



MEMORANDUM

To: Kurt Triplett, City Manager
From: Tracey Dunlap, Director of Finance and Administration
Date: September 24, 2012
Subject: PUBLIC SAFETY/IT EQUIPMENT SINKING FUNDS ISSUE PAPER

BACKGROUND:

During the 2011-2012 budget process, the concept of establishing sinking funds for the replacement of public safety equipment and information technology infrastructure and systems was discussed in an issue paper presented to Council and identified as a priority as financial conditions stabilized. At the Council retreat in March 2012, staff updated the Council on the sinking funds analysis and proposed to bring back recommendations as part of the 2013-2014 budget process. Staff reviewed the initial results of the equipment replacement reserve sinking fund analysis for public safety and IT assuming a 20-year forecast at the Finance Committee meeting on August 20, 2012. The Committee requested staff to bring forward an alternative model assuming a 10-year forecast, which was presented at the September 25 meeting.

The detailed results presented below reflect the 10-year forecast alternative, which has been incorporated into the preliminary 2013-2014 budget.

Sinking Fund	Total Replacement Need	Initial Contribution	Annual Contribution
Fire	2,160,718	750,000	375,000
Police	707,664	250,000	125,000
Information Technology*	2,941,757	500,000	450,000
Total	5,810,139	1,500,000	950,000

*excluding major systems

This alternative presents a significantly lower initial contribution and slightly lower on-going contribution, adequate to meet the needs over the next ten years. It should be considered a strong first step in establishing these reserves, however, the longer range need will need to be revisited in subsequent budget discussions since some of the equipment items have a life longer than 10 years, requiring the balance and contribution to step up in future years. A comparison of the 10 versus 20 year projections is provided at the end of this discussion.

Note that the replacement of fleet vehicles (aid cars, engines, patrol vehicles, etc.) is currently funded through the Fleet fund and desktop and laptop computers are funded through a sinking fund in the Information Technology budget.

A number of one-time and on-going funding sources are recommended for use in establishing the reserves, many of which have been previously identified toward this purpose, including:

One-time

Initial Contributions Sources:	
Unused Fire overtime/equip. contingency from 11-12	200,000
NORCOM Credits for Overpayments in 2011	112,000
Liquor Profits set aside in 2011-2012	428,000
Balance from IT One-time Annexation Service Package	500,000
2012 General Fund Under-expenditures	138,000
Other Public Safety Set-Asides (Norway Hill, WF&R)	122,000
Total Initial Sources	1,500,000

On-going

On-going Contribution Sources:	<u>2013</u>	<u>2014</u>
Budget Line Items	25,000	25,000
Annual Avg. GF transfer to CIP	420,000	420,000
Liquor Profit Revenues	230,000	230,000
On-going Liquor Excise Tax revenues	69,000	275,000
One-time NORCOM Credit for 2012 Overpayment	100,000	-
One-time General Fund cash	106,000	-
Total Annual Sources	950,000	950,000

For the most part, one-time resources have been applied to the initial funding need, however, small amounts of one-time funding have been used to help phase in the on-going funding requirement during 2013.

ANALYSIS:

FIRE EQUIPMENT SINKING FUND

The Fire equipment sinking fund will include the replacement of the following types of equipment which have generally been funded with one-time cash or through the Capital Improvement Program (CIP):

- Personal Protective Equipment (PPE) – \$507,960
- Self-Contained Breathing Apparatus (SCBA) – \$727,039
- Automated External Defibrillator (AED) Units – \$148,005
- Air Fill Stations – \$150,000
- Disaster Response Supplies and Storage Units – \$132,920
- Thermal Imaging Cameras – \$75,000
- Portable Radios – \$340,194
- Special Investigations Breathing Apparatus – \$16,000
- Extractor – \$16,000
- Near Shore Rescue – \$44,000

The estimated replacement cost of the equipment listed above is \$2.16 million. Note that two additional categories (replacement cost of approximately \$400,000), Mobile Data Terminals

(MDT) and Electronic Patient Care Report (ePCR) Tablets, have been incorporated into the existing IT PC replacement funding charges budgeted for 2013-2014.

The funding scenario for the Fire equipment items is based on the following assumptions that will result in a positive sinking fund balance over the 10-year forecast:

- Initial funding of \$750,000 to establish adequate balance for the periodic spikes in replacement expenditures,
- Ongoing annual funding of \$375,000,
- Annual cost inflation of 2%.

The identified sources of the initial funding of \$750,000 initial contribution include:

Initial Contributions Sources:	
Unused Fire overtime/equip. contingency from 11-12	200,000
Dissolution of Norway Hill Radio Reserve	10,000
Liquor Profits set aside in 2011-2012	428,000
Remaining year-end from Woodinville Fire & Rescue	112,000
Total Initial Sources	750,000

Ongoing annual funding for equipment replacement in operating budget (\$375,000):

On-going Contribution Sources:	<u>2013</u>	<u>2014</u>
Available GF transfer to CIP	20,000	20,000
Liquor Profit Revenues	230,000	230,000
On-going Liquor Excise Tax revenues	69,000	125,000
One-time General Fund cash for 2013 only	56,000	-
Total Annual Sources	375,000	375,000

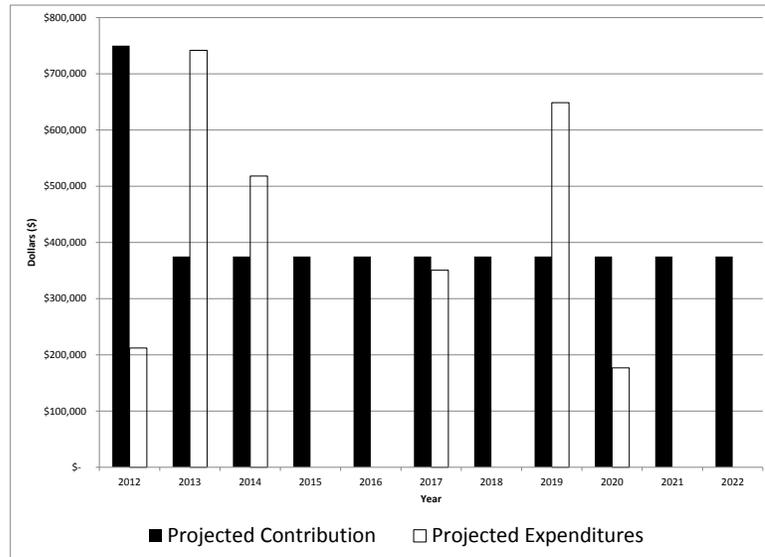
This sinking fund is also a recommendation of the Fire Strategic Plan:

- *Recommendation 50: Develop an internal CIP for the maintenance and replacement of KF&BD capital equipment. (Implementation Order 27)*
- *Recommendation 36: Acquire and deploy electronic tablet devices for field data entry and rapid downloading to the records management system. (Implementation Order 4)*

The funding above establishes ongoing funding for replacing public safety equipment such as personal protective equipment and self-contained breathing apparatus. Tablet computers and mobile data terminals (MDT) for vehicles have been included in the IT computer replacement charges for 2013-2014.

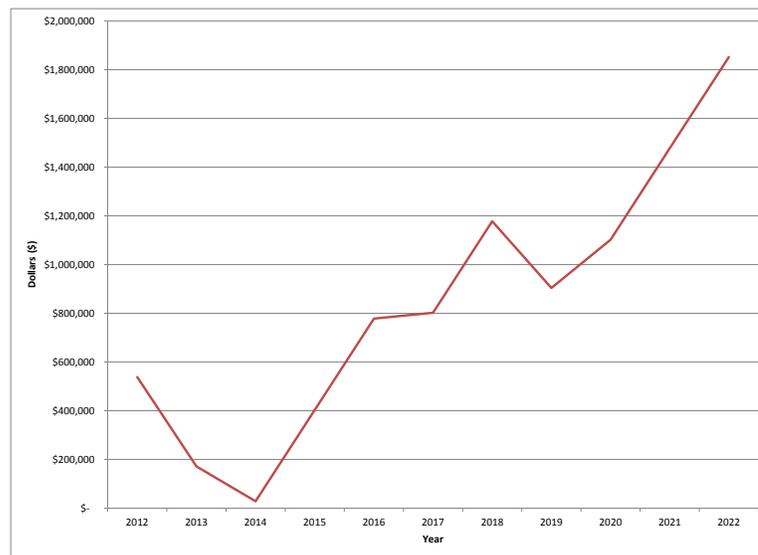
The chart that follows illustrates the annual contributions and estimated annual replacement costs for the proposed fire equipment sinking fund.

Chart 1
Fire Equipment Sinking Fund: Annual Contributions and Expenditures



The following chart illustrates the projected annual balance for the proposed fire equipment sinking fund.

Chart 2
Fire Equipment Sinking Fund: 10-Year Projected Annual Balance



POLICE EQUIPMENT SINKING FUND

The Police equipment sinking fund will include the replacement of the following types of equipment which have generally been funded with one-time cash or through the Capital Improvement Program (CIP):

- Weapons (rifles, pistols, tasers, etc.) – \$327,320
- Ballistic shields, helmets, and body armor – \$167,100
- Radars and related equipment – \$88,914
- Portable Radios – \$58,110
- Jail DVR – \$50,220
- Portable Breath Tubes (Breathalyzers) – \$15,750

The estimated replacement cost of the equipment listed above is \$708,000. The funding scenario for the Police equipment items is based on the following assumptions that will result in a positive sinking fund balance over the 10-year forecast:

- Initial funding of \$250,000 to establish adequate balance for the periodic spikes in replacement expenditures,
- Ongoing annual funding of \$125,000,
- Annual cost inflation of 2%.

The identified sources of the initial funding of \$250,000 include:

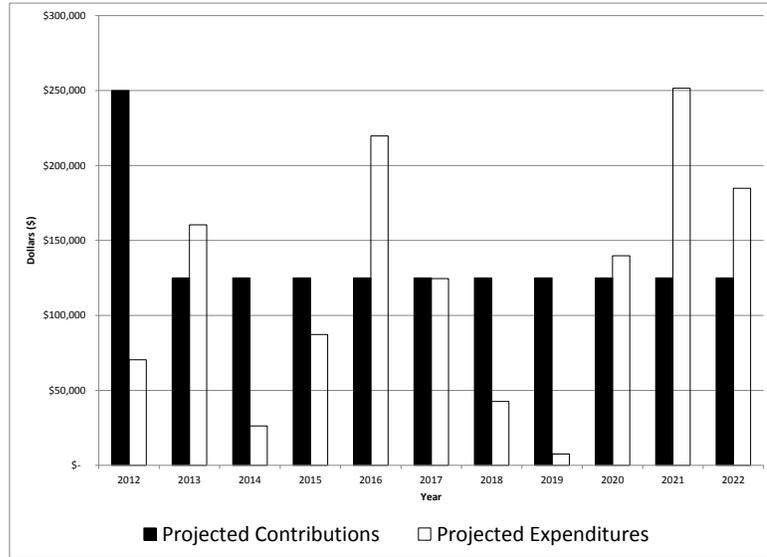
Initial Contributions Sources:	
NORCOM Credit for 2011 Overpayment	112,000
2012 Jail Contract Under-expenditures	138,000
Total Initial Sources	250,000

The identified sources of the annual funding of \$125,000 are:

On-going Contribution Sources:	<u>2013</u>	<u>2104</u>
Operating budget line items for equipment	25,000	25,000
One-time NORCOM Credit for 2012 Overpayment	100,000	-
On-going Liquor Excise Tax revenues	-	100,000
Total Annual Sources	125,000	125,000

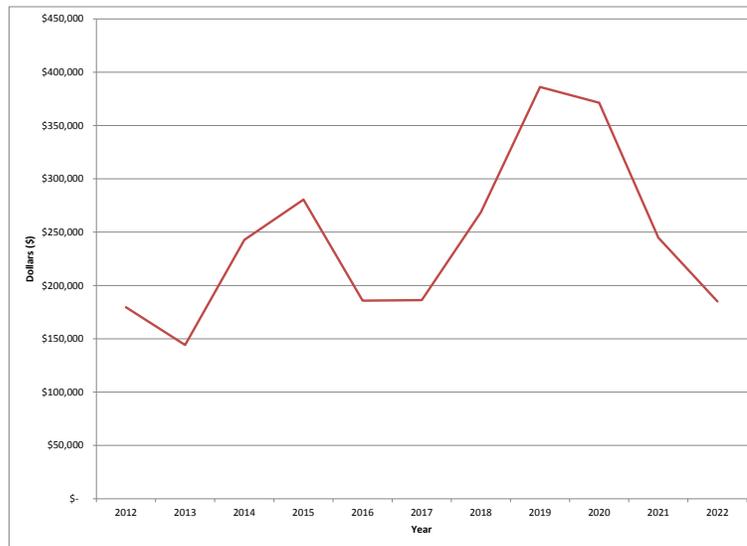
The chart that follows illustrates the annual contributions and estimated annual replacement costs for the proposed police equipment sinking fund.

Chart 3
Police Equipment Sinking Fund: Annual Contributions and Expenditures



The following chart illustrates the projected annual balance for the proposed Police equipment sinking fund.

Chart 4
Police Equipment Sinking Fund: 10-Year Projected Annual Balance



INFORMATION TECHNOLOGY (I.T.) EQUIPMENT SINKING FUND

IT equipment sinking fund will include three major categories of equipment that do not currently have replacement reserves:

- Major infrastructure equipment, such as switches, servers, routers, and telephones, which are currently funded in the CIP,
- Copier replacements, which have been funded from one-time cash,
- Video production and other equipment purchased with one-time cash.

The estimated replacement cost of the equipment listed above is \$2.94 million. This excludes major systems, such as the Finance and Human Resources system (IFAS), Maintenance Management System (Hansen), Parks and Recreation System (CLAS), which have been traditionally funded in the CIP.

The funding scenario for the IT equipment items is based on the following assumptions that will result in a positive sinking fund balance over the 10-year forecast:

- Initial funding of \$500,000 to establish adequate balance for the periodic spikes in replacement expenditures,
- Ongoing annual funding of \$450,000,
- Annual cost inflation of 2%.

The identified sources of the initial funding of \$500,000 include:

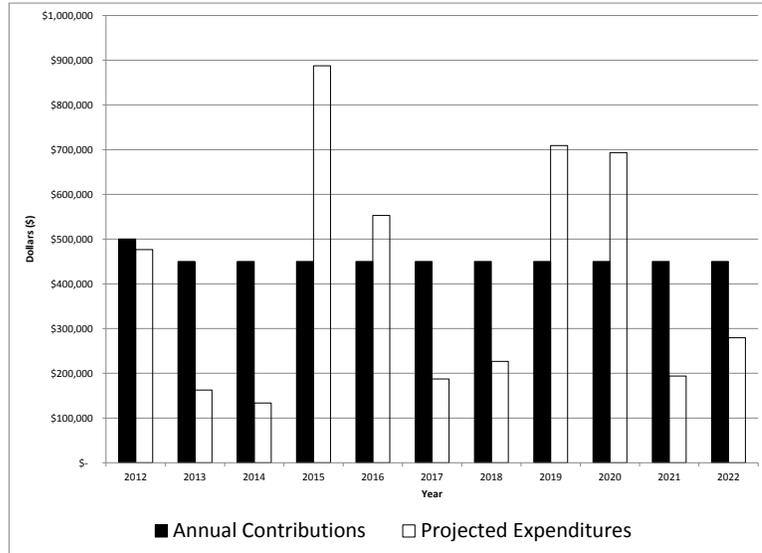
Initial Contributions Sources:	
Balance from IT One-time Annexation Service Package	500,000
Total Initial Sources	500,000

The identified sources of the annual funding of \$450,000 are:

On-going Contribution Sources:	<u>2013</u>	<u>2104</u>
Annual Average GF transfer to CIP for IT	400,000	400,000
On-going Liquor Excise Tax revenues	-	50,000
One-time General Fund cash for 2013 only	50,000	-
Total Annual Sources	450,000	450,000

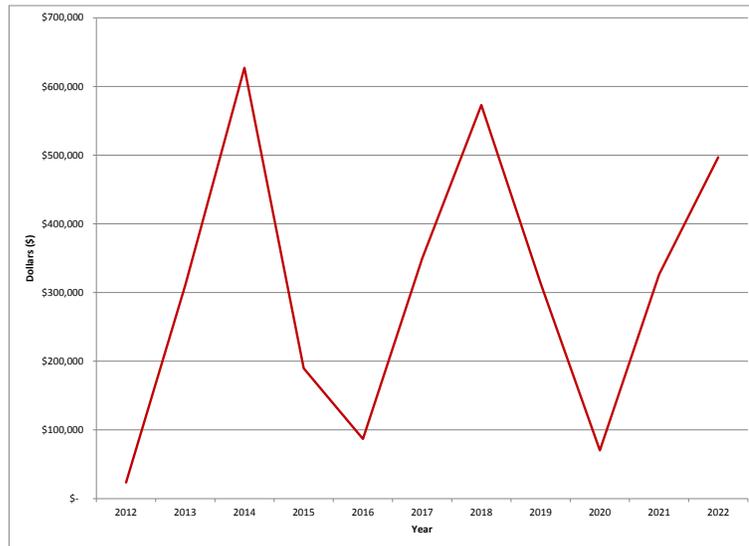
The chart that follows illustrates the annual contributions and estimated annual replacement costs for the proposed IT equipment sinking fund.

Chart 5
I. T. Equipment Sinking Fund: Annual Contributions and Expenditures



The following chart illustrates the projected annual balance for the proposed IT equipment sinking fund.

Chart 6
I. T. Equipment Sinking Fund: 10-Year Projected Annual Balance



SUMMARY:

The table below summarizes the total replacement needs, initial contribution, and annual contribution required to fully fund the proposed fire, police, and IT equipment replacement sinking funds for a 10-year projection period.

Recommended Funding for 10-Year Sinking Fund Requirements

Sinking Fund	Total Replacement Need	Initial Contribution	Annual Contribution
Fire	2,160,718	750,000	375,000
Police	707,664	250,000	125,000
Information Technology*	2,941,757	500,000	450,000
Total	5,810,139	1,500,000	950,000

*excluding major systems

Note that this summary excludes major IT Systems, such as the financial system, maintenance management system, permitting system, etc. These major systems typically have a life of 10-15 years and have been traditionally funded in the CIP with cash set-aside from year-end savings. To establish a sinking fund for the City’s existing systems would require an additional annual contribution of approximately \$950,000. Although a sinking fund for major systems is not being proposed, a recommendation setting aside an additional \$500,000 of the year-end General Fund cash balance toward this purpose is recommended in the preliminary 2013-2014 budget.

As indicated in the *Background* discussion, funding the sinking fund over a 10-year projection horizon is a strong first step toward meeting this need. However, some of the large items in the analysis have a life greater than 10 years. In subsequent budget periods, the contributions will need to be revisited to meet the longer-term need. To provide a context, the table below summarizes the needs for the 20-year projection period.

Comparison of 10-Year and 20-Year Sinking Fund Requirements

Sinking Fund	10-Year Planning Horizon		20-Year Planning Horizon		Difference between 10 and 20 Year Scenarios	
	Initial Contribution	Annual Contribution	Initial Contribution	Annual Contribution	Initial Contribution	Annual Contribution
Fire	750,000	375,000	1,767,158	375,000	(1,017,158)	-
Police	250,000	125,000	315,065	135,000	(65,065)	(10,000)
Information Technology*	500,000	450,000	530,000	530,000	(30,000)	(80,000)
Total	1,500,000	950,000	2,612,223	1,040,000	(1,112,223)	(90,000)

*excluding major systems

If the City Council concurs with the recommendation in the preliminary budget, staff will begin establishing the fund structure for managing and accounting for the resources in the financial system. The final fund structure may result in a subsequent budget adjustment to reflect the interfund charges and final fund structure.



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