



STAFF REPORT ACTION REQUIRED

Information Technology Maintenance Contracts Sole Source Renewal 2011 - 2015

Date:	June 3, 2010
To:	Government Management Committee
From:	Cam Weldon, Deputy City Manager and Chief Financial Officer Sue Corke, Deputy City Manager Richard Butts, Deputy City Manager
Wards:	All
Reference Number:	P:\2010\Internal Services\PMMD\GM10021PMMD (AFS # 11802)

SUMMARY

The purpose of this report is to seek City Council authority to renew information technology systems maintenance sole source contracts listed in Appendix A, which have exceeded the \$500,000 cumulative threshold as per Municipal Code Chapter 195-Purchasing, Section 9B and 9C, for a period of five (5) years starting January 1, 2011 to December 31, 2015.

The contracts listed in Appendix A are for software and hardware support and maintenance services for various software applications and hardware throughout the City of Toronto which can only be provided by the vendors listed in Appendix A due to proprietary reasons. Historically a Staff Report was prepared on an annual basis to City Council. In 2007 the Purchasing and Materials Management Division and the Information & Technology Division recommended a three (3) year approval with the expectation to negotiate savings with vendors. The Information & Technology Division has estimated savings in the range of \$10 million over the three (3) year period. Purchasing and Materials Management Division and the Information & Technology Division are now recommending a five (5) year approval with the expectation that staff can negotiate further savings with vendors.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer, the Deputy City Manager of Citizen Focused Services A and the Deputy City Manager of Citizen Focused Services B recommend that:

1. City Council grant approval, subject to Operating Budget approval in each year to renew the contracts listed in Appendix A for a period of five (5) years, at a cost not to exceed \$12,158,994.68.60 net of HST recoveries for 2011, \$12,122,441.62 net of HST recoveries for 2012, \$15,920,844.08 net of HST recoveries for 2013, \$16,421,773.50 net of HST recoveries for 2014 and \$17,120,857.21 net of HST recoveries for 2015 for a total amount not to exceed \$73,744.911.07 net of HST recoveries over the five (5) year period.
2. City Council grant authority for City Divisions to negotiate and enter into contracts to renew the contracts listed in Appendix A for a period of up to five (5) years, all in accordance with this Staff Report, City Policies and Procedures and in a form satisfactory to the City Solicitor.

Financial Impact

Funding totalling the following amounts net of HST recoveries will be included in the respective programs' Operating Budget submissions every year:

2011	2012	2013	2014	2015
\$12,158,994.68	\$12,122,441.62	\$15,920,844.08	\$16,421,773.50	\$17,120,857.21

The potential increase for the 2011-2015 period over the 2010 reported amounts for these contracts is approximately \$770,000, or approximately 1% per year. A breakdown of the amounts for each contract grouped by division is attached as Appendix A to this Staff Report. A divisional summary, which includes the average increase over the five (5) year period with comments, is attached as Appendix B. As shown in Appendix A, a number of large contracts have been included starting in 2013 where separate approvals were received either through an individual sole source or through a separate report to a standing committee or have reached the cumulative value of \$500,000 which now has to be reported.

A number of contracts have been negotiated over the last three (3) years which ties any increase to either the CPI index or a not to increase percentage over the previous year of any contracts. Staff in the Information & Technology Division will continue to negotiate and find ways to limit any increases to support and maintenance contracts and leverage the ability to negotiate limited increases with a five (5) year renewal term.

The requested amounts for 2011, 2012, 2013, 2014 and 2015 are estimated and represent "not to exceed" amounts over the five (5) year period for the purposes of obtaining approval to negotiate the contracts in Appendix A and will be subject to Operating Budget approval in each year. The amounts are based on the current support and maintenance requirements, potential future requirements and previously negotiated inflationary increases.

With approval for five (5) years, the City will have more leverage to negotiate lower costs than those shown in Appendix A. At a minimum, the City will save administrative costs of preparing more frequent reports and by negotiating these contracts once, instead of annually it would free staff time to do other work. While it is difficult to estimate, using an average of one month in staff time combined for each agreement, involving multiple divisions, the administrative cost savings could range between \$5,000 to \$15,000 per agreement.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

Annual maintenance contracts are required for various information technology systems and software applications for the City of Toronto that can only be provided by one supplier. The Information & Technology Divisions has prepared a consolidated list of maintenance contracts requiring renewal for approval by City Council. The three (3) year approval request was approved at City Council's meeting on September 26 and 27, 2007, Government Management Committee (GM7.9).

<http://www.toronto.ca/legdocs/mmis/2007/gm/bgrd/backgroundfile-6463.pdf>
<http://www.toronto.ca/legdocs/mmis/2007/gm/bgrd/backgroundfile-6481.pdf>

Since the maintenance contracts listed in Appendix A will need to be renewed annually for the foreseeable future, the decision was made to submit one report to City Council, requesting approval for five (5) years which should reduce administrative cost as well as potential maintenance services cost.

ISSUE BACKGROUND

The maintenance contracts listed in Appendix A are contracts that support software applications and hardware within the City which are critical to day-to-day operations. These maintenance contracts allow the City to receive security patches and current versions of the software which is required in order to ensure compatibility with other software applications and hardware in the City's information technology environment. In addition, these contracts provide for technical support from the software and hardware vendors when problems occur to minimize any downtime of the City's software applications. Maintenance of these products is only available directly from the suppliers listed herein as the software and hardware are proprietary to these suppliers.

As maintenance contracts have come up for renewal, the Information & Technology Division has worked with the various Divisions within the City to consolidate contracts, and continues to do so. The Information & Technology, as much as possible, includes renewal clauses with a set maximum percentage increase that cannot be exceeded. This makes it easier to manage and prevent vendors from increasing prices above the maximum percentage agreed to.

Information technology systems maintenance contracts fall into three (3) general categories:

- Contracts with fixed end dates which need new contracts,
- Contracts with annual auto-renewal clauses that include a maximum percentage increase year over year, and
- Contracts with annual auto-renewal clauses and no price protection.

By continuing to renew and review existing maintenance agreement, and having the ability to renew for a period of five (5) years, will put the City in a better bargaining position to negotiate cost savings. This will allow flexibility to enter into multi-year renewals or contract.

COMMENTS

Upon approval, City Division will be in a position to negotiate five (5) year pricing arrangement with vendors listed in Appendix A with potential savings to be made.

Contracts will also be reviewed to include renewal options subject to future City Council approval in 2016, however, the City will continue to pay maintenance and support on an annual basis as per current policies.

Rights to terminate such contract will be maintained in the event that the City elects to discontinue support on any of its software or hardware.

The Information & Technology Division will continue to look for opportunities to consolidate contracts and insure cost control is in place and all contracts will be renewed or re-negotiated in accordance with City policies and procedures, and in a form acceptable to the City Solicitor.

CONCLUSION

It is therefore recommended that approval be provided to renew existing maintenance agreement with vendors listed in Appendix A for a period of five (5) years.

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SIGNATURE

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ATTACHMENTS

Attachment A – Divisional Breakdown of Information Technology Maintenance Contracts.

Attachment B – Divisional Summary of Information Technology Maintenance Contracts.