

King County Department of
Executive Services

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

May 27, 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 \$250,000 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 \$400,000 occurs in the 2004 proposed budget, it would satisfy the immediate need to replace the warrant processors and some Payroll servers. 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	250,000	250,000	250,000	250,000	250,000	250,000	250,000
New Budget Request*	400,000						
Budget Request From Reserve		100,000	150,000	100,000	250,000	100,000	200,000
Total Equipment Budget	650,000	350,000	400,000	350,000	500,000	350,000	450,000
Add to Reserve	300,000	300,000	300,000	300,000	300,000	100,000	200,000
Deduct From Reserve		(100,000)	(150,000)	(100,000)	(250,000)	(100,000)	(200,000)
Reserve Balance	300,000	500,000	650,000	850,000	900,000	900,000	900,000

* For replacement of critical remittance processing equipment and payroll servers. Currently under review by the Executive.

Finance and Business Operations Equipment Replacement Schedule

	Total Cost Amount in Inventory	No.	Current Age of Assets	Equipment Function / Comments	Life - Years	Priority Code	Estimated Current Replacement Cost (each)	2004	2005	2006	2007	2008	2009	2010
Finance Assets subject to Replacement Policy:														
NETWORK FILE SERVERS	\$465,623	10	Range from 1998 - 2002	Network servers used in the Web, IBIS and PeopleSoft as both primary and backup operational systems	4	VH	Varies	125,000	110,000	275,000	150,000	150,000	150,000	275,000
WARRANT (Remittance) PROCESSING	\$287,905	2	1996	The remittance processors are optical character recognition machines that are used to process various types of payments remitted to King County. These include: King County Property tax payments (in 2003 approximately \$2,400,000,000 in taxes will be processed)	8	VH	163,200	336,192						
FORM DETACHER & BURSTER	\$7,985	1	1981	ARMS AP warrants are printed in ITS and delivered to A/P (approx. 300,000/yr.) for signing and bursting. The current Standard signer/burster machine dates from 1981 with parts becoming scarce.	10	VH	35,512	36,578						
MICRO-COMPUTERS, PRINTERS, AND LAPTOPS	\$553,098	305	Most - 1996 or later	PC's used by operational Finance staff, training areas, and operations (such as auditors). Printers used for various sectional needs.	4	H	43,776	128,689	132,437	136,185	139,933	143,682	147,430	151,179
MAILING MACHINES (FOLDERS, INSERTERS, POSTAGE, AND MAIL OPERNERS)	\$218,700	7	1984-2002	These machines are used for automatic stuffing of envelopes, applying postage, and automatic opening of mail. They are mainly used in a high production capacity for Property Tax statements and payments.	10	H & M	210,646	24,654	25,372		26,808	209,623		
HEAVY DUTY PRINTER	\$47,740	2	1995, 1998	Both payroll and accounts payable get very heavy use with normal county production - upgrade of equipment should be offset by falling equipment prices.	7	M	23,870		25,302				28,167	
CHECK SEALER/INFO SEALER	\$45,057	2	1999, 2002	Equipment allows a one-step payroll warrant processing, eliminating the folding, inserting, sealing and metering, and purchase of envelopes. Equipment usage is expected to increase with conversion of MSA to Peoplesoft. Backup machine is located in ITS.	7	M	25,908	8,853	27,462				30,571	
OTHER	\$30,608	10	Various	Fax machines, projectors, network equipment	8-10	M	16,202	659,966	335,647	416,403	326,368	508,810	361,817	431,972
					Base Budget		250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
					New Budget Request*		400,000							
					Budget Request From Reserve			100,000	100,000	100,000	100,000	250,000	100,000	200,000
					Total Equipment Budget		650,000	350,000	350,000	400,000	350,000	500,000	350,000	450,000
					Add to Reserve		300,000	300,000	300,000	300,000	300,000	300,000	100,000	200,000
					Deduct From Reserve			(100,000)	(100,000)	(100,000)	(100,000)	(250,000)	(100,000)	(200,000)
					Reserve Balance		300,000	500,000	650,000	650,000	850,000	900,000	900,000	900,000
					* Currently under review by the Executive									