



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: November 18, 2010 REPORT NO: 10-159
ATTENTION: Council President and City Council Members
SUBJECT: Information Technology Sourcing Strategy; Authorizing Contract Options to Develop & Issue Request for Proposals and Vendor Selection Assistance for Information Technology Services
REFERENCE: RFP #10008187-10-A and Contract #4600000329

REQUESTED ACTION:

1. Accept the Information Technology Sourcing Strategy report developed by the Department of Information Technology on behalf of the Mayor's Office, with the assistance of Avasant LLC.
2. Authorize the Mayor or his designee to execute the City's option for Phase 2 (Development of one or more Requests for Proposals for IT Services) in the contract with Avasant LLC, for a total amount not to exceed \$150,000.00, and authorize the Chief Financial Officer to expend \$150,000.00 from the Information Technology Fund (200308) within the Department of Information Technology (1314) Fiscal Year 2011 Operating Budget, for the execution of Phase 2 with Avasant LLC contingent upon the City Comptroller furnishing one or more certificates certifying that funds necessary for expenditure under the established contract funding phases are, or will be, on deposit with the City Treasurer.
3. Authorize the Mayor or his designee to execute the City's option for Phase 3 (Sourcing Vendor Selection and Transition Management), in the contract with Avasant LLC, for a total amount not to exceed \$242,000.00, and authorize the Chief Financial Officer to expend \$242,000.00 from the Information Technology Fund (200308) within the Department of Information Technology (1314), for the execution of Phase 3 with Avasant LLC contingent upon the City Comptroller furnishing one or more certificates certifying that funds necessary for expenditure under the established contract funding phases are, or will be, on deposit with the City Treasurer.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

On April 12, 2010, the City Council, upon approving the contract for Help Desk and Desktop Support Services with En Pointe Technologies, Inc., requested that the Mayor bring back a strategy for sourcing of Information Technology (IT) services prior to the release of any additional Requests for Proposals (RFPs) for IT services. Subsequently, under the Mayor's direction, the Department of Information Technology issued a Request for Proposal (#10008187-10-A) in June 2010 for IT Sourcing Advisory Assistance to hire a consultant for the purpose of assisting the City with the development of an IT Sourcing Strategy (Phase 1 of the RFP scope). The RFP contained two optional phases which the City may exercise: Phase 2 for the development of one or more Requests for Proposals for the IT services outlined in the IT Sourcing Strategy, and Phase 3 for assistance with the evaluation of proposals received, selection of an IT services provider or providers, and transition management guidance. The proposal evaluation team consisted of Alan Watkins (IT Operations & Security Manager, Department of Information Technology), Wally Hill (Assistant Chief Operating Officer), Mary Lewis (Chief Financial Officer), and Irwin Pfister (outside business executive with IT sourcing background). The City received nine proposals, and after an evaluation of the proposals based on the criteria in the RFP, the City invited the top four firms for interviews and presentations as the second part of the selection process. Two of the four finalist firms were asked for their "Best and Final Offers," and, after evaluating the Best and Final Offers, the City awarded the IT Sourcing Advisory Assistance Contract (#4600000329) to Avasant LLC (Avasant) on September 10, 2010. The contract amount for Phase 1 was \$231,000.00, and was executed under the Mayor's authority.

At the start of this project to develop the IT Sourcing Strategy, the Mayor's Office realized the need to make the planned RFP process as fair and open as possible, especially with regards to the current relationship between the City and the San Diego Data Processing Corporation (SDDPC). It is the City's intent to neither unfairly advantage nor disadvantage SDDPC or any other firm as a potential proposer to the future RFPs. As such, to prevent a potential conflict of interest and because of their dual roles as both city management and as voting members of the SDDPC Board of Directors, Naresh Lachmandas (Information Technology Director), Ken Whitfield (City Comptroller), and Alex Ruiz (Executive Assistant Public Utilities Director) were excluded from the working details of the IT Sourcing Strategy project. These managers may have participated in providing relevant information to the project team in regards to their respective department's business operations requirements, and they received general project status updates; however, they have not been involved with or privy to any of the details of information either gathered by or produced from the project team. They will be similarly excluded in Phase 2 and Phase 3 during the RFP and vendor or provider selection processes.

The City's primary business driver for the IT Sourcing Strategy and RFPs for IT services is cost reductions. Additional objectives include elimination of obsolete technologies (e.g., 1990s analog PBX phone systems) and the use of industry standards for IT services where they would be cost neutral. There was no direct goal to increase service levels or performance metrics; however, these may be natural results of using the service model

defined in the IT Sourcing Strategy. The primary IT services being addressed in the IT Sourcing Strategy are those currently provided by SDDPC and other outside contractors, either through SDDPC or direct City contracts. These include the service towers of “Data Center,” “Data & Voice Network,” and “Application Development & Maintenance.”

The IT Sourcing Strategy Project Team consisted of Alan Watkins as the Project Manager and Wally Hill as the Project Sponsor, along with the Avasant consultants. The project Executive Steering Committee was comprised of Jay Goldstone, Mary Lewis, and Irwin Pfister. During September and October, IT Sourcing Strategy Project team met with key IT staff and management from several departments and collected both quantitative technical data (i.e., hardware and software assets) and qualitative data (i.e., performance levels to meet business operational requirements). The project team also visited the Public Utilities Department, Police Department, Fire-Rescue Department, and Environmental Services Department, where there are “data center” types of facilities (or “server rooms”) within those departments’ buildings. In addition, the project team met with Laura Atkinson and David Taylor, representing management from SDDPC, and toured SDDPC’s data center facility. Late in October, the project team also met with Larry Morgan, the new Executive Director of SDDPC. Concurrently, the project team was collecting and analyzing the IT cost data from the Fiscal Year 2010 actual expenses and Fiscal Year 2011 final budget. Avasant also reviewed the prior IT Business Process Reengineering (BPR) studies from 2007.

During the data collection and analysis, the project team validated that some IT roles and responsibilities are performed by City IT staff, which is normal in almost all organizations, and Avasant identified some roles which should always be retained and performed by the customer organization and not delegated to an outside service provider. In addition, the project team found that SDDPC performs some of the functions that should be retained by the City, due to the lack of City IT staff resources or skill sets.

As outlined in the attached IT Sourcing Strategy Final Report developed by Avasant, the project team documented and analyzed the City’s current IT environment, including assets and services, and the associated costs for Fiscal Year 2010 and Fiscal Year 2011. Due to the abnormally high IT costs during Fiscal Year 2010 for the OneSD ERP capital project and the start-up of the OneSD ERP Support Department, plus the fact that SDDPC had reduced its rates for Fiscal Year 2011, the financial analysis portion of the IT Sourcing Strategy uses the current, Fiscal Year 2011 amounts. In the Fiscal Year 2011 IT costs, the current CIP project costs (approximately \$10.8 million) for the Public Utilities Customer Care System (CCS) being implemented in SAP was just footnoted and not included in the annual, ongoing IT costs.

In reviewing the current Service Level Agreement (SLA) between the City and SDDPC, Avasant compared those performance measures with industry standards offered by IT managed service providers. While the resulting chart in the IT Sourcing Strategy shows that SDDPC has no contractual SLA measures for many services, it was noted that SDDPC has been performing many, if not all, of the services. The project team did not

attempt to quantify or analyze the SDDPC services in relation to the industry standards, other than to assess risks and estimate potential cost savings, associated with various sourcing models.

Avasant provided the City with recommended governance structure, roles, and processes that will be needed to properly manage IT service providers under the new model of managed services. They noted that a common reason for the failure of IT sourcing efforts is the lack of proper internal governance by the customer organization which is contracting out the services. In addition to the governance requirements, Avasant provided information about operational staffing necessary to support ongoing IT service management. The Chief Operating Officer will be working with the Information Technology Director in identifying the proper levels of staff and other resources that might be needed.

The final area of the IT Sourcing Strategy involves the recommended sourcing option. As part of their analysis, using industry standards and Avasant's corporate experience with numerous other clients (both public and private sectors), they compared several potential options. Each option had an associated risk analysis and financial model which provided outcome scores to rank the options. The four final sourcing options include (1) the "base case" by continuing services as-is with SDDPC, (2) negotiating exclusively with SDDPC for an improved service model and cost structure, (3) "insourcing" all IT services with City staff, and (4) contracting for managed IT services. For option #3, Avasant only performed a risk analysis, as they did not consider it viable for the City of San Diego. The risk analysis for each of the options rated each of seven risk factors on a scale of 1 (low risk) to 5 (high risk), with financial risk having a weighting of 4x and technology risk having a weighting of 2x. The total weighted risk scores showed that the managed IT services option offers the least risk to the City.

The financial models used for options #1, #2, and #4 (divided into two service delivery models) all included a 2% inflation factor. The analysis used the current Fiscal Year 2011 budget of approximately \$37.2 million for direct costs with SDDPC as the baseline, and forecasts the 7-year costs from Fiscal Year 2012 (transition year) through Fiscal Year 2019. The cumulative cost for option #1 (as-is base case) is approximately \$314.4 million, while the cost for option #2 (renegotiating with SDDPC) is approximately \$290.6 million. It must be noted that this cost was not obtained from SDDPC; it represents Avasant's professional estimate based on assumptions of SDDPC restructuring its current service and cost models to more closely align with current IT industry service models. Avasant and the project team fully expect SDDPC to provide their own service model and related costs in response to the planned RFP(s) which will be different than Avasant's projection. Option #4 (managed IT services) was divided into two resource delivery location options, first being all onshore and the second being mixed onshore and offshore. The cumulative cost for the onshore model, staying within the San Diego region, is approximately \$269.2 million, and the cost for the mixed onshore and offshore model is approximately \$244.5 million. Anticipated costs to be received from proposers are expected to be in the range between the onshore and mixed model costs.

The Mayor has adopted the IT Sourcing Strategy to use the managed IT service model and proceed with a single, modular RFP for IT services. The RFP will allow service providers to submit proposals that cover one, two or all three of the service categories, using their best resource location options (including onshore and offshore), and also to require proposals that are based on all onshore resources. Issuing the RFP for IT services provided by SDDPC is consistent with the City Council's Ordinance O-2011-16, which included it as part of the sales tax reform package.

FISCAL CONSIDERATIONS:

The "Best and Final Offer" from Avasant is \$150,000.00 for Phase 2, and \$242,000.00 for Phase 3, for a total cost of not to exceed \$392,000.00 requested in this action. Phase 1 of the contract (\$231,000.00) was budgeted and paid out of the adopted Department of Information Technology Operating Budget for Fiscal Year 2011. The overall contract value will be \$623,000.00 for all three phases. Phase 2 and Phase 3 will also be paid out of the Fiscal Year 2011 Operating Budget, from the Information Technology Fund (200308), contingent on the Comptroller's certification of funds.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

City Council Ordinance O-2011-16 called for the issuance of an RFP for IT services provided by SDDPC as part of the sales tax reform package.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:


None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

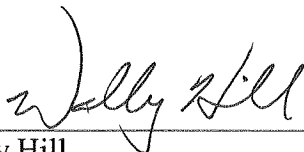
All City departments will be potentially impacted by the anticipated changes in how the City receives its IT services. Citywide cost savings and improvements in service delivery are expected, after a reasonable transition and migration period.

ATTACHMENTS:

City of San Diego IT Sourcing Strategy Final Report, from Avasant, dated November 10, 2010.



Alan B. Watkins
IT Operations & Security Manager
Department of Information Technology



Wally Hill
Assistant Chief Operating Officer