PA6.6

REPORT FOR ACTION

Procurement of SAP S/4HANA Proprietary Software from SAP Canada to Support the Toronto Parking Authority's Financial and Operational Modernization

Date: June 3, 2019
To: Board of Directors, Toronto Parking Authority
From: Acting President, Toronto Parking Authority
Wards: All

SUMMARY

The Toronto Parking Authority's (TPA) current accounting system is a custom-built application initially developed and implemented in the mid-1980s. The system has significant limitations and is approaching a state of obsolescence. Accordingly, TPA initiated a comprehensive market scan, through a formal open Request for Information (RFI) process, with the goal of ultimately procuring and implementing a modernized Enterprise Resource Planning and Reporting (ERP) Solution.

Based on the results of the evaluation process, this report recommends that the TPA Board of Directors approve entering into a non-competitive contract with SAP Canada to provide software licensing and professional services, by leveraging the terms and conditions of the City of Toronto's Master Services Agreement with SAP Canada, for the delivery of a non-customized, single tenant cloud-based software-as-a-service ERP to support TPA's financial and operational growth and transformation with a fully hosted, robust, standardized and scalable platform.

SAP S/4HANA Cloud, single tenant edition, is an ERP software package which operates on a fully integrated cloud platform providing SAP S/4HANA Finance, SAP Analytics Cloud, SAP Asset Manager (Mobility), Customer Relationship Management (CRM) and SAP Success Factors applications. Implementation of SAP's "model company" will provide effective, efficient administration to support finance and daily operations, including procurement, contract management, work orders and asset management.

A cost-benefit analysis for the ERP was undertaken in support of the recommended approach. By using the City of Toronto's Master Services Agreement, TPA estimates

annual license fee savings of approximately $120,000 and a projected investment break-even at 6.5 years based upon the current project plan.

RECOMMENDATIONS

The Acting President, Toronto Parking Authority recommends that:

1. The Board of Directors of the Toronto Parking Authority authorize the Acting President, Toronto Parking Authority, to negotiate and enter into a non-competitive agreement with SAP Canada for the provision of SAP S/4HANA Enterprise Resource Planning and Reporting Solution software licensing and related professional services for a five-year term in the amount of $4,645,223 plus Harmonized Sales Tax on terms and conditions satisfactory to the Acting President and in a form satisfactory to the City Solicitor.

FINANCIAL IMPACT

Based on the projected service and scope requirements of the TPA, the annual license fees are $498,491 plus HST, and one-time implementation fees are $1,871,972 plus HST. In addition, a fifteen percent contingency of $280,796 plus HST is recommended. The total value of the contract award across the five-year period is estimated at $4,645,223 comprised of operating fees of $2,492,455 and capital expense of $2,152,768.

Estimated consulting fees required to implement the solution are $550,000 which will support project management, data integrations and business process solutions fit for a non-customized installation. Combined capital expenditures are therefore $2,702,768; funding of $3,000,000 is available in the 2019 Approved Capital Budget. Projected project break-even is 6.5 years.

DECISION HISTORY

City Council, at its meeting of June 11, 12 and 13, 2013, adopted Item EX32.3, "Results of the Shared Services Study – City Agencies" which, in part, directed City staff to work on "rationalizing information technology applications". This, in turn is consistent with Council's earlier direction regarding the "SAP First Policy", to leverage existing technology to the extent possible before adding new software applications.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX32.3

City Council, at its meeting of May 18, 19 and 20, 2004 adopted Clause 12 b) of the Administration Committee entitled "Moving Forward with SAP", and in doing so, among other things, endorsed the strategic direction, governance structure and continuous service improvement framework and process for the future of the SAP information system as described in the “Moving Forward with SAP at the City of Toronto” report:
http://www.toronto.ca/legdocs/2004/agendas/council/cc040518/admcl012b.pdf

In an April 4, 2003 report to Audit Committee, the Auditor General delivered the results of an audit on the "SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review", which included among other things, a recommendation for the Chief Administrative Officer to develop an SAP First Policy.
http://www.toronto.ca/audit/2003/sap_final_apr4_2003.pdf

The City of Toronto has a long history with implementing SAP dating back to amalgamation. City Council approved the original SAP Implementation back in 1998:
http://www.toronto.ca/legdocs/1998/agendas/council/cc/cc980729/cs10rpt/cl001.htm
http://www.toronto.ca/legdocs/minutes/council/cc980729.htm

COMMENTS

In 2003, the Auditor General released a report on the progress of the SAP Implementation and urged better management of the product and licenses and to consider an "SAP First" policy for the City's future software needs.
The idea behind the "SAP First" philosophy is that software needs should be evaluated against the capability of the City's SAP software that it already owns before other software solutions are sought.

In 2004, Council adopted a report called "Moving Forward with SAP". This report reinforced SAP as the City's platform of choice by following the "SAP first" approach to management systems. It provided the strategic direction for the City to establish an SAP governance model and an SAP Competency Centre.

TPA Current State

The Toronto Parking Authority's current accounting system is a custom application built on the Rocket Software D3 Database Management System which is based on the Pick Universal Data Model. The system was initially developed and implemented in the mid-1980's and has been updated to include new modules and functionality over the years as the TPA's business and operations evolved. While the TPA has managed to maximize its utility, the system has several significant limitations, is unable to support transformational objectives and is approaching a state of obsolescence. In addition, the resolution of a number of outstanding Auditor General Recommendations is contingent upon replacing the existing system with a modern and automated solution.

Market Scan

TPA developed a comprehensive scope of work to procure and implement an ERP system to replace the current antiquated system, comprising a current state analysis, project charter, scope and requirements in consultation with a broad cross-section of stakeholders for a system redesign. A formal RFI was posted on the Merx public tendering system on July 3, 2018, to obtain information about commercially available ERP systems that could satisfy TPA's requirement to replace its financial system, and potentially one or more other legacy business applications.

TPA received six submissions to its RFI, all of which recommended Cloud-based Software-as-a-Service infrastructure with ERP products including SAP S/4HANA, Oracle, NetSuite, Microsoft Dynamix 365 and Unit4. Each offering was compared to TPA's list of 58 key requirements as provided in its RFI. Most recommended solutions provided the requirements through a combination of add-ons or customizations and in certain cases the solution did not have the required functionality. Seeking to obtain software with the lowest total cost of ownership, TPA reviewed these potential solutions for the percentage of requirements met with no customization, the least amount of interfaces required for current and future additional functionality, reducing the need for separate operational software solutions such as HCM, CRM, work order and asset management. TPA also considered the potential internal and external on-going maintenance needs.

Only SAP met the all of the RFI requirements without add-ons or customization. In addition, SAP provided notice of their Master Agreement with the City of Toronto, noting that TPA is listed as an Agency and therefore is eligible to participate in the pricing model previously secured under the Agreement by the City and ensures competitive pricing of the application. The City arrangement also provides for the potential ability to tie into City reporting and shared services initiatives, for other agencies to benefit from TPA's model company design, or to participate in procurement initiatives such as Ariba. Subsequent discovery sessions undertaken with SAP has provided a business case supporting TPA's recommendation to proceed with SAP S/4HANA.

Please see Attachment 1 TPA ERP - SAP Recommendation Background Summary for an overview of the project's objectives, requirements, assessment and recommendation.

Recommended Business Solution

The proposed ERP solution will support enterprise-wide objectives and TPA's strategic focus to deliver top quality, efficient services to our Customers by:

- Leveraging City of Toronto's SAP contract by fully out-sourcing a non-customized, robust, scalable, financial and operational platform.
- Providing effective, efficient, transparent, exception management focused back-office administration to support growth and transformation.
- Providing accurate and timely business information and metrics to support decision making, daily management and oversight of operations to employees, managers and senior management, including analysis and relevant feedback on the impact of decisions made.
- Driving operational efficiency to support customer service focus.
- Providing visibility to monitor and manage governance and compliance risk.
- Providing effective, efficient contract management and procurement tools.

- Providing work order and asset management to align resources and staff activities.
- Providing HR functionality – recruiting, cost of hire, training, performance management.
- Supporting the role of finance moving from data entry and transactional processing to providing relevant and timely performance management information.

Project Cost Breakdown

Projected annual benefits		
Legacy system savings	$	120,613
Operational cost avoidance		422,096
Finance cost avoidance		370,500
Projected annual benefits	$	913,208
Annual license fees		498,491
Projected annual savings rate	**$**	**414,717**
Implementation fees		
TPA contract staffing	$	550,000
SAP consulting - finance		1,871,972
Contingency - 15%		280,796
Implementation fees	**$**	**2,702,768**
Break-even (years)		**6.5**

CONTACT

Robin Oliphant, Acting President, Toronto Parking Authority, 416-393-7282, Robin.Oliphant@toronto.ca

SIGNATURE

Robin Oliphant, Acting President
Toronto Parking Authority

ATTACHMENTS

Attachment 1: Toronto Parking Authority ERP - SAP Recommendation Background Summary