



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Scott P. Johnson
Randall Murphy
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: June 6, 2008

Approved

Christine J. Schepers

Date

6-11-08

COUNCIL DISTRICT: City-Wide

SUBJECT: APPROVAL OF AGREEMENT BETWEEN THE CITY OF SAN JOSE AND HOUSING AND DEVELOPMENT SOFTWARE, LLC.

RECOMMENDATION

It is recommended that the City Council:

1. Adopt a resolution authorizing the Director of Finance to:
 - a) Execute an agreement with Housing and Development Software, LLC. (HDS) of Weston, FL for the purchase of Funds Management, Single Family, Multifamily, and Loan Servicing software, for a total amount to exceed \$400,400 including first year maintenance, installation, implementation, training and applicable sales tax.
 - b) Execute change orders not to exceed 20% contingency in the amount of \$80,000 to cover unanticipated changes or requirements.
 - c) Exercise four (4) one-year options for ongoing maintenance and support subject to appropriation of funds.
2. Adopt the following Appropriation Ordinance Amendments in the Low and Moderate Income Housing Fund (443) for 2007-2008:
 - a) Decrease the Ending Fund Balance by \$480,400.
 - b) Increase the Housing Non-Personal/Equipment appropriation by \$480,400.

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OUTCOME

To provide efficiency, accuracy and reliability in tracking data related to affordable housing programs administered by the Housing Department.

EXECUTIVE SUMMARY

The Housing Department (Department) recommends approval of an agreement with HDS for the acceptance of the newest version of software modules that were originally purchased by the City in 2001, and the purchase of additional software modules. This software will function as a department-wide database system to track all Department program activities. It will track expenditures by the many different funding sources used by the Department and thereby facilitate compliance with each funder's requirements. It will replace a wide array of limited databases and spreadsheets currently used by Department staff to track projects, grants and loans, thereby significantly increasing efficiency, accuracy, and reliability.

BACKGROUND

The Department functions primarily as a lending agency to homeowners, for-profit and nonprofit developers, and nonprofit service providers. As loans and grants are originated, critical information and legal documents are gathered and produced. Financial transactions take place to fund projects and programs, dispersing over \$75 million annually from a variety of funding sources, each with its own unique requirements. The Department is monitored and audited annually to ensure that funds were appropriately used in accordance with all funding sources. Current, accurate information on each project must be readily available to multiple staff in the Department, from those who originate the loans and grants, to those who manage the loan portfolio and collect repayments. Most loans have terms of 30 to 55 years and the Department must monitor all of them until they are fully repaid to ensure compliance with the loan terms and affordability restrictions imposed on the units.

The functions of the Department are unique and require specialized database software to ensure proper monitoring. Generic databases and spreadsheets have limited capability of tracking the wide range of information generated in the lending and granting process. It is critical that the Department maintain correct, current, and readily available information related to all of the loans and grants produced.

On May 11, 2001, the Department published a Request for Proposals (RFP) to solicit quotations for an integrated departmental database software application. As a result of that RFP, HDS was selected as the preferred vendor based upon the proposed price and functionality of their product. On September 27, 2001, the Department entered into a contract with HDS for \$137,500 to implement three modules; Funds Management, Housing Project Portfolio, and Single Family. The original agreement was amended twice over the following two years and increased to a total of \$191,800. Of that amount, a total of \$147,322.79 was paid.

During the course of implementing the software, City staff became increasingly disappointed in the product's failure to meet expectations. HDS representatives also became frustrated with the slow progress of the project, and each side of the agreement blamed the other for the failure to progress. Communication between the two parties continued to deteriorate and the software implementation efforts were halted. Based on contractual disagreements, the City filed suit against HDS for payments made on the unsuccessful implementation, and HDS filed a countersuit for payments of unpaid costs.

Since that time, the Department has used a patchwork of small databases and spreadsheets created and maintained by each of the Department's nine separate programs. Department management has become increasingly concerned about the fragility and potential for errors created by this patchwork, and has continued efforts toward obtaining an adequate department-wide database system.

ANALYSIS

Settlement Consideration

As stated in the Background section, the Department entered into a contract with HDS in 2001 to implement a department-wide database. The original contract between the Department and HDS resulted in contract litigation due to three primary problems:

- 1) **Insufficient Technology** – HDS was a small company at the time and its development of the database system needed by the Department was not fully complete. The product in 2001 was insufficient to support the Department's programs.
- 2) **Communication Issues** – Communication between program managers from HDS and the Department did not occur in a productive manner.
- 3) **Data Conversion** – As a part of the original RFP, the Department requested data conversion of an outdated in-house product. While HDS originally believed that it could convert the data, it underestimated the difficulty of the task, and was unable to complete the conversion.

These critical pitfalls led both parties to litigation. This process took place over a number of years, during which time HDS developed its products and service models. Concurrently, as a part of the litigation process, an Early Neutral Evaluation, as mandated by the federal District Court, was held between the parties and a possibility for settlement emerged.

In the years since the unsuccessful database project, each unit in the Department staff has created independent Access databases and Excel spreadsheets to meet their individual needs. Because they are all independently maintained, information that must be shared between staff units is done manually. The transfer of information from one tracking tool to another increases the

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opportunity for errors and decreases efficiency. It has become increasingly apparent that an integrated database system is essential to ensure accuracy and improve efficiency.

Negotiations with HDS over the contract dispute extended for about a year and a half. Since the Department's original experience with the company, HDS has worked successfully with a number of other customers throughout the country, resulting in HDS' application becoming significantly more mature. Recently, the Department reached a tentative agreement with HDS to settle the litigation and explore the possibility of a new agreement to implement the current version of their software at a significant discount to the City. The proposed settlement agreement, which is being addressed through a separate memorandum from the City Attorney, is being considered together with this new contract with HDS.

Because of the failed first attempt, the Department, working closely with Information Technology staff, has been very cautious and very thorough in its evaluation of the current version of the HDS software and its implementation performance. The Department completed a full evaluation process involving several factors including: product and service improvements, relative competitiveness, ability to meet the Department's database needs, references from current users, and overall product cost. This evaluation was completed in light of the lessons learned from the original contract between the Department and HDS.

Evaluation Phase I: Product and Service Improvements

In June 2006, the Department sent two staff members to the HDS headquarters for the first phase of evaluation. Over a three-day period, HDS staff demonstrated six different software modules and provided an overview of the new business model used by HDS to implement the software. Following that visit, City staff visited HDS software users in Orange County and Sacramento, all of whom were very satisfied with the database and service. Staff also telephoned and teleconferenced with several HDS users in other states, and the consistent message was one of satisfaction with the software and service delivery. Two staff members made a second trip to HDS headquarters to review and discuss the software for the Housing Rehabilitation program.

Based on this extensive review of the software, staff representatives concluded that HDS has made significant improvements to its product and services since the City's initial experience. Specific product improvements included improved functionality and product design, new features such as document storage, forms and memorandum generating tools, and compatibility with Microsoft products such as Excel and Outlook. HDS has made service improvements as well, including a new business model used for product implementation, and the addition of a number of highly qualified and customer-focused staff.

Evaluation Phase II - Relative Competitiveness

The next step was to determine whether HDS would be the best product for the Department. Research conducted by Department and IT staff, and confirmed by other HDS users, indicates that there are only three vendors producing software systems that meet the unique needs of the Department: HDS, Mitas, and Emphasys. In addition to doing its own research on other software providers, the Department consulted with HDS users in the Housing Finance Agency of the State

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of Minnesota. The database selection team in Minnesota conducted an extensive RFP, reaching out to over 70 software vendors. As a result of that RFP, the Minnesota team confirmed that only HDS, Mitas, and Emphasys produced software suitable for the unique needs of housing lenders. Their team also concluded that, while the costs of the products offered by these three vendors were comparable, the functionality and service offered by HDS were superior to the other two vendors.

On the basis of this analysis, it was determined that HDS is a competitive vendor with a product that can meet the unique needs of the Department.

Evaluation Phase III – Needs Assessment

The third phase of evaluation was a thorough review of the current HDS software product to ensure that it would meet the Department's needs. To accomplish this goal, the Department formed an HDS Evaluation Team (Team) composed of managers from each of the Department's programs. The Team worked together to develop a list of database needs, evaluated HDS software modules related to each program, and provided recommendations on the products. In August 2006, this evaluation was completed and a specific list of recommended modules was formulated. Members of the Team unanimously agreed that the HDS product would meet the majority of the Department's program needs, and made specific recommendations for modules to include in the settlement process. The following is a list of the recommended modules and their functions:

- **Funds Management** – Tracks fiscal and budgeting information department-wide, serves as a grant management database, and interfaces with the U.S. Department of Housing and Urban Development database – Integrated Disbursement and Information System (IDIS).
- **Single Family** – Provides underwriting functions for loans generated by homebuyer and rehabilitation programs.
- **Multifamily** – Tracks multifamily rental developments – can be used by both the project development and loan servicing programs.
- **Loan Servicing** – Tracks all loans in the portfolio; calculates amortizations
- **Forms Generator** - Critical tool used throughout the HDS system to integrate data into common forms and documents.

Additionally, the Team recommended excluding data conversion from the new contract. Historic data from the Department's obsolete database can be keyed in by knowledgeable staff in a more cost-effective and timely manner.

Evaluation Phase IV – References

Several reference checks were completed to determine whether current software users were satisfied with overall product and services provided by HDS. As described above in “Evaluation Phase I”, the Team visited several users in California and conferred with other users by phone. In particular, the Team discussed the product and services in detail with staff at the State of Minnesota Housing Finance Agency, which manages a portfolio in excess of 65,000 loans with a value of several billion dollars. The Minnesota group uses essentially the same array of HDS modules being considered by San Jose, and their HDS database interfaces with their General Ledger which is on a different system. On November 16, 2007, Department and IT staff met with Minnesota staff in a GoToMeeting for a demonstration of several HDS database modules. The Minnesota users highly recommend the HDS product for functionality and service response at a competitive price.

Evaluation Phase V – Cost

The Department considered several different components of cost related to the recommended acquisition of the HDS software. The following are the three primary cost considerations included in this evaluation:

- **Cost Avoidance** – The Department acts as a flow-through agency for federal and State funds of up to \$40 million annually. By relying on information gathered from the current patchwork of limited databases and spreadsheets, the Department might be at risk of reporting incorrect information to its funders. This could potentially result in funders requesting that the City reimburse them for money that has already been disbursed to sub-recipients. The funding source for any such repayment would likely be the General Fund, as other Housing Department funds are unlikely to be available for such uses.
- **Lost Productivity** –If the Department does not move forward with the HDS product, additional staff time will be dedicated to maintaining the current patchwork of inadequate databases, and a new RFP to select a comprehensive database is likely to delay implementation of a new system by up to a year.
- **Settlement Discounted Pricing** – HDS is offering the Department the current versions of each of the modules that were originally purchased in 2001 at no additional cost. The Department paid HDS \$147,322.79 in the original agreement and the current value of those modules is \$235,000, therefore the Department is receiving a discount of \$87,577. In addition, HDS is offering the Department discounted rates for annual maintenance on all modules, resulting in an ongoing annual savings \$24,500. (See attachment A)

Performance Safeguards

The Department, in consultation with IT, the Office of the City Attorney, and an independent consultant, have developed contract language for the new agreement that will help ensure successful completion of each phase of the project before payments are made, as well as safeguards to keep the project on a performance schedule.

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Other Potential Uses

The HDS Funds Management module will be used by the Department to internally manage all of its grants, including Community Development block Grant (CDBG) and other federal and State grants. As a result of an audit recommendation, City staff across departments are evaluating software products for use in tracking all City-issued grants on a centralized database. Upon Council approval of the agreement with HDS, staff will evaluate whether this software can also meet the needs of the City-wide Grants Management program.

Recommendation Summary

All phases of evaluation have led the Department to recommend acquiring the HDS product. Additionally, the Department feels that the three pitfalls to the initial implementation of HDS have now been resolved. Significant improvements have been made to the HDS products; HDS has implemented a new service model that addresses the communication problems experienced previously; and both parties have agreed to avoid data conversions entirely to expedite the product implementation process.

EVALUATION AND FOLLOW-UP

The Department will provide the Council with Information Memos periodically during the implementation of the software to report on the progress of the project.

ALTERNATIVES

Alternative #1: Reject negotiated agreement with HDS and publish a new RFP to obtain a department-wide database system

Pros: Provides further assurance that the Department is getting the most competitive price and functionality available

Cons: Delays implementation of a much needed database system and puts the Department at continued risk of inability to provide accurate and timely data. The likely outcome of a new RFP is the selection of HDS, and the cost may be higher than the current offer. In addition, the City would have to go forward with litigation, incurring further legal costs and risking an adverse result.

Reason for not recommending: After extensive research and consultation with IT staff and other users of HDS products, the Department is convinced that HDS' product is the best and the proposal is cost effective.

Alternative #2: Reject negotiated agreement with HDS and continue to use existing databases and spreadsheets

Pros: Saves cost of purchase of new software and time spent to implement it and train staff.

Cons: Current databases and spreadsheets are not linked, and staff time to maintain data is duplicative. The absence of a single department-wide database increases chances for errors.

Reason for not recommending: A single, department-wide database will eliminate duplication of staff time and increase data integrity. In addition, the HDS software has functional capabilities that are not possible with current software.

PUBLIC OUTREACH/INTEREST

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

While this item does not meet any of the criteria above, this memorandum will be posted on the City's website for the June 24 2008, Council Agenda.

COORDINATION

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

FISCAL/POLICY ALIGNMENT

This action is consistent with the following General Budget Principles "We must focus on protecting our vital core city services for both the short- and long-term" and "We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher quality level, with better flexibility, at a lower cost" and the Strategic Initiative "Make San Jose a Tech-Savvy City; lead the way in using technology to improve daily life."

COST SUMMARY/IMPLICATIONS

1. COST ELEMENTS OF AGREEMENT/CONTRACT:

Software	\$175,000
Maintenance (First Year Only)	\$57,500
Implementation and Training	\$167,900
TOTAL AGREEMENT/CONTRACT AMOUNT	\$400,400

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2. SOURCE OF FUNDING: Low and Moderate Income Housing Funds (443)

3. FISCAL IMPACT: Reduced Ending Fund Balance

BUDGET REFERENCE.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2007-2008 Adopted Budget Page	Last Budget Action (Date, Ord. No.)
443	8999	Unrestricted Fund Balance	\$1,737,522		XI - 48	2/12/2008, 28241
443	0562	Non-Personal/ Equipment	\$776,724	\$480,400	XI - 48	N/A

CEQA

Not a project.



SCOTT P. JOHNSON
Finance Director



LESLYE KRUTKO
Director of Housing

for 

RANDALL MURPHY
Chief Information Officer



JENNIFER A. MAGUIRE
Acting Budget Director

For questions please contact LESLYE KRUTKO, at 535-3851.

Attachments

HDS Database Project Costs and Savings

Software Modules	In Original Contract?	In New Agreement	Module License Fees- Current List	Module License Fees- Settlement	Savings on Modules	Annual Maintenance- Current List	Annual Maintenance- Settlement	Savings on Maintenance
Funds Management								
Allocation	YES	YES	\$25,000	\$0	\$25,000	\$5,000	\$2,500	\$2,500
Project & Activity Tracking	YES	YES	\$15,000	\$0	\$15,000	\$3,000	\$1,500	\$1,500
Accounting	YES	YES	\$15,000	\$0	\$15,000	\$3,000	\$1,500	\$1,500
EDI Interface Maintenance	YES	YES	\$25,000	\$0	\$25,000	\$5,000	\$2,500	\$2,500
IDIS Initial Import	YES	YES	\$10,000	\$0	\$10,000	\$2,000	\$0	\$2,000
Accomplishments & Beneficiary Tracking on the Web	NO	YES	\$12,500	\$12,500	\$0	\$2,500	\$2,500	\$0
Web Funds Request	NO	YES	\$12,500	\$12,500	\$0	\$2,500	\$2,500	\$0
FM Compliance	NO	YES	\$12,500	\$12,500	\$0	\$2,500	\$2,500	\$0
Funds Management Total			\$127,500	\$37,500	\$90,000	\$25,500	\$15,500	\$10,000
Single Family								
Loan Management	YES	YES	\$35,000	\$0	\$35,000	\$7,000	\$3,500	\$3,500
Purchase	NO	YES	\$22,500	\$22,500	\$0	\$4,500	\$4,500	\$0
Allotment	YES	YES	\$25,000	\$0	\$25,000	\$5,000	\$2,500	\$2,500
Program	YES	YES	\$45,000	\$0	\$45,000	\$9,000	\$4,500	\$4,500
Single Family Total			\$127,500	\$22,500	\$105,000	\$25,500	\$15,000	\$10,500
Multifamily								
WAMS	NO	YES	\$22,500	\$22,500	\$0	\$4,500	\$4,500	\$0
Web Underwriting	YES	YES	\$20,000	\$0	\$20,000	\$4,000	\$2,000	\$2,000
Multifamily Origination (Financial Analysis & Underwriting)	YES	YES	\$20,000	\$0	\$20,000	\$4,000	\$2,000	\$2,000
Compliance	NO	YES	\$27,500	\$27,500	\$0	\$5,500	\$5,500	\$0
Asset Management	NO	YES	\$22,500	\$22,500	\$0	\$4,500	\$4,500	\$0
Multifamily Total			\$112,500	\$72,500	\$40,000	\$22,500	\$18,500	\$4,000
Loan Servicing								
Loan Servicing Software	NO	YES	\$35,000	\$35,000	\$0	\$7,000	\$7,000	\$0
Reporting Tools								
Forms Generator	NO	YES	\$7,500	\$7,500	\$0	\$1,500	\$1,500	\$0
Project Total			\$410,000	\$175,000	\$235,000	\$82,000	\$57,500	\$24,500
Less Prior Payments to HDS					\$147,323			
Net Savings to City					\$87,677			\$24,500