

Lompoc City Council Agenda Item



City Council Meeting Date: May 20, 2014

TO: Patrick Wiemiller, City Administrator

FROM: Brad Wilkie, Management Services Director
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SUBJECT: Proposal for Financing of the InterAct Computer-Aided Police and Fire Dispatch/Records Management System/Jail Management System Vendor; Adoption of Resolution No. 5918(14); Authorization of Purchase Order in the Amount of \$218,012.95 to AT&T Capital Services

Recommendation:

Staff recommends the City Council:

- 1) Adopt Resolution No. 5918(14) approving the financing of the purchase of the InterAct's Computer-Aided Dispatch/Records Management System/Jail Management System (CAD/RMS/JMS) (System) and approving supplemental revenue of \$218,012.95 from financing proceeds, and supplemental appropriation of \$218,012.95 for the capital outlay to purchase the System (attached);
- 2) Authorize the Purchasing and Materials Manager to issue a Purchase Order in the amount of \$218,012.95 to AT&T Capital Services (InterAct's financing partner) for the purchase of the System; or
- 3) Provide alternate direction.

Background:

At the April 15, 2014, City Council meeting, the Council approved the purchase of the System to provide improved services by and for the Lompoc Police and Fire Departments (and other City Departments). The City Council provided direction to staff to return at a later date to authorize financing, necessary appropriations, and budget adjustments, to provide for the purchase of the System utilizing internal financing opportunities, rather than financing available from AT&T Capital Services, the financing arm of InterAct.

During the April 15, 2014, City Council meeting, a presentation was made regarding the options for funding the purchase of the software and ongoing software maintenance. At that time, choices were presented for both the software purchase and the software

maintenance costs. Council provided direction to pursue internal financing for the purchase of the System, and to utilize existing maintenance appropriations to offset the current and future costs of the System, and maintenance costs over the System's initial five-year contract term.

As an alternative to InterAct's AT&T Capital Services financing option, the City may borrow internally from the Insurance/Benefits Internal Services Fund, which holds restricted long-term reserves earning interest at a current rate of 0.23%, rather than pay the financing rate of approximately 3%. Further, utilization of internal sources provides the City with flexibility related to the repayment of the borrowed funds to best match the City's budgetary cycles.

Discussion:

The City recently secured financing for all outstanding capital leases. This refinancing was conducted using an RFP process to secure the most beneficial rates available. The City had a number of capital leases with varying terms of repayment that were refinanced. The capital lease refinanced with the closest term of five years was awarded with an interest rate of 1.32% in September 2013. Staff's recommendation at the April 15, 2014, City Council meeting, was to mirror the 1.32% rate and provide for annual payments beginning July 1, 2015, such that the purchase of the System will be paid off on July 1, 2018. The amortization of the payments would be:

<u>Payment Date</u>	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
				\$ 218,012.95
7/1/2015	\$ 56,313.64	\$ 2,877.77	\$ 53,435.87	164,577.08
7/1/2016	56,313.64	2,172.42	54,141.22	110,435.86
7/1/2017	56,313.64	1,457.75	54,855.89	55,579.97
7/1/2018	56,313.64	733.67	55,579.97	(0.00)
Totals	<u>\$ 225,254.56</u>	<u>\$ 7,241.61</u>	<u>\$ 218,012.95</u>	

While interest expense would accrue from the date the System is purchased in 2014, the principal payments would occur during the FY 2015-17 and the FY 2017-19 budgetary cycles. This will allow for the planning of departmental costs for both the Fire and Police Departments during the regular budgetary cycles. It is expected the City's purchase of the System will occur close to the beginning of FY 2014-15.

Fiscal Impact:

The proposed schedule for repayment of the cost of the System will defer the principal portion of the repayment obligation to the FY 2015-17 and FY 2017-19 Budget cycles. As with most software purchases, maintenance for the first year is included with the purchase cost of the System, acting as a one-year warrantee. This one-year window

will provide Program 11150 – Police-CAD/RMS Operations with budgetary savings of \$48,286 in FY 2014-15.

FY 2014-15 will require the recognition of \$2,878 for interest costs, which can likely be accounted for with a budget adjustment from another line item in the 11150 program. Account No. 11150-58146 is proposed for use to account for the interest component of the financing. Account No. 11150-61146 is proposed to account for the principal portion of the financing.

The budgetary process for FY 2015-17 will require the dedication of resources for the payment of both the System purchase, as well as the first year of maintenance/software update costs of \$58,932.19. InterAct has proposed an initial five-year contract, providing for the maintenance/software update costs to remain at \$58,932.19 per year for five years. The City Council will be acting upon the FY 2015-17 Budget beginning in January 2015, with the adoption of the budget anticipated in June 2015. Therefore, no action is required at this time to authorize the payment of future maintenance costs for the System.

The April 15, 2014, City Council Agenda item for the purchase of the System anticipated a possible financing option to pay for the five years of maintenance as part of an overall financing package. Staff has confirmed this is not a requirement of the purchase of the System, but the annual price for the maintenance is set for the first five years as part of the contract. Without financing maintenance, the total amount necessary to be financed is \$218,013, rather than the \$453,742 included in the recommendation for the purchase of the System.

The Police Department has carried over appropriations in Program 11150 in anticipation of the conversion to the new System. The Department may request to carry-over remaining appropriations available at June 30, 2014, to reduce the amount of new appropriations required for the overall System cost in FYs 2015-17, including maintenance.

By utilizing financing, the initial purchase cost of the system can be spread over the initial contract term of five years, with repayments beginning July 1, 2015. Unlike the current system, all InterAct System upgrades and version updates are included in the contract terms and are paid for as part of the annual maintenance costs.

As the General Fund is considered a “governmental” fund and the Insurance/Benefit Fund is a “proprietary” fund, the financial representation of this transaction is going to be different from the budgetary presentation. Governmental funds cannot show long-term obligations such as this loan on their balance sheets, while proprietary funds show short-term and long-term obligations. To properly reflect this differentiation, the two funds will show offsetting “advances,” rather than a loan receivable and a loan payable;

however, the intent of the transaction is to mirror the available financing as available from an external vendor.

Conclusion:

Resolution No. 5918(14) provides for the advance between the Insurance/Benefits Internal Services Fund and the General Fund, and the related terms of annual repayments, which include 1.32% annual interest and repayment by July 1, 2018. The resolution also provides for the supplemental appropriations necessary for the purchase and proceeds during the remainder of the FY 2013-15 Budget, setting up any required new accounts, the budget adjustments necessary for recognition of current financing costs, and authorization to the Purchasing and Materials Manager to issue the Purchase Order. It does not appropriate funds for the repayment of the loan in FYs 2015-17 or FYs 2017-19, as those budgetary periods have yet to be deliberated.

Respectfully submitted,

Brad Wilkie, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Patrick Wiemiller, City Administrator

Attachment: [Resolution No. 5918\(14\)](#)