TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DATE: OCTOBER 6, 2008
SUBJECT: SAP Project Status

This is an information report and no Council action is required.

OVERVIEW
Effective July 2002, the City chose SAP as its preferred vendor for an Enterprise Resource Planning system consolidating multiple disparate systems in support of the Information Technology Strategic Plan. On July 22, 2002, Council approved a contract with ea consulting, inc for the implementation of SAP in the amount of $3,168,328. In 2002-2003, the implementation of SAP was completed which accomplished the primary objectives, to replace aging financial, personnel and payroll systems and to implement new functionality such as project management, work order, and service order systems. This project laid the foundation for the City’s enterprise-wide application systems.

BACKGROUND
The purpose of this report is to inform the City Council of the status of the SAP Project. On October 29, 2007, the City Council approved a contract with Axon Solutions, Inc. for the SAP upgrade and implementation services for SAP’s Utility Billing system known as Industry-Specific Solution for Utilities (IS-U). The upgrade was necessary in order to stay compliant with SAP’s support and maintenance schedule. Additionally, the upgrade was necessary in order to implement IS-U.

The IS-U 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 optics. 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. This system therefore 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.

**DISCUSSION**

**SAP Upgrade**
Effective April 20, 2008, a technical upgrade of the SAP system was completed. Professional services costs for the technical upgrade were approximately $1,372,540. The upgrade required 6 months of work by staff from Administrative Services, Human Resources, Public Works, and Utilities. SAP is used to perform financial, human resources, payroll, materials management, project systems, and plant maintenance activities. The upgrade to the SAP system represents a standardization on the SAP platform, which yields substantial benefits, such as reduced maintenance costs and legacy-system support costs, reduced staff training costs due to standardized multi-departmental platforms, and reduced Information Technology (IT) support costs. Other benefits include establishing a framework for e-Government, with a customer Web portal and other functionality such as data warehousing and document management. Many public and private organizations such as the City of Dallas, Marin Municipal Water District, Sacramento Municipal Utility District, PG&E, City of Tacoma, Sacramento County, Suffolk County Water, and Waste Management have also standardized on SAP as an integrated system.

The SAP upgrade also included improved efficiencies such as streamlining the year-end carry forward process resulting in staff time savings and increased productivity. Staff of 10 (3 Accounting, 2 Budget, 2 Purchasing, 2 SAP Functional and 1 Basis) are no longer required to be on-site for year-end processing and users are no longer required to be locked out of the system during this process. Instead, the SAP Functional will run the carryforward process remotely. Additionally, Human Resources' processing time for new hires is reduced by 20% due to a reduction in processing screens and auto-population of key fields. The SAP upgrade also lays the foundation for future "green" initiatives such as electronic paystubs and notifications preventing the need to print payroll checks, postage, and mailing services.

**SAP Enhancements**
In addition to the SAP upgrade, key enhancements were implemented such as Employee Self Service (ESS) and Manager Self Service (MSS). These modules are web portals, allowing City staff to easily enter timecard data, review benefits information, and manage staff time. Other modules that were implemented, effective July 7, 2008, include Budget Control System (BCS), Actual Labor Costing (ALC), and Organizational Management (OM).

The SAP Enhancements included efficiencies such as automatically calculating actual labor and overhead costs that are currently done manually by Accounting staff. This also will enable the City to more accurately track and charge for projects and cost recovery programs.
SAP Industry Specific Solution for Utilities (IS-U)

A further initiative of the SAP upgrade project is to migrate the existing legacy Utility Billing system to SAP’s Utility Billing system known as Industry Specific Solution for Utilities (IS-U). The implementation of SAP’s IS-U will be integrated with previously implemented modules with a single database platform and tools, which will facilitate financial integration and reporting. IS-U will consolidate data into one system and convert this data to useful formats that will benefit not only the City, but residents and businesses of Palo Alto by making data more accessible. This improved service will be achieved with functionality such as accessing one’s utility account through secured, online access with functions such as on-line bill payments and usage history.

The IS-U implementation has the following five phases: project preparation, blueprint, realization, final prep, and go live. Currently, the project is halfway through the Realization phase and staff expects the system to go live in early 2009.

A significant investment of time by staff beyond their regular daily responsibilities to address the SAP upgrade, enhancements, and implementation of IS-U has allowed this project to be on schedule and within budget.

RESOURCE IMPACT

Of the total amount ($6,921,280) approved by the Council on October 29, 2007 for the SAP project, a total of $2,766,844 has been processed for payment based on completion of deliverables.

POLICY IMPLICATION

The upgrade to the SAP system addressed Palo Alto Municipal Code, Section 2.30.900, Part 10 (Standardization), as staff standardized on the SAP platform.