



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Scott P. Johnson

**SUBJECT:** SEE BELOW

**DATE:** April 16, 2004

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Approved

Date

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**SUBJECT:** REPORT ON REQUEST FOR PROPOSAL (RFP) FOR AN INTEGRATED UTILITY BILLING, CUSTOMER SERVICE AND PERFORMANCE MANAGEMENT SYSTEM

**Council District:** Citywide  
**SNI:** N/A

## **RECOMMENDATION**

1. Adoption of resolution authorizing the City Manager to enter into exclusive negotiations for sixty (60) days for the purchase, installation and integration of an Integrated Utility Billing, Customer Service and Performance Management System (CUSP) with BearingPoint/PeopleSoft with the option to commence negotiations with Indus in the event business terms are not reached with BearingPoint/PeopleSoft.
2. Direct staff to proceed with the necessary actions to expand the City's commercial paper program including the preparation of the necessary amendments to the Trust Indenture, certain financing documents, and preparation of a new Offering Memorandum for the City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Notes (the "CP Notes") for City Council and the City of San Jose Financing Authority Board approval by August 2004.
3. Direct staff to return to Council by August 2004 for Council's approval of a final agreement between the City and the recommended CUSP vendor solution and the related budget appropriations.

## **BACKGROUND**

In December 2001 Council directed staff to develop a Request for Proposal (RFP) for the procurement of an integrated Customer Relationship Management (CRM), Utility Billing System (UBS), and Partner Relationship Management (PRM) System, given the project name CUSP. On May 27, 2003, Council approved the RFP document for CUSP Phase 1, which integrates Customer Service, Utility Billing, and Hauler Contract Management systems for the Integrated Waste Management Program, Municipal Water System, and the City's Customer Service Call Center. On March 23, 2004, the Council accepted a report for the CUSP project from the

Making Government Work Better Committee: directed staff to proceed with the CUSP RFP process for a licensed, off-the-shelf solution to be supported by City Information Technology staff that integrates the City's four utility services (recycle plus, sanitary sewer, municipal water and storm sewer); return to Council by the end of April with a recommended vendor; and recommend a funding strategy (please refer to "Attachment A" for the supplemental memorandum dated March 23, 2004).

## **ANALYSIS**

Following the direction from the Council in December of 2001, an Executive Steering Committee comprised of Deputy City Manager, Kay Winer; Environmental Services Department (ESD) Director, Carl Mosher; Chief Information Officer, Wandzia Grycz; and Director of Finance, Scott Johnson was formed. A project manager was hired, a support team and a working group comprised of staff from the departments of Finance, ESD and Information Technology (IT) was assembled to study City processes in detail to create clear requirements and to define the scope of CUSP.

This section of the report is divided into several subsections that provide an overview of the project objectives, project scope, the selection results, and the funding strategy.

### ***Project Objectives***

The CUSP project was developed to address the following business and service objectives:

- **Consolidated Billing:** Residents will receive a single bill for each City utility (water, garbage, storm and sewer). Other City services may be added to the bill in the future. The City will save on printing and postage costs, and realize increased efficiency.
- **One-stop Customer Service:** Residents will receive higher quality care from a single point of contact with a Customer Service Representative (CSR) on a variety of issues.
- **Understand and proactively address customer issues:** Management portals (windows into data from many sources) will provide immediate trend and issue analysis to support decision makers.
- **Customer Information and Account Tracking:** There will be fewer call backs, reduced call time for customers, and more effective deployment of CSRs.
- **Online Self-Service and Help (eGovernment):** Customers will be able to manage their own accounts and receive help 24 hours a day. This is a big step toward implementation of the eGovernment strategy.
- **Partner Performance Monitoring and Relationship Management:** The City will be able to hold Recycle Plus Program haulers and landfill operators accountable for the services provided to residents. "Partner Portals" (screens designed for a specific partner with specific needs, using CUSP application and data) will streamline operations for more efficiency and accuracy. Future phases of CUSP may include other partners to

reduce paperwork and implement eCommerce such as establishing a portal for printing partners to receive outreach material, targeted customer lists, and payment from the City.

- **Sanitary Sewer and Storm Water Billing:** The City currently processes annual sewer and storm water assessments from an outdated VAX system and forwards these assessments to the County for inclusion on property tax bills. The County charges the City approximately \$350,000 per year to collect the assessments on the tax roll and remit them to the City. During the audit of the City's utility billing system the City Auditor recommended (audit recommendation number 97-01) that the Council consider combining storm and sewer fees in a consolidated utility bill. The opportunity to move these accounts from the existing VAX system, to collect fees for services on a bi-monthly basis rather than annually and to save costs by billing customers directly through a consolidated utility bill made Sanitary Sewer and Storm Water services ideal candidates for CUSP. Further efficiencies and savings will be achieved by all four utilities' accounts sharing the address / customer database.

The above objectives, which focus on improved customer service and use technology to improve efficiency of service delivery, are in direct alignment with the City's Corporate Priorities. The CUSP project will provide significant benefits to the City including enhanced functionality and state of the art technology solutions, and enable the City to streamline business processes resulting in efficiency and revenue opportunities. "Attachment B" provides a pictorial framework to describe the functional and technical environment we are currently working under to facilitate the City's utility billing, customer service and performance management efforts; the CUSP vision that we will be working under by implementing CUSP is presented in "Attachment C".

### ***CUSP Phased Scope and Related Components***

**Customer Service** – CUSP will combine customer service unit processes and systems from Recycle Plus, Municipal Water, and the City's Customer Service Call Center. These operations currently lack adequate online customer service tools and customer self-service features. The Customer Information System (CIS, a utility industry designation used for billing and customer service software systems) component of CUSP Phase I will improve call center efficiency to meet residents' expectations for high quality and timely customer service.

**Utility Billing** – Since the City's Recycle Plus program began in 1993, the City has been billing its customers using a utility billing system (Socrates) developed in-house. The Municipal Water billing system (CCS) was implemented in 1987 and the sanitary sewer and storm water systems have been billed through the VAX System since 1986. Although the Socrates and CCS systems have been functional to date, they are outdated and have limited or no capacity for needed functional enhancements such as multi-service billing and integration to other internal and external systems. It should also be noted that the City's VAX system is planned for extinction as part of the New Civic Center technology planning effort, thus requiring alternate solutions for the applications currently residing on this legacy system. The CUSP system could be extended to include other City billing systems in future phases of the project.

**Recycle Plus Hauler Contract Management** - Effective July 2002, Recycle Plus contracts require a Service Contract and Work Order solution that is tightly integrated with the billing system to monitor hauler performance, calculate administrative charges, and achieve seamless data transfer with haulers, materials recovery facilities and landfills. Interim solutions have been developed, which are limited in their efficiency, capability, and capacity and often result in inaccurate data and poor customer service. CUSP, through its Partner Relationship Management (PRM) component, will address this issue and will open doors to streamline City's transactions and eCommerce with many other City partners in future phases of CUSP.

**e-Government** – Customer Relationship Management (CRM) and Partner Relationship Management (PRM) encompass a majority of e-Government functionality since the Internet is considered one of the channels for delivering service and exchanging information with partners including other government agencies (phone, correspondence and walk-in are other channels). Once CUSP is fully implemented, adding functionality specific to a City service will require significantly less effort because the foundation will be available. The RFP included e-Government functionality for Recycle Plus hauler management, customer service and billing as well as scalability requirements to incorporate other City online billing, Customer Service, and PRM needs.

In order to enable CUSP's e-Government features, the City's e-Government project, which has been placed on hold, will need to proceed. When staff returns to Council in August 2004 with the CUSP vendor contract, staff will also bring a plan for Council's approval to implement the e-Government Project including an analysis of the necessary staff and funding resources as well as a budget request to transfer the necessary funds from the e-Government Reserve that Council established to meet the needs to implement the e-Government Project.

**Contribution Features** - Per Council direction, the RFP included a requirement that the proposed system allow customers the opportunity to designate a voluntary contribution towards the Healthy Neighborhood Venture Fund.

**Future Phases of CUSP** – Combining Customer Relationship Management (CRM), Utility Billing System (UBS) and Partner Relationship Management (PRM) creates a sizable project that is best planned and implemented in phases (See "Attachment D" for a full scope block diagram). Considering risk factors and examining immediate needs resulted in a Phase I CUSP RFP with emphasis on various components of customer service, utility billing and hauler performance monitoring. A substantial portion of CRM and some optional features will not be implemented until the next phases, including:

- Interactive Voice Response capability for the call center.
- Advanced CRM capabilities
  - Data Mining & Trend Analysis
  - Full Marketing Automation
  - Customer myCity Portals
  - Wireless capabilities for field workers and customers

- Bill printing, mailing, and remittance - currently outsourced to San Jose Water Company for Recycle Plus and to the County for Storm Water and Sewer. The City received two vendor proposals for these optional features in the RFP. These proposals will be evaluated and brought back to the Council for consideration at a later date.
- PRM - eCommerce with other partners or data and process integration with other government agencies (Recycle Plus haulers, materials processing facilities, and landfill operators are included in Phase I)
- Full Unified Customer Database – Consolidating and/or connecting a number of address and customer databases in the City
- Complete Data Warehouse – Developing a data warehouse for authorized City staff to create reports and conduct analysis without having to have license or access to production systems. The data warehouse is a repository of data extracted from various sources and combined to provide an efficient manner of accessing current and historical data for reporting and analysis.

### ***Evaluation Process***

The RFP was structured to allow vendors to propose the following approaches:

- Licensed: Software applications installed on City computers and maintained by City staff.
- Hosted (Outsourced Technology): Software applications installed on vendor computers, at their facility, and maintained by the vendor.
- Combination: A combination of Hosted and Licensed Solutions.

The CUSP RFP was issued on June 16, 2003. Fourteen proposals were received by the proposal deadline of July 31, 2003, twelve of which proposed the CUSP solution and two proposed only the Bill Print & Mailing optional features identified in the RFP. The CUSP Steering Committee determined that the first priority would be placed on the CUSP System proposals and the optional features such as the bill print and mailing features would be deferred until a subsequent phase of the project.

The CUSP Steering Committee reviewed and approved the evaluation process, criteria, weighting, and outcome at each stage. The proposal evaluation process as presented in the RFP consisted of three phases. “Attachment E” outlines each phase and the rating methodology used.

**Phase 1: Minimum Requirements Review** - General Services Department staff screened the proposals to insure that they met the minimum requirements stated in the RFP. All twelve CUSP proposals listed below passed this stage and were considered in the next level of evaluation.

## VENDORS

|                                    |                            |                                 |
|------------------------------------|----------------------------|---------------------------------|
| BerryPoint/PeopleSoft <sup>+</sup> | Deloitte/SAP* <sup>+</sup> | Synertech                       |
| Blue Heron/SAP                     | Fortegra/Open C            | Systems & Software <sup>+</sup> |
| Cayenta* <sup>+</sup>              | Indus* <sup>+</sup>        | TUI/SAP*                        |
| Conversant                         | Open C*                    | Wipro/Siebel                    |

\*Proposed licensed and outsource technology models

<sup>+</sup>Vendors moved to the next phase of the evaluation process.

**Phase 2: Functional Proposal Review** – An Evaluation Panel consisting of City Finance, ESD, City Manager’s Office, IT staff, and TMG was formed to review all twelve proposals. TMG is an industry recognized CIS evaluation consultancy firm specializing in evaluation, selection and negotiations for procuring CUSP-like systems. The following proposals were selected to move forward to Phase 3 of the evaluation process for further consideration: Cayenta, Deloitte/SAP, BearingPoint/PeopleSoft, System & Software, and Indus.

**Phase 3: Product Demonstrations, Cost Evaluation and Interviews** – This phase consisted of two major steps. Step one included one-day product demonstrations with concurrent technical and project management interviews with each proposer. These product demonstrations and technical sessions were facilitated by TMG and scored on functionality, ease of use, technology, and project management by Finance, ESD, Central Call Center, and IT staff. Reference calls were made to customers of each finalist and financial viability research and analysis was conducted by staff from the Finance Department. The top three finalists advanced to the next step of the evaluation process: BearingPoint/PeopleSoft, Indus, and Deloitte/SAP.

Step two of this phase consisted of high-level product demonstrations and oral presentations to the CUSP Steering Committee. After reviewing the prior rankings and related rationale from the Evaluation Team, making observations and conclusions from the product demonstrations and oral presentations, considering the architecture required for each solution proposed by the three vendors and reviewing the cost proposals and proposed timelines for implementation by each of the three proposers, the CUSP Steering Committee moved two finalists forward for the final evaluation, scoring and ranking: BearingPoint/PeopleSoft and Indus. Also, for the purpose of getting an independent, external perspective on the evaluation process and its fairness, Nanda Kishore, Chairman of BridgeSpan, reviewed the evaluation methodology and scoring details during this step of the evaluation process.

### SELECTION RESULTS – Proposed Vendor Solution

Upon the conclusion of the three phases of the evaluation process, the Steering Committee scored and ranked the two vendor finalists as follows: number one recommended vendor, BearingPoint/PeopleSoft and the number two, alternate vendor, Indus.

Staff is recommending that the City enter into exclusive negotiations for sixty (60) days for the purchase, installation and integration of an Integrated Utility Billing, Customer Service and

Performance Management System (CUSP) with BearingPoint/PeopleSoft with the option to commence negotiations with Indus in the event business terms are not reached with BearingPoint/PeopleSoft. Following is a brief company profile for BearingPoint and PeopleSoft.

**BearingPoint, Inc.** is one of the world's largest business consulting, systems integration and managed services firms serving Global 2000 companies, medium-sized businesses, government agencies and other organizations. BearingPoint provides business and technology strategy, systems design, architecture, applications implementation, network infrastructure, systems integration and managed services.

**PeopleSoft** is a world leader in enterprise application software. PeopleSoft provides eBusiness and analytic applications for human resource management, financials, distribution, manufacturing, and supply chain, along with a range of industry-specific solutions. For more than 3,000 customers, PeopleSoft applications offer scalability across multiple databases and operating systems. Customers include some of the largest multi-national organizations in the world, as well as small and medium-size businesses.

Following are some of the points raised by the evaluation team and the steering committee on the recommended vendor solution, BearingPoint/PeopleSoft (BP/PS):

- The PeopleSoft utility and customer information system product (designated as "SPL") will allow the City to leverage an existing knowledge base and also provide an opportunity for sharing of resources in the future.
- Staff will require a much lower learning curve to become proficient with the application.
- The software product (PeopleSoft SPL) is highly configurable, limiting the amount of custom development required to satisfy the City's business processes.
- PeopleSoft has offered their portal technology at no additional cost to be implemented for the partner relationship management portion of CUSP.
- BearingPoint is a systems integration company with experienced staff in implementation of CIS products for cities and municipalities.
- The Evaluation Team was very impressed by the BP/PS's project management methodology. BP/PS's response to over 70 written questions relating to their project management methodology and their presentation during the oral interview raised the Steering Committee's confidence that BP/PS will be able to implement the PeopleSoft SPL product successfully (on time and on budget).
- The SPL product was developed by using state of the art tools, is fully web-based and utilizes an Oracle database. The system as designed is very flexible and overall the most extensible.
- The navigation within and layout of the forms and screens was the best presented in the product demonstrations.
- A solid hardware configuration was proposed with this solution.

- PeopleSoft was able to provide a very well organized and detailed “physical and logical” Entity Relationship Diagram (ERD) for the database.

## **COST EVALUATION**

An extensive cost analysis and vendor comparison study was conducted to assess the total cost of the project using data from each of the top three vendors. As a means to determine the City’s return on investment on this project, staff conducted a Return on Investment (ROI) analysis over a ten-year period from the implementation date. The ROI for the recommended vendor solution (BearingPoint/PeopleSoft) indicates that after considering the project implementation costs, the annual project costs, and the project efficiency and revenue opportunities, staff estimates that the City will recognize a net present value benefit of approximately \$13.7 million during the ten year period following implementation with further benefits continuing over the life of the project (refer to “Attachment F” for the BearingPoint/PeopleSoft ROI).

*Implementation Costs* - The CUSP proposals received by the City are consistent with market conditions and standard pricing models for systems of this type. Based on the proposed vendor solution, the total estimated cost to implement CUSP through the “go-live” date is \$7.8 million. Go-live cost components include the following implementation and stabilization costs, which are to be expended over an eighteen-month implementation period:

- Software;
- Hardware;
- Implementation vendor travel and related expenses;
- Initial software licensing;
- Dedicated city staff, lease space; and
- Project management and coordination.

The following table details the implementation cost breakdown for the top three vendors. Please note that a 10% contingency has been added to implementation costs as well as leveled costs

| <i>Vendor</i>           | <i>Proposal Cost</i> | <i>Leveled Project Costs<sup>1</sup></i> | <i>Internal Implementation Costs</i> | <i>Go-Live Costs (Proposal + Internal Costs)</i> |
|-------------------------|----------------------|--|--------------------------------------|--|
| BearingPoint/PeopleSoft | \$6,363,970          | \$6,365,941                              | \$1,475,772                          | \$7,841,713                                      |
| Indus                   | \$5,619,208          | \$5,878,545                              | \$1,688,897                          | \$7,567,442                                      |
| Deloitte/SAP            | \$6,269,581          | \$6,647,282                              | \$1,402,950                          | \$8,050,232                                      |

<sup>1</sup>Includes leveled costs for the following:

- BearingPoint/PeopleSoft - Hardware variance
- Indus – Hardware variance
- Deloitte/SAP – 1-month project timeline variance

*Total Costs through ten years following implementation* - The following table details the total project costs including implementation costs and annual system and maintenance costs through the first ten years following implementation. Over the ten-year post go-live period, BearingPoint/PeopleSoft is the lowest cost solution to the City.

| <i>Vendor</i>           | <i>10 Year City Cost<sup>1</sup></i> | <i>Vendor 10 Year Cost</i> | <i>Implementation Cost</i> | <i>Total 10 Year Costs</i> |
|-------------------------|--------------------------------------|----------------------------|----------------------------|----------------------------|
| BearingPoint/PeopleSoft | \$419,197                            | \$2,979,240                | \$7,841,713                | \$11,240,150               |
| Indus                   | \$419,197                            | \$3,815,640                | \$7,567,442                | \$11,802,279               |
| Deloitte/SAP            | \$419,197                            | \$7,499,520                | \$8,050,232                | \$15,968,949               |

<sup>1</sup>Includes incremental IT resources, transition costs in year 1 after implementation, assumed upgrade costs in year 4, and net of current systems' maintenance costs.

## **FUNDING STRATEGY**

As a means to fund the implementation costs for the CUSP project, staff has considered three alternatives as directed by the MGWB Committee. A supplemental memorandum (“Attachment A”) was provided to the Council for the March 23, 2004 Council meeting that listed each funding alternative, average annual project costs and opportunity benefits for each alternative, and the net present value of these components over a ten-year period. Based on this analysis that results in the lowest funding cost to the City while leveling out the payment for the implementation costs of the project over a ten-year period with the least impact on utility rates to the community, staff recommends that the Council direct staff to proceed with expanding the City’s commercial paper program in an incremental amount not to exceed \$10 million to provide the necessary funding for the CUSP project. The repayment of the commercial paper program would be amortized over ten years at approximately \$925,000 per year beginning in the first year after the implementation “go-live” period.

Using the Commercial Paper program to fund the CUSP project costs allows the City to maintain existing cash needs necessary to fund existing operations, while prolonging the City’s ability to invest unexpended funds during the term of the payback period. The Commercial Paper funding option results in the most economic benefit for the City at the lowest cost with a net present value savings of over \$1 million compared to borrowing up-front from internal City funds.

### **Revised Calculations for Cost Sharing of Implementation Costs for each Respective Utility Fund**

Based on input from Council, staff has revised the pro-rata share of project implementation costs for each of the four utilities calculated on two factors; first, a bill frequency factor using a 30% weighted average factor based on the number of bills generated per year, per utility; and second,

an implementation allocation factor using a 70% weighted factor based on the relative complexity to implement CUSP for each respective utility.  
The share of implementation costs for each utility is as follows:

| <b><u>Fund</u></b>                                  | <b><u>Share of Project Cost</u></b> |
|---|-------------------------------------|
| <i>Integrated Waste Management Fund (Fund 423)</i>  | \$ 3,996,400                        |
| <i>Water Utility Fund (Fund 515)</i>                | \$ 950,600                          |
| <i>Storm Sewer Operating Fund (Fund 446)</i>        | \$ 1,162,500                        |
| <i>Sewer Service and Use Charge Fund (Fund 541)</i> | \$ 1,710,200                        |

As noted earlier, these costs will be amortized to the respective utility funds over a ten-year period following the go live date. The annual costs to maintain the system will be allocated to each utility based on the pro-rata bill frequency factor.

### **PUBLIC OUTREACH**

This procurement was posted on the City of San José web site.

### **COORDINATION**

This memorandum has been coordinated with the departments of Finance, Environmental Services, Information Technology and General Services (Purchasing Division) and the Offices of the City Manager, City Attorney and the City Manager’s Budget Office.

### **CEQA**

Not a project.

SCOTT P. JOHNSON  
Director, Finance Department