Agenda Report

November 25, 2013

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Information Technology

SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH TYLER TECHNOLOGIES, INC. TO FURNISH AND DELIVER AN ENTERPRISE RESOURCE PLANNING SYSTEM

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed contract is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3);

2. Authorize the City Manager to enter into a three-year contract with Tyler Technologies, Inc. to furnish and deliver software, hardware, and services for an Enterprise Resource Planning System in an amount not to exceed $3,434,400 which includes the base contract amount and fifteen percent for contingencies. Competitive bidding is not required pursuant to City Charter Article X Section 1002(F), Contracts for professional or unique services;

3. Amend the Fiscal Year 2014 Capital Improvement Program (CIP) Budget to increase the total estimated cost for the Enterprise Resource Planning System (ERP) Project, 71149, by $3,415,000 to $6,415,000;

4. Authorize the addition of six new at-will limited-term full-time equivalent (FTE) positions to the Department of Information Technology FY2014 Operating Budget funded by the ERP Project, 71149 in the Project Management Fund (301), increasing the department total FTE count from 63.50 to 69.50, and authorize staff to make necessary adjustments to the budget; and

5. Establish the title and salary control rate of $115,000 for the ERP Project Manager and the title and salary control rate of $95,000 for the ERP Business Systems Analyst as at-will positions in the Non-Represented Management Salary Resolution.

EXECUTIVE SUMMARY:

In order for the City to continue to meet and respond satisfactorily to the needs of its constituents, an Enterprise Resource Planning (ERP) system that fully integrates the finance, budget, human resources, and payroll applications is recommended. This was the top recommendation of the Information Technology Strategic Plan that was completed in 2011.

A fully integrated ERP system will help manage all of the core functions across the City; from financials and human capital management to citizen services and revenues. The ERP solution will not only harness the City's strengths and address its challenges today, it will also help in streamlining procedural operations by eliminating redundant or duplicate tasks and reducing many cumbersome manual processes. This will provide greater accountability within the organization, as well as ensure a higher level of accuracy.

ERP systems serve to empower City operations by providing the right type of analytical information to assist in making properly informed decisions at all levels. It can enable staff to become more efficient, productive, and responsive to the needs of one another and the constituency they serve by widespread sharing of data from a single information repository.

Given the benefits of an ERP system, staff issued a Request for Proposals (RFP) in September 2012. A total of seven responsive proposals were received and reviewed by an interdepartmental project team comprised of staff from the Department of Information Technology (DoIT), Human Resources (HR), Finance and other stakeholders throughout the City (Attachment B – ERP Project Organization Chart). The review included evaluation of the proposals, on-site demonstrations for the top four proposals, and customer reference calls, including one on-site visit by City staff to a customer reference site, for the top proposal.

As a result of this process, staff recommends authorization to enter into a contract with Tyler Technologies, Inc. to furnish, deliver and implement their ERP solution. In support of the implementation of the ERP system, staff also recommends the addition of six (6) new at-will limited-term full-time equivalent (FTE) positions in the FY2014 DoIT Operating Budget. Employment in these positions will be limited to the length of the project, or the specific assignment therein, whichever comes first.

A change order review process will be followed and led by the project manager to minimize the impacts of any unanticipated changes that could cause a delay or increase in the project budget. Also, staff intends to provide a quarterly report to City Council through the Finance Committee on the progress of the project. The ERP project is anticipated to take three years with a tentative completion date of January 2017.

BACKGROUND:

In November 1996, the City purchased Oracle's Peoplesoft, Inc. financial system to fully integrate many of the City's stand-alone systems and to avoid year 2000 (Y2K) problems with the legacy system. However, it was never fully deployed as an enterprise wide solution, as ultimately the human resources, payroll and budget modules were never implemented due to a lack of functionality requirements to meet the City's business needs. The human resources and payroll functions continued to be maintained throughout this time on a standalone system provided by High Line Corporation. The budgeting functions through 2009 were maintained on a legacy mainframe HP3000 and later upgraded to the CityVision system by PowerPlan Corp. While these separate systems provided the basic functionality needed for each line-of-business, they were not seamlessly integrated together.

In 2010 the City was faced with a major economic downturn and reductions in both revenues and the City workforce placed pressure on all departments to maintain existing service levels. At the same time a new vision emerged for how technology could be used to improve efficiency through coordinated technology investment decisions. The Department of Information Technology (DoIT) was formed to centralize technology functions and began to focus on a strategic process for moving forward with purchases and updates to current systems and software.

In April 2011, the Information Technology Strategic Plan (ITSP) was completed and an ERP solution was listed as the top recommendation that would merge the financial, budget, human resources and payroll systems so that staff can work more efficiently within one integrated system. One of the findings uncovered during the preparation of the ITSP was that many small systems, home-grown and stand-alone software programs, were in use throughout the City that only met limited and narrow analysis and reporting needs. These systems would sometimes contain conflicting information, inaccuracies, and questionable reliability. As a result of these finding, the ERP Project was added to the CIP in FY2013.

Other relevant attributes that describe the past and current state of the environment:

1) The City has been running a ten-year old version of the PeopleSoft financial system, version 8.4.
2) A significant amount of manual effort is required to import, export, validate and reconcile data to and from PeopleSoft and other systems. In many cases department spreadsheets are used to gather, consolidate and manipulate data extracted from different systems for reporting purposes.
3) Over 160 different City funds are tracked and the amount of remaining fund numbers is dwindling.
4) City Departments and Operating Companies have established their own accounts, codes, and roll-up hierarchies and processes.

5) The City's Comprehensive Annual Financial Report (CAFR) is not produced through PeopleSoft. Conversely, data for this report is gathered through a standalone Microsoft Excel process that is very time consuming.
6) Most tracking of projects is accomplished by using PeopleSoft queries and spreadsheets rather than utilizing the PeopleSoft project accounting (project costing) module that can handle complex projects with multiple subprojects, and multiple phases spanning multiple years. In addition, the Pasadena Water and Power (PWP) Department developed a custom Project Job Order (PJO) system to manage projects.
7) Applicable financial data is sent to the Accounting section of the Finance Department where it is manually loaded into PeopleSoft.
8) The City has multiple standalone Quadrant systems to handle cashiering.
9) PWP has multiple standalone Enterprise Asset Management systems.

Realizing the state of the current environment and need to thoughtfully re-engineer the City's business processes and services to take advantage of any ERP system, in May 2012, staff retained the services of SoftResources, LLC to complete a needs assessment and to review the City's current practices and existing systems. The ERP Assessment Report identified the following conditions:

- Staff had more to accomplish due to retirements and funding reductions
- The economic downturn created financial constraints on new investments
- Departments are operating autonomously making consolidated reporting more difficult and complicated
- PeopleSoft version 8.4 was no longer supported by Oracle which could impact future reliability of the system
- Extensive use of stand-alone systems that are not integrated resulting in process duplication and staff time consumed by reconciling information between systems
- Institutional process knowledge is poorly documented and long-term employees are reaching retirement age
- Widespread manual process and aging systems prevent the City from keeping up with industry best practices

The ERP Assessment Report ultimately presented staff with the advantages and disadvantages of two relevant options for addressing the City's ERP needs:

1) Upgrade the existing PeopleSoft system (including the purchase of PeopleSoft's Human Capital Management and Payroll modules); or
2) Implement a new ERP system.

Because the estimated cost to upgrade the existing system (Option 1), while significant, was similar to the estimated cost for implementing a new system (Option 2), a recommendation was made to issue a RFP for a new ERP system. The City was also advised that it would benefit from a thorough evaluation of eligible vendors as part of the product selection.

A new ERP system will improve City operations by integrating all financial, budget, human resource and payroll information into a single information repository to assist in making properly informed decisions at all levels. It will also improve the accuracy and timeliness of information by creating a system of checks and balances throughout the workflow process. In addition, implementation a new ERP system will provide an opportunity to modernize and automate workflow processes. This will enable staff to share data and become more efficient, productive, and responsive to the needs of one another and the constituency they serve.

In preparing for a new ERP system an interdepartmental project team comprised of key department stakeholders throughout the City was formed to lead the staff through transition and implementation. Over the last eight months City staff have been reviewing, documenting and streamlining procedural operations by eliminating redundant or duplicate tasks and reducing many cumbersome manual processes. Also, a team of consultants consisting of a project manager, and business systems analysts were hired to lead the project and focus on documenting business workflows and process improvements. Some of the major success factors developed by the interdepartmental project team that will be tracked:

- Reduce time to complete month-end and year-end closing
- Increase availability and accuracy of data
- Reduce the number of stand-alone systems used throughout the City
- Eliminate workflow redundancy and streamline work processes allowing City staff to focus on more important tasks
- Update and document all financial processes and procedures

On September 18, 2012, a RFP for a fully integrated ERP system was issued and posted on the City's website, and an email notification was sent out to potential firms including those on the City's vendor list. Proposers were required to provide information on the functional/technical aspects of their solution, recent similar experience implementing ERP solutions particularly with municipalities, and the total cost of ownership. In response to the RFP, seven responsive proposals were received on October 30, 2012.

Proposal evaluations were conducted by an interdepartmental project team from the DoIT, Human Resources, Finance, Public Works, and Water and Power departments per the following criteria in the RFP: compatibility with existing citywide applications, vendor qualifications, experience with municipalities, responsiveness to the RFP requirements, contract terms and conditions, cost of services and the implementation schedule. The following is a list of proposers, their rank, and scoring.

Rank	Proposer (Software)	City	Score (300 max)
1	Tyler (Munis)	Yarmouth, ME	285
2	SunGard (One Solution)	Lake Mary, FL	262
3	Infor (Lawson)	New York, NY	247
4	Denovo (JD Edwards)	Denver, CO	178
5	Phoenix (SAP)	Haltom, TX	35
6	Quintel (SAP)	Halton, TX	25
7	Tyler (MS Dynamics AX)	Yarmouth, ME	20

The top four proposers were invited to conduct on-site demonstrations over three days each of their proposed solutions for all City departments and conducted reference checks. For the top proposer, ten municipal customer references already using the software were contacted and asked to complete a survey. Next, a conference call was conducted with the City of Chino, CA followed by an on-site visit to Culver City, CA.

Based on the established scoring criteria, which includes evaluation of on-site demonstrations, customer references, compatibility of requirements for the City, and implementation schedule, staff is recommending authorization for the City Manager to enter into a three-year contract with Tyler Technologies, Inc. for an amount not to exceed $3,434,400, which includes the base contract amount and fifteen percent for contingencies. The proposed contract will be set up as follows:

Base Software, Fees, and Professional Services	$2,986,435
Contingency Allowance (15%)	$ 447,965
Contract "Not to Exceed" Amount	$3,434,400

The project schedule tentatively includes three phases as outlined below. A more detailed project implementation plan and schedule will be developed as one of the first milestones.

Phase 1: Financial Modules	January 1, 2014 thru June 30, 2015
Phase 2: HR/Payroll Modules	July 1, 2015 thru June 30, 2016
Phase 3: Revenue Modules	July 1, 2016 thru January 2017

The total cost of the ERP system over four fiscal years is $6,415,000 which includes software and hardware costs, implementation and professional services, temporary city staff support, and project contingencies, as outlined in the funding section of this report.

The Tyler Munis ERP system also offers additional modules to meet other City operational needs, such as asset management, work order management, inventory management, customer billing, land management and permitting functions. These modules are not included in the recommended Tyler Technologies, Inc. contract, however they will be evaluated as part of other upcoming technology projects, such as CIP #71154- Enterprise Asset and Work Order Management, which includes Inventory Management and #71152- Land Management System Replacement. Staff will return to

the Council with funding and contract recommendations for these CIP projects in the future.

Project Oversight and Staffing

Oversight of the ERP implementation will be governed by the Executive Steering Committee, which includes the Assistant City Manager, Chief Information Officer, Director of Finance and Director of Human Resources who meet twice a month to review project status, Project Management Office oversight with a dedicated Project Manager, a Project Steering Team who are manager level staff from Finance and Human Resources that meet weekly and a Core Team (Attachment B). Because of the size and impact this project will have, a change order review process will be followed and led by the project manager to minimize the impacts of any unanticipated changes that could cause a delay or increase in the project budget (Attachment C). Staff intends to provide a quarterly report to City Council through the Finance Committee on the progress of the project.

Staff is also recommending the addition of six new at-will limited-term FTE positions that will support project implementation through project management, data analysis and back filling for key City staff that will have a near full-time role in the project implementation process. Four of the six positions will be filled using two new titles, ERP Project Manager and ERP Business Systems Analyst that are recommended to be established in the attached salary resolution (Attachment D). The four will be hired at-will and serve at the pleasure of the City Manager or his designee. They will be appointed by the City Manager or his designee and will be hired via an employment contract which will outline the specific terms of employment.

Three qualified and experienced ERP consultants were hired through temporary staffing agencies earlier this year to establish the project infrastructure and begin documenting business workflows and process improvements, a necessary prerequisite to implementing a new ERP system. Based on their observed work performance and experience with implementing ERP systems, all three are recommended for appointment into the new at-will limited-term positions for the duration of the project. Highlights of the three consultant's qualifications and a description of the ERP Project Manager and ERP Business Systems Analyst roles are described in Attachment F. A search for the fourth member of the ERP project team is currently underway.

The other two new positions will use the existing City Temporary Worker classification to backfill for various City staff who will be pulled away from their normal work duties while assigned to the project. These two positions will provide flexibility to hire interns, City retirees and other professional staff on a rotating basis, as needed.

All six positions will be funded through the project and their terms will be limited to the duration of the project, estimated to complete in January 2017, or to the specific length of their assignment, whichever is completed first.

Funding

In FY 2013, $1,500,000 of General Fund resources were identified to provide initial funding for the ERP project and was appropriated in the capital improvement project #71149- Enterprise Resource Planning System. During the FY 2014 budget process, an additional unfunded amount of $1,500,000 was added to the initial budget amount, bringing the total amount in the CIP to $3,000,000 ($1.5 million funded; $1.5 million unfunded) as a placeholder pending the development of the total anticipated cost of the project. After an extensive research and evaluation process the total cost of the ERP project is estimated at $6,415,000,000 which includes a fifteen percent contingency across the entire project.

The cost allocation methodology used to meet the remaining project funding requirements consisted of the following multiple-step process:

1) Separation of the total project cost into individual module costs, third party costs, and other costs by line item. Based on the line item costs, sixty-nine Funds were identified that would receive benefit from the implementation of the ERP project
2) Identification of the appropriate cost allocation grouping. The information of each grouping was collected by Fund and a percentage of the total was calculated for each Fund. The grouping developed based on the line item descriptions are:
   a. FY 2014 Budget
   b. FY 2014 Budgeted FTEs
   c. FY 2013 Cash Balance
   d. FY 2013 Number of Purchase Orders
   e. FY 2013 Fixed Assets Totals
   f. # of FY 2013 Grant Revenue
   g. FY 2013 Accounts Receivable
   h. FY 2013 Number of Purchasing Cards
3) Calculation and allocation of line item cost to the appropriate Fund based on the cost allocation grouping percentages.
4) Adjustment of the allocation for special allocation items applicable to a particular Fund or group of Funds.
5) Summarization of the results of the allocation by Fund to identify the total applicable ERP project costs per appropriate Fund and the anticipated fiscal year that the funding will need to be available.
6) Determination of whether there were legal restrictions on use of the Fund resources for the ERP project or whether the Fund had sufficient resources to pay their share of the ERP project costs.
7) Identification of those Funds that could legally pay its share of the ERP project costs but doesn't have the resources when required. In these instances, the General Fund will advance necessary funds to keep the ERP project on track

and a receivable in the applicable Fund will be established so that when resources become available, the General Fund would be reimbursed.

Attachment E summarizes the cost allocation per the above process by Fund, including anticipated added General Fund costs resulting from the absorbing costs of other Funds that lack sufficient resources.

The estimated $6.415,000 project cost represents the maximum cost of furnishing and delivering all the components necessary to implement the ERP system through fiscal year 2017. This includes the contract award to Tyler Technologies, Inc. in the amount of $3,434,400 and the addition of the six limited-term FTE positions required to complete the project.

The following table provides the components of the ERP project and the funding requirements by fiscal year.

	FY 2014	FY 2015	FY 2016	FY 2017	Total
Software (Tyler contract not to exceed $3,434,400)	$667,398	$1,493,218	$825,820	$0	$2,986,435
Hardware	$127,000	$20,000	$15,000	$5,000	$167,000
Professional Services (System Integration and Change Management)	$38,651	$77,394	$101,160	$19,881	$237,085
Temporary City Staff Support	$535,936	$668,286	$652,792	$328,189	$2,185,203
Project Contingencies	$18,715	$273,521	$273,521	$273,520	$839,277
Annual Fiscal Impact	**$1,387,699**	**$2,532,419**	**$1,868,293**	**$626,590**	**$6,415,000**

COUNCIL POLICY CONSIDERATION:

This contract with Tyler Technologies, Inc. supports the City Council's three year goal to improve, maintain and enhance public facilities infrastructure; to provide a high quality of public service, which adds to the quality of life in the City and increases its attractiveness through more efficient management of resources. The contract also supports the goal to maintain fiscal responsibility and stability by implementing an ERP system that centralizes financial and human resources data for consistency, reliability and accuracy. Additionally, it supports DoIT's mission of providing proven state-of-the-practice technologies in the most strategic, cost effective and efficient ways in line with the projects and initiatives outlined in the IT Strategic Plan.

ENVIRONMENTAL ANALYSIS:

The proposed contract is exempt from CEQA per section 15061(b) (3), the General Rule. The General Rule can be applied when it can be seen with certainty that the activity will not have a significant effect on the environment. The proposed action is for the installation of hardware and software in existing facilities and will not result in any new development or physical changes.

FISCAL IMPACT:

The cost of this action will be $6,415,000. Funding for this action will be addressed by an increase in appropriations and/or estimated revenues in various Funds and accounts as identified in Attachment E. It is anticipated that approximately $1,400,000 of the cost will be required and spent during the current fiscal year. Funding has already been identified and appropriated from the General Fund for these first year costs. The remainder of the costs will be spent over the next three fiscal years and will be included in the budget appropriations of the applicable fiscal years. Indirect and support costs such as maintenance and hardware are anticipated to be $265,317 beginning in FY2016 and will be funded through a chargeback to departments by DoIT through rates established annually during the budget process. It is anticipated that this annual cost will be absorbed in whole or part, by the elimination of existing licensing, maintenance and support costs on current systems and processes that the ERP system will replace. The anticipated impact to other operational programs or capital projects as a result of this action is included in the ERP project cost amount.

The funding allocation and the anticipated funding need by Fund and by fiscal year are identified in Attachment E.

The following table presents a project summary:

	Total
Software (Tyler contract not to exceed $3,285,079)	$2,986,435
Hardware	$167,000
Professional Services (System Integration and Change Management)	$237,085
Temporary City Staff Support	$2,185,203
Project Contingencies	$839,277
Annual Fiscal Impact	**$6,415,000**

Respectfully submitted,

PHILLIP LECLAIR
Chief Information Officer
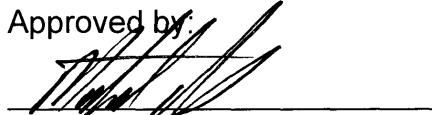Department of Information Technology

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Attachments: (6)

Attachment A – Taxpayer Protection Amendment
Attachment B – ERP Project Organization Chart
Attachment C – Change Order Process Flow
Attachment D – Non-Represented Management Salary Resolution
Attachment E – Project Funding Sources (By Fund #)
Attachment F – ERP Project Team Descriptions