



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: March 1, 2011 REPORT NO: 11-020
ATTENTION: Council President and City Council Members
SUBJECT: Updated Information Technology Sourcing Strategy
REFERENCE: City Council Resolution R-306418, dated December 9, 2010

REQUESTED ACTION:

1. Accept the Updated 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.

STAFF RECOMMENDATION:

Accept the updated IT Sourcing Strategy report.

SUMMARY:

On December 6, 2010, the City Council accepted the initial IT Sourcing Strategy report and authorized the Mayor or his designee to exercise the City's options for Phase 2 and Phase 3 in the contract (#4600000329) with Avasant LLC, ("Avasant") to continue with the development of a Request for Proposals (RFP) for IT services. In the adopted Resolution (R-306418), the City Council requested the IT Sourcing Strategy be modified to include the following conditions and to bring an updated IT Sourcing Strategy back to City Council for approval prior to issuing any RFP for IT services:

- (1) Utilize, to the extent practical, fixed-price, performance-based service contracting models for IT services;
- (2) Address incumbent worker retention, to ensure continuity of service;
- (3) Maximize the use of local, small businesses, where economical;
- (4) Include additional IT services where cost savings can be achieved in a timely manner; and
- (5) Provide that the net costs of transition will be reviewed by the City Auditor's staff and the Office of the Independent Budget Analyst.

During December, the Department of IT worked with Avasant to address the identified issues, as well as separate concerns raised by individual Council members, into a revised IT Sourcing Strategy. On January 12, 2011, the Updated IT Sourcing Strategy report was presented to the Rules, Open Government, and Intergovernmental Relations Committee. The Committee unanimously voted to refer the report to full City Council without

recommendation; except, however, that the resulting RFP should not allow offshore IT services.

The Updated IT Sourcing Strategy, as adopted by the Mayor, still contains the recommendation that the RFP allow providers to submit their best proposal, which may include some offshore components. However, those providers must also submit a proposal with fully onshore services (within the United States). In addition, the RFP will set conditions about the types of services which may be proposed for offshore provision, limiting them to remote monitoring and management of data center or network equipment and not permitting any access to City data. In many commercial operations, data centers are staffed during the facility's local business hours and after-hours support is provided by remote service centers, which can handle most problems from offsite and initiate a call-back of local staff to the facility, if necessary. This standard business practice is known in the IT industry as Remote Infrastructure Management (RIM). Most large IT service providers with offshore resources have robust security policies systems in place to adequately protect their clients' equipment and data, which is augmented by contract conditions containing fees and damages awarded to the clients for any breach.

The Avasant consulting team indicates, from their experience in creating and evaluating IT services proposals, that one key factor in offshore resources is labor arbitrage. They have seen the cost of offshore resources be as low as 30% to 40% of the cost of the same labor resources in the United States (representing a 60% to 70% savings in labor). The Mayor believes that allowing providers to submit a mixed onshore/offshore proposal, will increase the number of responses and the City's ability to evaluate the resulting cost savings. Without this flexibility, the City may not fully attain the amount of ongoing cost reductions that will help resolve the budget deficit.

Also in December, the City exercised its option for Phase 2 of the Avasant contract, and work has begun to develop the detailed specifications for a RFP for IT services. With the goal of achieving the potential citywide cost savings identified in the sourcing strategy, it is the Mayor's intent to issue the RFP as soon as possible after City Council acceptance of the Updated IT Sourcing Strategy.

FISCAL CONSIDERATIONS:

None by this action.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

City Council, at their Dec. 6, 2010 meeting, adopted Resolution R-306418 (Dec. 9, 2010), accepting the initial IT Sourcing Strategy report and requesting an updated IT Sourcing Strategy to meet certain conditions to be brought back for City Council approval prior to issuing any RFP for IT services; also authorizing the Mayor or his designee to exercise the City's options for Phase 2 (RFP Development) and Phase 3 (Proposal Evaluation & Vendor Selection) in the contract with Avasant LLC.

Rules, Open Government, and Intergovernmental Relations Committee, at their Jan. 12, 2011 meeting, referred the Updated IT Sourcing Strategy report to full City Council

without recommendation; except that, any RFP for IT services should exclude offshore service provision.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:


None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

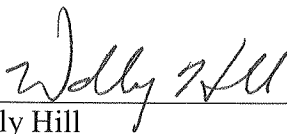
All City departments will be potentially impacted by the anticipated changes in how the City receives its IT services. Citywide cost savings and improvements in service delivery are expected, after a reasonable transition and migration period.

ATTACHMENTS:

City of San Diego Updated IT Sourcing Strategy Final Report, from Avasant, dated March 1, 2011.



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