CITY OF LONG BEACH
DEPARTMENT OF FINANCIAL MANAGEMENT

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October 4, 2016

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt Specifications No. RFP TI15-017 and award a contract to Tyler Technologies, Inc., of Yarmouth, ME, for a Citywide Enterprise Resource Planning (ERP) system with finance/human resources software applications and related services, including consultation, implementation, training, maintenance and support, for a one-time amount of $8,478,522, and an annual amount starting at $493,481 and increasing up to 3 percent annually for a five-year term for ongoing maintenance and support, plus a contingency amount of $1,664,772, with the option of renewing the ongoing maintenance and support contract increasing up to 5 percent annually for an additional five-year period, at the discretion of the City Manager; and authorize the City Manager, or designee, to execute all documents necessary to enter into the contract, including any necessary amendments thereto. (Citywide)

DISCUSSION

City Council approval is requested to enter into a contract with Tyler Technologies, Inc. (Tyler), for the purchase of its Munis software applications and related services, including consultation, implementation, training, maintenance and support. The software will serve as the City's ERP system, replacing the outdated financial and human resources (HR) core systems that support the operations of all City departments, and will allow the City to implement best practices, leveraging new technology to make substantial improvements in efficiency and effectiveness. The Tyler solution offered the demonstrated ability to be successfully implemented in similar environments and meet the greatest breadth of the City's diverse municipal business needs with one-time and ongoing costs that provide the best value to the City. Through the evaluation/selection process, the Tyler proposal emerged as the clear choice for recommendation. Purchase and implementation of the new system has been fully funded through a $30 million project budget previously approved by the City Council.

Implementation of an ERP system is one of the largest and most complex projects a City can undertake. The City has conducted a rigorous and robust process with assistance and oversight from an independent consultant with extensive governmental ERP-related expertise to make this vendor recommendation. The Request For Proposals (RFP)

process, proposal evaluation, recommended vendor selection, and the contract negotiation process involved over 11,000 staff hours. The investment of time not only ensures the best solution for the City has been selected, but also helps ensure that the system will be successfully implemented. Implementation is expected to last approximately three years, and will require partial or full diversion of key staff from operations. While the project plan and implementation approach provide a strong backfill and support strategy to mitigate operational impacts, this project is so large that it will impact capacity for other projects, and other projects will impact capacity for the ERP. As a result, ongoing support for this project as a top City priority is necessary to minimize implementation issues that could have adverse consequences.

The RFP was advertised using the City's proposal solicitation and outreach process. Outreach to local, minority, and women-owned businesses was conducted. A total of 95 vendors downloaded the RFP, and ten proposals were received by the deadline.

The sections that comprise the remainder of this document provide additional detail about vendor selection and the recommended action, the ERP project, the overall project budget, timing considerations, and fiscal impact.

Requirements for a Successful Project

The ERP project will be the largest system implementation ever handled by the Technology and Innovation Department, and one of the largest projects ever undertaken by the City. The project is a long overdue and essential replacement of no fewer than 17 software modules that will now be integrated. In addition, many interfaces will be designed and built to connect with other existing systems. These modules and systems support business processes across the organization, including timekeeping and payroll, employee benefit management, recruiting, human resources administrative functions, accounting and financial reporting, accounts payable and receivable, budget development and management, purchasing, fixed asset and inventory management, cash management, and others. Among many other benefits, the new, integrated ERP system will connect data across different core business functions, move away from overnight batch processing to immediate posting of transactions, eliminate paper timesheets and automate electronic document imaging for a significant reduction in paper, improve electronic workflow for better approval processes, provide access to software updates with new functionality developed for the needs of government clients, provide an improved user interface that is more easily adopted by our changing workforce, and move us off of outdated technology that is difficult to support and integrate with other systems. This newer technology and improved capability brings the opportunity to increase efficiency, effectiveness, improve controls, provide better information for decision-making, provide improved transparency, and most importantly, potentially prevent major system failure and major problems due to inability to maintain the old system or adapt it to new legal or City needs. While it is expected that all major financial and HR functions and functionality will be maintained with a new system, many, if not most, business processes supported by the system will need to be updated and/or changed. These will be designed and implemented over the next few years of system implementation and subsequent further improvements.

Due to the broad scope and wide range of functions encompassed in an ERP system, this project requires a level of resources from across the City and at all levels that far surpasses typical project demands. Since the City Council funded the project as part of the FY 14 Adopted Budget, over 240 City staff have already invested over 11,000 staff hours to develop the RFP, provide input to the extensive process of selecting the best proposal, and develop the proposed contract with the vendor. During the implementation process, an interdepartmental system implementation team comprised of approximately 25 employees throughout the City will be assigned full-time to the project, a number of whom will be reassigned from key operations. In addition, dozens of additional staff will be temporarily pulled from operations on a part-time basis to provide expert information to support the design, testing, and implementation of specific modules. Backfill will be used for many of the staff that are assigned full-time to the project. Even with staff backfill, the use of many key staff will have an impact on operations that needs to be carefully managed so that other projects and initiatives do not interfere with the success of the implementation.

Given the extent of this project and the potential impacts to the City's business processes, employee communication and training is a significant part of the implementation process. While the City does not expect most employees' basic responsibilities and functions to be materially different, many changes and improvements are anticipated. Because implementation has not yet been completed or even started, we do not yet know what the new specific processes and procedures will be. The City initiated a meet and confer process with those employee labor unions whose members' job duties may be impacted and will continue the process to discuss the potential impacts throughout the implementation of the project.

The success of the ERP implementation is critical to the City's financial and operational effectiveness. Many ERP implementation projects in other cities have had problems that can have severe adverse ramifications. The ramifications can include substantially higher costs as well as systems that do not initially, or ever, provide desired functionality and efficiency. When this project was first introduced to the City Council in 2013, five keys to project success were identified to help the City reduce the risk of such an outcome. Those keys and their status are as follows:

1. *Implementation process needs to minimize risk factors*
   Status: Addressed. City's implementation approach addresses risk factors well by assigning resources, making implementation schedule flexible, and ensuring that extreme care was taken in developing the RFP and the subsequent contract.

2. *Take the time to implement and have the needed expertise*
   Status: Addressed. Timeframe is made flexible in the vendor contract. While the City is very lean in terms of available management staff and expertise, the issue is satisfactorily addressed by assigning top City staff to the project with some additional outside support.

3. *Assign a top priority to project*
   Status: Anticipated as a Top Priority Project. As a top City Council priority, staff will also give this project a top priority in the event that a conflict in resources occurs with other projects or initiatives.

4. *Appropriate staffing backfill and support*
   Status: Addressed. The project implementation approach provides a strong backfill and support strategy. The strong economy, limits on compensation levels, and timeframes inherent in the City's hiring practices have impeded filling positions, but staff currently believes that backfill and support will adequately support the project.

5. *Appropriate implementation environment where the project is seen as exciting, worthwhile and successful*
   Status: Addressed. The implementation approach is built around staff involvement, improvements to efficiency and effectiveness, change management, and staff education and training. A team environment is being established and will be fostered throughout the project.

These keys to success are not specific to our City, but rather are industry-standard considerations for large ERP projects. ERP projects are inherently resource-intensive to implement and mission-critical to ongoing operations. The City has taken, and will continue to take, all possible actions to ensure the success of the project and mitigate risk. Top prioritization by the City Council will continue to be a critical component of the effort to ensure the project receives adequate and sustained internal support and staffing resources.

Vendor Selection

Summary of Evaluation/Selection Process

Through a competitive procurement process conducted in 2013, the City contracted with Plante & Moran, PLLC (Plante Moran), an independent expert in governmental ERP-related consulting services, for professional services to assist with the acquisition of a new financial and HR system. These services included assistance with development of requirements and specifications, preparation of an RFP, development and execution of an evaluation methodology, and negotiation of contractual terms and conditions with the selected vendor. With assistance from Plante Moran, the City developed a comprehensive RFP to replace the existing finance and HR systems, which are outdated and difficult to maintain, with an integrated, modern system. The RFP development process included market awareness research, establishment of the project's governance structure, identification of staff leads for key business processes, an in-depth needs assessment for each business process with staff representation from across the City, identification of over 3,800 functional specifications, documentation of the City's current technical environment, and development of a software application inventory and migration plan.

The RFP TI15-017 for "Finance/HR System Solution" was released on October 31, 2014, and closed on December 19, 2014. The RFP was advertised in the Long Beach Press-Telegram on November 4, 2014, and 4,381 potential proposers specializing in technology and professional services were notified of the RFP opportunity. Of those potential proposers, 95 downloaded the RFP via the City's electronic bid system. The proposal document was made available from the Purchasing Division, located on the seventh floor of City Hall, and the Division's website at www.longbeach.gov/purchasing. A proposal announcement was also included in the Purchasing Division's weekly update of Open Bid Opportunities, which is sent to 22 local, minority and women-owned business groups. A Pre-Proposal Conference was conducted on November 19, 2014. Staff accepted vendor questions and released response addenda on November 18, 2014, November 21, 2014, and December 3, 2014. Ten proposals were received by the submission deadline on December 19, 2014. Of those ten proposals, one was a Minority-owned Business Enterprise (MBE), none were Women-owned Business Enterprises (WBEs), none were certified Small Business Enterprises (SBEs), and none were Long Beach businesses (Local). The proposals were received from the following vendors:

- Applied Software Technology Corporation (AST), of Naperville, IL (an MBE)
- CGI Technologies and Solutions, Inc., of Los Angeles, CA (not an MBE, WBE, SBE, or local)
- HCL America, Inc., of Sunnyvale, CA (not an MBE, WBE, SBE, or local)
- Insight by Tyler Technologies of Yarmouth, ME (not an MBE, WBE, SBE, or local)
- LSI – Labyrinth Solutions, Inc., of San Diego, CA (not an MBE, WBE, SBE, or local)
- Quintel-Management Consulting, Inc., of Greenwood Village, CO (not an MBE, WBE, SBE, or local)
- Sierra Cedar, Inc., of Alpharetta, GA and Workday of Pleasanton, CA (not an MBE, WBE, SBE, or local)
- SunGard Public Sector of Lake Mary, FL (not an MBE, WBE, SBE, or local)
- Tyler Technologies, Inc., of Yarmouth, ME (not an MBE, WBE, SBE, or local)
- Xerox Consultant Company, Inc., of Dearborn, MI (not an MBE, WBE, SBE, or local)

Per Plante Moran, the receipt of ten proposals for a project this large and complex is considered an excellent response.

In an effort to align with the City's outreach goal, Long Beach businesses were encouraged to submit proposals for City contracts. The Purchasing Division also assisted businesses with registering on the Bids Online database to download the RFP. Through outreach, 428 Long Beach vendors were notified to submit proposals, of which six downloaded the RFP, and none submitted a proposal. The Purchasing Division is committed to continuing to perform outreach to local vendors to expand the bidder pool.

Extensive effort and resources were invested to thoroughly evaluate vendor solutions based on the criteria established in the RFP. This criteria consisted of:
- Demonstrated competence;
- Experience in performance of comparable engagements;

- Expertise and availability of key personnel;
- Financial stability;
- Conformance with the terms of the RFP; and
- Reasonableness of cost.

The multi-department evaluation/selection committee (Committee), which included representatives from the Departments of Financial Management, Technology and Innovation, Human Resources, Harbor, Water, and Long Beach Gas and Oil, reviewed the proposals and used a consistent methodology of evaluation and cost analysis developed and implemented with ongoing assistance and oversight from Plante Moran. Based on review and analysis of the proposals, the Committee shortlisted three proposals for further consideration. Staff from across the City attended and provided feedback on four day demonstrations of the software products offered by each of the three shortlisted proposals. A discussion of implementation approach and project costs was included in each vendor's demonstration. The Committee developed and reviewed responses to follow-up clarification questions on vendor proposals as needed, and conducted a comprehensive evaluation of all available information before ranking proposals to select two finalists. The Committee and key staff attended additional demonstrations with both vendors that addressed questions on specific functionality. Eighteen phone reference checks and six site visits were conducted with other client agencies, including agencies not specifically recommended by the vendors to ensure that a balance of perspectives was considered. Through the site visits, the Committee explored how each product was implemented and operated in a production environment, and interviewed agency staff of various levels regarding their experience working with the vendor and system. Staff requested and reviewed a Best And Final Offer (BAFO) from the two finalists. Based on the culmination of all evaluation steps, the Committee performed a final ranking of the two finalists and identified a single proposal to recommend for in-depth analysis and negotiation.

After focusing on a single potential solution, staff continued to perform additional work to confirm staff's recommendation and prepare for the best possible project outcome. This effort has included in-depth review of optional modules, further definition of requirements and modifications, and development and negotiation of the contract, including statement of work and high level project plan, deliverables, billing schedules, vendor project staffing, and other contract language.

Recommended Solution

Based on the results of the evaluation/selection process, staff recommends a contract be awarded to Tyler for its Munis software applications and related services. While other proposals may have met the requirements of the RFP criteria, Tyler met or exceeded the requirements, and in the Committee's analysis, provided the best value overall for the City. Tyler's proposed Munis software applications were specifically designed and developed for municipal governments. Tyler offered the best solution to support the City's diverse current and future business needs and the effective utilization of staff resources. Tyler performs its own software implementation services for its clients. As confirmed through the site visits and reference checks, Tyler has had many successful implementations at

comparable agencies, and offers the best opportunity for a successful implementation at the City. Based upon a comparative cost analysis developed with Plante Moran, Tyler was identified as the most cost effective of the finalists on both an implementation basis and on the basis of a standard, ten-year operational cost of ownership, and the best overall value of all proposals received. Although ten years is a standard analysis period, the system is expected to be utilized by the City for much longer than ten years, so the savings from selecting Tyler as compared to the other vendors is likely substantially greater than that identified through the cost analysis.

Through the RFP and evaluation process, the City invited and considered a variety of approaches to the provision of software and services, including on-premise, hosted, and software as a service (SaaS) models. Each approach has its advantages and disadvantages. Staff believes that any of the approaches can work for the City, with the determination of which approach to use dependent on the particular situation. In the case of the ERP system, due to the diversity of City operations and processes the system must support, staff focused first on selection of a system that would best meet the City's functional requirements. Tyler's solution best met overall City needs. Tyler's proposal included on-premise and hosted options. Staff recommends Tyler's on-premise approach for implementation at the City. Based on the vendor's history of implementation at similar agencies, Tyler's strength appears to be in their on-premise approach, which was also more cost effective than the hosted solution and provides the City with greater flexibility to manage future upgrades.

Overall Project Budget

Funding for the purchase and implementation of the new ERP was approved by the City Council as part of the FY 14 Adopted Budget. The total budgeted and funded cost of the project is $30 million. A portion of these costs provides for both temporary project and temporary backfill staffing. The backfill allows key City staff to be reassigned from City operational functions to this project. The operational duties of key staff will then be covered via temporary backfill staffing. This approach is consistent with industry standard for an ERP implementation project.

Because this project is large and complex, it is not possible to resolve every eventuality before the project begins, and there may need to be contract amendments or new contracts to resolve specific issues or provide for additional functionality options that will benefit the City. It is believed that the overall budget has adequate funding to handle all of these uncertainties and contingencies. The implementation budget is $30 million and includes the financial/human resources system software and services, project staffing and operational back-fill, third party software and services (quality assurance, interfaces, etc.), and computer equipment, facilities and other costs.

The new ERP system will have ongoing annual maintenance costs. The City does not currently incur full maintenance costs for the existing financial and HR systems, as key components of these systems are aged to the point that full service maintenance is either not available or no longer of benefit to the City. The annual maintenance fee for the new system will start at $493,481, and is subject to annual increases, capped at a maximum of 3 percent per year for the initial five-year contract term, and at 5 percent per year for the subsequent five-year renewal term. The project budget includes funding for maintenance costs incurred during implementation. After implementation is completed (starting in year four of the contract term), ongoing annual maintenance costs will be treated as a normal technology expense of the City.

This matter was reviewed by Deputy City Attorney Amy R. Webber on July 29, 2016 and by Assistant Finance Director Lea Eriksen on July 29, 2016.

TIMING CONSIDERATIONS

City Council action to adopt Specifications No. RFP TI15-017 and award a contract concurrently is requested on October 4, 2016, to ensure the contract is in place and implementation of the ERP system occurs in a timely manner.

FISCAL IMPACT

The total cost for implementation of the ERP system is estimated at $30 million, which includes the vendor contract, third party software and services, project staffing and operational backfill costs, project administration expenses and contingency. The total funding for the capital outlay was appropriated through the FY 14 budget process, and the majority of funds have been collected from the various City Funds with a final transfer of $2,232,921 from the Harbor expected in FY 18.

There is funding in the project budget to cover all implementation-related contract costs requested, including the one-time amount of $8,478,522, annual maintenance costs incurred during the implementation period (starting at $493,481 annually), and the 15 percent contingency of $1,664,772. After implementation is completed, ongoing annual maintenance costs will be treated as a normal technology expense and charged out to Departments. These charges are expected to take effect starting in year four of the initial five-year contract term.

The award of this contract will provide continued support to our local economy by assisting in the preservation of employment for three employees residing in Long Beach.
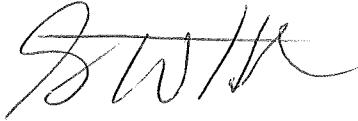
SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

for

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

BRYAN SASTOKAS
DIRECTOR OF TECHNOLOGY AND INNOVATION

PATRICK H. WEST
CITY MANAGER

JG:DF:SP
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