

IMF Budget Review

Judicial Council Information Technology Office Telecommunications Program

Prepared for the Trial Court Budget Advisory Committee
Revenue and Expenditures Subcommittee

February 4, 2016



JUDICIAL COUNCIL OF CALIFORNIA



Agenda

- Review of Open Items
- Findings and Recommendations
- Q&A



JUDICIAL COUNCIL
OF CALIFORNIA



Items for Review

- Recap: addressing the budget shortfall
- Lease vs. finance
- One-time, periodic or ongoing?
- Revised budgeting scenarios
- Procurement options post-CALNET 2





Addressing the Budget Shortfall

- Working from a needs-based approach, our estimated need for FY 16-17 was approximately \$35M
- CALNET 3 introduced new service-based options, which give us the ability to migrate to a managed firewall solution that reduces the estimated FY 16-17 need to approximately \$28.8M
- A lease/finance approach was proposed to address the remaining shortfall.





Lease vs. Finance

- Conclusion: Finance
 - Briefing provided by the California Department of General Services (DGS) that reviewed both options.
 - DGS can arrange either option, but their advice is that a lease generally costs more.
- Considerations
 - This would be a secured loan. The equipment being purchased serves as the collateral
 - We need to be cognizant of unencumbered obligations.
 - Payment issues impact the state's bond rating



Decision Factors

Factor	Lease	Finance
1. How long will we keep the asset?	Shorter Term	Longer Term
2. Is there a chance that we want to own the equipment after the lease term?	No	Yes
3. What is more important from a technology perspective?	Latest Technology	Established/ Stable Technology
4. What is more important from a financial perspective?	Lower Payments	Lower Overall Cost
5. Will the asset still have tangible value when it is replaced?	Yes	No
6. Is the equipment usually replaced in a timely manner?	Yes	No
7. Is a thorough financial understanding critical? (level of complication/possibility for misunderstanding or mistakes)	More Complicated	Less Complicated
8. Is legal review a factor? (difficulty to properly evaluate)	More Difficult	Less Difficult



Finance Process

- Facilitated by the Department of General Service's GS \$mart program
- No fees from DGS. We pay only interest and bond counsel.
- DGS screens lenders to determine which will provide the best deal.
- We need to adhere to the established purchase schedule. Courts will lose the flexibility to defer implementations.





One-time, Periodic or Ongoing?

- Conclusion: Periodic
- Basis:
 - Provides the flattest budget with the least amount of finance charges.
 - We still anticipate fluctuations from year to year, even with efforts to shift expenses out of peak years.
 - Financing provides no benefit in off-peak years





Scenarios Considered

- Three scenarios were modeled in this review:
 - **Scenario 1:** assumes full funding of program obligations
 - **Scenario 2:** assumes reduced funding based on current budget limitations, and addresses the shortfall through the deferral of hardware replacement
 - **Scenario 3:** assumes reduced funding based on current budget limitations, and addresses the shortfall through financing.



Option Comparison*

Scenario 1: Original obligation without leveling or financing

Option	TECHNOLOGY REFRESH FIVE YEAR BUDGET FORECAST					Program Totals
	FY 15-16 (TR9)	FY 16-17 (TR10)	FY 17-18 (TR11)	FY 18-19 (TR12)	FY 19-20 (TR13)	
1	\$16,099,422	\$28,774,039	\$11,375,749	\$9,773,660	\$15,835,226	\$81,858,096

Scenario 2: Reduction from base need; defer 370 network switches 1 year past EOS

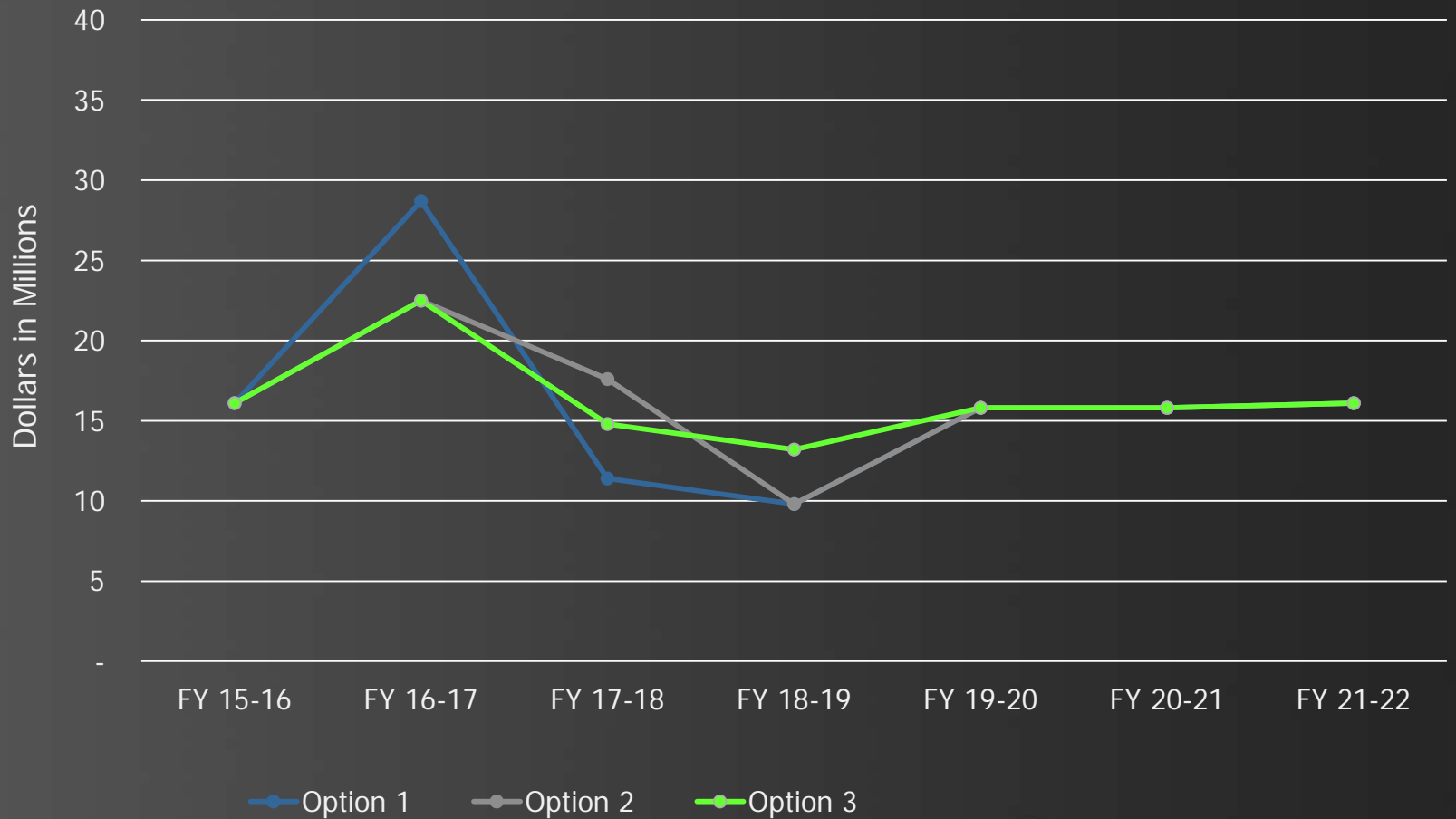
Option	TECHNOLOGY REFRESH FIVE YEAR BUDGET FORECAST					Program Totals
	FY 15-16 (TR9)	FY 16-17 (TR10)	FY 17-18 (TR11)	FY 18-19 (TR12)	FY 19-20 (TR13)	
2	\$16,099,422	\$22,500,000	\$17,649,788	\$9,773,660	\$15,835,226	\$81,858,096

Scenario 3: Reduction from base need with shortfall financed for 3 years @ 3% APR

Option	TECHNOLOGY REFRESH FIVE YEAR BUDGET FORECAST					Program Totals
	FY 15-16 (TR9)	FY 16-17 (TR10)	FY 17-18 (TR11)	FY 18-19 (TR12)	FY 19-20 (TR13)	
3	\$16,099,422	\$22,500,000	\$14,817,727	\$13,215,638	\$15,835,226	\$82,468,013

* Preliminary

Comparison Chart





Conclusion

- Scenario 3 provides the most effective balance between the need to level the budget, while keeping the finance charges at a reasonable level.
- Resolves the funding shortfall that is inherent with option 1
- Avoids the need to defer hardware replacement
- Least risk of impact to the court's daily operations





Procurement Vehicles

- CALNET 3
 - Currently in effect, but does not provide the full range of products and services that have previously been procured through CALNET 2
- CALNET 2
 - Expired but subsequently extended through January 2016
 - The California Department of Technology recently announced that it is working with AT&T and Verizon to extend the CALNET 2 agreements for two additional years





CITMF Review

Consensus on:

- Flexibility on the procurement model so long as court needs are met, and that it doesn't lock us into the same replacement cycle with the attendant budget peaks and valleys.
- The need to ensure that whichever option is selected provides a long term solution, vs. for several years until we have to face the problem again.
- The need to focus on stable ongoing funding now vs. down the road, and ensuring that the funding approach complies with the Judicial Branch Technology Governance and Funding Model.

California Judicial Branch Strategic Plan for Technology:

"Stable, long-term funding must be secured to support infrastructure maintenance, replacement, and improvement."



JUDICIAL COUNCIL
OF CALIFORNIA



Questions and Answers



JUDICIAL COUNCIL
OF CALIFORNIA