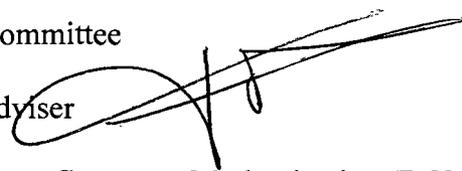


MEMORANDUM

April 17, 2009

TO: Management and Fiscal Policy Committee

FROM: Dr. Costis Toregas, Council IT Adviser 

SUBJECT: FY10 Operating Budget for Desktop Computer Modernization (DCM) Non-Departmental Accounts (NDA), Section 68, pages 6-7 in the Executive's Budget

The following may attend:

Steven Emanuel, Chief Information Officer, Department of Technology Services (DTS)

Dieter Klinger, DTS

Darien L. Manley, Acting Chief, Maryland-National Capital Park and Planning

Commission (M-NCPPC) Park Police, Montgomery County Division

John Cuff, Management and Budget Specialist, Office of Management and Budget (OMB)

The relevant pages from the recommended FY10 operating budget are attached on ©1-2.

Overview

This NDA provides for the funding of the County's Desktop Computer Modernization program (DCM) that is based on a best practices approach to maintain a modern and cost effective computing environment in the County. Through standardization, asset management and maintenance services provided on a replicable and consistent basis, the program reduces the overall costs and increases up-time of the essential IT tools for County employees. The program is assisted through a service contract with L-3 Communications, and was recently competed in the open market to ensure low pricing and innovative ideas.

The Executive is recommending that the program be funded at \$6,839,290, which represents a reduction of \$297,070 from the approved level of \$7,136,360 in FY09.

FY10 Expenditure Issues

Several issues regarding the expenditure patterns and service levels were identified, and four questions were provided to DTS for response. These questions, the DTS response, and Council staff comment are provided below.

1. The costs of \$292,720, \$164,650 and \$36,590 for MDTs, Public Safety Servers, and Enterprise Servers reflect the second year of a three year lease. As such, they were introduced in the FY09 OB and were included in the base. There is no need for this \$493,960 to be included in the FY10 submission (unless the major part of the \$828,410 cost decrease in the DCM budget is in fact the elimination of that FY09 cost from the base.) Can you provide clarity as to what is included in the -\$828,410?

Response:

The total acquisition cost for replacements, which was approved during the FY09 budget process, was \$1,600,000 for MDT's, \$900,000 for Public Safety Servers, and \$200,000 for Enterprise Servers. The acquisition cost for these replacements was spread out over 4 fiscal years by using a 3-year "master lease" (short term loan) payment schedule that spans 4 fiscal years. FY09 only had half the annual payment cost; FY10 and FY11 have the full annual payment cost, and FY12 will have half the annual payment cost. Therefore, the budget for FY10 is double the FY09 amount, even though no additional replacements are budgeted.

Included in the (\$828, 410) reduction is the following:

- DCM will reduce PC acquisition costs by \$455,108. This reduction will require DCM to shift to a 5-year replacement policy. Industry leading research from Gartner indicates that a shift to a 5-year replacement policy may be considered as a short-term capital preservation strategy.
- DCM will reduce contractual spending by \$373,302. DCM and its contractor, L-3, have reached a tentative agreement on a bilateral contract amendment to take effect in FY10. This creative pricing adjustment solution will not require any modifications to contract Service Level Agreements (SLA's), and both DTS and L-3 anticipate minimal impact to end-user services as a result of the reductions.

Staff comment: Both the shift in the replacement policy from 4 to 5 years, and the reduction in contractual spending of \$373,302 with no service level degradation, are good examples of using contract management techniques to benefit the County. The Executive's recommendations in this area should be supported fully. Data on user satisfaction and maintenance costs should be carefully tracked throughout FY10 and reported to the Committee to ensure that no unanticipated negative impacts have been introduced through these two actions.

2. Depending on the answer to question 1, the "Reduction in contract costs and fewer replacements" action on p. 68-7 may impact the effective replacement rate for PCs. Can

you explicitly define what the FY10 budget for PC replacement is, and how this level affects the target replacement policy? Also, please relate this action of “fewer replacements” to the requested FY09 Savings plan mandate to reduce the number of PCs replaced in FY09 by 500.

Response:

As a result of the FY09 savings plan mandate, DCM completed 1,500 of 2,200 planned PC replacements (700 less than planned.) The difference is greater than the target of 500 fewer PC replacements because DTS did not reduce contract services during FY09, but instead reduced PC acquisitions by the full savings amount of -\$828,410.

- a. The FY10 budget for PC replacements is \$1,820,726. At this budget level, DCM projects replacement of 1,760 PC’s, versus a goal of 2,200 PC’s under the 4-year replacement policy. Beginning in FY10, DCM projects an effective PC replacement rate of 5 years, due to the permanent -\$455,108 PC acquisition budget reduction. By reducing both the FY10 services and PC acquisition budgets, and not just PC acquisitions costs only, DCM is able to reduce the replacement rate from 6 years to 5 years.
- b. DCM believes that a 5-year replacement rate is unsustainable, due to the County’s continuing business requirement to support new applications and systems. Industry research from Gartner indicates that longer replacement cycles lead to higher total costs of ownership and complexity, due to the need to support and maintain a greater number of hardware models and numerous versions of software applications, operating systems, and system images, and to provide staff training for these platforms. Further, Gartner recommends, and DCM maintains, that long-standing best practices for PC replacement – every 4 years – should not change for long-range budget planning. Therefore, DTS plans to work closely with OMB to request restored FY11 funding for the DCM NDA to reinstate the 4-year PC replacement policy.
- c. Last, Gartner research indicates that 10% of PCs out of warranty must be replaced each year (the County’s standard PC warranty period is 4 years.) Under the County’s new 5-year replacement policy, this translates into approximately 175 annual out of warranty PC replacements, at a total estimated cost of \$182,000. Unfortunately, despite the change to a 5-year replacement policy, along with reductions in contracted services, DCM’s non-warranty repair and maintenance fund balance for out of warranty PC replacements is \$62,000, well short of the required amount.

Staff Comment: None.

3. For each resource (MDT, PC, Server) under DCM, please provide an inventory table of: number of units by age; the target replacement policy; the effective replacement outcome (i.e., what is the replacement cycle under the recommended budget allocation); the cost for

that policy target; and any other relevant information that shows the cost-effectiveness of the program. Recognizing that the total number of units is large, what is important is not detail by unit but large class attributes.

Response:

Please see the MDT, PC and Server inventory listing below.

**PC, MDT, Server Age Distributions*
April 2009**

	0-12 Months (1year)	13-24 Months (2years)	25-36 Months (3years)	37-48 Months (4years)	>4 years	Total	
PCs	671 7.7%	2,483 28.3%	2,147 24.5%	1,907 21.8%	1,553 17.7%	8,761 100%	
MDTs	307 18.5%	386 23.3%	591 35.7%	130 7.8%	243 14.7%	1,657 100%	
	0-12 Months (1year)	13-24 Months (2years)	25-36 Months (3years)	37-48 Months (4years)	49-60 Months (5years)	>5 years	Total
PS Servers	- 0.0%	2 4.1%	2 4.1%	14 28.6%	11 22.4%	20 40.8%	49 100%
Enterprise Servers	7 5.3%	9 6.8%	25 18.9%	28 21.2%	25 18.9%	38 28.8%	132 100%

*Includes PCs, MDTs, and Servers managed by DCM and DTS

The County's award-winning DCM program is the first (and only) public sector IT operation in North America to have achieved ISO 20000 certification. By becoming ISO 20000 certified, the DCM Program has seen the following benefits:

- Improved alignment of information technology services and business strategy
- Reduced risk and cost
- Shift to proactive rather than reactive processes
- Improved relationships by better definition and clarity of responsibilities and goals
- Creation of a stable framework for both resource training and service management automation

Further, the County's contractor, L-3, had an external agency conduct an Information Technology Infrastructure Library (ITIL) audit of the DCM program. This audit found that L-3's operations performed at a level 5 maturity status, the highest level possible. Advantages of following ITIL practices include:

- Improved resource utilization
- Decreased rework
- Reduced redundant work
- Improved availability of IT services

- Enhanced documentation and communication

Additionally, within the past several years, the DCM program has been recognized by prestigious organizations such as the National Association of Counties (NACo) and the Public Technology Institute (PTI) for its effectiveness. Over the past three years, DCM has reduced the average resolution time for ALL computer incidents by 80%, from 75 minutes to only 15 minutes. This was a direct result of implementing ISO and ITIL best practices. The effectiveness of the DCM program directly impacts the day-to-day productivity of all County computer users.

Last, L-3 has consistently achieved all contract SLA's for six consecutive years. DCM is a well-managed and highly effective program and is an outstanding resource for County employees.

Staff Comment: The equipment inventory is a helpful management asset that can help evaluate alternate strategies. All departments in the County should be taking advantage of this successful program. The Committee may want to explore how all departments can be persuaded to adopt this program and reduce their costs as the ones under DCM have done.

4. The M-NCPPC Park Police has an aging inventory of MDTs, with twenty-nine units that were bought as far back as 2001. DTS has reviewed the detailed inventory of these devices, and has agreed that the age of these devices is not advisable. The expectation of the Committee is that the DCM FY10 program incorporates the replacement costs of these Park Police units. An MoU or other administrative vehicle should be developed to guide progress in this important area.

Response:

DTS continues to support the need for Park Police MDT replacements. As the current budget for MDT replacements is for only one year's worth of replacements, and the original allocation of these replacements was for Montgomery County Government departments, DTS will need to evaluate what amount can be provided to Park Police and obtain OMB concurrence. DTS believes we can provide at least a portion of the replacements required by Park Police without detrimental impact on County government operations, and will work with Park Police and OMB to execute.

Staff Comment: Acting Chief Darien Manley provided this information regarding the state of Mobile Data Terminals in his agency: "...Our MDC's are in dire need of replacement. We have units that are failing regularly because of their inability to handle new or updated software, and our officers are losing confidence in a mobile data system that led the County and State in technological advancement and overall reliability for many years. It is very frustrating for officers to lose such valuable officer safety information as provided through the mobile data system and the agency's ability to reliably use AVL information to pinpoint an officer's location when they need assistance." The response provided by DTS is a helpful first step, and should be interpreted as a sign of good collaborative strategies that will be funded through the Executive's recommended budget. The detailed cost and explicit mechanism that will allow Park Police to replace their units (a detailed inventory

with aging information is on © 3) in FY10 should be provided to the Committee and full Council when available.

Reductions

There are no additional reduction strategies recommended by Council Staff for the DCM program of MCG. The fact that the Executive recommends a reduction in the replacement of units covered by the DCM, as well as in the contracted costs with the L-3 vendor, are both strong actions made necessary by tough times.

There are, however, significant reduction opportunities in other agencies that use similar Desktop Modernization programs (through external contracts as DTS, or through their own in-house effort). There is an informal understanding that agencies would link their replacement strategies for PCs and other computer equipment to the degree possible. Staff analysts for M-NCPPC, MCPS and MC are aware that the relaxation of the 4 year replacement cycle to 5 years for FY10 by MCG may have direct and immediate applicability in the technology budgets of M-NCPPC, MCPS and MC, and will follow the discussion of the MFP Committee in order to evaluate the feasibility of transferring the lessons learned by DTS to the other agencies. **Staff recommends that the Committee explicitly acknowledge the benefits of such a cross-agency action, and encourage staff, technology leaders, and the appropriate Committee(s) to pursue this avenue of cost savings.**

Recommendation

Staff recommends the adoption **of the Executive's FY10 budget as submitted** and with the clarification that the **Park Police MDTs will be included in the base of MDTs overseen** by the DCM program.

Conference Center

Prior to FY06, the Conference Center NDA primarily provided for pre-opening expenses. Since the Conference Center opened in November, 2004, the NDA has expanded its scope to fund:

- a full-time position to manage the operational and fiscal oversight of the Conference Center complex;
- non-routine or major repairs, alterations, improvements, renewals, and replacements; and
- the designated reserve required by the management agreement with Marriott International, Inc.

Funding is also included to reimburse the contractor for costs not covered by operations during accounting periods when losses occur. These costs will be offset by contractor payments to the County during accounting periods with operating gains.

Revenues consisting of net operating income from the Conference Center and land rent from the hotel are also reflected in the NDA. Twenty percent of the County's net proceeds from Conference Center operations will be retained for investment in marketing and facility improvements that will increase Conference Center usage. All proposed investment expenditures will be reviewed and approved by the Conference Center Management Committee.

<i>FY10 Recommended Changes</i>	<i>Expenditures</i>	<i>WYs</i>
FY09 Approved	567,090	1.0
Increase Cost: Management Audit Services	50,000	0.0
Increase Cost: Group Insurance Adjustment	300	0.0
Increase Cost: Printing and Mail Adjustments	10	0.0
FY10 CE Recommended	617,400	1.0

Council of Governments

The Metropolitan Washington Council of Governments (COG) is a voluntary association of major local governments in the Washington Metropolitan Area. COG seeks to provide regional answers to, and coordination of, area-wide issues such as air and water pollution, day care, housing, crime, water supply, land use, and transportation.

This NDA reflects Montgomery County's share of the organization's operation plus special COG initiatives. Additionally, the contribution supports the Cooperative Purchasing Program; the Anacostia Restoration Fund; the Regional Environmental Fund; the Airport Noise Abatement Program; and a membership fee for participation on a regional housing committee.

As in previous years, the Washington Suburban Sanitary Commission will provide Montgomery County's contribution to support the Water Resources Management Planning Program and the Blue Plains Users Program.

<i>FY10 Recommended Changes</i>	<i>Expenditures</i>	<i>WYs</i>
FY09 Approved	742,720	0.0
Increase Cost: Anacostia Restoration Fund	650	0.0
FY10 CE Recommended	743,370	0.0

County Associations

This NDA funds Montgomery County membership dues to the National Association of Counties (NACo) and the Maryland Association of Counties (MACo).

<i>FY10 Recommended Changes</i>	<i>Expenditures</i>	<i>WYs</i>
FY09 Approved	70,450	0.0
Increase Cost: MACo Dues	2,260	0.0
FY10 CE Recommended	72,710	0.0

Desktop Computer Modernization

The Desktop Computer Modernization (DCM) program is based on a best practices approach to maintaining a modern and cost effective computing environment in the County. The program reduces the Total Cost of Ownership (TCO) of personal computers (PCs) and laptops through standardization, asset management, and maintenance services. DCM includes the centralized management, support, and maintenance of PCs and targets the annual replacement of approximately one-fourth of managed PCs. The program also includes PC-related training and software. This NDA includes funding for Help Desk support, management, maintenance, and replacement of PCs.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	7,136,360	0.0
Increase Cost: Public safety mobile data computers	292,720	0.0
Increase Cost: Public safety servers	164,650	0.0
Increase Cost: Enterprise server replacement	36,590	0.0
Increase Cost: Professional consultant services	16,640	0.0
Increase Cost: Password reset software	8,440	0.0
Increase Cost: Program measure software	7,300	0.0
Increase Cost: Self help information portal (SHIP) right answer	5,000	0.0
Decrease Cost: Reduction in contract costs and fewer replacements	-828,410	0.0
FY10 CE Recommended	6,839,290	0.0

Future Federal/State/Other Grants

This NDA enables the County to implement new grant-funded programs up to \$200,000 each and provides funds for grant continuations and enhancements without having to process individual supplemental appropriations through the County Council. Upon approval by the County Executive, funds in this program are transferred to the receiving department's grant account.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	10,000,000	0.0
Increase Cost: Appropriation to more closely align historical expenditures & funding	5,000,000	0.0
FY10 CE Recommended	15,000,000	0.0

Grants to Municipalities in Lieu of Shares Tax

This NDA funds payments required in accordance with State law. The 1968 Session of the General Assembly revised the tax structure to include a County income tax. As part of this restructuring, the shared tax on banks and financial institutions was eliminated, and a provision was adopted which requires counties to pay annually to municipalities the amount (\$28,020) which had been received by the municipalities in FY68.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	28,020	0.0
FY10 CE Recommended	28,020	0.0

Group Insurance for Retirees

Group insurance is provided to an estimated 4,500 retired County employees and survivors, as well as retirees of participating outside agencies. Employees hired before January 1, 1987, are eligible upon retirement to pay 20 percent of the premium for health and life insurance for the same number of years (after retirement) that they were eligible to participate in the group insurance plan as an active employee. The County government pays the remaining 80 percent of the premium. Thereafter, these retirees pay 100 percent of the premium. Employees hired before January 1, 1987, are also offered the option at retirement to convert from the 20/80 arrangement to a lifetime cost sharing option.

Employees hired after January 1, 1987, are eligible upon retirement for a lifetime cost sharing option under which the County pays 70 percent of the premium and the retiree pays 30 percent of the premium for life for retirees who were eligible to participate in the County group insurance plan for 15 or more years as active employees. Minimum participation eligibility of five years as an active employee is necessary to be eligible for the lifetime plan. The County will pay 50 percent of the premium for retirees with five years of participation as an active employee. The County contribution to the payment of the premium increases by two percent for each additional year of participation up to the 70 percent maximum.

On March 5, 2002, the County Council approved a one-time opportunity for retirees still under the 20/80 arrangement with an expiration date to elect the lifetime cost sharing arrangement. The new percentage paid by the County for those electing this arrangement ranges from 50 percent to 68 percent, depending upon years of active eligibility under the plan and years since retirement. The cost sharing election process has been completed.

The budget does not include employer contributions from participating outside agencies.

FY10 Recommended Changes	Expenditures	WYs
FY09 Approved	26,039,330	0.0
FY10 CE Recommended	26,039,330	0.0

M-NCPPC MOBILE DATA COMPUTER AGING REPORT

MDC'S DUE FOR REPLACEMENT AS PART OF FOUR YEAR REPLACEMENT CYCLE ENDING FY 2009

Quantity	Make	Model	Fiscal Year Purchased	Estimated Replacement Cost Per Unit	Estimated Replacement Cost By Model
16	Panasonic	CF-28	2001	\$4,812.00	\$76,992.00
4	Panasonic	CF-34	2001	\$4,812.00	\$19,248.00
2	Panasonic	CF-72	2002	\$4,812.00	\$9,624.00
21	Panasonic	CF-29	2005	\$4,812.00	\$101,052.00

MDC'S DUE FOR REPLACEMENT AS A RESULT OF UNIT FAILURE

Quantity	Make	Model	Fiscal Year Purchased	Estimated Replacement Cost Per Unit	Estimated Replacement Cost By Model
8	Panasonic	CF-28	2001	\$4,812.00	\$38,496.00
1	Panasonic	CF-34	2001	\$4,812.00	\$4,812.00

MDC'S DUE FOR REPLACEMENT AS PART OF FOUR YEAR REPLACEMENT CYCLE FOR FY 2010

Quantity	Make	Model	Fiscal Year Purchased	Estimated Replacement Cost Per Unit	Estimated Replacement Cost By Model
5	Panasonic	CF-29	2006	\$4,812.00	\$24,060.00
2	Panasonic	CF-30	2006	\$4,812.00	\$9,624.00

TOTAL REPLACEMENT COST FOR FY 2010

\$283,908.00