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TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: OCTOBER 29, 2007 CMR: 386:07

SUBJECT: APPROVAL OF A SOFTWARE SYSTEM INTEGRATION SERVICES CONTRACT WITH AXON SOLUTIONS, INC. IN THE AMOUNT OF \$6,292,073 FOR THE SAP SOFTWARE UPGRADE AND IMPLEMENTATION OF SAP INDUSTRY-SPECIFIC SOLUTION FOR UTILITIES AND ADOPTION OF A BUDGET AMENDMENT ORDINANCE IN THE AMOUNT OF \$4,000,000 TO INCREASE APPROPRIATION TO CAPITAL IMPROVEMENT PROJECT TE-07006, SAP CONTINUOUS IMPROVEMENT PROJECT

RECOMMENDATION

Staff recommends that the Council:

1. Approve and authorize the City Manager to execute the attached professional services agreement (Attachment A) with Axon for a total of \$6,292,073.
2. Approve and authorize the City Manager or his designee to negotiate and execute one or more change orders to the contract with Axon for related, additional but unforeseen work which may develop during the project, the total value of which shall not exceed \$629,207.
3. Adopt the attached Budget Amendment Ordinance (BAO) in the amount of \$4,000,000 that amends the 2007-08 budget to increase Capital Improvement Program TE-07006 SAP Continuous Improvement Project.

BACKGROUND

On July 23, 2007 (See attached CMR 313:07), the Council approved contract changes with SAP for items which included licensing, maintenance, and training. These items were approved in preparation for the upgrade to SAP and implementation of SAP's industry-specific solution for utilities (IS-U). This system will replace the existing Utilities Department's Customer Information System (CIS) which is used to generate revenue through billing, as well as collect customer data on commodity consumption, and to develop rates for the following utilities in the City: electric, gas, water, waste water, refuse, storm drain, and fiber. This data is also used extensively in mandated reporting to various official agencies. Approximately 360,000 utility

bills are generated annually and invoicing an estimated \$198,500,000. Therefore, this system is an integral part of the operations of the City.

The CIS climate is such that the current version is no longer supported by the software vendor. Being on an unsupported version has increased normal maintenance costs and caused a drastic increase in processing and turnaround times for vendor service requests. Turnaround times for common services request such as defect corrections or basic enhancements have more than doubled from thirty days to sixty – ninety days. The increased turnaround time creates a challenge for staff by preventing the ability to quickly and effectively respond to business needs. Similarly, end-user database queries and nightly batch processes (i.e. bill printing) run time have more than doubled since go-live. For example, for staff to query a typical residential account requires fifteen seconds and fifteen to forty five seconds for a typical commercial account. To improve response time, the CIS requires an archive purge solution to properly remove historic information from the database and to securely place the information in an easily accessible environment. With the objective to remain efficient yet effective in a growing customer-centric environment, the CIS business requirements have increased, requiring a move to the next generation of CIS.

DISCUSSION

Project Description

This project will include the upgrade of the existing SAP software system that was installed five years ago. The current version of the SAP system is not on the regular support plan as a result of newer versions being made available. The maintenance costs will increase as a result of receiving non-compliant maintenance support, a typical process in the software industry. In addition, the upgrade will offer the ability to implement enhancements and efficiencies to the system such as improving budgeting; reducing duplicate entry through modules such as Employee Self Service (ESS); automating personnel action forms; enhancing workflows for approval processes such as timecards; and eliminating highly used paper forms with the implementation of Adobe Interactive Online Forms. In addition, the implementation of ESS will fulfill the City Auditor's recommendation to implement a self-service software tool. The upgrade also lays the foundation for future portal development and constituent outreach, providing community members an ability to submit on-line work orders for items such as tree trimming, pot holes, etc. This upgrade is also essential in order to implement the new Utilities Module in SAP.

The implementation of the SAP Utilities Module represents over 70% of the cost of this project. The existing Utilities CIS system is a complex and rapidly deteriorating system that was last updated seven years ago for approximately \$557,620 (CMR 316:01). In addition, the annual maintenance for the legacy CIS system is \$160,000. The new Utilities Module will be fully integrated with the SAP system with a single database platform and tools. It is a billing system that maintains and tracks meters inventories, initiates and processes customer service requests, automatically generates customer correspondence (reminder notices), tracks and records all financial related charge, adjustment, and payments passes, as well as, stores customer account specific information required to run the Utilities business. While a major part of this system is used for billing, it will consolidate data currently stored in multiple systems into one system and

convert this data to useful information that will benefit the City while improving service to residents and businesses of Palo Alto. This improved service will be achieved with functionality such as enabling customers to access their utilities account through secured, on-line access with functions such as on-line bill payments and usage history. The addition of the Utilities Module represents the first major improvement in Utilities CIS in seven years, during which time significant changes in technology and reporting requirements have occurred. Given the complexity of a multi-utility billing system, staff is also requesting an additional \$629,207 to address potential core project scope adjustments.

Selection Process:

Proposal Description/Number	SAP Upgrade Services/121737	
Proposed Length of Project	16 Months	
Number of Proposals Mailed	35	
Total Days to Respond to Proposal	37	
Pre-proposal Meeting Date	May 10, 2007	
Number of Company Attendees at Pre-proposal Meeting	8	
Number of Proposals Received:	3	
Company Name	Location (City, State)	Selected for oral interview?
Ariston Consulting & Technologies, Inc.	San Diego, CA	Yes
Axon Solutions, Inc	Jersey City, NJ	Yes
ea Consulting, Inc	Folsom, CA	No
Range of Proposal Amounts Submitted	4,000,000 – 6,500,000	

An evaluation committee consisting of ten staff from Administrative Services, Utilities, and Public Works departments reviewed the proposals. Three vendors responded to the RFP. The committee carefully rated and ranked each firm's submittal in response to the RFP relative to the following criteria:

Vendor Experience

- Experience upgrading to ERP 2005
- Experience Implementing IS-U Software
- Experience Implementing in Public Sector
- Live Public Sector Sites: References

FUNCTIONAL REQUIREMENTS

- Understanding of Scope
- Understanding of Requirements
- Comprehensive Methodology/Roll-Out Strategy Presented

Non-Core Solutions

- Non-Core Solutions such as Constituent Relationship Management, Document Management, Archiving, etc.

Completeness and Quality of Proposal

- Conformance to Contract Requirements/Business Terms in RFP

Cost Proposal

Based on staff's prior experience, a heavy emphasis was placed on vendor experience with public sector implementations, upgrading to ERP 2005, and especially implementing IS-U.

Two firms were invited to participate in oral interviews June 25, 2007 through June 28, 2007, thus providing further valuable information toward the decision-making process.

Axon Solutions, Inc. has been selected as the vendor whom staff recommends be awarded a contract with the City. Axon is an international company with subsidiaries in the United States. Axon has over 1,500 consultants that are certified in the SAP implementation methodology and are trained to understand the intricacies of the software. Due to Axon's depth in consultants, there is no need for subcontracting, therefore eliminating staffing challenges. In addition, of the firms bidding, Axon has the most experience in public sector IS-U implementations and is the only firm to have successfully performed similar scope of services for other municipalities. Axon will perform the upgrade and IS-U implementation within 16 months for a total cost of \$6,292,073 as described in Attachment A.

TIMELINE

Phase 1 of the project will include the technical upgrade and modules such as ESS and MSS. Phase 1 is expected to commence in November with a target go-live of May 2008. Phase 2 is expected to commence April 2008 with a target go-live of February 2009.

RESOURCE IMPACT

The attached BAO requests an additional appropriation in the amount of \$1,250,000 and that \$2,750,000 budgeted in out years be brought forward to the current fiscal year totaling \$4,000,000 for CIP TE-07006, SAP Continuous Improvement Project. The additional appropriation will be funded by a transfer of budget from CIP TE-02014 of \$788,960 and TE-05001 of \$149,127; the remaining balance of \$3,061,913 to be provided by the Technology Fund reserve. The Technology Fund reserve will be reimbursed by the Enterprise Funds in fiscal years 2008-09 through 2009-10.

The 2007-12 CIP Plan has a total estimated cost of the project at \$5,750,000. It had been five years since staff last issued an RFP for implementation services and the estimates made during the 2007-09 budget process were not in line with the current market rates submitted by proposers. To perform all the tasks required for the Utilities Module, an additional \$1,250,000 will be needed for capital project (CIP TE-07006) to bring the total current estimated cost to \$7,000,000. There are sufficient funds in the Technology Fund to provide for the additional cost.

The fiscal year 2007-08 budget is amended to bring all project costs to this fiscal year in line with the award of the consultant contract, including change order contingencies.

POLICY IMPLICATIONS

Approval of this contract is consistent with existing City policies.

ENVIRONMENTAL REVIEW

This is not a project under CEQA.

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CITY MANAGER APPROVAL: _____
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ATTACHMENTS

- Attachment A: Contract with Axon
- Attachment B: CMR 313:07
- Attachment C: Budget Amendment Ordinance
- Attachment D: CIP Page