

Salt Lake County Debt Review Committee

To: Salt Lake County Council

From: K. Wayne Cushing, Chair

K. Wayne Cushing 5/9/22

Re: IT Smartnet Equipment Maintenance

Salt Lake County IT appeared before the Debt Review Committee on 4/27/2022 regarding the pending renewal of the County's Smartnet Maintenance agreement. This agreement is for maintenance on existing network equipment the County currently owns that is essential for the ongoing operation of the County's network.

In the past, the vendor has offered to pay the interest for a multiyear agreement under a financing arrangement they brokered with Key Bank. That arrangement is no longer being offered. The County is now faced with two options:

1. Renewing this agreement on an annual basis at a significantly higher cost and running the substantial risk of annual price increases.
2. Renewing this agreement for a three-year period and paying the full cost of those three years up front at substantial savings from the annual cost.

IT asked the Committee for a recommendation on whether it would be advantageous to pursue financing for the 3-year agreement given that they do not have the budget authority to cover that cost up front. After discussing the possibility of financing, the Committee concluded that the cost of issuance on this amount of debt (approximately \$1million) would not be worth pursuing. In addition, the Committee felt that the County's recent practice has been to avoid incurring additional unnecessary debt.

Therefore, it is the Debt Review Committee's recommendation that the 3-year agreement be pursued and paid upfront as a prepaid expense to recognize immediate savings, as well avoid potential annual price increases in future years. The existing IT Division budget will cover 1/3 of the prepaid expense each year of the contract.

Cisco Smartnet Maintenance Agreement Cost Comparison

3 Year Agreement			Annual Agreement		
Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
\$ 329,105.92	\$ 329,105.92	\$ 329,105.92	\$ 351,781.18	\$ 372,888.05	\$ 395,261.33
Total		\$ 987,317.77			\$ 1,119,930.57
Difference					\$ (132,612.80)

Based on an estimated minimum 6% annual increase, financing the 3 year agreement would need to cost less than \$132,612.80 to save money vs paying the annual cost.