DATE ISSUED: April 29, 2004   REPORT NO. 04-090

ATTENTION: Rules, Finance and Intergovernmental Relations Committee
                    Agenda of May 5, 2004

SUBJECT: San Diego Data Processing Corporation

REFERENCE: Manager's Report No. 78-194, dated November 16, 1978
                    Manager's Report No. 86-71, dated February 19, 1986
                    Manager's Report No. 99-169, dated September 8, 1999
                    Manager's Report No. 02-002, dated January 4, 2002

SUMMARY

Issue – Should San Diego Data Processing Corporation (DPC) be dissolved and specified functions merged with the City's Information Technology & Communications (IT&C) Department, and remaining functions competitively sourced to qualified information technology (IT) service providers?

Manager's Recommendations

1. Direct the City Manager to develop an implementation plan within 180 days to strategically dissolve DPC and competitively source selected functions to qualified IT service providers. As part of the implementation plan, identify specific functions that should be transferred to the City and develop a preliminary cost analysis.

2. To establish a single point of accountability for IT service delivery, direct the City Attorney to prepare changes to DPC's governing documents to accomplish the following:

2.1. Delegate voting proxy on matters related to DPC, including without limitation, authority to appoint the members of the Board of Directors from the City Council to the City Manager.

2.2. Allow City staff to be eligible to serve as voting members of the Board of Directors. Change Board composition to include three staff as part of the seven member Board: the City's Chief Information Officer (CIO) and two additional staff at the Deputy City Manager or Department Director level.

2.3. Direct the Board to confirm the CIO as Chair of the Board of Directors.

3. Direct DPC to provide City staff its full and timely cooperation in the City's efforts to develop and carry out the implementation plan.

4. Direct the City Manager to reallocate funds allocated for technology services within the FY2004 through FY2006 budgets to fund transition activities, including the engagement of consultants and specialized legal counsel to develop and conduct a request for proposal process, and assist in dissolving the corporate entity.

Other Recommendations – None.

Fiscal Impact

One-time transition costs are estimated in the range of $2 million to $4 million based on preliminary research as well as discussions with organizations that have gone through a similar process as being contemplated. A consultant will be required to assist in the determination of DPC functions to transfer to the City, conduct a baseline of remaining functions, and develop and conduct a competitive request for proposal process to identify qualified vendors to provide IT services to the City. It is also anticipated that outside legal counsel will be required to assist in the proposal process as well as the dissolution of DPC.

The above costs are estimates and costs to the City of San Diego will not be known until consultants and legal counsel are engaged. It is recommended that current funds allocated to technology services be reallocated within the FY2004 through FY2006 budgets to fund these transition activities. Any technology programs which are deferred or delayed to fund transition activities can be reprogrammed when implementation savings become available.

Long-term savings are anticipated to be generated through elimination of overhead and the injection of competition, taking advantage of the provider's economies of scale and best practices. Industry experience indicates cost savings in the range of 10% to 20%. Determining the magnitude of savings to the City of San Diego will require additional analysis.

It should also be noted that this proposed sourcing model is projected to reduce the City's financial risks. In the current business model with DPC, project overruns and other financial impacts incurred by DPC directly impact the City. Using the proposed sourcing model, fixed price contracts with financial penalties for inadequate performance would

protect the City financially and provide greater leverage to improve performance from external service providers.

Staffing Impact

The recommended actions would also entail the transfer of some specified functions to the City. Staffing impacts will be identified during the implementation planning phase, which may include:

- Identifying compensation differences between existing City classifications that are equivalent to positions transferred from DPC;

- Creating new City classifications;

- Determining which new classifications will be represented by labor organizations, classified but not represented, and unclassified; and

- Conducting "Meet & Confer" with the respective labor organizations.

The announcement of this recommendation will cause a great deal of concern among DPC employees, many of which have performed well in providing services to the City over the years. A well thought-out staffing plan will be developed to minimize impacts to DPC staff during transition activities. Priority will be made to retain critical employees by offering employment opportunities at both the City and the chosen IT providers. The basis for these employment decisions will be driven by the need to minimize operational impacts on City departments.

The implementation of this effort will require the dedication of staff to oversee the transitions. The City Manager, in his April 22, 2004 memorandum regarding organizational changes, indicated that the status of the IT&C Department Director position was being assessed during this evaluation. Due to the need to dedicate a position to oversee the transition and the ongoing organizational assessment, it is recommended that a Program Manager position be responsible for the transition efforts and the organizational structure be assessed at the conclusion of the implementation.

BACKGROUND

During January, 2004, the City Auditor released the partial results of an ongoing audit of DPC that identified a series of inappropriate and excessive expenditures on travel and entertainment, and other indiscretions. Subsequently, the District Attorney was asked to investigate DPC executives for possible criminal conduct.

On January 16, 2004, the Mayor issued a memorandum that requested the City Manager evaluate whether or not to abolish DPC and merge its responsibilities with the City's IT&C Department. In addition, four specific questions were to be addressed (see Attachments #1 and #2 for the responses):

1. What organizational structure will save the taxpayers the most money?

2. What organizational structure will provide the best information technology services?

3. What organizational structure will best prevent future abuses?

4. What are the existing legal obligations and rights of both the City and DPC?

DISCUSSION

The Discussion section is arranged as follows:

- Executive summary
- Historical background of DPC
- Identified concerns
- Past studies and change efforts to address concerns
- Research conducted in support of this report
- Summary of the history of DPC
- Recommendations and discussion

Executive Summary

When it was first created in 1979, DPC provided mainframe services to the City of San Diego. Since then, DPC's portfolio has grown to include a broad range of IT services including network management, integration services, and software development. This growth, combined with its unique organizational relationship with the City, resulted in a number of unintended consequences, including loss of oversight and accountability, and competitiveness related to the delivery of IT services to the City.

These issues have been of concern to the City for more than a decade and prior efforts to address them have not been successful. Recently, DPC's current Board of Directors took steps to correct issues related to control of travel and entertainment expenditures. *However, fundamental change is required to resolve the underlying structural problems related to oversight and accountability of the delivery of IT services to the City.*

Three options were evaluated to address the structural issues related to DPC: (1) dissolve DPC and transfer its functions to the City, (2) retain and change DPC in order to resolve oversight issues and make it more competitive, and (3) dissolve DPC and competitively bid selected functions to qualified IT providers.

Of these options, staff recommends dissolving DPC and competitively bidding selected functions to qualified IT service providers for the following reasons:

- It addresses the issue of oversight and accountability. DPC's Operating Agreement would be replaced with a meaningful contractual agreement, managed by the CIO. Currently, the CIO is responsible for IT in the City, yet has no meaningful oversight over DPC, which reports to a Board of Directors appointed by the Mayor and confirmed by the City Council.

- Best value in IT services would be achieved through market competition. In addition, financial risk would be shared with the IT service provider, whereas today the City bears any cost overruns or other financial impact related to DPC.

- It is anticipated that customer service would improve as a result of the external IT service providers' desire to continue business with the City through the maximum period of the contract and improve the probability that the relationship would be continued.

- Establishing a contractual agreement of finite period ensures that performance and relationship with the IT provider will be regularly assessed, and maintains a competitive environment.

It is recommended that DPC continue to exist but with modifications to its structure while the recommended transition plan is developed and implemented. It is extremely important that DPC be aligned with the City in carrying out the decision of the Council and that there be a single point of accountability. Accordingly, it is recommended that (1) City Council delegate to the City Manager its voting proxy on matters related to DPC, including without limitation its authority to appoint the members of the Board of Directors, (2) DPC's Board composition be changed to include the CIO and two additional City staff at the Deputy City Manager or Department Director level as voting members, and (3) direct the Board to confirm the CIO as chair of the Board. It is recommended that these changes be made should City Council approve an alternative that includes retaining DPC.

The announcement of this recommendation will likely cause a great deal of concern among DPC employees, many of which have performed well in providing services to the City over the years. A well thought-out staffing plan will be developed to minimize impacts to DPC staff during transition activities. A priority will be made to retain critical employees by offering employment opportunities at both the City and the chosen IT providers. The basis for these employment decisions will be driven by the need to minimize operational impacts on City departments.

The recommended actions will also entail the transfer of some functions to the City. Staffing impacts will be identified during the implementation planning phase. The implementation of this effort will require the dedication of staff to oversee the transitions. The City Manager, in his April 22, 2004 memorandum regarding organizational changes, indicated that the status of the IT&C Department Director position was being assessed during this evaluation. Due to the need to dedicate a position to oversee the transition and the ongoing organizational assessment, it is recommended that a Program Manager position be responsible for the transition efforts and the organizational structure be assessed at the conclusion of the implementation.

It is estimated that transition planning and implementation will take 18 to 24 months. One-time transition costs are estimated in the range of $2 million to $4 million based on preliminary research as well as discussions with organizations that have gone through a similar process as being contemplated. The above costs are estimates and costs to the City of San Diego will not be known until consultants and legal counsel are engaged. Long-term savings are anticipated to be generated through elimination of overhead and the injection of competition, taking advantage of the provider's economies of scale and best practices. Industry experience indicates cost savings in the range of 10% to 20%. Determining the magnitude of savings to the City of San Diego will require additional analysis.

History of DPC

The vast majority of the City's IT services are provided through DPC, a 501(c)(3) non-profit independent corporation of the City. The City established DPC in 1979 primarily to address the difficulty in hiring and retaining qualified IT staff.

During the City Council's examination of alternatives in 1979, it was determined that establishing an independent non-profit City corporation could provide increased flexibility to quickly adjust salaries and benefits in response to competitive pressures within the local marketplace. Secondary advantages envisioned by this approach were streamlining the procurement process for IT products and services and the ability to generate savings by efficiencies and revenues from the sale of computer services to other public agencies.

The City's primary function as sole member of DPC was to appoint DPC's Board of Directors. The City's operating relationship with DPC was defined by an Operating Agreement, which established the Corporation as the exclusive provider of IT services to the City.

Much has changed since DPC was formed. In 1979, "data processing" consisted primarily of applications running on centralized mainframe computer systems. As technology expanded in scale and scope, the City expected DPC to expand its service offerings to keep pace, such that DPC became a "service provider." The City also requested DPC to pursue research and development (R&D) and other entrepreneurial opportunities in the hopes that this activity could generate revenue that could spread overhead costs and otherwise lower the cost to the City for IT services. Today, DPC remains a general IT service provider to the City.

Since its inception in 1979, DPC has grown from approximately 40 employees and a $4 million annual operating budget to approximately 350 employees with an operating budget of $53 million in FY2004.[1]

Identified Concerns

Forming DPC created a unique IT service delivery model (i.e., the manner in which IT services are provided to the City) that has not been replicated by any other public entity. In 1979, DPC's focus was limited to serving the City's need for mainframe computing services. As the City's use of technology expanded, DPC's expanding service provider role resulted in unexpected consequences.

The major concerns are discussed in the following sections.

Oversight & Accountability

When DPC was formed, the City anticipated overseeing the corporation "through access to the books and records of the non-profit corporation and (the City) could terminate the

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[1] By way of comparison, the City grew from approximately 6,180 employees and an operating budget of $246 million in FY1980 to approximately 11,260 employees and an annual operating budget of $1,789 billion in FY2004.

agreement were it to become concerned about its operation." (CMR 78-194, November 16, 1978). DPC's significant growth in size and scope since 1979 has lessened the City's ability to affect oversight and accountability for its services.

During annual rate negotiations, DPC staff has not been willing to share detailed information concerning overhead costs, stating that City staff had no right to examine certain areas for which DPC had responsibility for managing as an independent entity. The flaw behind this rationale was recently exemplified by the spending abuses by DPC executive staff, which is in part symptomatic of more fundamental oversight and accountability issues.

The concern regarding accountability was clearly articulated in the IT Strategic Plan (ITSP), adopted by the City Council in January 2002:

> Since SDDPC is a wholly-owned independent corporation of the City, the business model that is in place does not take advantage of typical contractual relationships between a third-party service provider and a customer (e.g., with incentives and penalties). For example, the concept of financial penalties with SDDPC is rendered meaningless by the fact that the City would be penalizing itself. This contractor/owner (i.e., SDDPC is the contractor, City is the owner) relationship between the City and SDDPC results in SDDPC being treated like a City department rather than a third-party IT service provider, making it difficult for both organizations to establish and enforce meaningful contractual obligations.[2]

Adding to the problem of oversight and accountability is the confusion regarding DPC oversight, which is split between the City Council (as the point of oversight) and the City Manager (as the customer). The IT service delivery operation is not accountable to the City's business operations, but rather it is accountable to the City's elected officials via DPC's Board of Directors.

In response to preliminary audit results released by the City Auditor's staff on January 9, 2004, the DPC Board adopted a series of policies concerning Finance and Accounting, Events, Board Meeting Expense, Business Meeting Expense, Credit Card use, Donations and Sponsorships, Employee Events, Mileage Expense, Out-of-Town Travel, Parking Expense, Professional Memberships & Dues, and Conflicts of Interest. These were adopted on January 22, and February 26, 2004. Additional policies have subsequently been enacted.

Mission

DPC's current Mission is to provide IT services "for the benefit of the City of San Diego and the Region." DPC's Vision "is to be a world-class provider of Government Information Technology Services."[3]

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[2] "Information Technology Strategic Plan FY2002 – 2006," City of San Diego, August 9, 2001, p. 43.
[3] "About San Diego DPC: Mission". San Diego Data Processing Corporation. February 29, 2004.
< http://www.sddpc.org/dpc_about_mission.htm>.

Although consistent with the Operating Agreement, this mission and vision create pressures for DPC to expand while pursuing R&D and other entrepreneurial activities. Experience has demonstrated that their R&D and entrepreneurial initiatives have come into conflict with what should be DPC's primary mission of serving the City. These initiatives have not always been in alignment with the City's highest business priorities. In addition, they have resulted in costly overhead expenses without a sufficient return on investment, and are not well suited for a small service delivery organization that does not have access to significant sources of investment capital.

In effect, DPC has become a 3rd-party provider of services comparable to private sector technology companies, but with several important differences:

- The City bears the ultimate risk on financial issues.

- Service level agreements with the City have no meaningful financial incentives/disincentives; therefore, they become merely objectives with no financial or contractual leverage.

- The City is at risk for service level agreements between DPC and other entities.

- The City underwrites entrepreneurial investments in competition with the private sector.

- The profit-loss bottom-line of private sector companies is absent, thus reducing incentives to stay lean.

- Competitive pressures to provide the best services for the best price are minimal; past practices and policies have effectively required City departments to utilize DPC services with minimal competition.

Organizational Imperative of DPC

Once created, most businesses sustain a strong survival instinct, measuring their success in terms of revenue and growth, which has been referred to as the "organizational imperative." This "force" can influence an organization to improve service and cost effectiveness. However, given the City's relationship with DPC, the lack of competition in our service delivery model, and the City's historical delegation of all IT responsibilities to DPC, staff believes that DPC's organizational imperative has manifested itself in resistance to changes such as competitively sourcing major services to external providers.

Competition & Cost Effectiveness

As the primary provider of IT services, DPC has generally attempted to be "all things to all people," preferring to fulfill requests for IT services with its own resources. Efforts to inject a measure of competition by encouraging DPC to broker IT services by competitively bidding selected functions have not been successful. This has resulted in a lack of competition with few incentives for DPC to deliver services in the most cost effective manner. There is a widely-held perception among City departments that this lack of competition, coupled with DPC's independence, has resulted in excessive costs.

Customer Service

To assess departments' perceptions of DPC's customer service, focus group feedback obtained during the development of the IT Strategic Plan and later organizational studies were reviewed. Meetings with directors and staff from key City departments were also held to help identify underlying structural issues with the IT organization. The following themes related to departments' perception of DPC's customer service appear consistently from July 2000 to the present:

- DPC lacks a fundamental customer service orientation.

- DPC is not accountable for project costs or poor results.

- DPC's inventory and billing processes are complicated and frequently erroneous.

- IT&C has not been effective in addressing DPC customer service issues to date.

Recognizing the importance of improving customer service, DPC announced an initiative in July, 2002 entitled "DPC Customer C.A.R.E."[4] Under this program, DPC held numerous meetings with City elected officials, City management, and department directors to find ways to improve customer service and cost effectiveness, and to develop more predictable IT project costs and more successful IT projects. This has resolved some issues, however DPC has not completed this initiative.

Past Studies and Change Efforts

Over the years, a number of studies and change efforts have been conducted to address the key issues of accountability and oversight.

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[4] C.A.R.E. stands for Commitment, Accountability, Responsiveness, and Excellence.

Warner Group Management Audit

In the early 1990s, growing dissatisfaction with the performance of DPC and its lack of responsiveness to changing City priorities led to a Council-directed management audit by the Warner Group, an IT management consultant. This audit recommended that the responsiveness and accountability gap could be closed by adding two City Manager designees (City employees) to the DPC Board and by closer participation by both DPC and the City's executive management.

The City Manager identified two City staff as non-voting ex-officio members. Over time, the number of non-voting ex-officio members has been reduced to one.

Select Committee

In 1998, a special Blue Ribbon subcommittee of the Rules Committee's Select Committee on Government Efficiency and Fiscal Reform (Select Committee) was set up to conduct a review of the IT&C Department and DPC. This committee concluded that "*SDDPC, within its own organizational imperative, assumed direction and control of the City's information technology services.*" It recommended that "*The City of San Diego must take full responsibility and control of its information technology functions*."

To accomplish this, the Committee recommended creation of a CIO at the Deputy City Manager level and the development of a long term strategic plan that would, in part, examine, evaluate, and clarify the role of DPC. The Select Committee recommendations went to the Rules Committee on January 11, 1999. The Rules Committee unanimously voted to "Approve the Manager's Recommendation to (1) approve the appointment of a CIO using existing funding; (2) direct staff to proceed with IT Strategic Plan for review by City Council; and (3) include in the planning process examination of DPC's relationship and future role(s) including evaluating feasibility of outsourcing alternatives."

Subsequent to the January, 1999 direction from the Rules Committee, the City Manager proceeded with appointment of the City's first CIO and development of an initial draft of a proposed Information Technology Strategic Plan.

Information Technology Strategic Plan (ITSP)

The March 2001 ITSP draft concluded that the City's service delivery organization resulted in "non-optimized and costly delivery of IT services." The draft ITSP recommended a phased approach (with a reassessment after each phase) to address this issue:

Phase I: Improve the existing IT organization by changing the City's relationship with DPC to a customer/provider model;

Phase II: Change DPC's role from primary IT service provider to broker of IT services; and,

Phase III: Let DPC compete to determine whether it is the best broker of IT services.

After the March, 2001 draft ITSP was reviewed by DPC, the Plan was revised to place less emphasis on competitive alternatives. Ultimately a revised draft ITSP was approved by the full City Council in January, 2002.

Subsequent to adoption of the ITSP, progress was made in a number of areas such as the City's internal IT Governance Process and the implementation of the City's Program Management Office (PMO) to improve IT project management. Other aspects of the ITSP proved more difficult to implement. For example, an attempt to make internal City IT organizational changes was not feasible at the time, given the decentralized nature of the City's IT resources. With regard to DPC, attempts by the CIO to influence DPC to move towards a "Customer-Provider" relationship with the City and to change DPC's role from primary IT service provider to a broker of IT services were unsuccessful.

Results of Research

Gartner, Inc., a leading IT research and advisory firm, provided research on best practices for governmental organizations considered to be IT leaders. At least three of the organizations recognized in recent years by *Governing Magazine* (Phoenix, Maricopa County in Arizona, and Fairfax County in Virginia) were examined. In reviewing the information provided on IT governance, organizational structures and sourcing strategies, several common characteristics were noted.

Governance – All three organizations have a CIO with advisory groups to represent key business and IT stakeholders. Enterprise-wide standards, policies and strategies are established centrally, with input from the advisory groups.

Organizational Structure – All of these organizations have hybrid IT structures that combine centralized and decentralized functions. Enterprise-wide services (e.g., data centers and networks) are managed centrally to achieve standardization and economies of scale. Department-specific systems are often under departmental control.

Sourcing Strategy – Service delivery is a mix of services provided by internal staff as well as external IT service providers.   These organizations all try to maintain vital institutional knowledge with in-house staff, while leveraging critical expertise from industry. Master service agreements are used to contract for necessary resources from industry, which can include contract personnel at pre-established rates. This provides the organization access to a deeper pool of resources and expertise, more agility as IT projects begin and end, and the speed to acquire as-needed resources quickly.

Research on IT service delivery models has indicated that successful IT organizations today should remain agile to adapt to new technologies. To do this in a cost-effective manner suggests that IT organizations rely more heavily upon selective outsourcing with private sector companies that invest significant capital in specialty areas.

Additionally, staff engaged the services of a Public Technology Inc.[5] SWAT Team to provide recommendations regarding an IT service delivery model for the City. The SWAT Team was a two-day consulting engagement that included CIOs from other local governments, one of which is currently undergoing a competitive outsourcing. Their high level recommendations were:

- Change DPC's governing documents to ensure accountability and oversight through direct reporting to the City Manager/CIO.

- Clarify roles and responsibilities and governance structure for IT management and performance.

- Establish a long term IT strategy for applications support in-house and infrastructure support provided by an external service provider.

- To accomplish cost savings objectives, initiate a competitive sourcing effort for infrastructure support over 18 – 24 months while managing the changed DPC as the City's IT Strategic Plan action platform.

- Manage the transition and change process explicitly and ensure proper resources are provided, focusing on expectation management with the Mayor and City Council, the City Manager, City departments, and DPC staff and vendors.

- Align the IT Strategic Plan with City strategic plan and priorities.

Summary of the History of DPC

A review of the history of DPC, the issues that have developed over time, best-practice research, and current discussions with key stakeholders, have led to the following conclusions:

- City responsibility and accountability for planning, implementing, and monitoring IT service delivery to the City's business operations are diffused and confusing.

- With the significant growth in the City's use of technology, the IT service delivery model established in 1979 has, over the years, resulted in the City's loss of oversight and accountability for the City's technology services delivered by DPC.

- DPC oversight and accountability issues have been City concerns since the late 1980s and efforts at improvement have not been successful.

- The service delivery model, coupled with DPC's broad mission to serve as a world-class provider of IT services for San Diego as well as the region, conflicts with what should be DPC's primary mission of serving the City's needs.

Recommendations and Discussion

Recent actions by DPC's Board of Directors to change the Corporation's executive leadership and to adopt financial policies are steps in the right direction. *However, unless fundamental*

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[5] PTI is a national non-profit technology research and development organization representing local governments.

changes are made to address the structural issues that have been revealed over the years, problems with oversight, accountability, and cost effectiveness issues will not be resolved.

Three options were considered to address the issues: (1) dissolve DPC and transfer its functions to the City, (2) retain and change DPC in order to resolve oversight issues and make it more competitive, and (3) dissolve DPC and competitively bid selected functions to qualified IT providers. Of these options, it is recommended that DPC be dissolved and selected functions be competitively bid to qualified IT service providers for the following reasons:

- It addresses the issue of oversight and accountability. DPC's Operating Agreement would be replaced with a meaningful contractual agreement, managed by the CIO. Currently, the CIO is responsible for IT in the City, yet he has no meaningful oversight over DPC, which reports to a Board of Directors appointed by the Mayor and confirmed by the City Council.

- Best value in IT services would be achieved through market competition. In addition, financial risk would be shared with the IT service provider, whereas today the City bears any cost overruns or other financial impact related to DPC.

- It is anticipated that customer service would be improved as a result of IT providers' desire to continue business with the City through the maximum period of the contract and improve the probability that the relationship would be continued.

- Establishing a contractual agreement of finite period ensures that performance and relationship with the IT provider would be regularly assessed, and maintains a competitive environment.

Accordingly, staff recommends the following specific actions:

1. **Direct the City Manager to develop an implementation plan within 180 days to strategically dissolve DPC and competitively source selected functions to qualified IT service providers. As part of the implementation plan, identify specific functions that should be transferred to the City and develop a preliminary cost analysis.**

   It is extremely important that the City engage a consultant with expertise in assisting organizations determine which IT functions should remain with the City as well as preparing the request for proposal. City staff does not have this specialized expertise. Additionally, research of IT organizations that have gone through the process of transferring their IT functions to external providers revealed an emphasis on maintaining vital institutional knowledge with in-house staff. Other critical functions to retain include strategic IT planning, project management, contract management and vendor relationship management. Engaging a consultant will assist in minimizing risk and maximizing the probability of ending up with a "good deal."

   A preliminary assessment of where IT functions should be sourced is portrayed in the following table.

Preliminary Assessment Matrix		
Service Component		**Remarks**
Infrastructure	(Data center & network)	Competitively bid to qualified IT service providers
Applications	Existing Application Support	Evaluate for transfer to City; may be able to perform system support more effectively
	Systems/Application Integration	Evaluate for transfer to City; may be able to perform system support more effectively
	New Application Development	Consider establishing a master services contract with pre-qualified vendors; projects are then competitively bid on a fixed price basis
Other	Procurement/Contract Management	Transfer to City
	Project Management	Transfer to City
	Strategic Planning & IT Architecture	Transfer to City
	Relationship Management (Vendor/City organization)	Transfer to City

2. **To establish a single point of accountability for IT service delivery, direct the City Attorney to prepare changes to DPC's governing documents to accomplish the following:**

   2.1. **Delegate voting proxy on matters related to DPC, including without limitation the authority to appoint the members of the Board of Directors from the City Council to the City Manager.**

   2.2. **Allow City staff to be eligible to serve as voting members of the Board of Directors. Change Board composition to include three staff as part of the seven member Board: the City's CIO and two additional staff at the Deputy City Manager or Department Director level.**

   2.3. **Direct the Board to confirm the CIO as Chair of the Board of Directors.**

It is recommended that DPC continue to exist during the RFP and implementation phases. However, during this transition period, the issues of oversight and accountability must be addressed. The above recommendations, if approved by the City Council, would bring DPC within the purview of the CIO and achieve the goal of establishing a single point of accountability for the delivery of IT services within the City. It is recommended that these actions be taken should City Council approve an alternative that includes retaining DPC.

The reasons for the above recommendations are as follows:

- *Delegation to the City Manager of Council's voting proxy and authority to appoint DPC Board members.* DPC's reporting relationship through its Board to the City Council has resulted in confusion regarding accountability and responsibility for IT service delivery to the City. Delegating the Council's voting proxy and authority to appoint DPC Board members resolves this issue and confirms the City Manager's responsibility for business operations of the City – including IT operations.

- *Inclusion of City staff on DPC's Board.* Generally, boards and commissions created by City Council are focused on services provided to the community or are chosen to represent the community on areas of interest to the Council. Board/commission members consist of representatives from that community of interest. DPC is unique in that the "community" it serves is the City organization, yet DPC's Board includes no City staff as voting members. This has resulted in misalignment between DPC and City goals. Therefore, it is recommended that City staff be included on the DPC Board.

  DPC is authorized to have up to seven members on its Board. It is recommended that the Board composition be changed to have three City staff as voting members on the seven member Board, including the CIO and two additional members at the Deputy City Manager or Department Director level. The requirement for community representation with a finance or technology background is still relevant particularly as decisions are made through the planning and implementation processes. These proposed changes will maintain a seven member Board.

- *Direct the Board to confirm the CIO as Board Chairperson.* Consistent with the objective of achieving a single point of accountability for IT service delivery within the City and given the current organizational structure, the CIO should serve as Board Chairperson. If City employees were carrying out IT service delivery, the CIO would be in charge of that component; if an external service provider was providing IT service components, the contractual agreement would be managed by the CIO. With the CIO as Chairperson together with two other City staff members and community representation, oversight, oversight and alignment would be achieved, and DPC will be able to continue to use its separate human resources and procurement policies.

3. **Direct DPC to provide City staff its full and timely cooperation in the City's efforts to develop and carry out the implementation plan.**

   This action ensures alignment with the intended objectives.

4. **Direct the City Manager to reallocate funds allocated for technology services within the FY2004 through FY2006 budgets to fund transition activities, including the engagement of consultants and specialized legal counsel to develop and conduct a request for proposal process, and assist in dissolving the corporate entity.**

   Preliminary research as well as discussions with organizations that have gone through the process being contemplated reveals expenditure in the range of $2 million to $4 million. This includes the cost of engaging a primary consultant to assist the City throughout the process of creating and issuing the RFP, selecting a qualified IT service provider and

negotiating a contract. Additional expenditure is required in the areas of specialized legal assistance in IT contracting and dissolution of corporate entities, as well as change management. Accordingly, staff recommends an allocation of $2 million in FY2005 and planning on an allocation of $2 million in FY2006. These are cost estimates based on research and experience in other entities. The cost of a consultant and legal counsel will not be known until they are engaged. It is recommended that current funds allocated to technology services be reallocated within the FY 2004 through FY 2006 budgets to fund these transition activities. Any technology programs which are deferred or delayed to fund the transition activities can be reprogrammed when implementation savings become available. It should be noted that the payback on this expenditure would likely occur in the first or second year of the contract.

Long-term savings are anticipated to be generated through elimination of overhead and the injection of competition, taking advantage of the provider's economies of scale and best practices. Industry experience indicates cost savings in the range of 10% to 20%. Determining the magnitude of savings to the City of San Diego will require additional analysis. 10% of the DPC FY2004 operating budget would be equivalent to $5.3 million.

The table below describes the major steps and estimated time periods. This is only an estimation and would be refined as the City progresses through the assessment and RFP process.

Step	Period (months)
Engage consultant to assist with assessment and development of RFP	5 – 6
Conduct assessment of functions to transfer to the City/competitively bid to external providers; develop and issue RFP	7 – 8
Vendor response period	1 – 2
Proposal evaluation; vendor selection	1 – 2
Contract negotiation; vendor signature	3 – 4
Council approval	1 – 2
Total	**18 – 24**

ALTERNATIVES

1. Direct the City Manager to take steps to retain DPC, restructure its reporting relationship, and refocus its mission. Develop a transition plan for DPC to competitively bid technology infrastructure support and other selected functions to be identified in an assessment to qualified IT service providers.

Respectfully submitted,

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Rey Arellano   Approved: P. Lamont Ewell
Deputy City Manager & Chief Information Officer   City Manager

Attachments: 1. Response to Mayor's Questions
               2. Report to City Manager – San Diego Data Processing Corporation