

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: September 21, 2017 Budget and Finance Committee Meeting

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| Item 2 File 17-0669 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| <p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the agreement between SFPUC and Mythics, Inc. (Mythics) for the purchase of as-needed Oracle Utilities, Primavera, Database and Weblogic licenses and software support. The agreement is for approximately 8 years and 4 months in an amount not to exceed \$11,382,969. <p>Key Points</p> <ul style="list-style-type: none"> • SFPUC’s Customer Services Bureau and Infrastructure Division use various Oracle licenses for customer billing and construction management. Currently, the SFPUC has two software support contracts with Oracle. The SFPUC could continue amending these contracts to support existing licenses, but Oracle will not allow an amendment to purchase new licenses under either contract. SFPUC may require new licenses for Oracle products to (1) bring management of CleanPower SF customer accounts in-house, (2) improve billing capacity to Hetch Hetchy Power customers, and (3) increase construction management capacity for the Sewer System Improvement Project. • After unsuccessfully attempting to negotiate a new contract with Oracle to support existing licenses and purchase new ones, SFPUC issued a Request for Proposals (RFP) and received two bids from authorized Oracle resellers. Mythics was deemed to be the lowest responsive bidder. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed agreement consists of (a) as-needed software support for existing perpetual Oracle licenses in the not-to-exceed amount of \$2,649,991; (b) as-needed new perpetual Oracle licenses in the not-to-exceed amount of \$4,473,726, and corresponding software support in the not-to-exceed amount of \$3,010,822; and (c) as-needed new cloud-based licenses in the not-to-exceed amount of \$1,698,431. The SFPUC’s FY 2017-18 budget has sufficient funding to cover expenditures in Year 1 of the agreement. Future years’ expenditures are subject to Board of Supervisors approval. • As software will be purchased on an as-needed basis, SFPUC considers it unlikely that the full not-to-exceed amount of \$11,382,969 will be spent. Should SFPUC not require the full volume of licenses specified in the contract, other City departments would be able to purchase them at the same negotiated rate directly from Mythics. According to Ms. Moayed, the Human Services Agency and Municipal Transportation Agency have both expressed interest in using the licenses for relatively small software purchases in the short term. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. | |

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) uses Oracle Utilities Suite¹, Oracle Primavera Suite², Oracle Database³, and Oracle Weblogic⁴ to manage its Customer Billing System and various large-scale construction projects. The associated support for SFPUC's existing Oracle software licenses allows the SFPUC to upgrade its software to the latest vendor release and/or troubleshoot system issues.

According to Ms. Taraneh Moayed, SFPUC Principal Administrative Analyst, the SFPUC may require new licenses for these four Oracle products in the near future to (1) bring CleanPowerSF in-house, (2) add Hetch Hetchy hydroelectric power billing to the SFPUC's billing system (used primarily for City facilities), and (3) manage SFPUC's Sewer System Improvement Program.

- **CleanPowerSF:** Customers who choose CleanPowerSF are billed by PG&E who owns the meters and power distribution. However, the SFPUC may begin to manage the customer accounts internally through its Customer Billing System. Doing so will require additional Oracle Utilities, Oracle Database and Oracle Weblogic licenses.
- **Hetch Hetchy hydro-electric power:** Hetch Hetchy hydroelectric power is currently billed to municipal customers using work orders, with usage tracked by the UtilityStar Enterprise, a legacy software system. While suitable for current needs, UtilityStar Enterprise is a much more limited system than that of Oracle's Utilities Suite which provides far greater functionality. The SFPUC is currently evaluating whether it is to the SFPUC's benefit to replace UtilityStar Enterprise with licenses from Oracle's Utilities Suite. If this transition is made, the SFPUC will require additional Oracle Utilities, Oracle Database and Oracle Weblogic licenses.
- **SFPUC's Sewer System Improvement Program:** The SFPUC utilizes Oracle Primavera to manage its construction projects, including the Water System Improvement Program (WSIP) and the Sewer System Improvement Program (SSIP). As the SSIP develops, the need for additional Oracle Primavera Suite, Oracle Database and Oracle Weblogic licenses will grow.

1 SFPUC selected Oracle's Utilities Suite through an RFP conducted in 2007.

2 SFPUC selected Oracle Primavera in 2009 on a sole source basis after conducting a needs assessment and determining that it was the most appropriate solution for its large-scale construction management needs.

3 Oracle Database is a relational database required to run Oracle Utilities and Oracle Primavera.

4 Oracle Weblogic is an application server required to run Oracle Utilities and Oracle Primavera.

According to Ms. Moayed, because SFPUC operations currently use Oracle products extensively, it would be both infeasible and expensive to convert to a different software system at this time. Further, based on the SFPUC's 10-Year Financial Plan, Ms. Moayed anticipates that SFPUC will require additional licenses to support the various projects listed above.

Currently, the SFPUC has two software support contracts directly with Oracle. Neither contract required Board of Supervisors approval, because the contracts are for less than \$10 million and 10 years. The SFPUC could continue amending these contracts to support existing licenses, but Oracle will not allow an amendment to purchase new licenses under either contract.

According to Ms. Moayed, the SFPUC worked with the Department of Technology (DT) in 2016 to initiate a citywide Oracle software enterprise agreement. However, DT was unable to determine citywide needs across all City departments. The SFPUC then attempted to negotiate a new contract with Oracle on its own, but was unsuccessful because Oracle would not accommodate many of the contractual requirements imposed by the City.

In June 2017, the SFPUC issued a Request for Proposals (RFP) for the purchase of Oracle Utilities, Primavera, Database and Weblogic licenses, and corresponding software support, for a period of up to five years. SFPUC requested that bidders were (1) an Oracle Platinum Level Partner, (2) offered multiple lines of Oracle products and services, and (3) had resell rights to Primavera, Oracle Utility, and Oracle Cloud. Two bids were received, as follows:

1. Mythics, Inc. - \$11,832,969
2. DLT Solutions LLC - \$13,175,174

Mythics was deemed to be the lowest responsive bidder.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the agreement between SFPUC and Mythics, Inc. (Mythics) for the purchase of as-needed Oracle Utilities, Primavera, Database and Weblogic licenses and software support.

The agreement amount is for not-to-exceed \$11,832,969 and consists of a combination of:

- (a) As-needed software support for existing perpetual Oracle licenses in the amount of \$2,649,991;
- (b) As needed new perpetual Oracle licenses in the amount of \$4,473,726, and corresponding software support in the amount of \$3,010,822; and
- (c) As-needed new cloud-based licenses in the amount of \$1,698,431.

The term of the agreement is up to 5 years, 3 months, and 23 days. The agreement is expected to begin on November 30, 2017 and end on March 22, 2023. The two current contracts with Oracle have different ending dates, so portions of the Mythics contract would have different starting dates, but all end on the same date.

The software licenses and support would be purchased on an as-needed basis. SFPUC sets a software budget in its two-year budget, as appropriated by the Board of Supervisors, and

typically estimates its purchasing needs each year. Should SFPUC not require the full volume of licenses specified in the contract, other City departments would be able to purchase them at the same negotiated rate directly from Mythics. According to Ms. Moayed, the Human Services Agency and Municipal Transportation Agency have both expressed interest in using the licenses for relatively small software purchases in the short term. In the long term, these departments anticipate developing their own software agreements similar to the subject agreement.

FISCAL IMPACT

The not-to-exceed cost breakdown of the license and support agreement on an annual basis is shown in Table 2 below. Due to the lengthy procurement and contract negotiation process, SFPUC developed a comprehensive list of all software licenses and support possibly needed over five years, to avoid having to go through the process again for relatively small purchases. The SFPUC does not expect that it will need the full number of licenses allowed in the agreement and their associated support. According to Ms. Moayed, the total cost over five years will likely be less than the not-to-exceed amount of \$11,832,969.

Table 2: Cost Breakdown of Software License and Support Agreement

| Expense | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| Software Support for Existing Licenses | \$602,491 | \$489,408 | \$504,090 | \$519,213 | \$534,789 | \$2,649,991 |
| Purchase of New Licenses | 842,647 | 867,926 | 893,964 | 920,783 | 948,406 | 4,473,726 |
| Software Support for New Licenses | 185,382 | 381,887 | 590,016 | 810,288 | 1,043,247 | 3,010,822 |
| New Cloud-Based Licenses | 112,323 | 224,647 | 336,970 | 452,663 | 571,827 | 1,698,431 |
| Total | \$1,742,843 | \$1,963,868 | \$2,325,040 | \$2,702,948 | \$3,098,270 | \$11,832,969 |

**Year 1 comprises a period of nearly 16 months, from November 30, 2017 through March 23, 2019. Totals may not add due to rounding.*

The cost of support for existing licenses is approximately 5 percent less than the current agreement with Oracle. According to Ms. Moayed, Mythics is able to provide bulk discounts that would not be available directly from Oracle to the SFPUC.

There is sufficient funding in SFPUC's FY 2017-18 budget to cover the amount of \$1,742,843 in the first year of the agreement. Funding for years 2 through 5 of the agreement would be subject to future Board of Supervisors appropriation approval.

POLICY CONSIDERATION

As noted above, SFPUC originally worked with DT to negotiate a citywide Oracle software enterprise agreement but DT was unable to determine citywide needs across departments. According to Mr. Leo Levenson, DT Deputy Director of Finance and Administration and Chief Financial Officer, Oracle contracts are particularly difficult to negotiate due to issues with liability, indemnification, technical specifications, upselling, and unexpected price increases. According to Mr. Levenson, larger departments like SFPUC may prefer to negotiate their own contracts rather than wait for DT to coordinate and assess the needs of smaller departments. As an alternative to a citywide enterprise agreement, Mr. Levenson suggests including contract provisions allowing any city department to purchase licenses at the negotiated rate, as included in the proposed agreement between SFPUC and Mythics.

RECOMMENDATION

Approve the proposed resolution.