

Memorandum

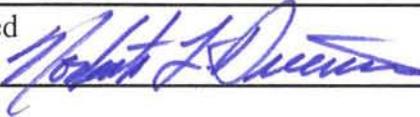
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson
Randall Murphy

SUBJECT: PURCHASE OF MICROSOFT
SOFTWARE

DATE: April 21, 2008

Approved



Date

4/25/08

REASON FOR SUPPLEMENTAL MEMORANDUM

The reason for this supplemental memorandum is to address Council direction at the March 4, 2008 Council meeting (Item 3.8). Council asked Staff to 1) validate that the City is receiving the best price for Microsoft (MS) software and 2) investigate the possibility of utilizing free software.

RECOMMENDATION

Report on bids and rejection of all bids for Microsoft products and adoption of a resolution authorizing the Director of Finance to execute any necessary documentation to make purchases from PC Mall Gov (Torrance, CA) for Microsoft software licensing, under the pricing, terms, and conditions obtained under the Microsoft Select License Agreement ("Select Agreement") for State and Local Governments not to exceed \$500,000 for the first year, and for two additional years, as may be required, subject to annual appropriations.

BACKGROUND

On March 4, 2008, staff recommended award of contract of various Microsoft software products to PC Mall as part of the California Select Agreement. After Council discussion, Council requested that staff validate that the City is receiving the best price for Microsoft software products and investigate the possibility of utilizing free software such as Software as a Service (SaaS) as offered by Google.

MICROSOFT PRICING

This section outlines staff's efforts to validate the pricing for Microsoft Products as recommended at the March 4 Council Meeting by revisiting the 2005 procurement process, summarizing the meeting with Microsoft, and describing the results of the March 2008 Request for Bid process.



Based on the information technology (IT) strategy, Finance develops the appropriate procurement strategy. Three years ago, Finance bid out the purchase of MS software licenses based on peak computer purchases when the City consolidated services and offices at the new City Hall. Due to the volume purchase, Finance was able to receive very competitive pricing from PC Mall. At the time of Request for Bids (RFB), Finance reserved the right to extend the then offered pricing for another three years. With the action of March 4, Finance requested Council authorization to continue the agreement with PC Mall.

Based on Council direction from March 4, on March 10, Purchasing staff met with the Microsoft Government Account Management Team. Microsoft confirmed that the best pricing for software licensing that meets the City's IT strategy as described above, is through the Select Volume Licensing Program for Federal, State and local government. Microsoft does not sell directly to government agencies and has established this program. Through this program, MS software is offered through a network of Large Account Resellers (LARs). Microsoft does not mandate or control the markup/discounts that LARs may charge.

After the meeting with MS representatives and in accordance with Municipal Code Section 4.12.210, Purchasing Staff prepared a competitive Request for Bids (RFB) to validate the City's current pricing. Purchasing Staff issued Request for Bids (RFB) on March 17, 2008. The bid stated that the City has been purchasing Microsoft software at Select pricing less a 2.5% discount and that the purpose of the bid was to determine if better pricing is available.

The requirement was advertised on the City's e-procurement system. 81 companies viewed the RFB and a total of six bids were received and publicly opened by the deadline of April 1, 2008. One bid was received after the deadline and returned to the bidder unopened. The bid pricing is summarized in the following table. The pricing listed is the final price after including the mark-up or discount offered as listed in the second row of the table below.

Item Description	Est. Qty Year	Computerland	42 Inc.	CDW-G	Zones Inc.	SHI Inc.	En Pointe
		San Jose, CA	Berkeley, CA	Illinois	Washington	San Jose CA	Gardena, CA
		Extended Price					
Markup/Discount Offered (included in pricing)		2%	3-5%	1%	7-9%	1%	-.5%
Exchange CALS (user)	250	\$10,985	\$10,983	\$10,875	\$10,890	\$10,880	\$10,715
Exchange CALS (device)	250	\$10,985	\$10,983	\$10,875	\$10,890	\$10,880	\$10,715
Windows CALS (user)	250	\$4,805	\$4,803	\$4,750	\$4,763	\$4,758	\$4,688
Windows CALS (device)	250	\$4,805	\$4,803	\$4,750	\$4,763	\$4,758	\$4,688
Office Professional	1250	\$393,063	\$392,950	\$387,500	\$389,625	\$389,238	\$383,425
Subtotal		\$424,643	\$424,522	\$418,750	\$420,931	\$420,514	\$414,231
State Administrative Fee		\$11,550	\$11,547	\$11,390	\$11,449	\$11,438	\$11,267
BASE BID		\$436,193	\$436,069	\$430,140	\$432,380	\$431,952	\$425,498
Preferences							
Local (2.5% of Base)		-\$10,905					
Small (2.5% of Base)		-\$10,905					
ADJUSTED BASE BID		\$414,383	\$436,069	\$430,140	\$432,380	\$431,952	\$425,498

Based on the application of the small and local business preference, ComputerLand submitted the winning bid with a 2% mark-up on top of the Select Agreement pricing.

At the March 4 Council meeting, Council directed staff to validate whether the City is receiving the best pricing for Microsoft products. Therefore, staff compared the winning bid submitted by Computerland resulting from the March 2008 Request for Bid with the current contract pricing with PC Mall Gov. The discount that the City currently receives under the existing agreement with PC Mall Gov is -2.5% off the Select Agreement. The 2.5% discount of the current contract is 4.5 percentage points less than the winning bid submitted by ComputerLand. If the City were to award the contract to ComputerLand, the City would incur a higher annual cost of approximately \$20,000 per year. As stated above, under the agreement with the City, PC Mall Gov must honor the discount for an additional three years.

Therefore, staff recommends rejecting all bids that were received in response to RFB #07-08-70 issued in March 2008 for Microsoft Software and authorize the Director of Finance to execute any necessary documentation to make purchases from PC Mall Gov for Microsoft software under the existing State of California Select Agreement as previously recommended in the February 11, 2008 memo. Upon approval of this recommendation, Purchasing will reject all bids submitted in response to RFB #07-08-70.

SOFTWARE STRATEGY

To address the second Council direction from March 4, 2008, this section summarizes the current trends regarding Software as a Service (SaaS) and outlines the current business environment regarding the utilization of Microsoft software products.

Software as a Service

Recently, Software as a Service (SaaS) offering similar features as standard Microsoft Office Products at seemingly reduced or non-existent costs have been discussed in the media. SaaS is defined as a service delivery model of software applications available through the internet via a vendor-hosted environment.

The SaaS industry is in the midst of a phenomenon that Gartner, Inc., an independent IT consulting company, terms as a "Hype Cycle." The Information Technology Department (ITD) has found that during a Hype Cycle, vendors jump into the marketplace to determine if a profitable business model exists. Vendors frequently offer extremely attractive initial pricing to attract customers.

Pilot projects, such as the Washington, D.C. project, have been cited as examples of successful models of SaaS implementations that have eliminated servers. ITD has discussed this project at length with Washington, D.C. and concluded that this project is currently in a pilot phase with 100 IT staff members. The pilot project is not implemented across the D.C. government, which is still using traditional Microsoft Office and File Servers. One of the primary goals of Washington is to invest in SaaS computing for a part of their organizational network serving

multiple school districts of the District of Columbia. ITD will continue to watch the results of the Washington, D.C. pilot and other test environments in order to understand the potential gains and risks of this emerging technology.

A feature of SaaS applications is the ability to offer quick software updates with limited impact to infrastructure. Due to this benefit, traditional software companies such as Microsoft have begun to enter the marketplace. As with most new technological trends, the ITD has been monitoring the marketplace over the past several months to contemplate the feasibility of incorporating alternative delivery platforms.

Current Business Environment

Microsoft software is the industry leader in the area of operating systems (OSs) and office suite applications (Microsoft Word, Excel, Powerpoint, etc). Nearly all City PCs have a Microsoft OS and Office application installed. Many business processes that streamline service delivery to customers have been built around the Microsoft Platform. Such business processes include the annual budget process, weekly agenda preparation for Council meetings, and template designs for organizational consistency.

Another key component of any sustainable IT investment strategy is the associated funding of the strategy. Currently, the City buys new computers and the related software upgrades in either very low quantities throughout the year (by individual employee, workgroup and/or department) or large purchases as funding permits. In either case, there is no annual requirement for expenditure of funds associated with the use of an office application. The City's decision to implement or delay an upgrade of computers and associated software is based on available funding, operational need, IT support issues, etc. In moving to a SaaS model, the City would be required to either continually commit annual funds to the purchase of licensing for an application or stop using the SaaS software. In evaluating free SaaS applications, it should be noted that most offer a more limited subset of features as it relates to their fee counterparts and certainly, more limited in comparison to the features currently available on the Microsoft Office platform. Further, many of the free offerings are limited in terms of training, support, and/or storage limits.

Additionally, the opportunity to reduce deployment costs associated with new versions of such products must be carefully weighed against the features and functionality offered by these products. For example, many of the "free" and fee-based SaaS office applications have limited functionality which do not meet the unique demands of local government such as data confidentiality, and ability to respond to Public Records Act and eDiscovery requests, and lack of broad search parameters affecting large files of data.

Changing accepted business processes with a switch to SaaS applications will not be without direct hard and soft dollar costs in Staff resources and productivity. Prior to any SaaS implementation, staff needs to carefully analyze the operational impact. At present, the marketplace for SaaS office applications needs to mature in order to meet the business needs of large organizations such as the City of San José. The Office application suite extends beyond the traditional desktop environment and must include integration with many enterprise systems including HR/Payroll, FMS, CAD, and IBS, etc. The Information Technology Department is constantly reviewing emerging technologies and municipal trends for opportunities to optimize processes and reduce ongoing operating expenses. These efforts need to be tempered with the

operational needs of the City to perform business, and the City's heavy investment in existing hardware and software.

SaaS Office Application Suites, as an industry, is still in the "Peak of Inflated Expectations" state and the current market penetration is estimated at less than 1% according to Gartner. In some instances, SaaS is a viable option for City needs and is currently in use or being piloted. However, in the case of Operating Systems and Office Software Licensing, the ITD strongly supports the continued use of Microsoft as the City standard at this time. Gartner states "Don't plan on swapping out Microsoft Office for Google's offerings anytime soon. Google will not replace Microsoft as the dominant enterprise office-suite provider within the next five years." ITD routinely monitors the evolution of SaaS, just as it tracks other emerging technology solutions. As a result of ongoing research, ITD continues to identify operational enhancements that reduce the total cost of ownership for technology assets, while considering serious vulnerabilities in terms of security, public records, and the discontinuation of an existing application.

POLICY ALTERNATIVES

Alternative #1: Accept Bids and Award to ComputerLand as the Lowest Responsive Bidder.

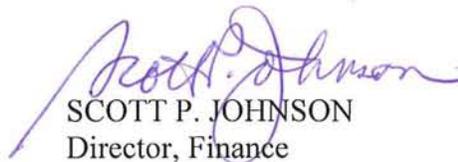
Pros: Award three year contract to a local and small business.

Cons: The City would pay approximately \$20,000 more per year based on City Council's Local and Small Business Preference Policy.

Reason for Not Recommending: The purpose of the bid was to determine if the City can obtain better pricing for Microsoft products.



RANDALL MURPHY
Interim Chief Information Officer



SCOTT P. JOHNSON
Director, Finance

For questions please contact Walter C. Rossmann, Chief Purchasing Officer, at (408) 535-7051

