DATE ISSUED: June 14, 2000 REPORT NO: 00-127

ATTENTION: Honorable Mayor and City Council
Docket of June 19, 2000

SUBJECT: Employee Computer Purchase Program

REFERENCE: Manager's Report No. 00-76, dated April 6, 2000
Manager's Report No. 00-89, dated April 27, 2000

SUMMARY

Issue - Should the City develop an Employee Computer Purchase Program?

Manager's Recommendation - Direct the City Manager to develop an Employee Computer Purchase Program which would offer City employees the opportunity to purchase personal computers (PCs), peripherals and software with payments to be made through payroll deductions using a "Modified Credit Union" program model.

Other Recommendations - The City's labor organizations recommend that the City implement a City-administered program modeled after the program utilized by San Diego County ("County Model").

Fiscal Impact - None by this action. Implementation of the program will require entering into a subsequent agreement with the San Diego Metropolitan Credit Union which would cost the General Fund a maximum of $155,000 over three years or $52,000 per fiscal year (FY 2001-2003).

BACKGROUND

A number of large employers, including the County of San Diego, have established Employee Computer Purchase Incentive Programs to encourage and facilitate the purchase of computer equipment by staff members for personal use away from the workplace. The goal of such programs is to improve organizational productivity by encouraging employees to purchase and use computer systems at home. Employees can gain overall familiarity with computer equipment and software possibly lowering reliance on information technology staff and increasing workers' efficiency. Employees benefit by acquiring new skills and can develop greater comfort in an increasingly computerized workplace.

DISCUSSION

At the April 10, 2000 meeting of the Rules Committee, staff presented two options for the possible establishment of an Employee Computer Purchase Program (see CMR 00-76).
The first option, ("County Model") would be implemented and administered by the City. An RFP would be issued soliciting interest from computer manufacturers/suppliers in submitting

proposals for selling personal computers to City employees at market prices with employees being offered the opportunity to borrow up to $3000 for this purpose with interest free loans, payable through payroll deduction over a thirty (30) month period. The funding source for the loans would be provided by the PC vendors and it is anticipated that this would come in the form of master lease purchase agreements from financial institutions selected by the proposing vendors. Based on the experience of San Diego County that implemented such a program two years ago, the volume purchase of personal computers should provide sufficient incentive for the vendors to offer PC's at market prices and also compensate the lending institutions (via financial rebates) for the cost of the money borrowed.

The primary disadvantages in implementing the "County Model" are: 1) the necessity for the City's General Fund to guarantee the master lease purchase arrangement (adding $8-15 million to the City's short term debt) and, 2) the requirement to establish a Trust Fund sufficient to satisfy the participating financial institutions that cash flow and bad debt would be covered. Based on San Diego County's experience, we estimated the Trust Fund requirement would be $500,000. (Note: staff's best estimate of the total amount of short term debt that would be added to the General Fund is $8-9 million. Additionally, based upon recent County of San Diego experience, we now believe we could lower the Trust Fund requirement to $300,000).

Because of the significant financial impact of the "County Model," staff recommended an alternative model pioneered by the City of Los Angeles. This "Credit Union" model would shift the financial risk to the City's participating credit unions. Under the proposed arrangement, the credit unions would select, secure and administer agreements with participating PC vendors, using criteria developed by the City. The credit unions would offer 0% loans of up to $3,000 to credit union members who are City employees and who are determined by the Credit Unions to be an acceptable credit risk. Participating computer vendors would (in return for bulk purchases of PC's) offer financial rebates to the credit unions sufficient to pay for the credit union's cost to procure the loan so that the employees could continue to pay market prices for the PC's and obtain interest free loans.

At the April 10, 2000 meeting of the Rules Committee, representatives of the City's labor organizations objected to the "Credit Union" model primarily because 1) employees would have to belong to the credit unions in order to participate and, 2), those interested in obtaining loans would be subject to a review of their credit history and possibly disqualified from the program. The Rules Committee directed staff to attempt to address these concerns.

“Modified Credit Union” Model

As presented to the Rules Committee, the credit unions have stated that they are not in a position to assume the full financial risk for a computer loan program which guarantees that all employees who apply for a computer loan be approved, regardless of credit history. However, after negotiations, the San Diego Metropolitan Credit Union agreed to a risk sharing approach which will guarantee loans to all City employees with six months of successful City service (see CMR 00-89), thereby accomodating the City labor organizations’ desire that all employees have access to the program, regardless of credit history.

Under this risk sharing approach, all loans would continue to be issued by the Credit Union and the City would partially guarantee those loans which are determined by an independent third party credit scoring service to have a high probability of financial risk. Of the total collective dollar amount of “high risk” loans issued, the City would establish a bad debt reserve fund equal to 4%, not to exceed $155,000 or an annual cap of $52,000. This cap is based on staff’s estimate that 4,000 employees would participate in the program, borrowing an average of $2,400. The reserve fund cap can be lowered if employee participation and/or the total amount of funds loaned are less than projected, but the cap cannot be increased under any circumstances. Additionally, if actual credit losses from the “high risk” loans are less than the reserve level, the City will only be billed the actual amount. The credit union would only be paid from the Trust Fund when (after 90 days of normal collection efforts) the loan had been charged off as bad debt and assigned to a collection agency. Any funds collected after this point by collection agencies would be reimbursed to the City. The City would also have the option to pursue its own collection activities on these bad debt accounts.

The SD Firefighters Federal Credit Union is willing to participate in the loan program, but only if it can continue to utilize its standard credit review criteria. Employees denied by the Firefighters Credit Union would have the option of joining the San Diego Metropolitan Credit Union.

Another concern expressed by the City’s labor organizations is the SD Metropolitan Credit Union’s policy of requiring a minimum $100 deposit for membership. In response, the SD Metropolitan Credit Union has recently decided to lower this deposit requirement to only $10, which should effectively mitigate any significant financial barrier for credit union membership.

At the May 1, 2000 Rules Committee, labor union representatives expressed continued opposition to the “Credit Union Model” and requested the opportunity to further explore with staff options which might mitigate the financial impacts of the “County Model.” Subsequent to the May 1st Rules Committee meeting, staff met twice with representatives of each of the City’s labor organizations. The labor representatives continued to support a “County Model” program and offered two suggestions aimed at mitigating the negative financial impacts of the “County Model.” The first suggestion is for the City to lengthen the employment elibility period for obtaining a loan from six months to one year of successful City employment. The second recommendation was to explore using employee SPSP retirement fund accounts to secure the computer loans.

Investigation by staff of the impact of using SPSP accounts to secure employee computer loans determined that regardless of the ability to garnish available SPSP funds, the master lease purchase arrangement would still be categorized as debt of the City's General Fund. It therefore continues to be staff's conclusion that under the "County Model" participating vendors and their respective financing sources would continue to require that the City guarantee the lease purchase agreements that provide funding for the loans and thus the City could not avoid new significant short term debt. We have not identified alternatives to mitigate this impact.

Conclusion

Staff recommends adoption of the "Modified Credit Union" model. This approach would guarantee essentially all City employees eligibility for an interest free computer loan of up to $3,000 payable through payroll deduction over a thirty month period. The City would share with the Credit Unions the risk of providing loans to those employees who might otherwise be disqualified due to credit concerns. Financial losses from "high risk" loans would be paid from a Trust Fund established by the City for this purpose. The amount of bad debt losses paid to the Credit Union would be actual losses not to exceed $52,000 per year or $155,000 for the thirty month program. It is staff's opinion that the amount of bad debt risk under the modified "Credit Union" approach is comparable to the bad debt losses the City could expect with a City-run, "County Model" approach without the necessity to establish the $300,000 Trust Fund nor to add $8-9 million in short-term City debt. Avoidance of this alternative will help maintain acceptable General Fund debt levels.

Should the Council direct staff to proceed with the "Modified Credit Union" approach, staff will negotiate detailed agreements with the San Diego Metropolitan Credit Union and the SD Firefighters Credit Union, and proceed with program implementation during mid- FY 2001.

ALTERNATIVES

1. Adopt the "County Model." If the "County Model" is desired by Council, the Manager will refer the required Trust Fund for the Proposed Fiscal 2001 Budget budget deliberations.

2. Develop another program model or do not proceed with the program.

Respectfully submitted,

Richard E. Wilken Director, Information Technology & Communications Department	Approved: Dianah L. Neff Deputy City Manager/Chief Information Officer

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