prioritization list;
17 F. Schedule and budget for replacement of the equipment; and

18 G. A proposal for establishing an equipment replacement reserve, and
19 WHEREAS, the finance and business operations division has submitted a report
20 by June 1, 2003 addressing the items identified in the budget proviso;

21 NOW, THEREFORE, BE IT MOVED by the Council of King County:

22 A report addressing the equipment replacement needs and establishing an
23 equipment replacement reserve policy titled a King County Department of Executive
24 Services – Finance and Business Operations Division Equipment Replacement and
25 Funding Revised Plan – Dated September 8, 2003 for the financial services fund is
26 hereby approved.

27 The executive is commended in his efforts to develop personal computer
28 standards for the department of executive services and countywide through the
29 technology governance process and for review and approval by the chief information
30 officer.

31 The executive is requested to develop an equipment replacement plan and funding
32 policy that would standardize and centralize both personal computer and file server
33 replacement within the technology units within the department of executive services.
34 The plan shall be forwarded to council by July 1, 2004.

35 The executive is encouraged to develop countywide personal computer and file

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36 server standards for equipment replacement and centralization that are reviewed and
37 approved through the technology governance process.

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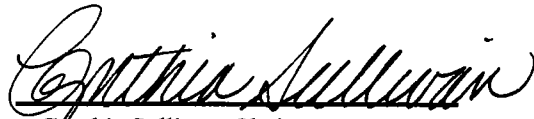
Motion 11793 was introduced on 6/9/2003 and passed by the Metropolitan King County Council on 9/18/2003, by the following vote:

Yes: 11 - Ms. Sullivan, Ms. Edmonds, Mr. von Reichbauer, Ms. Lambert, Mr. Phillips, Mr. Pelz, Mr. McKenna, Mr. Constantine, Mr. Hammond, Mr. Gossett and Mr. Irons

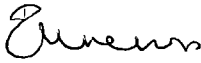
No: 0

Excused: 2 - Ms. Hague and Ms. Patterson

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON


Cynthia Sullivan, Chair

ATTEST:



Anne Noris, Clerk of the Council

Attachments A. King County Department of Executive Services - Finance and Business Operations
Division Equipment Replacement and Funding Plan - Dated September 8, 2003

King County Department of
Executive Services

**Finance And Business
Operations Division
Equipment Replacement &
Funding Plan**

September 8, 2003

INTRODUCTION

In response to a proviso included in Section 104 of the 2003 Adopted Budget, the Finance and Business Operations Division has prepared this equipment replacement plan that addresses the particular items requested in the proviso, which reads as follows:

(1) PROVIDED THAT:

By June 1, 2003, the executive shall submit for council approval by motion an equipment replacement plan. The plan shall include, at a minimum: an inventory of existing equipment; a description of the function the equipment performs; the age and useful life of the equipment; equipment replacement standards; a prioritization list; schedule and budget for replacement of the equipment; and a proposal for establishing an equipment replacement reserve. The plan must be filed with the council clerk. The original and 16 copies of the plan must be delivered to the clerk, who will retain the original and will forward copies to each councilmember and to the lead staff for the budget and fiscal management committee and the lead staff of the labor operations and technology committee.

Finance and Business Operations Division

The Finance and Business Operations Division (FBOD) provides a variety of financial services to other County departments, including cash management; procurement and contract services; financial systems operations, financial reporting; accounts payable, accounts receivable, collection enforcement; payroll services; benefits and retirement services; and other related financial services. FBOD is organized as an internal service agency and charges for the services rendered to recover its costs based on a comprehensive rate model. The financial services rate model is designed to recover the cost of operating and maintaining the division, and the rates are then allocated in an equitable manner based on proportionate use of the above services by the King County agencies.

FBOD rates are determined by calculating the total cost of the various services including direct costs, overhead costs, and central services. Direct costs include staff wages and benefits, supplies, contract services, telecommunications, technology, printing, training, and other O&M costs. Overhead costs cover direct supervision and division management and central costs include an appropriate share of space costs, CX overhead, Prosecuting Attorney charges, and risk management. The rates charged to customers do not include an allowance for accumulating resources for the replacement of major capital equipment.

DESCRIPTION OF THE FUNCTION THE EQUIPMENT PERFORMS

The inventory of FBOD equipment provides information about the date each piece of equipment was acquired, the original cost of the equipment and its estimated useful life. For purposes of the equipment replacement plan, all of FBOD's equipment was separated into one of eight major categories, as follows:

1. Network File Servers

This is an especially critical category of equipment since the servers, which are owned by FBOD, support the daily production of the County's Peoplesoft Payroll system, the IBIS financial system, and all of financial systems Web reporting. Some of these servers are housed and maintained by ITS, with FBOD consulting closely with and receiving assistance from ITS with their replacement.

2. Warrant (Remittance) Processor

The remittance processors are optical character recognition machines that are used to process various types of payments remitted to King County. The major use is for property tax payments for all taxing jurisdictions, which will total approximately \$2.5 billion this year. They are also used to process AIRS invoice payments, capacity charge payments, and bus pass payments. The machines sort the checks by bank so that they can be directly deposited, resulting in the County receiving same day interest credit. In addition, the payment data is captured and transmitted daily to the County's mainframe computer for posting to the accounting records. This is the single most expensive piece of equipment owned by FBOD and is a high priority for replacement. The machines are reaching the end of their useful life and need to be replaced soon.

3. Form Detacher and Burster

This piece of equipment is considered a high priority for replacement. The machine supports the mailing of ARMS accounts payable warrants to the County's vendors. The warrants are printed in ITS and then delivered to FBOD Accounts Payable where this machine signs and bursts them. The current machine dates from 1981 and replacement parts are becoming scarce. It also serves as the backup for the MSA Payroll system warrants.

4. Micro-Computers, Printers, and Laptops

Every section within FBOD uses personal computers and nearly every employee has their own computer. They are used both in support of daily financial system operations and for administrative business purposes. Many of the personal computers connect directly with the production systems and those within this category are a high priority for replacement.

The printers go along with the personal computers described above, either directly supporting a single PC or supporting a group of PC's

The laptops are used for training and by field personnel.

5. Mailing Machines (Folders, Inserters, Postage, and Mail Openers)

This category represents a variety of machines that support the high production level of mailings that Finance and Business Operations sends out, particularly related to property taxes. One machine is used for folding materials to be mailed, inserting materials in envelopes, sealing the envelope, and adding postage. The machine supports the mailing of property tax statements, change of address notices, and Department of Assessments personal property affidavits. FBOD also has mail openers that automatically open the high volume of mail received by the Treasury Operations Section.

6. Heavy Duty Printers

Both Payroll and Accounts Payable require heavy-duty printers for the high volume of warrants and other systems production printing activity that they require. One of the production printers is nearing the end of its useful life and is due for replacement soon.

7. Check Sealer/Info Sealer

This equipment allows for a one-step payroll warrant processing, eliminating the folding, inserting, sealing, and metering of envelopes. It is currently used only in support of Peoplesoft Payroll, but usage is expected to grow when the decision is made to convert more employees from MSA to Peoplesoft.

8. Other

This category covers a variety of less production-oriented, lower cost equipment, such as fax machines, projectors, and network equipment.

REPLACEMENT MODEL

The equipment replacement model was determined based on the following major factors:

- Importance of equipment in support of high priority production systems (Payroll, Accounts Payable, Treasury Operations, etc.).
- Age and remaining useful life of current equipment.
- Ability to repair existing equipment.
- Availability of backup equipment in event of sudden failure.

Based on these factors, the attached Equipment Replacement Schedule shows how FBOD plans on replacing its equipment over the next seven years. The equipment is grouped into major categories and listed in priority order, as it is in the equipment descriptions above.

COST OF EQUIPMENT FAILURE

As previously mentioned, key equipment in Finance and Business Operations is critical to the successful operation of the County's financial and payroll systems. A catastrophic failure of critical equipment could result in the inability to operate the County's main financial systems, which could possibly have huge financial consequences, as follows:

- Late payment penalties for vendor payments
- Contract violations
- Violations of labor agreements
- Late billings, late deposits, lost cash flow, and lost investment opportunities
- Lawsuits from special districts for late deposits
- Delayed project information for managers
- Delays in procurements
- Loss of the ability to take prompt payment discounts
- Possible labor work stoppages

In addition to the above financial consequences, catastrophic failure would also greatly harm the trust and integrity of County government and affect all future business operations with outside vendors and employees.

SPENDING PLAN

The following table is a spending plan for equipment replacement over the next seven years from 2004 through 2010. It is based on the equipment replacement schedule described above and illustrated in the attached spreadsheet. The establishment of an equipment replacement reserve and an annual spending plan allows for the gradual build-up and regular funding of the reserve over a period of years, rather than funding equipment on an as needed basis. This will have the benefit of spreading the cost out more evenly and avoid rate increase spikes in years that expensive equipment must be replaced.

The plan starts with the commitment from FBOD to use \$260,000 in capital outlay in its base budget in support of the equipment-spending plan. It is assumed that this base budget level will continue through 2010. If a one-time equipment request of \$360,000 occurs in the 2004 proposed budget, it would satisfy the immediate need to replace the Treasury remittance processors. In addition, the first deposit of \$300,000 will be made to the equipment replacement reserve in 2004. In future years, annual deposits of \$300,000 will be made to the reserve and, at the same time, withdrawals will be proposed based on each year's particular equipment needs. When the equipment replacement reserve reaches a total of \$900,000, future contributions will be adjusted downwards to keep the reserve at this level. The upper limit of \$900,000 was chosen, because it represents about a two-year equipment need, which is generally considered a prudent level for the reserve.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Base Budget	260,000	260,000	260,000	260,000	260,000	260,000	260,000
New Budget Request*	360,000						
Budget Request From Reserve		40,000	115,000	25,000	205,000	60,000	125,000
Total Equipment Budget	620,000	300,000	375,000	285,000	465,000	320,000	385,000
Add to Reserve	300,000	300,000	300,000	180,000	205,000	60,000	125,000
Deduct From Reserve		(40,000)	(115,000)	(25,000)	(205,000)	(60,000)	(125,000)
Reserve Balance	300,000	560,000	745,000	900,000	900,000	900,000	900,000

* For replacement of critical remittance processing equipment