



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 8, 2018

IBA Report Number: 18-04

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Item Number: 200

Review of the Request for City Council Approval of the Agreement between the City of San Diego and Zensar Technologies for Network Services

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.

A new contract—for data and voice network services, with Zensar Technologies IM, Inc. (Zensar)—is being brought to Council for approval. This contract is intended to replace one the City has with the current provider, Atos Governmental IT Outsourcing Services, LLC (Atos). The Zensar agreement period has a potential 123 month period (10.25 years) including: a three-month start-up period expected to begin April 2018, followed by 48 months of services, with two additional 24-month options to extend services, and lastly a subsequent period of up to 24 months for disentanglement. The full not-to-exceed amount for the contract is approximately \$79.6 million.

In preparing for this report, our Office met with Department of IT staff to discuss the proposed agreement. This report provides some background information on the contract and recommends some questions that Council may wish to ask in consideration of this item.

BACKGROUND

The City currently contracts with Atos for data and voice network services. These services had been provided by the San Diego Data Processing Corporation (SDDPC) until FY 2013, when the City moved from working with SDDPC to contracting with Xerox State & Local Solutions (Xerox) for citywide network needs. Subsequently, Atos acquired the City's network contract from Xerox.

Because the Atos networking contract expired on July 1, 2017 (and is now in a disentanglement period), staff issued a Request for Proposal in May 2017. There were eight respondents to the RFP, and Atos was not one of them. The result of the RFP review process was the selection of Zensar, which subsequently negotiated with the City on the contract that is being presented for Council approval. The Council may wish to inquire as to the other respondents and how they were eliminated from consideration.

The not-to-exceed contract amount of \$79.6 million includes cost components for various periods of service, including the transitional start-up period, base period, two optional renewal periods, and a disentanglement period, plus additional project costs associated with initial one-time transformational improvements and future modernization and enhancements that align with the City's IT strategic roadmap. The costs are broken down in the table below.

Breakdown of Not-to-Exceed Contract Amount (\$ in millions)

Cost Component	Timeframe	Cost
Transitional Period	3 months	\$0.8
Initial Base Period	48 months	27.5
Renewal Period 1	24 months	13.1
Renewal Period 2	24 months	12.6
Disentanglement Period ¹	24 months	12.6
One-Time Transformational ²	N/A	1.1
Modernization and Enhancements	N/A	11.9
Total:	123 months	\$79.6

¹ The disengagement period generally consists of the process of transitioning services back to the City, or new service provider, without interrupting service levels.

² Includes network assessment, network management tools upgrade, Skype integration with the City's telephone network, as well as \$850,000 for critical upgrades and equipment replacements needed during the transition period.

The two optional two-year renewal periods are solely at the discretion of the City. Further, approval for each of the two-year options is at the discretion of the Mayor, and does not require Council approval. The agreement also contains a 90-day termination for convenience clause (section 14.2 of the contract); but full-contract termination fees are in excess of \$1.0 million each year of the contract, including the option years. There is also a \$472,000 termination fee during the three-month transition period. Termination fees do not apply for terminations by the City for vendor default or specified ownership changes. With respect to ownership changes, the City has the discretion to terminate the contract.

ITEMS FOR COUNCIL CONSIDERATION

Below are some examples of additional questions that Councilmembers may wish to consider as part of their review of the item.

Questions on the RFP process and transition from Atos:

- The City utilized the services of Avasant LLC (Avasant) to advise the RFP process, as it had done in the 2012 process. Were there other consultants considered to help the City in the most recent process? What was Avasant's role in the RFP process and how did it differ from 2012?
- In addition to the disentanglement period with Atos, are there any other remaining deliverables from Atos?
- Did the RFP evaluation process take into consideration references from other clients comparable to the City?
- The potential contract period is longer than many City contracts, at up to 10.25 years. What advantages and disadvantages are there to this approach? Is there an industry standard?
- The staff report provides comparative costs for Zensar, Atos/Zerox, and SDDPC. What are the reasons for decreases in costs (e.g. technology improvements, other types of efficiencies)?

Questions on Zensar services:

- The staff report indicates that the City's networking services will be monitored 24/7—with 19 dedicated staff in Texas and another 19 staff concurrently monitoring from San Diego during business hours. This is cited as an improvement over the current monitoring process, which is not constant. Council may wish to ask for more specific information about the improvements in the monitoring process.
- What are the general qualifications and skill sets of Zensar and IMG staff, and how do they compare to Atos staff? How does the staffing level compare to Atos?
- What is the anticipated response time once a service call/request is made, and how does this compare with the City's current experience?
- How are the City's public safety (i.e., Police, Fire, and Lifeguard) networking services covered; and what are the costs of those services? What are the public safety systems outside of this contract?
- In what ways does the contract allow the City to adapt to unforeseen technological advancements that may occur over the 10.25 year term that are not included in the one-time transformational or modernization and enhancements project cost components?

Questions on contract and other related costs:

- The number of staff allocated to the City is 38, and the annual service cost is over \$6.5 million. What are the additional components included in the annual service cost beyond staffing costs?
- Staff estimates that by FY 2019 about 50% of the City's existing network devices will be at the end of their useful lives. The not-to-exceed \$79.6 million contract amount contemplates \$1.1 million in one-time "transformational project costs," which includes network assessment, network management tools upgrade, Skype integration with the City's telephone network, as well as \$850,000 for critical upgrades and equipment replacements needed during the transition period. What are the additional costs associated with the current

state of services and network inventory beyond those discussed above (i.e., replacement of network devices beyond their useful lives)?

- As a departure from the previous contract with Atos, the City will be responsible for replacing all network devices and acquiring rights for software tools, which may need to occur before the end of the contract. When will a comprehensive replacement schedule be provided for both hardware and software components?
- Are there any additional maintenance and/or licensing costs for the network services that are outside of the Zensar contract?

Other questions:

- What is the process for imposing penalties on Zensar should they fail to maintain the agreed service levels? How will penalties be imposed; and who will be the final decision-maker with respect to any penalties?
- How will this contract and the City's services be affected by the ending of Net Neutrality? Are there any cost implications due to Net Neutrality?

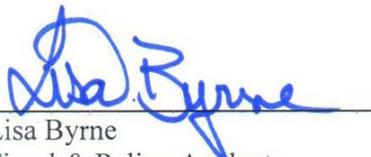
CONCLUSION/RECOMENDATIONS

The Department of IT is requesting that Council approve a new 10.25-year data and voice network services contract with Zensar, for a not-to-exceed amount of \$79.6 million. The Department's rationale for entering into the contract is reasonable: the contract maintains the City's required networking services, with improvements to service levels and a decline in annual recurring costs.

Should the Council vote to approve this contract, our Office offers the following recommendations:

- When this item was heard at the February 2, 2018 Budget and Government Efficiency Committee meeting, the IBA recommended that the Department of IT report back to the Council with an update after the transition period as well as an update after the first three months of the base period (including information on Zensar's performance with respect to service level requirements).
- Additionally, we recommend the IBA, City Attorney's Office, Purchasing and Contracting, and Financial Management explore a process whereby Council is afforded the opportunity to have a role in the development of RFP parameters for significant future IT contracts.

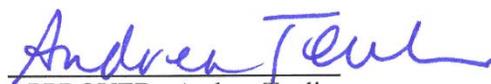
Should Council wish to receive additional information on the City's IT contracts or services, our Office is available to work with the Department of IT in this endeavor



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