



City and County of San Francisco ICT PLAN

Financial Strategies

Since the adoption of the last ICT Plan, the City's financial condition has strengthened. However, the City still has a structural deficit with on-going expenses growing faster than operating revenues, which places pressure on the City's General Fund. This condition of constrained financial resources requires the City to balance short and long-term needs, a strategy which is supported by better planning and sequencing of projects and by obtaining better information about our existing assets and resources. To that end, the City should focus its efforts over the coming years in the following ways:

1. Balance short-term and long-term investments.

The Plan recommends categorizing projects into two distinct groups: 1) small to medium sized projects with shorter implementation timelines and low to medium cost implications; and 2) large scale, multi-year and multi-departmental projects, which require a significant investment to implement. This is necessary to prevent large projects from crowding out smaller annually appropriated projects, and to ensure that the City prepares for the large "generational" projects.

2. Long term investments require better project planning and sequencing.

Major system updates are typically expensive, complex, multi-year projects. Additionally, it is difficult to accurately project costs and timelines for these projects. Through the adoption of this Plan, which for the first time will include critical project development as a priority for COIT funding, the City will be adopting best practices for project development and delivery, such as careful scoping, review and planning for IT projects in order to inform funding decisions and priorities over the next five years.

Only when these projects develop reliable estimates of scope, timeline and costs should the City make decisions to fund them. Due to the significant financial investments associated with these projects and the City's limited resources, it will be necessary to sequence large projects to ensure funding feasibility and to defer projects until planning is complete. The City will also need to pursue alternative funding sources, including: grants; lease-financing; and non-General Fund sources to support project implementation.

3. Collect better information about the condition of existing assets and resources to prioritize investments.

Strategic investment requires a thorough understanding of existing resources. The City's Capital Planning Program has developed models that represent the condition of existing infrastructure and estimate the needs. The Department of Public Works (and other departments) have highly developed asset management models. Over the coming years, COIT must develop similar processes and models to ensure a more comprehensive approach to addressing the needs of existing assets. Asset management would foster effective prioritization of the limited General Fund COIT allocation towards maintenance, replacements, critical project development, and enhancements or new projects.

4. Identify additional resources to support IT.

COIT should identify additional funding opportunities to support important projects. This might include further exploration of financing options, identifying state and federal grants to support this work, and sharing costs between General Fund and non-General Fund sources. Recognizing that these strategies are unlikely to fill the entire gap, this Plan recommends that the City continue to grow its General Fund

allocation by 10 percent annually, and identify one-time sources to support major ICT capital investments. The City has established financial policies prioritizing the use of one-time sources of funding for one-time uses. Certain critical IT investments are an appropriate use of non-recurring revenues and should be given consideration for the allocation of these funds as they become available.

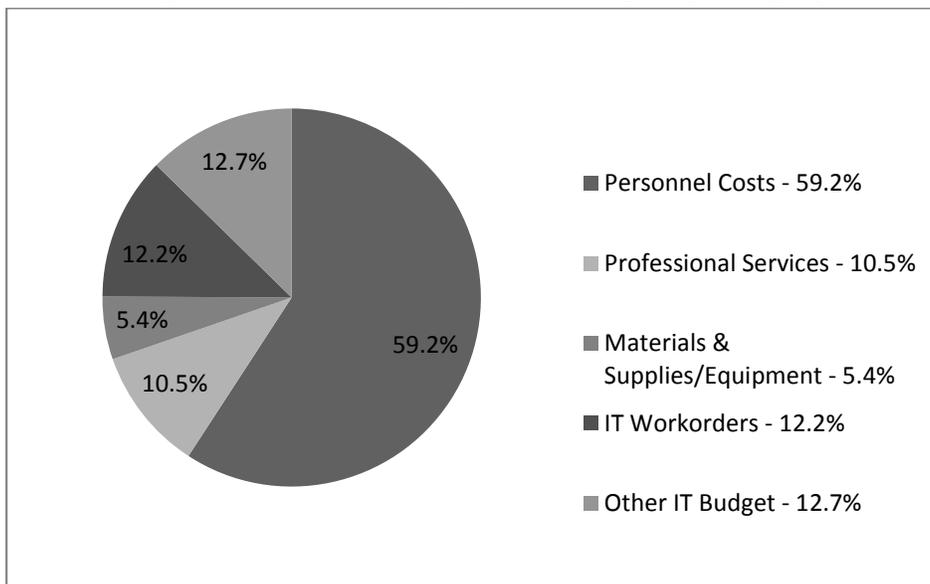
The section to follow outlines the City’s existing investments in ICT, the requests made by departments through the planning process, and recommends financial strategies to bridge the gap between the available resources and the level of requests.

BACKGROUND

Current Investments in Information Technology

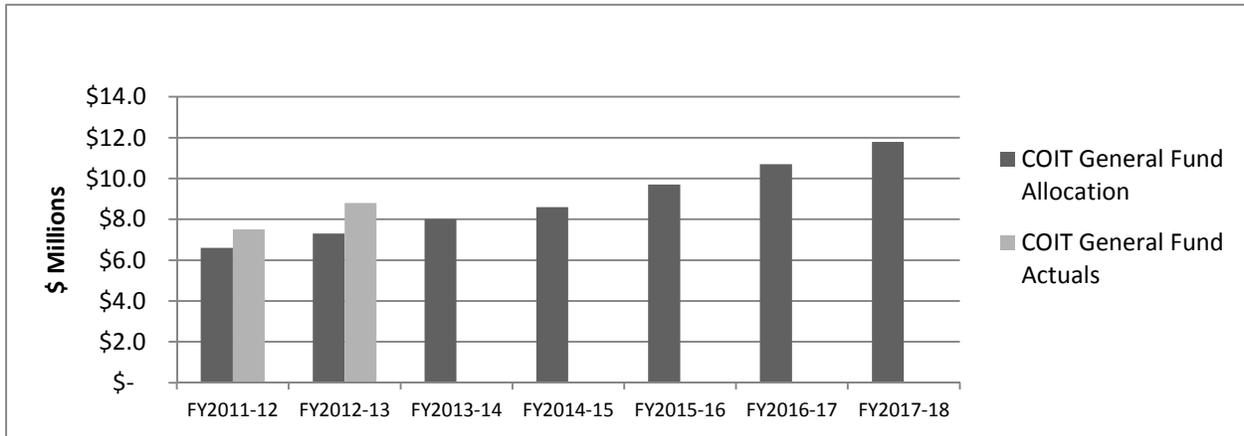
In FY 2012-13, the City has a budget of \$208.2 million for Information Technology (IT), which includes support of on-going business operations as well as project implementation. This represents a 9.3 percent increase from FY 2011-12, primarily due to citywide increases in labor costs. The citywide IT budget is split into five categories: personnel costs; professional services; materials, supplies and equipment; IT work orders; and other IT budget. As Figure 2 shows, 59.2 percent of the total IT budget is allocated to personnel expenses with only 10.5 percent allocated to professional services.

Figure 2: FY 2012-13 Citywide IT Budget by Category



One of the financial strategies included in the first ICT Plan was to increase the General Fund allocation by 10 percent annually, for a total of \$40.3 million over the course of the five years. Over the first two years of the Plan, the City exceeded this level of funding by 17.3 percent (\$2.4 million), more than the recommended General Fund allocation. This demonstrates both the level of demand for ICT funding and the commitment that the City has made to these important efforts. Figure 3 compares the projected funding to actual funding for COIT over the last two years, as well as projected funding levels for the next five years.

Figure 3: COIT General Fund Allocation vs. Actuals



ANNUAL COIT BUDGET PROCESS

The Planning & Budgeting Subcommittee of COIT reviews IT project proposals annually as part of the citywide budget process. IT project proposals considered must have a total budget of \$100,000 or more and must be projects, not equipment or materials and supplies, though the City has previously funded a citywide PC refresh program.

The annual review process for General Fund and non-General Fund IT project proposals uses a set of criteria, which allows for rating and ranking of these projects. These criteria are based on the project’s range of impact as well as support of the strategic IT Goals identified in this Plan. Included in this process is a review of the requesting department’s current and previous project performance.

IT project proposals historically have been categorized as new/enhancements, renewals/replacements, or routine maintenance. Due to the number of major IT investments, this Plan is recommending the inclusion of an additional category – critical project development. Project proposals are categorized under critical project development if they request significant multi-year funding and require further work to develop the project scope, budget, and timeline. Developing a reliable estimate of costs and timelines associated with these major IT investments is vital as the City looks to strategically fund and implement these projects.

Current Funding Sources:

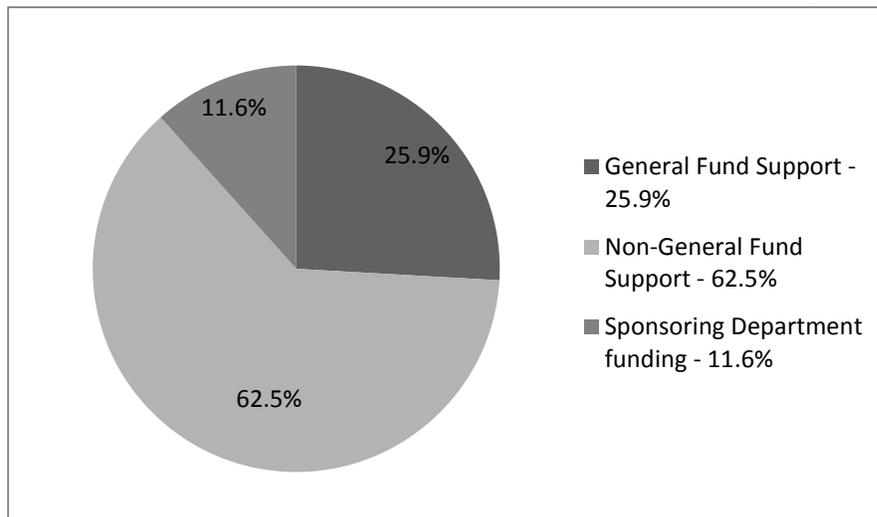
- Annual General Fund Allocation (COIT)
 General Fund departments may request financial support outside of their operating budget through the COIT General Fund allocation. The Plan recommends that the City increase the COIT General Fund allocation by 10 percent every year. In FY 2011-12, the General Fund commitment was \$6.6 million. This has increased to \$8.0 million in FY 2013-14. The total expected investment over the next five years is \$49.1 million.
- Sponsoring Department Project Funding
 The Department of Technology implements a number of citywide IT projects through its operating budget recovered from charge back rates. In FY 2012-13 these charge back rates were allocated 36.1 percent to Enterprise departments and 63.9 percent to General Fund departments. Recently funded projects include: Mobile Strategies, Fiber to City Building, Disaster Recovery, and Server Virtualization.

- Non-General Fund Sources

Some departments (including General Fund departments) have identified funding for projects within their existing operating budgets through grant support or other non-General Fund sources. These self-supported projects are reviewed using the same vetting process as the General Fund requests.

Over the last two fiscal years, approximately 62.5 percent of all COIT funded projects were supported by non-General Fund sources, and the remaining 37.5 percent were funded by the General Fund COIT allocation or through sponsoring departments, as shown in Figure 4 below.

Figure 4: FY 2011-12 & FY 2012-13 Project Funding by Category



FISCAL YEARS 2014-18 PROJECT REQUESTS

For Fiscal Years 2014-18 there are \$548.0 million in IT project requests identified citywide. Project requests are split with 53.6 percent non-General Fund dollars, representing 55 projects, and 46.4 percent General Fund dollars, representing 77 distinct projects. The following table illustrates the Five-Year IT project requests compared to their proposed funding sources.

Table 4: Total Information Technology (IT) Project Requests from Departments FY 2014-18

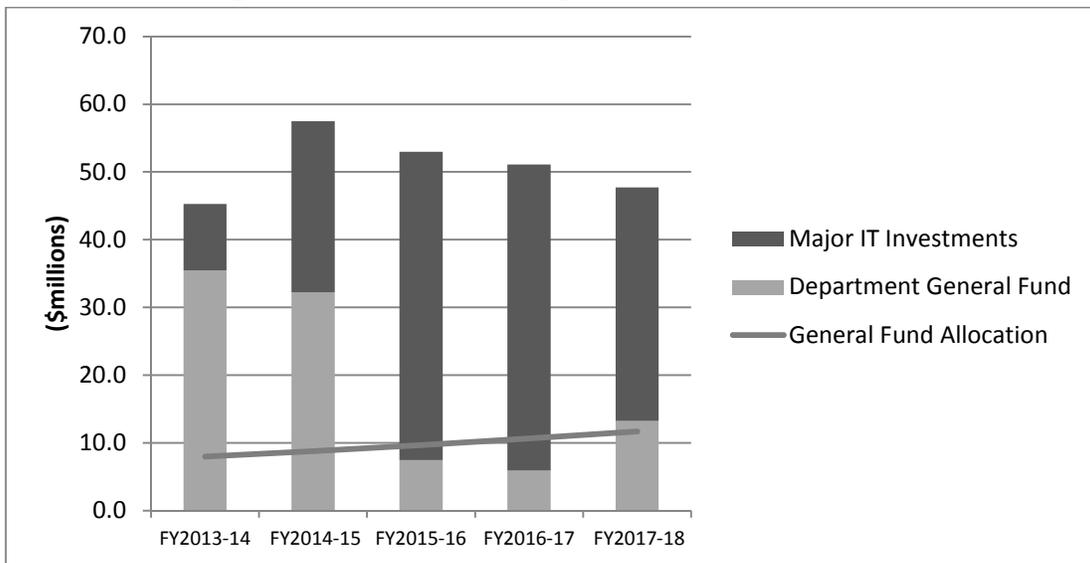
<i>\$ in millions</i>	Initial Project Request	Proposed Funding Source	Difference
Non-General Fund Projects	293.5	293.5	-
General Fund and Citywide Projects	254.5	49.1	(205.4)
Subtotal: IT Project Requests	548.0	342.6	(205.4)

As Table 4 indicates, that there are more than \$254.5 million in General Fund IT project requests, which far outweigh the COIT General Fund allocation of \$49.1 million and leaves a funding gap of \$205.4 million.

A significant portion of the funding gap is generated by proposals to replace several major legacy systems within the five-year planning window, including the replacement of the City’s financial system (\$72.2 million), replacement of the public safety radio system (\$69.0 million), as well as tax system replacement projects at both the Assessor Recorder’s Office (\$13.0 million) and Treasurer Tax Collector (\$6.0 million). These projects are categorized as major IT investments due to their large scale and significant financial cost.

Figure 5 below shows the General Fund allocation compared to the General Fund departmental and major requests.

Figure 5: General Fund Requests vs. COIT Allocation



These large IT capital projects pose unique challenges for the City because they are generational in nature – that is to say, they are projects that require replacement once every 15-30 years. From a financial perspective, this is challenging because the projects are multi-year, multi-departmental, and require large capital investments. In addition, these projects have proved challenging to reliably estimate project timelines, budgets, and the on-going cost of ownership once projects are implemented (including maintenance, upgrades, staffing).

Another challenge is the need to strike a balance between important, larger scale, multi-departmental, multi-year projects with on-going, smaller, department-specific IT projects and operating support. Developing a financial strategy and planning process that allows the City to both make the necessary upgrade to our legacy systems and invest in renewals and smaller new projects is critical.

FINANCIAL STRATEGIES

To address the financial constraints faced by the City to meet its IT needs, the Planning & Budgeting Subcommittee reviews potential financial strategies to fund ICT projects. This Plan builds on and continues the previous ICT Plan's recommended financial strategies.

The following financial strategies seek to close the \$205.4 million funding gap described above:

Improve Planning/Increase Collaboration

The strategies listed below seek to identify projects that should be deferred until more careful planning and critical project development is complete (\$78.4 million in project requests are deferred); and combine project requests and increase collaboration between departments to reduce the need for funding further by an additional \$12.0 million.

- Fund planning and project pre-development to better understand the project costs, scope, and timeline;
- Identify opportunities for collaboration to reduce redundant efforts;
- Defer projects that are not adequately scoped to later years through prioritization and planning. Currently the Plan must assume deferral of at least two of the major IT investment projects;
- Eliminate or reduce the cost of proposed projects through careful examination of project estimates. This should be done through collaboration, sharing of current systems and review of alternatives with stakeholders;
- Negotiate software contracts where pricing of licenses and maintenance are based on the phase of the project, implementation vs. production;
- Develop project hiring plans that are aligned with the project phases, and vice versa;
- Analyze the true cost of ownership, which includes post implementation and on-going costs; and
- Support shared solutions by subsidizing projects that have the ability to be expanded to other departments.

Alternative Funding Sources

This approach strives to equitably distribute project costs between General Fund and non-General Fund sources to reduce the funding gap by \$35.0 million.

- Use an allocation methodology so that the costs of citywide investments are shared between Enterprise Departments and the General Fund;
- Pursue grants and other State and federal sources; and
- Identify alternate revenue sources by providing ICT services to non-city entities.

Budget Reallocation

The Budget Reallocation strategies aim to use current resources more efficiently to better align funding with projects identified in the Plan as a priority. These strategies will reduce the funding gap by \$80.0 million.

- Continue to increase proposed \$8.0 million General Fund allocation in FY 2013-14 by 10 percent in subsequent fiscal years to address growing demand for ICT resources;
- Identify one-time sources of funds to support major IT capital investments; and
- Free up existing funds for ICT investments by pursuing the following strategies:
 - Redirect base budgets of specific departments to fund future projects, and include ICT base budget funding in annual budget justification discussions;
 - Prioritize enterprise-wide applications and retire existing stand-alone systems that provide the same functional requirements;
 - Re-allocate savings from consolidations to fund ICT infrastructure improvements and new citywide or multi-department ICT projects; and
 - Consider the transfer of applications from City-owned platforms and infrastructure to the cloud maintained and operated by outside experts. This would reduce the upfront costs of equipment replacement and security costs, coupled with ongoing cost of leases.

Table 5 summarizes the impact of the proposed financial strategies on the funding gap.

Table 5: Impact of Proposed General Fund Financial Strategies on Funding Gap FY 2014-18

<i>\$ in millions</i>	Project Request	Fiscal Strategy	Remaining Funding Gap
Total General Fund Project Requests	254.5	-	(254.5)
Financial Strategies			
Grow COIT GF Allocation by 10% per year	-	49.1	(205.4)
Improve Planning/Increase Collaboration	-	12.0	(193.4)
Project Deferrals	-	78.4	(115.0)
Alternative Funding Sources	-	35.0	(80.0)
Budget Reallocation	-	80.0	-
Total	254.5	254.5	-

The previous version of the ICT Plan relied on a recommendation to pursue financing options to close the gap between needs and available funding. In the two years since that Plan was adopted, further investigation has shown that developing a bond or debt instrument may not be an option to fund projects at the level contemplated in the prior Plan. The chief barrier to financing the major IT projects proposed in the Plan is the short useful life of the IT assets that would be funded. COIT will continue to explore financing as an option for projects with a useful life of greater than five years, but options may be limited compared to prior expectations.

IMPLEMENTING THE FINANCIAL STRATEGIES

Over the coming five years, the City will need to balance short-term smaller departmental requests with longer-term major IT investments. The General Fund allocation at its current commitment level cannot fund both major IT investments and on-going citywide and department requests.

General Fund Department Requests

Of the total General Fund IT requests, 37.1 percent (\$94.4 million) are departmental requests. This represents 73 projects identified by 17 different departments. These project requests demonstrate the need for continued investment to maintain, replace, and enhance current systems and to develop new ones. It is critical to continue to fund smaller projects that support one or more of the IT goals outlined in this Plan. However, based on the General Fund allocation, these requests must be reduced to meet the current General Fund commitment of \$49.1 million over the next five years. This Plan recommends that most of the COIT \$49.1 million General Fund allocation over the next five years to fund these projects and critical project development.

Major IT Investments

Major IT investments represent almost a third of all IT project requests. Of the General Fund requests, the four large projects described in this section collectively make up 62.9 percent of the total requests, and the majority of the \$254.5 million identified funding gap. As the City attempts to bridge the funding gap, these major IT investments must be evaluated against the identified financial strategies to maximize the use of the limited resources. All of these projects will benefit from additional funding dedicated to critical project development. Implementation funding for these major IT investments should be committed only once more detailed scope, schedule and funding requests are developed over the coming 1-2 years. The four projects are:

- **Public Safety Radio Replacement Project (\$69.0 million).** Installed in 2000, the current 800 megahertz push-to-talk, voice communication system used by the public safety departments is nearing the end of its service life. This project was identified in the first ICT Plan; however, due to a lack of reliable cost estimates, this project has not received any General Fund support to date. The replacement of this system, phased in over a number of years, is estimated to cost \$69.0 million. The City has identified this project as a priority. For this reason, this Plan recommends that COIT fund critical project development for FY 2013-14 and FY 2014-15. This project will report back to COIT on a regular basis on the scope, budget and timeline for the project implementation.
- **Replacement of the City's Financial System (\$72.2 million).** The City's mainframe-based central financial and accounting information system (FAMIS) is more than twenty-five years old and will need to be replaced. The Controller's Office is completing its first year of project planning, which will be continued in FY 2013-14. Project implementation is scheduled to begin in FY 2014-15. Replacement of the system is estimated at \$72.2 million over the next several years. The Department will evaluate multiple strategies to implement the project, including a phased approach, which will allow the City to receive the benefits of the investments as each module is complete while phasing the cost over time. As a citywide project, the costs of this project will also most likely be allocated between General Fund and Enterprise departments. This will reduce the General Fund impact. This project will report back to COIT on a regular basis on the scope, budget and timeline for the project implementation.
- **Gross Receipt Tax Systems (\$6.0 million).** The City's 20+ year old COBOL-based central Business Tax System (BTS) is scheduled to be replaced in FY 2013-14. In addition to the migration, the voters of the City passed a new business tax in 2012 – Gross Receipts Tax. The Gross Receipts Tax is an additional tax

to be collected with the anticipated phase out of the Payroll Expense Tax. This project is required as part of the voter approved measure and will need to be implemented within a specified time frame. This project is anticipated to be funded through the General Fund initially, but will offset by the increased revenue generated by the tax. Reimbursements to the General Fund for this project may begin as early as FY 2013-14.

- The Assessor Recorder’s Property Tax Database Replacement Project (\$13.0 million).** The Assessor-Recorder’s legacy property tax database is reaching the end of its life and will need to be replaced in the next five years. The Department is currently completing initial research into property tax databases used by other similar sized counties. This project will require initial funds for critical project development to determine the scope and final budget for this project.

Balancing Short and Longer-Term IT Investments

Over the coming five years, the City will need to balance short-term smaller departmental requests with longer-term major IT investments. As mentioned above, the General Fund COIT allocation at its current commitment level cannot fund both major IT investments and on-going citywide and departmental requests. This Plan recommends that critical project development of major IT investments and on-going citywide and department requests be funded under the General Fund COIT allocation, while the implementation of major IT investments be funded using all the financial strategies mentioned above. By investing in the planning and pre-implementation of large IT projects, COIT will be empowered in the future to make informed recommendations for the use of other funding sources above the General Fund allocation.

As the City works to balance all of these investments, COIT will review all project requests with the financial strategies that are highlighted above. These strategies will allow the City to bridge the funding gap over the five-year period, though not without making trade-offs through project prioritization, sequencing and deferrals. Recognizing that these strategies are unlikely to fill the entire gap, the City should continue to grow its General Fund allocation by 10 percent annually and identify one-time sources to support major ICT capital investments. Figure 6 below shows the impact of the proposed financial strategies on the funding gap over the next five years.

Figure 6: FY 2014-18 Total Requests by Proposed Financial Strategy

