



MEMORANDUM

To: Mayor and Council Members

From: Joyce Engberg, Chief Information Officer

Date: April 26, 2004

Re: IT Budget Policies

- **Policy #1 - Software/Hardware Maintenance and Technical Support Contracts Managed by IT**

Issue:

Contracts not centrally managed by Information Technology are leading to excessive costs being charged to the City of Modesto by the Technology vendors who provide hardware and software services to the City.

Background:

Prior to the time that the Information Technology group became a department, individual City departments were responsible for acquiring their own software and hardware. They were also responsible for working with the vendors to set up software and hardware maintenance contracts.

Current Practice:

Many of these contracts still exist today, and continue to be overseen by a number of different, non-IT personnel. In several cases, the City works with the same vendor in multiple, different departments but, because each contract is managed by a different individual, there has been no opportunity to consolidate services and take advantage of preferred/volume pricing. In addition, the individuals who manage these contracts have no broad experience working with technology vendors, putting them at a disadvantage when negotiating the terms of the contracts. In some cases, critical contractual protections for the City have not been written into the agreements, due to the inexperience of the staff that are managing the City-vendor relationships.

IT Managed Contracts Solution:

Although the end user is typically responsible for the ongoing costs of maintenance and technical support, management of these complex contracts could benefit from a centralized approach, and the experience of an organization (IT) which has significant experience in negotiating the details of technology environments. The result of placing these contracts

under the responsibility of IT could net the City of Modesto an annual savings of \$50,000 or more.

Ramifications:

The establishment of this policy would be a departure from the way that technology contracts have been handled in the past. IT would need to work closely with the individual departments during the transition to ensure that their needs were being met.

Not establishing this policy continues the potential excessive pricing that can occur when contracts are not managed centrally.

- **Policy #2 - PEG is established as part of the overall IT Budget**

Issue:

The PEG budget is currently separated from the IT Budget, complicating our ability to effectively manage the overall IT budget.

Background:

PEG cable television programming allows the public to air a variety of programs on a single, dedicated public access channel. In addition, government and education each have a dedicated channel on which they are able to air programs that are specific to their organizations. IT assumed management of PEG beginning in our current FY (03/04). With the responsibility of managing this program, it became necessary for IT to dedicate staffing to this program in order for it to continue functioning.

Current Practice:

The PEG program is currently separated from the overall IT budget. Although this was meaningful when our PEG functions were managed in a separate department, several IT staff are now performing all of the work for the PEG program. The PEG program benefits from this arrangement, since it is able to draw upon a number of different technical skills (programming, networking, web) without the need to hire or outsource multiple full or part-time positions.

PEG Established as Part of IT Budget Solution:

Because IT staff are managing the PEG program, and because PEG is considered a technology related program, the placement of PEG within the overall IT budget would enable us to make more appropriate use of the combined PEG and IT budgets.

Ramifications:

This policy change will allow more appropriate management of budget and staffing resources.

- **Policy #3 – Establish a Technology Fund Reserve (TFR)**

Issue:

There is insufficient funding available to start large-scale technology replacement, improvement, or integration projects that are critically needed by the City.

Background:

Some of our current systems are out-of-date and no longer meet the demands of today's business environment and/or cannot be integrated with other critical systems where required. These problems lead to inefficiencies in the way that we do business, and can even lead to errors as a result of relying on manual tasks that should be automated through integrated system solutions.

The City of Modesto recently established a draft IT Tactical Plan providing the City with a roadmap for technology related improvements for our current and future systems. Unfortunately, many of the improvements recommended by the Tactical Plan are beyond our current financial reach because no funding mechanism exists to handle enterprise-wide (multi-department) technology projects.

Current Practice:

Since the City of Modesto has not followed a routine plan for upgrading or improving systems, we are facing the unusual situation of needing major over-hauls to most of our critical systems at the same time. Today's technology applications often serve multiple departments and cost millions of dollars for an organization of our size. In order to acquire new technology, IT is currently relegated to relying on individual departments to 'locate' sufficient funds when a need is identified. This approach worked in the past, when we were focused only on individual systems, rather than a full, interoperable environment. As our systems have become more complex and, as the City has grown, this method of funding has become unworkable. Permitting systems need to connect to financial systems. GIS systems need to work with Public Safety systems. Utility systems need information that is in assessor files. Funding plans need to account for this interoperability (systems that operate across multiple departments).

Although teaming with Departments is a good practice, it often does not provide adequate means by which to acquire the necessary systems. Technology projects can fail because an individual department may opt to divert funds from a planned technology project to other programs that they support. Or as budgets are reduced, funding that was supposed to pay for an upgrade, new technology, or integration effort may be quickly cut from one or even all participating departments.

Technology Fund Reserve Solution:

We believe that the answer to this problem is long-term planning and funding, similar to what was established for the replacement of desktop computers. By planning for the ongoing upgrade and replacement of major City systems, we can ensure that our systems provide the maximum benefit and efficiency for city staff and citizens. We are also likely to save money

over the current approach to technology projects, which actually encourages departments to procure their own software, missing the opportunity to consolidate and re-use applications. In many cases, the City owns multiple applications which perform exactly the same function. Not only have we paid for the 'same' application multiple times, but we pay ongoing maintenance charges which are also redundant.

The recommended approach would involve establishing a value for our existing portfolio of business applications, determining the expected life-cycle for these systems, and then calculating what the annual investment would be in order to maintain these systems in proper running condition (upgrades, replacements, enhancements).

We would then have a couple of options to handle the financial requirements:

1. The establishment of a Technology Fund Reserve would allow the City of Modesto to begin to upgrade and integrate our systems. Funding would be placed into the Technology Fund Reserve (TFR) as part of the annual budget process. Each year we would draw against these Reserve Funds for specifically designated, enterprise-wide projects.

We might be able to begin some limited work on our systems with reserves that have already accumulated in multiple departments, but we might also need to consider short-term borrowing to allow these projects to start in a timely manner.

2. A second option could be to use the already existing Capital Improvement Project program to establish funding for large-scale projects. In this case a CIP would be established for a given project and the funding cycle would begin. Over the course of iterative years the CIP fund level would be able to address all of our major systems.

Ramifications:

This policy requires adopting a new approach to software procurement, centralizing this function within the IT department. IT would need to work closely with the individual departments during and after the transition to ensure that their needs were being met.

This page intentionally left blank.