



REPORT FOR ACTION

Amendment to Extend Non-Competitive Purchase Order Number 6047456 with Microsoft Canada Inc. for Microsoft Cloud Licenses and include Windows Server 2008 Security updates

Date: November 18, 2019

To: General Government and Licensing Committee

From: Chief Technology Officer and Chief Purchasing Officer

Wards: All

SUMMARY

The City of Toronto technology strategy enables continuous evolution of secure digital technology tools. A key aspect entails ensuring staff are provided with modernized Microsoft Office tools for email, word processing, spreadsheet, and PowerPoint functionality to improve business operations collaboration and productivity.

As the City of Toronto conducts necessary due diligence as part of the technology roadmap to cloud technologies. The City of Toronto leverages the Province of Ontario's contractual agreement with Microsoft thereby achieving the best available pricing from Microsoft. There is a need to extend the Microsoft purchase order and a corresponding increase in the dollar amount to maintain the City of Toronto investment and continue receiving the best available pricing from Microsoft.

In December 2016, City Council granted Staff the authority to utilize the Province of Ontario Agreement for three years ending in December 2019. The agreement supports the implementation of two projects (Microsoft Office 365 Pilot Assessment and Segregation of the Accountability Officers using Microsoft cloud technology).

The purpose of this report is to seek authority to amend Purchase Order Number 6047456 with Microsoft Canada to extend the term for a period of two (2) years from January 1, 2020 to December 31, 2021. Authority is also sought for an additional \$920,488 net of Harmonized Sales Tax. This increases the total contract value from \$338,291 to \$1,258,779 net of Harmonized Sales Tax. These funds are needed for the supply of Microsoft cloud technology tools for the City's cloud digital pilot projects. It is also needed to acquire Microsoft Windows on premise security technology under the Province's Microsoft Enterprise Agreement.

Leveraging the Province of Ontario's Microsoft Master Business Agreement (#U8364444) provides the City with the best possible pricing for Microsoft Licenses.

Pricing and the terms and conditions of the Province of Ontario's Enterprise Agreement are more favourable than the standard agreements.

City Council approval is required in accordance with Municipal Code Chapter 195, Purchasing, where the current request exceeds the Chief Purchasing Officer's authority of the cumulative five-year commitment limit for each vendor under Article 7, Section 195-7.3(D) of the Purchasing By-law or exceeds the threshold of \$500,000 net of Harmonized Sales Tax allowed under staff authority as per the Toronto Municipal Code, Chapter 71, Financial Control, Section 71-11A.

RECOMMENDATIONS

The Chief Technology Officer and the Chief Purchasing Officer recommend that:

1. City Council authorize the Chief Technology Officer to negotiate and enter into an amending agreement with Microsoft Canada Inc. on the following terms:
 - a. extend the term of the agreement for a two-year period from January 1, 2020 to December 31, 2021;
 - b. increase the scope of work to purchase extended security update for the City's Windows 2008 servers; and
 - c. increase the total amount of the agreement by \$920,488 net of Harmonized Sales Tax (\$936,689 net of Harmonized Sales Tax recoveries), revising the existing contract value from \$338,291 net of Harmonized Sales Tax to \$1,258,779 net of Harmonized Sales Tax (\$1,280,934 net of Harmonized Sales Tax recoveries).

FINANCIAL IMPACT

The total potential value of the Purchase Order with Microsoft Canada Inc. identified in this report is \$920,488 net of Harmonized Sales Tax (\$936,689 net of Harmonized Sales Tax recoveries) for Microsoft Office 365 pilot and Windows Server 2008 Extended Security Update. The annual estimated expenditures are summarized as follows:

Funding for 2020-2021 has been included in the respective programs' 2020 Capital Budget Submissions and the 2021-2029 Capital Plan and the 2020 Operating Budget Submissions for various programs. The remaining amount will be funded by the approved Program Areas' respective Operating or Capital Accounts.

Year	Cost Centre / Work Breakdown Structure Element	Cost Element General Ledger	Cost net of Harmonized Sales Tax Recoveries
2020	CIT045-24-01	4828	\$234,172
	Others	4828	\$234,172
2021	CIT045-24-01	4828	\$234,173
	Others	4828	\$234,172
Grand Total (Net of Harmonized Sales Tax Recoveries)			\$936,689

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

DECISION HISTORY

On December 13, 14 and 15, 2016 City Council granted the authority under GM16.8 to the Chief Information Officer to enter into a new contract with Microsoft Canada, under the Province of Ontario's Enterprise Agreement, for the supply of cloud products, for a three year period ending December 31, 2019, in the amount of \$818,820 (net of HST recoveries). As a result, Purchase Order No. 6047456 was issued in 2018, but only for \$338,291 net of all taxes due to delays in the contract negotiations and change in scope.

The following is the link to City Council Decision Document:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM16.8>

COMMENTS

In 2016, estimates were made for the GM16.8 report based on assumptions of the licenses to be purchased by the City from 2017 to 2019. Based on these estimates City Council authorized the then Chief Information Officer under Item GM16.8 an amount of \$804,658, net of all taxes. There were delays with the Microsoft Canada agreement, changes in scope and revisions to licenses and products purchased in 2018 & 2019. Purchase Order Number 6047456 was issued for \$338,291, net of all taxes, and will expire on December 31, 2019.

As part of the City of Toronto's technology road map, the Information and Technology Division entered into a pilot. This pilot selected Microsoft cloud products, through direct enrolment with Microsoft for the Microsoft Online Services offering. This was done by utilizing the Province of Ontario's Microsoft Enterprise Agreement. This was needed to understand the impact and potential benefits for the City. The pilot includes Microsoft

Office 365, SharePoint online, Accountability Offices Segregation (AO), and Microsoft Project online. This will allow the City of Toronto to gain a better understanding of the technical requirements and impacts of moving to a cloud licensing strategy.

The Office 365 Productivity Assessment (O365) project goal is to understand the value proposition of the Office 365 platforms capabilities to the City of Toronto by understanding the implicit, qualitative and quantitative value of products and process, as well as the budgetary implications of an enterprise deployment. This project provides exploring methods to modernize and enable productivity where the IT solutions with supporting tools decisions are driven by the organization, thereby mitigating adoption risk.

An extension of time (in addition to an increase in value) of Purchase Order Number 6047456 is now required because the Office 365 Productivity Assessment (O365) / Accountability Office Segregation (AO) initiatives have been subject to unplanned schedule delays. These delays resulted in change restrictions imposed by the 2018 City elections and extended contractual negotiations for Microsoft Office 365 Productivity Assessment (O365). It also resulted in process gaps related to required assessments and reviews. As a result, project timelines for the deployment of services has been pushed out to Q3 2019. Consequently, the delivery of required Business Case Content is also being pushed out to June 2020. This is needed to ensure rich feedback from pilot users. These services are needed to assist with the design and implementation of a vendor-supported Hybrid Exchange Environment. It is also needed to migrate mailboxes from the on-premises infrastructure to the cloud service.

Based on the pilot outcomes, the Information and Technology Division recommends a go forward enterprise Microsoft licensing strategy for the City. The recommendations will also have an impact on the financial funding model and contract structure.

In addition to Microsoft Office 365 pilot, the City has an urgent need to purchase extended support for its Windows 2008 servers. There are 159 servers running a legacy Windows 2008 operating system. This operating system has reached end of life and will no longer receive regular support/security updates from Microsoft as of January 14, 2020. To receive system, security updates, the City of Toronto must purchase Extended Security Update from Microsoft. This update can only be purchased through the Enterprise Agreement. Without Extended Security Update as these servers will not receive any patches or security updates. This may cause security and compliance issues and expose applications and business units to serious security risks.

The Fair Wage Office has reported that Microsoft Canada Inc. has reviewed and understands the Fair Wage Policy and Labour Trades requirements. They have also agreed to fully comply.

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SIGNATURE

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