SUPPLEMENTAL

COUNCIL AGENDA: 12-15-09
ITEM: 4.2

CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY
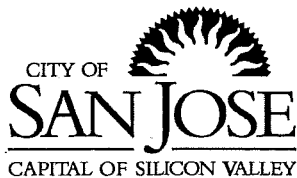
Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: SEE BELOW

DATE: December 7, 2009

Approved _____   Date /2/10/0 5

SUBJECT: **REPORT ON REQUEST FOR PROPOSALS FOR A MULTI-FAMILY
LOAN PORTFOLIO MANAGEMENT SYSTEM**

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

Provide additional information regarding the City's outreach for this RFP and to address
questions raised by Council at the November 3, 2009 Council meeting.

BACKGROUND

The Housing Department is responsible for managing a multi-family loan portfolio totaling in
excess of $580 million invested in over 150 affordable housing projects. A database is needed
to allow all authorized staff to work from an integrated database. Previous attempts to procure a
solution were unsuccessful due primarily to a lack of software choices available at the time.

As part of the City's FY 2006-2007 Annual Financial Audit, the City's external auditor made a
material finding related to errors in our loan loss reserve resulting from the fact that the Housing
Department utilizes complex spreadsheets with no auditing capability to manage its finances.
This finding was restated in the following year. The Management Response recognized the
deficiency of using these spreadsheets and stated the Housing Department's intention to purchase
a sophisticated system that would address the risks associated with using these spreadsheets.
Without an integrated database, coordination between staff is a very manual and tedious process
that lends itself to human error.

The proposed MK Partners/Salesforce.com system includes funding to integrate the functions of
the Loan Origination (Project Development), Loan Collections, Loan Compliance, and Fiscal
Unit work groups. In addition to addressing the multi-family loan portfolio, the MK Partners
proposal includes a second phase that will automate the Housing Department's Single Family
Rehabilitation and Homeownership Programs. In addition, the system will allow inspectors to

retrieve and update project inspection data from the field. It will also include an on-line loan application interface that will allow customers to complete loan applications via the Internet.

Procurement Process

Section 4.12.210 of the San José Municipal Code (SJMC) requires the City to conduct a competitive Request for Proposal (RFP) process for the procurement of services with an estimated value greater than one hundred thousand dollars ($100,000). Additionally, SJMC 4.12.310 requires the City to award the contract in accordance with the award factors and respective weights outlined in the RFP.

As required by the Municipal Code, an RFP was developed and issued by the City for a Multi-Family Loan Portfolio Management System. A City team, consisting of representatives from each of the housing programs that utilize the loan data and staff from the Information Technology Department, was formed to develop the RFP's requirements and specifications. A consultant was also hired to assist with the specification development and the documentation of work flow documents. The criteria and weights assigned to this RFP were as follows: Experience (25%), Technical (40%), and Cost (25%). The remaining 10% weight was assigned to the application of the City's Local and Small Business Preference, if applicable. The technical criteria of the RFP was given the highest weight because of the complexity of the technical requirements of this RFP, which included the need for a fully integrated database that would allow for coordination between loan origination, loan collection, and loan compliance; and facilitate a comprehensive analysis of the City's affordable housing loan portfolio. Cost was one factor, but not the sole or determinative factor.

The RFP evaluation followed our standard process of naming an independent evaluation team where team members are required to sign confidentiality and conflict of interest forms for the purpose of identifying any real or perceived conflicts that might prevent a fair and unbiased evaluation. The evaluation team included representatives from Housing and Information Technology. In addition, an advisory board comprised of five key stakeholders from IT and Housing were invited to review the proposals and participate in the oral presentations/demos for the purpose of providing input to the evaluation team.

The proposals were evaluated and scored against the evaluation criteria outlined above. The top three ranked Proposers; The Mitas Group, CSDC Systems Inc., MK Partners/Salesforce.com were invited to participate in the oral presentations to demonstrate knowledge of the City's requirements, to introduce key personnel that would be assigned to the project, and to present a comprehensive demonstration of each solution using real data from the City's loan program. The finalists were given data from the City's loan program, as well as a detailed functional requirements script that the vendors had to incorporate into a demonstration that showed how well their product could meet the business requirements established by the City.

MK Partners/Salesforce.com proposal was scored the highest by all five independent evaluators and also scored the highest by all five members of the advisory board based on factors outlined above.

ANALYSIS

Outreach

Council raised questions at the November 3, 2009 Council meeting about the City's outreach for this RFP and whether certain companies were notified of the solicitation. Over eighteen hundred (**1800**) companies across the United States were notified of the RFP through BidSync. The following is a summary of the process.

BidSync is an e-procurement tool developed specifically for public agencies to use as an outreach/notification tool for solicitations, and is Purchasing's main tool for notification of solicitations and outreach. BidSync has proven to be an extremely effective outreach/notification tool for the City. Nationwide, over **200** public agencies are subscribers and approximately **500,000** vendors are registered on the BidSync system. Locally, the City of San José, the counties of Santa Clara and Contra Costa, and the State of California use BidSync.

Vendor registration is free. When a vendor registers on BidSync, they create a commodity code profile that reflects the products and services that they sell or would be interested in being notified of for any solicitation. When a solicitation is created on the system, the City's purchasing agent selects the commodity code(s) that reflects the required service and e-mail notifications are broadcast to all vendors based on matching commodity codes. Concurrently, the RFP is automatically posted on the City's internet site to allow those who are not registered on BidSync to review and respond to any solicitation. The RFP is advertised on BidSync and the City's website for fifty days. There is an on-going outreach effort to encourage vendors to register on the BidSync system as this is the best way to be notified of any City solicitation.

In regards to the RFP process for the Multi-family Loan Portfolio Management System, the memorandum for the November 3, 2009 Council meeting incorrectly stated that 22 companies viewed the RFP document on BidSync. In fact, over **1800** companies were notified of the RFP via e-mail through BidSync, **109** companies viewed the RFP on BidSync, **52** companies downloaded the RFP document from BidSync, and five (5) companies elected to respond to the RFP. A BidSync report demonstrating the prospective vendors that viewed and downloaded the RFP report is included with this memorandum as <u>Attachment A</u>.

Software integrators, as well as companies that sell dedicated software applications, service providers offering software as a service or hosted solutions were included in the outreach. The software integrators have the ability to partner with any number of application providers.

Prior to the release of the RFP, staff also contacted several cities known to have multi-family loan portfolio systems to manage their loan portfolios. Staff contacted a number of cities and

public agencies of varying size. Among the large municipalities contacted were the cities of
Long Beach, Los Angeles, San Diego and San Francisco. However, none of these agencies had
integrated databases to manage their Multi-Family Loan Portfolio and are currently using Excel
spreadsheets, or an in-house system, to track and manage their loans. If any of these cities had
provided names of prospective companies who could provide a Multi-Family Loan Portfolio
System, staff would have sent a copy of the RFP directly to these companies if they were not
already notified via e-mail through BidSync.

At the November 3, 2009 Council meeting, Council asked if the following specific companies
were notified of the RFP: Sugar CRM, NetSuites, and RightNow. RightNow is registered on
BidSync and did receive an e-mail notification of the RFP. However, there is no record from
BidSync that RigthNow downloaded the RFP. NetSuites and Sugar CRM are not registered on
BidSync and therefore, did not receive an e-mail notification of the RFP. However, as
previously noted, over **1800** other companies who expressed an interest to be notified by e-mail
of any solicitation within its area of expertise were notified of this solicitation, and the RFP was
posted on the City's website for over fifty days.

Cost

During the Council meeting, a concern was raised that the City was not getting the best price
because Oracle (and others) might be offering discounts greater than the discounts offered by
MK Partners/Salesforce.com. Oracle, along with 1800 other companies received notification of
the solicitation, but most elected not to respond to the RFP. Of the five proposals received by the
City, MK Partners/Salesforce.com's cost proposal received the highest amount of points
(maximum point of 25) since it was the lowest cost proposal. While the purchasing process
allows for limited negotiations through a "best and final" offer (BAFO) process, this option is
used when scope changes are being finalized and proposers are afforded the opportunity to
amend their original technical and cost proposals. Since there were no substantative changes to
the scope of work, the evaluation team determined that a BAFO was not necessary.

Council also commented that there are applications, such as Google Apps, that are available for
free. Free applications offer base functionality that must be configured or customized to meet
the City's needs, and this customization generally comes at a cost. Therefore, the RFP process
as described in this memo was necessary to solicit the marketplace for a complete solution to our
identified needs. The RFP process specified a "turnkey" solution and did not exclude any
software integrator or service provider from partnering with any vendor, including Google, and
submitting a proposal using Google or any other application. The MK Partners professional
services cost to configure, integrate, train, and commission their proposed solution is $201,700
plus a $40,000 contingency. Therefore, even with a free application, integration costs are likely
to be incurred.

BENEFITS

In addition to mitigating the risks identified in the audit finding previously mentioned, the system will have the following benefits.

Improved Financial Management

- Automated Loan Loss Reserve Calculation – Because project loans are tracked on separate spreadsheets, the Loan Loss Reserve for the entire portfolio has to be manually updated each month. Since the system will contain the entire portfolio, the loan loss reserve for the entire portfolio will be automatically updated each month. As noted in the FY 2007-08 External Audit, the current process is very tedious, lends itself to human error, and has no audit controls or user tracking information.

- Improved cash-flow management – By integrating the work groups that originate and modify loans with the Fiscal Unit, the Department will greatly improve its ability to provide accurate cash flow projections that are updated in real-time as loan commitments and payments are approved by staff.

- Automated cash flow reports – Creating the monthly is currently a very labor-intensive process. Automating the cash-flow reports will eliminate the need for the Fiscal Unit staff to duplicate data entry on project encumbrances and expenditures and provide them with more accurate reports. This will provide the fiscal staff with additional time to analyze the data.

- Increased Data Integrity – Currently any Housing staff person can access spreadsheets stored on the central drive and accidentally delete files or change information. System security is needed to ensure that only the person responsible for maintaining the assigned portion of data will be able to add, update, and delete records. It will also provide an audit trail of when data was modified. This will greatly improve the reliability of data and reduce costs associated with fixing such errors.

- Improve Staff's Ability to Perform Comprehensive Analysis of the Entire Loan Portfolio – A sophisticated query tool will enable staff to identify trends in loans, borrowers, and projects. This will allow staff to proactively identify and address issues on a comprehensive basis rather than on a one-by-one situation.

Cost Savings

- Eliminate Redundant Data Entry Completed by Separate Work Groups – Data entry time will be greatly reduced as projects move through the loan origination, fiscal disbursement, and long-term asset management phases of the loan life-cycle. Currently the same project information must be entered separately by each work group.

- Eliminate data entry manage contact information – The system will have a centralized contact management repository that will allow changes to one record (such as a developer address) to be automatically updated in all records. This will save extensive data entry time currently required to update each individual loan file.

- Reduce time to Produce Reports – Since the Department currently does not possess a relational database, managers have to input the same project information into multiple report formats. For Example, the Project Development Manager must produce over 15 different reports – all of which have to be updated separately with current project data due to the lack of a relational database. Reducing the redundant data entry requirement will greatly improve the efficiency of management staff resources.

- Reduce IT maintenance required - Reduce maintenance costs associated with maintaining the current Single Family Rehabilitation Program database (MS Access) which is becoming quite expensive to keep in operation.

SUMMARY

Based on the above discussion, as well as the business case presented in the original Council memorandum, Staff maintains its recommendation that Council approve an agreement with MK Partners/Salesforce.com. The RFP process was followed and there was substantial outreach with the notification of over 1800 companies being notified via the BidSync system and staff contacting other cities prior to the release of the RFP. The evaluation team was unanimous in recommending the MK Partners/Salesforce.com proposed solution.

An integrated database will greatly enhance management of the loan portfolio, reduce redundant data entry, and facilitate comprehensive analysis of the portfolio that is currently very difficult to achieve. Given the likelihood that the Housing Department will be reducing staff to reflect the loan of 20% Housing funds to the Redevelopment Agency, it is critical that the system be implemented to maximize the efficiency of staff and strengthen the Department's ability to manage its finances. The Department has a limited window of opportunity to implement the system in the next six months while it has the resources to staff the project.

If the City Council elects to reject staff's recommendation and direct the issuance of a new RFP, it is expected that the process will take at least five months to complete and require significant staff time and vendor time to complete the process. In the interim, the Housing Department will not be able to commence with the implementation of a new loan portfolio management system to enhance their tracking and monitoring of their extensive portfolio and to create staff efficiencies.

Scott P. Johnson
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For questions please contact Mark Giovannetti, Purchasing Division Manager, at (408)535-7052.