



THE CITY OF SAN DIEGO

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**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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# **Review of the Request for City Council Approval of the First Amendment to the Cooperative Procurement Contract between the City and AT&T Corporation**

## **OVERVIEW**

The Department of Information Technology (IT) provides operational support for the City's IT applications, infrastructure, and wireless technologies. The Department also manages citywide IT services contracts that support City staff's ability to perform their work including: communicate via phone, email, or web interface with other staff members and City residents; store and retrieve large amounts of data; and support or create applications that support staff transactions, communication, analysis, and other efforts. Department of IT staff provide some of these services directly to client departments, as well as manage large, citywide IT services contracts on behalf of the City. An amendment to one of these contracts—for telecommunications services with AT&T Corporation (AT&T)—that includes the potential for two one-year extensions, is being brought to Council for approval as the proposed costs of the contract has changed in its current term. The full amount of the contract amendment and two one-year options for renewal is approximately \$17.3 million.

In preparing for this report, our Office met with Department of IT staff to discuss the proposed contract amendment. This report provides some clarification on the reasons for this contract amendment, reviews the costs associated with those services, and recommends some questions that Council may wish to ask in consideration of this item.

## BACKGROUND

The City contracts with AT&T for a number of telecommunications services including data circuits, voice circuits, internet, and analog telephone lines. AT&T has been the City's service provider for a number of years: the City had used San Diego Data Processing Corporation (SDDPC) for its IT needs and SDDPC had procured telecommunications services from AT&T on the City's behalf. When the City moved from working with SDDPC to contracting with Xerox State & Local Solutions (Xerox) for citywide network needs in FY 2013, the contract with AT&T was transferred from SDDPC to Xerox. Subsequently, Xerox's IT Outsourcing business was acquired by Atos Governmental Outsourcing Services, LLC (Atos), and Atos assumed the City's network contract including the AT&T pass through expense. The City budgets for its network services in two ways: 1) through a non-discretionary budget that the Department of IT calculates for all City departments for citywide networks services; and 2) as part of departments' discretionary network budgets, individually requested by departments as an addition to their operating budgets if they require additional or specialized network services.

The SDDPC contract for AT&T services that Xerox, and subsequently Atos, assumed, expired on July 1, 2017. Atos was not able to secure a replacement contract at a comparable cost and the City explored other options, eventually entering into a contract with AT&T through the State's telecommunications cooperative procurement contract (CalNet3). The contract was signed in August 2016, and was for the term January 2017 through June 2018, with two one-year extension options. Compensation for the original term of the contract was a not-to-exceed amount of approximately \$2.9 million, which is under the \$3.0 million threshold for Council approval. The \$2.9 million 18-month contract was a reduction in network costs of \$3.0 million from the City's previous contract, which would have been approximately \$5.9 million over that same time period. The Department of IT notes that there was a reduction in the budgeted allocation for the Atos contract to account for the fact that the City was now contracting directly for AT&T's services.

However, per Department of IT staff, since the City has contracted directly with AT&T, it has become apparent that the number of telecommunications assets (circuits and analog telephone lines) that the City believed it had was not a complete inventory list. Atos charged the Department of IT \$329,000 per month, the cost of the citywide assets that were being supported by the AT&T contract and that were included in the non-discretionary network charge in departments' operating budgets. However, the inventory of those assets only reflected the items maintained by the Department of IT, it did not include those assets that departments had procured on their own through the Atos contract (or previously through the Xerox and SDDPC contracts.) Additionally, a complete list of department-procured assets and their associated costs, had not been maintained by SDDPC, Xerox, or Atos and so the Department of IT had no visibility into the full number of assets or why departments required them.

Therefore, when the City entered into the contract with AT&T through CalNet3, it had an inventory number that did not capture all of the City's assets. Based on the inventory list that it did have, the Department of IT believed that the CalNet3 Agreement would afford the City significant savings: a cost of \$160,000 per month compared to the \$329,000 per month paid to Atos.

However, after the Agreement was entered into AT&T confirmed that City assets requiring AT&T services was larger than what had originally been thought, and that the true cost was \$320,000 per month, not \$160,000. The Department of IT worked with AT&T to produce a full list of City

assets, and department staff is currently reviewing the list to verify that all assets belong to the City and that they are still being utilized. Because the Department of IT is still working through verifying the asset list, they have added an \$80,000 monthly contingency to the CalNet3 AT&T Agreement. Should this contingency be needed, budget will need to be available from the Department of IT or the asset-owning department's operating department depending upon the nature of the cost.

Therefore, while the CalNet3 AT&T Agreement includes some reduced costs for the City—mostly due to reductions in long-distance rates and legacy internet connections—there will be no related reductions in costs to the City if the contingency is expended. The table below outlines monthly and annual costs associated with the services when provided through Atos, the original CalNet3 contract, and the proposed contract Amendment 1, as described in the preceding paragraphs. Note, however, that the Atos contract amount in the table below **only includes citywide network costs, not the cost of the assets paid for separately by departments with their discretionary funds.** As mentioned earlier, the Department of IT is still reviewing the list of departments' network assets, and so the total annual cost of departments' discretionary network inventory under the Atos contract is not known at this time.

| AT&T Telecommunications (Network) Services |  |              |              |
|--|--|--------------|--------------|
|  | Inventory  | Monthly (\$) | Annual (\$)  |
| Atos Contract <sup>1</sup>                 | Citywide AT&T telecommunications services managed by the Department of IT only | \$ 329,000   | \$ 3,948,000 |
| Original CalNet3 Agreement                 | All City AT&T telecommunications services                                      | \$ 160,000   | \$ 1,920,000 |
| Amended CalNet3 Agreement <sup>2</sup>     | All City AT&T telecommunications services                                      | \$ 400,000   | \$ 4,800,000 |

<sup>1</sup>Amount of Atos contract for AT&T telecommunications services includes general citywide costs only. Some City departments had purchased circuits from Atos directly and those costs are not included in this figure.

<sup>2</sup>Amount of amended CalNet3 contract includes costs of \$320,000 per month—a slight decrease to the monthly costs under the Atos contract—with an additional 25%, or \$80,000, in contingency for future enhancements, modernization, and improvements. This dollar amount represents projected expenses for all City AT&T telecommunications services (general citywide services and services requested directly from individual departments.)

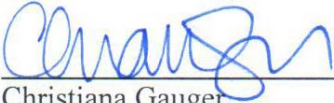
## ITEMS FOR COUNCIL CONSIDERATION


The Department of IT is requesting that Council approve an amendment to the City's current contract with AT&T through CalNet3. The Department's rationale for entering into the contract is reasonable: the contract maintains the City's required telecommunications services at reduced rates. However, the reasons for the need to increase the not-to-exceed amount of the contract raise questions that Council may wish to consider as part of the review of the item:

1. The not-to-exceed amount of the contract is being increased, due primarily to the inclusion of previously unaccounted for City telecommunications assets. **What steps is the Department of IT taking to fully account for City IT inventory related to this and other contracts?**
2. The Department of IT is requesting City Council approval to increase the current term of the contract plus approve future options to renew for a total not-to-exceed amount of approximately \$17.3 million. Council will not have the opportunity to review this contract

again until the options through FY 2020 have been exercised, or if the not-to-exceed amount is projected to be surpassed. **If Council is interested in an update on the City's telecommunications asset inventory or progress on citywide telecommunications upgrades and improvements, Council could consider requesting the Department to return to Council or Committee with an annual citywide IT services report.**

Should Council wish to receive additional information on the City's IT contracts or services, our Office is available to work with the Department of IT in this endeavor.

  
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Christiana Gauger  
Fiscal & Policy Analyst

  
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APPROVED: Andrea Tevlin  
Independent Budget Analyst