



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: January 18, 2017 REPORT NO. 17-002

ATTENTION: Honorable Council President Myrtle Cole and Members of the City Council

SUBJECT: Approval of the First Amendment to the Agreement between the City of San Diego and Atos Governmental IT Outsourcing Services, LLC ("Atos") for IT Services, specifically related to the provision of Network 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-307534, dated June 26, 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 Master Services Agreement for IT Services between the City of San Diego and Atos Governmental IT Outsourcing Services, LLC (Atos), for Network Services, for the purpose of extending the term of the Agreement for up to an additional 1 year and 6 months, from July 1, 2017 to December 31, 2018, to allow for disentanglement, and to increase the not-to-exceed amount of the Agreement by \$13,560,208 to \$79,722,322, 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 \$79,722,322 over the term of this Agreement for the purpose of funding the citywide Network Services Agreement with Atos, contingent upon the adoption of the Annual Appropriation Ordinance for the applicable fiscal years and contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer.

**STAFF RECOMMENDATION:**

Approve an ordinance authorizing the Mayor or his designee to execute the First Amendment to the Master Services Agreement for IT Services between the City of San Diego and Atos, for Network Services to extend the term of the Agreement and authorize the related expenditure of funds.

**EXECUTIVE SUMMARY OF ITEM BACKGROUND:**

From 1979 to 2012, the San Diego Data Processing Corporation ("SDDPC") provided citywide Information Technology ("IT") services to the City of San Diego. In 2010, the City of San

Diego Information Technology Department developed a strategy to improve technology services to the City and reduce costs which resulted in the issuance of Requests for Proposals (RFP) for four different areas of IT services, 1) Data/Voice Network Services, 2) Service Desk and Desktop Support 3) Data Center services and 4) Application Development and Maintenance The RFPs called for a base term of 5 years and included an option for 2 additional years.

On June 26, 2012, the City Council approved Resolution Number R-307534 which authorized the execution of a Master Services Agreement (“MSA”) with Xerox State & Local Solutions, Inc. (“Xerox”) for Network Services. The resolution authorized a 5 year agreement for an amount not to exceed \$66,162,114. This agreement replaced network data, voice, and IT security services that were provided by the incumbent SDDPC.

Xerox hired many of the SDDPC employees providing those existing services to the City of San Diego. As a result, the transition time of services from SDDPC to Xerox was minimal, and Xerox officially commenced services to the City on July 1, 2012. Before the start of contract year 4, Atos acquired the Xerox contract and the City of San Diego approved an assignment of the MSA to Atos with no changes to the terms and conditions of the Agreement. Effective July 1 2015, Atos assumed Network Services for contract years 4 and 5.

Atos is currently responsible for providing network data and voice services to the City. This includes managing over 1,000 network devices, 12,000 active network ports, and almost 9,000 telephone devices at over 250 sites. Atos also provides IT security support services related to the City’s IT infrastructure.

The current Network Services MSA was adopted by resolution and expires on June 30, 2017 (5 Years). Due to technology changes over the last five years and to further increase value, reduce costs, and provide greater control over major technology decisions and investments, the City will not exercise its option for a 2-year extension for the Network Services MSA. An RFP for Network Services will be issued in the third quarter of Fiscal year 2017.

This First Amendment to the Network Services MSA is necessary to address the transition period to a potential next successful bidder under a new MSA should Atos not be selected again for the Network Services agreement. Should Atos bid on the new RFP and be awarded a contract, there will still be a transition period as the contract requirements will change.

The disentanglement period is a contractual agreement between the City and Atos to conduct knowledge transfer, equipment inventory and transfers, transfers of service agreements, and other steps to ensure a smooth transition to a new contract. This period is necessary to prevent interruptions to City services. All terms and conditions (including pricing) remain in effect during the disentanglement period until the services are officially transferred to the next provider/MSA.

Approval of an ordinance and the contract amendment will allow the City of San Diego to enter into the disentanglement period after July 1, 2017, and have the authorization to expend funds to continue to provide services, and pay disentanglement costs until the services have been fully transferred to the next MSA.

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

Goal # 1: Provide high quality public services

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

Goal #1: Provide high quality public services

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

FISCAL CONSIDERATIONS:

The current MSA was authorized with a not to exceed amount of \$66,162,114 for the duration of the Agreement, July 1, 2012 to June 30, 2017. This amount was for “Fixed Cost” services under the contract for network data/voice, and IT Security Services for an amount projected at \$60.6 million. \$5.6 million was projected to cover modernization and improvement projects and services based on historical usage under SDDPC.

Based on current projections from contract years 1 to 5, the current “Fixed Cost” services are estimated to total \$60 million upon the completion of year 5. Fixed Costs in this context are composed of Network Services for which costs are for fixed fee contracted services within the Agreement and have a citywide impact; these costs are allocated back to the departments based on resource use percentages, detailed on an annual basis. The total estimate for the modernization and improvement spending from contract years 1 – 5 is projected to be \$7.1 million.

An additional \$13.5 million in spending authority is projected to be necessary to continue providing services and paying for disentanglement costs after the initial base term of 5 years expires. This includes \$1,022,887 of additional spending in the base 5 year term to account for unanticipated modernization and improvements spending.

These figures are illustrated in Table 1:

Table 1	
Potential Fixed Costs during Disentanglement - 12 months	\$ 8,060,732
Potential Spending on Modernization during Disentanglement – 12 months	\$ 2,476,590
Potential Disentanglement Costs (equipment and services)	\$ 2,000,000
Additional Spending Authorization Required for Years 1 to 5	\$ 1,022,887
<b>Total Additional Spending Projection</b>	<b>\$ 13,560,208</b>
Current Contract Spending Authority	\$ 66,162,114
<b>New Contract Spending Authority</b>	<b>\$ 79,722,322</b>

This action authorizes the authority to spend any amounts approved via the Annual Appropriation Ordinance for the applicable FY17 or FY18 fiscal year. These amounts may be less if services under this contract are transitioned more quickly during the disentanglement period.

The amounts of spending for modernization and improvements are derived from citywide requirements for FY17 and FY18 for both the General Fund and Non-General funds. The

funds for fixed costs and disentanglement costs are included in the Department of Information Technology's IT Fixed Cost Proposed Budget for FY18. The disentanglement costs included in the budget request will cover the required purchase of network data and voice equipment and assets used by the City. Further, it will cover additional services from the incumbent required to provide and ensure transition of services to another provider in the scenario where Atos is not selected as the successful bidder on the next contract.

The amount projected for spending on modernization and improvements for the next 12 months is based on the current year's projected spending rate. For the first six months of FY17, the City has issued Purchase Orders totaling \$1.2 million. It is anticipated that spending could continue at this pace due to the number of facility changes and necessary modernization of the City network infrastructure.

**EQUAL OPPORTUNITY CONTRACTING INFORMATION:**

This Agreement is subject to the City's Equal Employment Opportunity Outreach Program (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).

**PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:**

On June 26, 2012, the City Council approved a Master Services Agreement ("MSA") with Xerox State & Local Solutions, Inc. ("Xerox") to provide network data/voice, and IT Security services. The approval authorized a 5-year term for an amount not-to-exceed \$66,162,114 and conditions set forth in the Agreement, on file with the City Clerk as Document No. R-307534, 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.

On March 8, 2017, the Budget and Government Efficiency Committee voted unanimously to forward the item to the City Council.

**KEY STAKEHOLDERS AND PROJECTED IMPACTS:**

The key stakeholders associated with this item includes all City residents and businesses, Small and Local Business and Enterprises, Local Community Outreach Programs, and City Employees.

*Signature on file*

*Signature on file*

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Originating Department

\_\_\_\_\_  
Deputy Chief/Chief Operating Officer

Attachment(s):

1. First Contract Amendment to Network Services MSA
2. Exhibit A: Revised and Restated Appendix 3.1 (Pricing Sheet)
3. Network Services Agreement with Atos 07.01.2012 RR-307534