



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Randall Murphy
Scott P. Johnson
Jennifer Maguire

SUBJECT: AGREEMENT WITH BEARINGPOINT DATE: July 23, 2007
**FOR REPLACEMENT OF BUSINESS
TAX LICENSE APPLICATION**

Approved

Date

7/31/07

COUNCIL DISTRICT: City-wide

RECOMMENDATION

1. Adoption of a resolution finding that an unusual or unique situation exists that makes the application of the requirements for competitive procurement of a service agreement contrary to the public interest.
2. Adoption of a resolution authorizing the Director of Finance to negotiate and execute an agreement with BearingPoint for the development and implementation of a Business Tax License application into the Integrated Billing System for a not-to-exceed amount of \$1,900,000 including \$155,000 in contingencies and to execute change orders not-to-exceed the contingency amount for modification of scope of services.
3. Adoption of the following Appropriation Ordinance Amendments in the General Fund for 2007-2008:
 - a. Decrease the Information Technology Business Applications appropriation by \$500,000.
 - b. Increase the Technology Legacy Migrations Application appropriation by \$500,000.

OUTCOME

This action will result in the most efficient replacement of the existing, obsolete legacy Business Tax License Application with an application that is designed into the Integrated Billing System.

EXECUTIVE SUMMARY

As the City looks toward the future, it is critical that the organization continues to recognize and seize opportunities to decommission legacy systems and field service applications, improve organizational efficiencies, and make necessary system enhancements.

After over 18 months of work by the Consolidated Utility Billing System (C-UBS) project team, the C-UBS system officially went “live” in July 2006. The fully operational integrated billing and CRM system was released to the users, including staff in Finance, Environmental Services, and the City’s newly combined Customer Contact Center.

As part of the effort to implement this system, the City entered into Agreements with vendors and consultants to assist the City in this process. Chief among these consultants was BearingPoint as the City’s implementation vendor for the C-UBS system.

In December 2001, as part of the approval process for the issuance of a Request for Proposals for an integrated service solution for the Recycle Plus program, there was an objective to acquire an enterprise system “*capable of growing with, not only the Recycle Plus program, but integrating other City billing and customer service operations in the future.*” The recommendations brought forward in this staff report are consistent with this prior vision and direction as outlined in the City’s Information Technology Master Plan.

To maximize the value of the system, further the ongoing virtual ‘One-Stop’ customer service model, and position the City to be in a strong position to meet upgrade and modification needs in the future, staff recommends an agreement with BearingPoint and approval of funding for temporary staff to ensure appropriate City support. The scope of work will be to perform Business Process Reference Modeling (BPRM)/ Process Policy, and Procedure (3P) discovery, the preparation of functional and technical specifications, and conversion and configuration of the Business Tax license application. The City will be responsible for development, testing, training, and “go-live”, with guidance from BearingPoint.

The scope of work for the recommended agreement includes a detailed system integration of the Business Tax Application and the data architecture between the Integrated Billing System (IBS), the permitting system (AMANDA), the Geographic Information System (GIS), the Financial Management System (FMS), and the Integrated Cashiering System (ICS). The resulting data architecture (blueprint) will provide direction and a plan on how best to proceed with future projects related to these systems.

The Business Tax System generates approximately \$16.0 million in annual revenue, which must be protected by replacing it with current hardware and software technologies. For this reason, its replacement is a high priority to the City. The increase to the Technology Legacy Migration appropriation, therefore, is recommended to be funded by decreasing funding previously allocated in the 2007-2008 budget process for technology business applications related to FMS. FMS Business Requirements/Applications funding will be revisited in the 2008-2009 budget cycle.

BACKGROUND

Phase 2.1 - Fit-Gap Analysis for Integrated System Enhancements and Additional Billing System Migration

On October 24, 2006, Council authorized the third amendment to a contract with BearingPoint which included a high-level Fit-Gap Analysis (Phase 2.1 of IBS) for system enhancements and migration of outdated and unsupported VAX billing systems located at the old City Hall. The result of the analysis was an estimated replacement development cost of approximately \$5.0 million worth of potential project enhancements, including continued migration of legacy billing systems to the integrated billing system.

As stated in the October 24, 2006 staff report, the City had a unique opportunity to leverage the BearingPoint resources that have City specific experience and to commence the work of the Phase 2 project. This leveraging of resources created synergy with the system reconfiguration work for the new Recycle Plus hauler integration that was completed by the hauler transition date in July 2007. In addition, Council authorized a contract amendment for the Fit-gap analysis on integrated system enhancements and additional billing systems that could potentially be "built" into the Integrated Billing System.

There were two components of the Phase 2.1 project. The first component was the fit-gap analyses for enhancements that provided additional functionality and service for our utility services customers. The second component was to conduct a fit gap analyses for the migration of outdated, unsupported VAX billing systems located at the old City Hall.

The results of the fit-gap analysis allowed for development of budget proposals for discussion during the FY 2007-08 budget deliberations process. Based on resource constraints, the one project that was funded, partially, through the 2007-08 budget was the integration of a new business tax license system by migrating away from the business tax legacy billing system to the City's new Integrated Billing System. This strategy is consistent with the vision presented to the City Council in December 2001, which emphasized the purchase of an enterprise system that would enable the City to integrate other billing systems, consistent with prior Council direction and vision.

During the fit-gap analysis, the Business Tax System was identified as the highest priority need. The Business Tax System includes the billing and collection functions for business tax from approximately 82,000 business city-wide, assessments for the City's three Business Improvement Districts (BIDs), and for Police Regulatory Permits. These three programs, currently residing on the legacy VAX System at the old city hall, total approximately 85,000 accounts and generate close to \$16.0 million in annual revenue. Business Tax is the major component and consists of 82,000 accounts representing \$13.0 in annual revenue to the City's General Fund. The revenue for the Police Regulatory Permits approaches \$2.0 million while the BID revenue is just over \$760,000.

In the course of its work to date, BearingPoint consultants have developed an intimate knowledge of City processes, the legacy systems and the current IBS system as it operates in the environment of City processes and interfaces with other City systems. This is extremely important to ensure proper operation of new systems and applications while maintaining the integrity of City processes and financial functions.

Reallocate \$500,000 from Technology Reserve to IBS for Business Tax System

As part of ongoing efforts to identify and address critical Citywide technology needs, Council approved a Business Requirements/Applications Analysis as an initial step in obtaining a “next generation” financial management system (FMS) in the Technology Reserve Spending Plan which was included in the 2007-08 budget. Although the current FMS system has served its purpose, it lacks the functionality and ability to integrate with new and existing systems such as IBS, AMANDA, and administrative citations. In the 2007-2008 budget, \$500,000 was appropriated for this analysis as part of the Information Technology Business Applications appropriation. Although still considered critical, migration of the Business Tax License Application from the legacy VAX system to a new application integrated with IBS is essential for its uninterrupted revenue stream of \$16.0 million, and the City’s ability to vacate Old City Hall. For these reasons, staff recommends using the \$500,000 initially identified for FMS to immediately address the needs described in this memo and funding for Business Requirements/Applications Analysis for FMS will be re-visited in the 2008-2009 budget cycle.

ANALYSIS

Going live with IBS in July 2006 was a major first step and a significant milestone in the City’s ongoing efforts to create a virtual ‘One-Stop’ customer service model for an integrated City-wide billing system. The goal is to improve the quality of service and information the City provides to our customers and residents. Several improvements were identified in the latest analysis of IBS functionality such as:

- reducing/eliminating reliance on aging legacy equipment,
- examining and improving business processes,
- examining carefully the technical integration with other financial and billing systems.

Specifically, during the Phase 2.1 IBS fit-gap analysis, and also during the initial IBS implementation, non-utility legacy billing systems were identified as potential candidates for replacement by the Integrated Billing System. Replacing the Business Tax System with one integrated into the IBS System offers three main benefits.

1. Security, Database Integrity and System Integration

The IBS System offers the opportunity of increased security and flexibility in managing financial and confidential data at various levels. The legacy VAX system is extremely old and vulnerable to failure. Since the Business Tax, BIDs assessment, and Police Regulatory Permit applications reside on the VAX, which is located at the Old City Hall, the revenue stream from these programs is at significant risk. In addition, hardware replacement parts are difficult to procure and programming support for a language of decreasing use is not the best deployment for existing in-house IT staff.

For these reasons, the City must migrate these applications from the old VAX to an alternate platform. The Phase 2.1 IBS fit-gap analysis concluded that the Integrated Billing System is the best solution leveraging existing City investments. The IBS system will also permit more

precise tracking of all database transactions and accounting activity. This includes customer requested account changes, as well as all billing, bill adjustments, and payments. It is anticipated, that the migration to IBS will provide the best opportunity for equalizing the existing work load through geographical account reassignment to the Business Tax Investigator-Collectors. Additionally, improved geographical data will be available as the foundation for these programs and will facilitate improved lead generation and cross database audits.

2. Customer Service

The IBS System will provide customers with three new opportunities: Online Payment, Online Account Registration and Online Account Viewing. These are features that the City's business tax customers have been requesting for years and have been recommended by the City Auditor in past Business Tax audits. By automating these business processes, Revenue Management staff will be able to allocate additional time to collection activity rather than spending valuable staff time on outdated manual processes.

3. Reporting/Program Management

The IBS System, with improved tracking, will allow for better reporting both at the individual and program level. This, in turn, will allow management and staff to review and analyze the program as a whole while facilitating individual work assignments and accountability. Increased data tracking should also provide more detailed and flexible reporting capability for outside customers.

Recommendation

Staff recommends approval of an agreement with BearingPoint, the City's consultant responsible for implementation of IBS, to allow the City to continue mitigating legacy application exposure and planning future system development and implementation. This agreement will allow BearingPoint to complete the foundation necessary to replace the current Business Tax application with an application built on the IBS foundation: business process documentation (3Ps), functional and technical specifications, conversion and configuration. City staff will be responsible for development, testing and training, with BearingPoint acting as an advisor through go-live. This approach provides the necessary "learn by doing" opportunity that will allow City staff to not only maintain this application, but to make critical modifications expected through the life of the system.

In addition, the agreement will include the deliverable for a data architecture document (blueprint) that will provide direction and a plan to best proceed with future projects related to the operation of the FMS, AMANDA, GIS, and ICS. The blueprint is needed to ensure that systems work well with each other and that data is shared rather than re-created. The blueprint for future capabilities is seen as a significant step in providing an applications roadmap for future City billing projects. It will focus on where data is stored and the flow of information between these applications.

Determination for Unique Services

Staff recommends approval for an agreement with Bearing Point versus issuing a Request for Proposal because this is a unique and unusual situation that makes the application of the requirements for competitive procurement of a service agreement contrary to the public interest and therefore falls under Section 4.12.235 of the Municipal Code, Unique Services Purchases, for the following reasons:

1. The current BearingPoint staff has extensive knowledge of the City's current billing processes and policies. They have built effective working relationships with many of the City's subject matter experts. This results in significant cost savings of city resources, as opposed to explaining background processes and procedures to a new contractor, duplicating work that was already completed in prior phases.
2. BearingPoint staff has a firm technical and functional understanding of IBS. They are very capable of implementing the new system and are well aware of the configuration issues unique to the City of San Jose.
3. Since BearingPoint completed the Fit-Gap analysis for IBS Phase 2.1, as approved by Council under the third amendment to the current contract, Bearing Point staff is well aware of the issues regarding the creation of the Business Tax application within IBS, the challenges of this project, including awareness of IBS' proper operation, that existing operations do not interfere with IBS, and that business operations work in concert with the new billing system.
4. Since BearingPoint has been the implementation consultant for the City since 2004, BearingPoint has unique knowledge and subject matter expertise that will help ensure that the new Business Tax License application will be very compatible with IBS and reduce risks associated with the development and implementation of the new application.
5. The current Business Tax License system has aged and is extremely vulnerable to failure. Hardware replacement parts and programming support are difficult to procure. It is critical that the current system be replaced in a timely, orderly and thorough manner. It cannot be relocated without significant risk of system failure and data loss. If the project is delayed, the probability of system failure is increased.
6. The Business Tax License application is a key component in managing a significant revenue source to the City with annual revenue of \$16 million. Delaying the proposed implementation puts the entire Business Tax, BIDs assessment, and Police Permit revenue stream at risk with a potential monthly revenue stream impact of \$1.3 million.

The total agreement with BearingPoint to provide the services described above is \$1,900,000. In addition to the agreement with BearingPoint Agreement, additional temporary staffing resources are necessary to ensure appropriate City support and the ability of City staff to maintain the

system in the future. The required temporary staffing resources are estimated at approximately \$330,200 for this fiscal year.

During the 2008-2009 budget process, a total of \$1.4 million was allocated toward the Technology Legacy Migrations Application project for Business License Tax. Because the contract cost with Bearing Point is now estimated to be \$1.9 million (including \$155,000 for contingencies), it is recommended that the funding earmarked for the FMS Technology project as discussed earlier in this memorandum be used to provide for this funding gap. The increase is necessary because the original budget estimate was insufficient to meet the defined scope of work. BearingPoint consultants have the necessary expertise, project history and knowledge of the City of San Jose to ensure successful implementation. These consultants will also be acting as advisors to City staff on the project. In addition, temporary staffing will be funded by personal services vacancy savings from the Information Technology and Finance Departments, and will be used to backfill current permanent staff so that current staff may pursue skills transfer from BearingPoint in order to support and maintain the systems in the future.

EVALUATION AND FOLLOW-UP

This project will include direct oversight by an interdepartmental executive steering committee made up of representatives from the Finance Department, Information Technology Department and City Manager's Office. In addition to project status, the Executive Steering Committee will address priority and resources for ongoing software maintenance services, additional business process reviews, and further integration with legacy city application systems with IBS. At this time funding has not been identified for these areas. This committee will meet bi-weekly during the life of this project phase, and provide quarterly updates to the Public Safety, Finance and Strategic Support Committee during regularly scheduled Information Technology Status Reports. An interim status report of the project will be provided quarterly to the Public Safety, Finance, and Strategic Support Committee and a final status report will be provided to the full Council when this project phase is considered complete. The anticipated project completion is December, 2008.

POLICY ALTERNATIVES

Alternative #1: Issue a Request for Proposal for the Scope of Work in lieu of determining that a unique and unusual situation exists for contracting with BearingPoint to replace the Business Tax License Application

Pros: City may receive a better proposal from another firm.

Cons: 1. If BearingPoint is not selected as the successful proposer, the City must dedicate staff time to familiarize a new firm with IBS, the fit-gap analysis, the Business Tax License and Police Regulatory Permit application requirements. The additional staff cost for this effort is estimated at \$400,000. Considering that the current consultant developed IBS over 2 ½ years and provided the Fit-Gap analysis for Phase 2.1 to the City within 3 months of execution of the agreement, staff expects that a new contractor will need, at a minimum, 3 months to familiarize oneself with IBS and the requirements of the Business Tax License application.

2. Even if BearingPoint is selected as the successful proposer, the BearingPoint subject matter team may not be available to work on the project. 3. City will be unable to move critical applications from an unsupported, aging and unstable legacy application, to IBS substantially sooner, ensuring that the revenue stream for the general fund is not unnecessarily jeopardized. 4. The City will be unable to take advantage of the current BearingPoint team's unique knowledge of the City's requirements and IBS, which will contribute significantly to successful implementation of the proposed systems.

Reason for Not Recommending: This alternative significantly delays the transfer of the Business Tax License application and unnecessarily increases the risk of failure of applications which are critical to the General Fund revenue stream.

Alternative #2: Turn-key implementation of the Business Tax License Application by BearingPoint

Pros: Copies the implementation model that has been successful in previous IBS efforts. Limits the internal City resources necessary for the project and provides protection if the City is unable to contribute the resources necessary to complete some elements.

Cons: It is more expensive and does not provide for additional resources for internal staff. It may limit the City's ability to learn how to integrate additional billing modules in the future.

Reason for Not Recommending: This alternative limits the City's ability to learn how to integrate additional billing modules in the future, which is critical to City self-sufficiency.

Alternative #3: Not to proceed with the creation of a Business Tax Application on IBS

Pros: City does not expend additional resources for development of process, policy and procedure documents for IBS and the creation of a new Business Tax Application.

Cons: Taking no action will result in several adverse impacts to the City. A crucial step in the VAX revenue application replacement effort will not be completed, thus jeopardizing critical revenue flows to the City, should the VAX systems fail. Also, should the hardware or software fail, it will require emergency manual and automated actions in order to continue processing Business Tax transactions. This will require that resources be re-deployed from other projects and funds for this emergency response.

Reason for Not Recommending: This alternative leaves the City at significant risk with regard to management of an important revenue stream to the General Fund of approximately \$16 million.

PUBLIC OUTREACH/INTEREST

This item meets criteria 1: Requires Council action on the use of public funds equal to \$1 million or greater. This memo is posted on the City's web site for the August 14, 2007 Council Agenda.



Criteria 1: Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**



Criteria 2: Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**



Criteria 3: Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION/COST OF PROJECT(S):

- Bearing Point: total maximum compensation not to exceed \$1,900,000
- Overstrength Staffing: \$330,200 for temporary staffing of 1.0 Information System Analyst, 1.0 Analyst and 1.0 Investigator-Collector I through June 2008, funded from Finance and Information Technology Department personal services vacancy savings..

2. SOURCE OF FUNDING: The costs will be funded as follows:

- Citywide appropriation "Information Technology Business Applications":
 - Bearing Point: \$500,000;
- Citywide appropriation "Technology Legacy Migrations Application":
 - Bearing Point: \$ 1,400,000;
- Information Technology Department Personal Services Appropriation:
 - Personal Services: \$240,000;
- Finance Department Personal Services Appropriation:
 - Personal Services: \$ 90,200.

3. FISCAL IMPACT: This agreement is funded through one-time FY 2007-2008 appropriations.

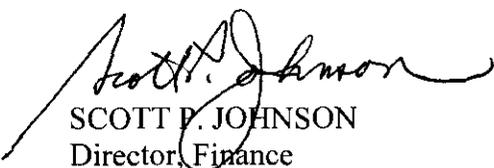
BUDGET REFERENCE

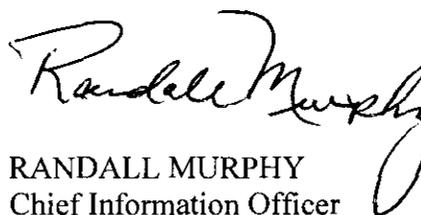
Fund #	Appn. #	Appn./Reserve Name	Total Appn	Expenditure	2007-2008 Proposed Budget Page	Last Budget Action (Date, Ord. No.)
001	3551	Information Technology Business Applications	\$1,375,000	500,000	IX-16	
001	3556	Technology Legacy Migrations Application	\$1,400,000	\$1,400,000	IX-16	
		Total Contract		\$1,900,000		
001	0431	Information Technology: Personal Services	\$11,765,684	\$240,000	VIII-80	
001	0491	Finance: Personal Services	\$10,442,535	\$90,200	VIII-48	6/26/07 Ord. No. 28085
		Total Staffing Costs		\$330,200		
		Total Recommendation		\$2,230,200		

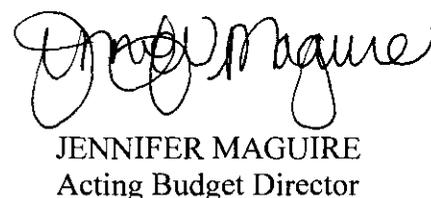
*2007-2008 Budget was adopted on June 19, 2007.

CEQA

Not a project.


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For questions please contact Scott P. Johnson, at (408) 535-7000 or Randall Murphy, Chief Information Officer, at (408) 535-3560.