

OMF 4.05.01 Replacement of Internal Service Funds' Assets Procedures

Purpose

The purpose of this procedure is to describe the replacement programs of OMF's Internal Service funds.

Introduction

Some Office of Management and Finance (OMF) Internal Service funds build into their rates a component for the replacement of customer's end user equipment. Currently three OMF funds have replacement accounts: City Fleet, Printing and Distribution (P&D), and Bureau of Technology Services (BTS).

Segregation of Monies

The funds each maintain accounts within them for segregating equipment replacement money based on the customer from whom it was collected and the class of equipment.

Purpose and Benefits of Replacement Programs

The primary purpose of the replacement programs is to fund the replacement of assets at the end of their useful life. The replacement programs allow the funds to manage equipment and infrastructure as systems, allowing decisions about replacements, upgrades, and improvements to be made in a holistic fashion. This is especially important for the replacement of technology assets. The replacement program also allows for cost savings on operations and maintenance, where efficiency gains and financial savings can be realized by having standardized equipment. For example, financial savings can be found in purchase price, support contracts and training costs.

The use of asset replacement accounts allows customer bureaus to budget the true cost of ownership in their annual budgets.

Details of OMF's Replacement Programs

P&D Replacement Program

The fund maintains a replacement program for all printing and mail distribution equipment and copiers. Copy machines will be replaced when:

1. The machine has produced enough copies to fund its replacement (e.g., the number of copies produced multiplied by the standard replacement rate equals the value of the new machine)
2. The machine reaches a point where it can no longer function reliably
3. The customer requests an upgraded machine
4. The customer demands a replacement machine based upon dissatisfaction with the current copier

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It should be noted that options 1 and 2 are fully funded by replacement monies in the fund. Options 3 and 4 are only partially funded by the fund and the customer pays the difference. Production equipment will be replaced when:

1. The machine can no longer perform its intended function without major repairs and/or a significant loss of productivity
2. The equipment can no longer provide the necessary quality
3. The equipment is no longer productive in terms of alternatives, based upon technological improvements

It should be noted that all production equipment is purchased on the basis of providing all customers with prices that are lower than alternatives.

CityFleet Replacement Program

CityFleet maintains a vehicle and replacement fund for all customer bureaus except the Bureau of Environmental Services and the Water Bureau. (These two bureaus elect to cash finance capital equipment purchases as a part of their respective rate recovery models.) CityFleet calculates replacement contributions based on the original purchase price of the vehicle or equipment, plus the costs to outfit the equipment. This amount is divided by the life-cycle assigned to the equipment and charged to the bureau on a monthly basis until the unit is fully collected. CityFleet uses established life-cycles for each class of equipment that are the industry standard for scheduled replacement. When the vehicle or equipment is at the end of its identified economic life-cycle, the salvage and interest generated is added to the replacement funds collected and these monies are used to purchase a like-for-like replacement.

If a bureau decides to replace the vehicle with a more costly or upgraded vehicle (not a like-for-like replacement), then the bureau pays the net difference and the replacement fund pays the remainder.

Bureau of Technology Services Replacement Program

Technology Services currently has a single active replacement program: Lifecycle Replacement for Personal Computers and Laptops.

The Lifecycle Replacement for Personal Computers and Laptops account is dedicated to the replacement of personal computers and laptops. Within this account, sub-accounts are maintained at a customer level. Interest earnings are added to accounts on an annual basis. Replacement funds are to replace equipment on a five-year replacement schedule. Funds can also be used to replace non-repairable devices. The account is designed to cover the cost of the device and the Operating System.

In previous fiscal years BTS rates included a replacement component for electronic equipment and video systems. BTS rates do not currently include collections for this program. The Electronic Equipment replacement account is dedicated to the replacement of radio equipment,

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video equipment, or miscellaneous electronic equipment such as sirens and radar guns. Within this account, sub-accounts are maintained at a customer/equipment class level. Interest earnings are added to accounts on an annual basis. Replacement funds are used when the equipment has reached end of life.

Bureaus have the option of contributing funds to BTS replacement accounts for technology equipment, systems and software. Replacement fund contributions must be set up through the City's budget process.

EBS Replacement Program

EBS maintains replacement funds for some of its large capital assets, such as server infrastructure for SAP.

OMF Business Process Owner: Business Operations
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