

Toronto STAFF REPORT

October 22, 2004

To: Administration Committee

From: Commissioner of Corporate Services

Subject: Software Maintenance-Renewal for a Three (3) Year Term – Oracle Corporation Canada Inc.

Purpose:

The purpose of this report is to seek Council's approval to enter into a sole source contract with Oracle Corporation Canada Inc. for the provision of Oracle Database Enterprise Edition (ODEE) software maintenance and support services.

Financial Implication and Impact Statement:

Funding for the software maintenance has been included in the Corporate Services Department, Information and Technology Division operating budget account IT 1269 cost element 4199. The annual amounts for the contract period are as follows: \$1,261,403 for 2005, \$1,439,146 for 2006 and \$1,625,776 for 2007. The total value of the contract for the three (3) year term is projected to be \$4,326,325.00 including all taxes and charges.

The Chief Financial Officer has reviewed this report and concurs with the Financial Implications.

Recommendations:

It is recommended that:

1. the City of Toronto enter into an agreement with Oracle Corporation Canada Inc. for the provision of Oracle Database Enterprise Edition (ODEE) software maintenance commencing February 4, 2005 until December 31, 2007;
2. the Executive Director of Information & Technology and the City Solicitor be authorized to negotiate and approve any Terms and Conditions, including the appropriate software license types to be licensed, to their satisfaction and in a form satisfactory to the City Solicitor;

3. Purchasing and Materials Management Division be authorized to issue a Blanket Contract to Oracle Corporation Canada Inc. in the amount of \$4,326,325.00 for a three (3) year term;
4. the maintenance of any net new Oracle license acquisition for the City over this period be added to the Blanket Contract up to a maximum of \$4,326,325.00 including all taxes and charges allocated for growth over the next 3 years;
5. the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

The original Oracle Corporation Canada Inc. contract was executed on December 31, 1999 for a five (5) year term with an expiry date of December 31, 2004. Authority was granted using the Year 2000 delegated authority and funded under a lease arrangement with MFP Financial Services. The current lease schedule 838-2 which holds the Oracle lease also expires December 31, 2004. The total cost of the Oracle agreement for a five (5) year period not including the lease costs with MFP Financial Services, was \$8,456,387.00 including all taxes.

The City of Toronto currently has an extensive investment in Oracle database products called Oracle Database Enterprise Edition (ODEE). This product line is currently used by various business applications in all 6 departments in the City. Business applications such as SAP, IBMS, CLASS, Tax & Water, Work Management, DineSafe and the City's Internet web site all use Oracle products to create, store and manage electronic data and information. Oracle Corporation Canada Inc. is the single source provider for the maintenance and support services for these products.

Comments:

A sole-source purchase of maintenance has been authorized by the Commissioner of Corporate Services under her delegated authority to cover the period between expiry of the original contract and Council's consideration of the recommendations of this report.

The City acquired two types of Oracle database licenses, namely Named User License and Power Unit License, under the original Oracle contract executed on December 31, 1999.

Named User License

Each Named User License allows one individual City employee to access, from their desktop, any Oracle database that resides in City's computing environment. The City currently owns 10,000 Named User Licenses of which 9,125 have been utilized as of September 2004.

Power Unit Licenses (now known as CPU-based License)

When one of the City's Oracle database is accessed by external users, where the user is not identifiable and the number of users is unknown or unpredictable, (for example, data on City's Internet web site which is accessible by citizens), the Power Unit License must be used. The number of Power Unit Licenses required is based on the number and computing speed of

processors in the database server computer. All database server computers accessible via web sites must be licensed with Power Unit Licenses, which are also frequently referred to as CPU-based Licenses.

Since the initial contract was struck 5 years ago, the general public continues to demand easier access to information through the use of the Internet and better system response time. Many private and public sector organizations have been moving forward to developing web-based applications and upgrading computer hardware to faster processors, causing a shift towards CPU-based licenses.

License Rationalization to Reduce Yearly Maintenance Costs

While negotiating a new maintenance contract with Oracle Corporation Canada Inc., staff are working to rationalize license usage. The subsequent rationalization will result in the change of the current licensing structure to one that is blended between Named User and CPU based. This should result in cost savings by converting some of the existing excess Named User Licenses to the more cost effective CPU-based Licenses. By rationalizing the licenses, the City can significantly reduce its yearly maintenance cost. However, the number of spare licenses from the initial 10,000 will be eliminated. This means that all net new system acquisitions or expansion will require new Oracle licenses. The cost of license acquisition will have to be funded along with each system or application purchase. There will be no more licenses available in the pool.

The following table highlights the estimated cost avoidance of annual maintenance over a three year term if the City converts some of its existing license types and enters into a new three (3) year contract with Oracle Corporation.

Annual cost comparisons of Oracle Maintenance without licence rationalization

	Year 1	Year 2	Year 3	Total Cost
Annual Cost without new Contract	\$2,419,908	\$2,540,904	\$2,667,949	\$7,628,762
Cost with new Contract (with License Conversion)	\$1,146,730	\$1,204,066	\$1,264,270	\$3,615,066
Cost Deferral	\$1,273,179	\$1,336,837	\$1,403,679	\$4,013,695

The following table shows the annual cost for maintenance including a 10% growth factor. The selection of any new software functionality will continue to be made through the normal purchasing process.

Estimated annual cash flows for rationalized licences including forecasted annual growth

	Year 1	Year 2	Year 3	Total Cost
Base maintenance funded by Corporate I&T	\$1,146,730	\$1,204,066	\$1,264,270	\$3,615,066
Anticipated growth: Year 1	\$ 114,673	\$ 114,673	\$ 114,673	\$ 344,019
Anticipated growth: Year 2		\$ 120,407	\$ 120,407	\$ 240,813
Anticipated growth: Year 3			\$ 126,427	\$ 126,427
Total projected cost	\$1,261,403	\$1,439,146	\$1,625,776	\$4,326,325

The current annual maintenance that is committed is funded by Corporate Services, Information and Technology operating budget budget account IT 1269 cost element 4199.

There is no obligation to buy additional maintenance services in the future years. Since there are no available licences for deployment, a projected estimate of 10% is factored as part of the capital budget request in future years both by Corporate Services I&T and the various operating departments. It is currently an estimate to establish the Blanket Agreement amount for the three (3) year term.

Conclusions:

This report seeks approval for the City of Toronto to enter into a maintenance agreement with Oracle Corporation Canada Inc. and approval for Purchasing and Materials Management Division (PMMD) to be authorized to create a Blanket Contract issued to Oracle Corporation Canada Inc. for a sum of \$4,326,325.00 including all taxes and charges.

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