



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: February 26, 2016 REPORT NO: 16-025

ATTENTION: Honorable Council President and City Council

SUBJECT: Approval of the First Amendment to the Agreement between the City of San Diego and CGI Technologies and Solutions, Inc. for IT Services, specifically related to the provision of Application Development and Maintenance Services.

REFERENCE: (1) City Council Resolution R-306683, dated March 14, 2011
(2) Request for Proposals No. 10015345-11-Z, issued April 15, 2011
(3) Report to City Council #12-031, dated April 11, 2012
(4) City Council Resolution R-307432, dated May 23, 2012

REQUESTED ACTION:

1. Approve the ordinance to authorize the Mayor or his designee to execute, for and on behalf of the City, the First Amendment to the Agreement between the City of San Diego and CGI Technologies and Solutions, Inc. for Application Development and Maintenance services, for the purpose of extending the term of the Agreement by 2 years and 8 months, increasing the not-to-exceed amount of the Agreement to \$144,194,566, and otherwise modifying the Agreement pursuant to the terms and conditions contained in the First Amendment to the Agreement on file with the City Clerk as Document No. 00-_____.
2. Authorize the Chief Financial Officer to expend an amount not to exceed \$144,194,566 over the 7 years and 8 months period of this agreement for the purpose of funding the Fixed Cost and As-Needed citywide application development and maintenance ("ADM") services agreement with CGI contingent upon the adoption of the Annual Appropriation Ordinance for the applicable fiscal year and contingent upon the Chief Financial Officer first furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer.

STAFF RECOMMENDATION:

Authorize an ordinance authorizing the Mayor or his designee to execute the First Amendment to the CGI Agreement to extend the Agreement term and the related expenditure of funds.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

On May 23, 2012, the City Council approved Resolution Number R-307432 which authorized the execution of an information technology services agreement (Agreement) with CGI Technologies and Solutions, Inc. ("CGI") for ADM services. The resolution authorized a 5 year Agreement for an amount not to exceed \$70,644,132 and included a provision for optional years upon the approval of an

ordinance by the City Council. This Agreement replaced services previously provided by the San Diego Data Processing Corporation ("SDDPC").

The Agreement was the result of a two year effort by the City of San Diego to improve technology services to the City and reduce costs through open competition. The City first issued an RFP in 2011 to receive proposals for an initial 5 year term with the option for a 2 year renewal.

The Agreement with CGI was signed on May 24th, 2012, and included an 8 month transition period for CGI to assume all ADM work from SDDPC. Full steady state of services commenced on March 1st, 2013. CGI is about to complete year 4 of the Agreement in May.

CGI is currently responsible for 311 business applications in the City's application portfolio. They employ 85 local staff along with a number of SLBE subcontractors. In FY16, they will perform significant updates to 108 of 311 City business applications.

RISK REDUCTION

CGI has partnered with the Department of IT and City Departments to develop a technology roadmap to modernize City applications and reduce risk and support costs for the City's application portfolio. By the end of FY16, there will be a 50% reduction in risk due to efforts to modernize or replace applications that were identified with the highest risk of failure, obsolescence or breach.

OPERATIONAL BENEFITS

CGI has 18 Service Level Requirements ("SLRs") that are monitored and reported on a monthly basis. CGI has consistently met and exceeded those SLR's over the last twelve months with few exceptions. CGI has driven a 300% reduction in critical problem incidents and a 10%+ drop in application maintenance costs for the City on a year by year basis. These savings have been incorporated into subsequent fiscal years which has provided the ability to reinvest savings into newer more efficient network equipment. This provides stability to avoid year over year spikes in maintenance expenses.

CGI has provided competitive costs when benchmarked against other government organizations. ADM services can involve varied rates, but CGI's blended rate for services is \$64 an hour. SDDPC's blended rate to the City in 2011 was \$78 an hour. The County of San Diego is currently paying an estimated blended rate of \$93 an hour for services provided by HP.

In the latest satisfaction survey conducted by CGI, they were rated an 8.91 out of 10 by City Departments and IT staff. This rating is generally reflected in meeting obligations on schedule, meeting budget, and maintaining an ongoing "continuous service improvement" program that is updated on a quarterly basis to keep making improvements to their service delivery under the Agreement.

SAVINGS

In the 2012 report to City Council (#12-031), it was estimated that the City's IT outsourcing efforts would save the City \$5.7 to \$11.1 million dollars over the 5 years of the initial term for all of the

contracts. With an execution of the 2 year options for all of the contracts, it was estimated that the City could save a total of \$14.3 to \$21.8 million dollars.

The 2012 Report, (12-031) identified in Appendix A, Table 4 that the annual baseline cost at the time for Application Support Services via SDDPC was \$17.8 million. That cost included a cost of \$940,390 for 6.00 Customer Relationship Management (“CRM”) positions that were transitioned ultimately to the Department of IT. Subtracting the CRM costs, the SDDPC Annual Baseline Cost at the time to provide Application Support Services can be calculated as \$16.8million.

Table 1 shows the cost avoidance the City should achieve in the CGI Agreement at the end of Agreement year 4. The calculation conservatively assumes that the SDDPC Annual Baseline line would have been frozen the last four years. The table shows the City Actual Spend with CGI but removes spending on any materials costs¹ to have an accurate comparison to SDDPC ADM services. The result shows that the City should realize a \$7 million savings for CGI’s ADM services within the first four years of the Agreement over what was estimated for SDDPC expenses.

Table 1

	Year 1 FY13	Year 2 FY14	Year 3 FY14	Year 4 FY16	Total
DPC Projected Baseline	\$ 16,848,599	\$ 16,848,599	\$ 16,848,599	\$ 16,848,599	\$ 67,394,396
CGI Actual Spend	\$ 12,370,961	\$ 15,709,833	\$ 16,016,006	\$ 18,184,821	\$ 62,281,621
CGI Technology Purchase	\$ 9,722	\$ -	\$ 1,298,000	\$ 706,500	
CGI ADM Spend	\$ 12,361,239	\$ 15,709,833	\$ 14,718,006	\$ 17,478,321	\$ 60,267,399
Savings					\$ 7,126,997

An extension of the CGI Agreement could provide an additional cost avoidance of \$7 to \$10 million dollars. The competitive rates and contract performance have resulted in a projected increased use of CGI with an estimated \$73.5 million of spending with an approved contract extension.

LOCAL EMPLOYMENT OUTLOOK

In the April 11, 2012 Report No: 12-031 to City Council, it was estimated that 91.00 SDDPC employees would be displaced by awarding the contract to CGI. CGI projected hiring 72.00 employees and the City projected hiring 6.00 CRM’s for a net change of -13.00 FTE’s. CGI currently has had to increase its local staffing due to increased demands under the Agreement to 85.00 FTE’s. This brings the total FTE’s back to the original amount displaced by the dissolution of SDDPC.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal # 1: Provide high quality public service

Objective # 1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

Goal # 1: Provide high quality public service

Objective # 4: Ensure equipment and technology are in place so that employees can achieve high quality public service

¹ Hardware or software components required by CGI to deliver a project.

FISCAL CONSIDERATIONS:

The current CGI 5 year Agreement was authorized with a not to exceed (“NTE”) amount of \$70,644,132; this amount included funding for discretionary projects and other improvements of existing applications. The City estimates that, at the end of year 4 of the Agreement, it will have spent \$62,281,621.

Due to the unforeseen increased demand and modernization of applications after 2012, the City is projected to exceed its original spending authorization and will not be able to meet projected demands for services in year 5 of the agreement. This Council Action is to not only to extend the agreement with CGI but also increase the NTE for years 5 and beyond to meet new projected needs.

In the original RFP, the proposal for the winning vendor was to deliver at least of 5 years of ADM services upon award of a contract. The original City Council action was approved by a resolution, which limited the agreement to 5 total years. It took 8 months for SDDPC to transition services to CGI. At that point the contract entered “Steady State” for CGI. That means CGI assumed full responsibility for maintaining and supporting the City’s applications per the contract.

With this amendment the original 8 months that was lost in the transition period will be added into the agreement to account for the original 5 years of “Steady State” services stated in the original RFP. Additionally, the amendment will include the contract option for an additional 2 years of services. This extra 8 month period will be called the “Transition Reconciliation” period in the contract and will occur after contract year 5. Year 5 rates will be extended into this 8 month period and will be used for the purposes of calculating projected costs for that fiscal year.

Table 2

	Year 1 to 4	Year 5	Transition Reconciliation		Year 6	Year 7	Total
Base Service Fees	\$ 43,256,594	\$ 9,409,875	\$ 7,057,406	\$ 9,346,103	\$ 9,346,103	\$ 78,416,081	
Modernization/Improvements	\$ 18,992,564	\$ 12,394,000	\$ 9,295,500	\$ 11,894,000	\$ 13,202,421	\$ 65,778,485	
Total	\$ 62,249,158	\$ 21,803,875	\$ 16,352,906	\$ 21,240,103	\$ 22,548,524	\$ 144,194,566	
						Current NTE	\$ 70,644,132
						Add'l NTE	\$ 73,550,434
						New NTE	\$ 144,194,566

Table 2 above shows the new projected amount for the Agreement and the extension period of 2 years and 8 months. The table shows the estimated spending required for year 5 and for the extension periods. “Base Service Fees” are those charged back to City departments as IT fixed costs for application maintenance and support. “Base Service Fees” will either remain unchanged year over year or have the potential to decrease as maintenance efficiencies are optimized. The “Modernization/Improvements” are for additional improvements and projects beyond maintenance. This is where the contract is seeing significant growth in requested services.

Based upon the City’s increasing ADM needs to maintain operational efficiencies, it is estimated that an additional not to exceed (NTE) authorization of \$73,550,434 will be required to meet the

increased demand for a new total not to exceed amount of \$144,194,566 for the 7 years and 8 months of the agreement.

Table 3 below provides more detail of the solutions that are bringing enhanced capabilities to City departments with the objectives of driving efficiencies, delivering improved services and preparing for future needs.

Table 3

Year 5 Modernization/Improvements	
Infrastructure Asset Management Project - SAP Services	\$ 2,000,000
Public Utilities Department - GIS Stage 3 Consolidation	\$ 500,000
Online Services	\$ 1,500,000
Annual Department Improvements	\$ 4,000,000
Public Utilities Department - LIMS Consolidation	\$ 1,000,000
CGI Technology Purchases	\$ 500,000
Open Data Support	\$ 250,000
COMNET - Sr Engineer	\$ 250,000
Fire Grant - GIS Project Manager	\$ 185,000
San Diego Police Department - CAD Project Manager	\$ 209,000
Additional SAP Resources	\$ 2,000,000
Total	\$ 12,394,000

EQUAL OPPORTUNITY CONTRACTING INFORMATION:

This agreement is subject to the City's Equal Opportunity Contracting (San Diego Ordinance No.18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517). The original voluntary target for Small and Local Business Enterprise ("SLBE") participation was 20%.

CGI has made a commitment to deliver on the objectives of the City's outsourcing Agreement, while participating in the Equal Employment Opportunity Committee ("EEOC") SLBE program. For FY16 the goal was to achieve 10% SLBE participation worth \$1.0 million.

In FY16, CGI has identified potential projects with \$2.0 million SLBE participation. CGI has established relationships with 7 registered SLBE firms including Quartic Solutions, RJIT Consulting, Imagine Media Group, Jules Taggart Marketing Strategy, Hospitality Ink, APK Consulting, Knowledge Made Solutions, Inc., and Printer Depot.

CGI submitted a report to EEOC on February 18, 2016 that listed payments of \$7,240,401 to subcontractors under the EEOC SLBE program through 12/31/2015. During the first two quarters of FY16, CGI contracted \$1,007,534 worth of work under the SLBE program and met their annual goal 6 months early. CGI continues to pursue new SLBE relationships. Challenges remain to find SLBE's who can accommodate the competitive rates CGI charges the City as well as qualified under-represented groups within the IT industry.

The last three quarters in the latest report show an average quarterly spend on SLBE subcontractors of \$529,859. At this rate, CGI is projected to have paid \$8,300,120 to SLBE firms at the end of Agreement year 4 and average over a 13% SLBE participation rate. The projected SLBE rate for CGI at the end of the initial 5 year term is over \$10 million.

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

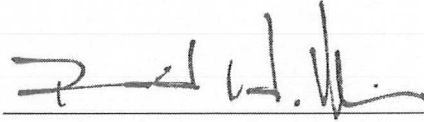
On May 23, 2012 the City Council approved the agreement with CGI Technologies & Solutions, Inc. to provide application development and maintenance services for a term of five (5) years, under the terms and conditions set forth in the Agreement, on file with the City Clerk as Document No. RR-307432-2, and for one optional two-year extension of the Agreement, contingent on Council approval of a future ordinance for the extension and actual negotiated cost.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The key stakeholders associated with this item include all City employees, City residents and businesses, Small and Local Businesses and Enterprises, and Local Community Outreach Programs.



Originating Department



Deputy Chief/Chief Operating Officer