


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

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**TO:** Budget and Finance Sub-Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** March 16, 2016 Budget and Finance Sub-Committee Meeting

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<b>Item 2</b> <b>File 16-0097</b>	<b>Department:</b> Controller's Office (Controller)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize the tenth amendment to the original license and software agreement between the City of San Francisco and Oracle America, Inc. (Oracle) for Oracle to continue to provide the City with needed software licenses and maintenance related to the eMerge system. The proposed amendment would extend the agreement term by five years from April 23, 2016 through April 22, 2021, and increase the total not-to-exceed amount by \$4,300,892, from \$9,986,845 to \$14,287,737.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The City entered into a license and software agreement with Oracle in 2007, following a competitive Request for Proposals process, to support implementation of the eMerge system. Under the license and software agreement, Oracle granted the City non-exclusive, royalty-free, perpetual limited right to use Oracle's programs and receive services for the City's eMerge system. The eMerge system was launched in 2012 and processes all of the City's human resources, benefits, and payroll transactions.</li> <li>• The original license and software agreement with Oracle has been amended nine times; each of the nine amendments is a software license and maintenance agreement extending the term of the original license and software agreement by one year and increasing the not-to-exceed amount to cover expenditures for the additional year. The ninth amendment extended the agreement through April 22, 2016 and increased the not-to-exceed amount to \$9,986,845.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Out of the presently authorized not-to-exceed amount of \$9,986,845, \$9,757,446 has been expended to date on the license and software agreement with Oracle, with a final payment of \$221,245 to be paid on April 22, 2016, for a total amount spent of \$9,978,690.</li> <li>• The requested not-to-exceed amount of the proposed amendment to the agreement with Oracle is \$4,300,892 over the five year extension. The Controller's Office will request an appropriation from the Board of Supervisors for the agreement with Oracle in its FY 2016-17 and FY 2017-18 budget.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a City department that has a term of more than ten years, or expenditures of \$10 million or more, or an amendment to such contract of more than \$500,000, is subject to Board of Supervisors approval.

City Administrative Code Section 21.30 authorizes City departments to enter into perpetual, nonexclusive software licensing agreements of less than \$10 million without Board of Supervisors approval. According to Administrative Code Section 21.30(d), where a vendor has proprietary rights to software or where maintenance of equipment by a particular vendor is required to preserve a warranty, any software support and equipment maintenance agreements entered into with that vendor can be awarded on a sole source basis subject to approval by the Purchaser.

## BACKGROUND

The City's Department of Human Resources entered into a license and software agreement with Oracle America, Inc. (Oracle) in 2007 following a competitive Request for Proposals (RFP) process to support implementation of the Project eMerge. Under the license and software agreement, Oracle granted the City non-exclusive, royalty-free, perpetual limited right to use Oracle's programs and provide maintenance services to the eMerge system.

The eMerge system replaced three obsolete systems.<sup>1</sup> The eMerge system processes all of the City's human resources, benefits, and payroll transactions. Responsibility for eMerge was transferred from the Department of Human Resources to the Controller's Office in 2009, where it became the eMerge Division of the Controller's Office. The system was launched in 2012. The system has over 6,000 direct users and performs two core functions: 1) processing biweekly payroll of approximately \$125,000,000 for approximately 30,000 employees of the City; and 2) processing benefits for 110,000 employees, dependents, retirees and survivors of the City and the San Francisco Unified School District.

The Department of Human Resources entered into the first amendment to the license and software agreement with Oracle in November 2007, implementing a software license and maintenance agreement for a term of one year from November 2007 to November 2008, renewable annually at the City's option, in a not-to-exceed amount of \$3,940,756. The original license and software agreement with Oracle has been amended nine times; each of the nine amendments is a software license and maintenance agreement extending the term of the original license and software agreement by one year and increasing the not-to-exceed amount to cover expenditures for the additional year. The ninth amendment extended the agreement through April 22, 2016 and increased the not-to-exceed amount to \$9,986,845. The original license and software agreement and all subsequent amendments did not require Board of

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<sup>1</sup> Oracle's PeopleSoft Human Capital Management System (eMerge) replaced (1) the City's payroll system (GEAC), (2) human resources system and benefits system (PeopleSoft 7.5), and (3) time entry system (TESS).

Supervisors approval because the not-to-exceed amount of the agreement was less than \$10,000,000.

### DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the tenth amendment to the original license and software agreement between the City and Oracle for Oracle to continue to provide the City with needed software licenses and maintenance services required to support the eMerge system. The proposed amendment would extend the agreement term by five years from April 23, 2016 through April 22, 2021, and increase the total not-to-exceed amount by \$4,300,892, from \$9,986,845 to \$14,287,737.

According to Mr. Dennis McCormick, Acting Director of the eMerge Division of the Controller's Office, the original software and license agreement between Oracle and the City is a non-exclusive, perpetual limited rights agreement for the City to use Oracle's software for the eMerge system, as allowed by Administrative Code Section 21.30. Under the amendments to the software and license agreement, Oracle grants an annual software license to the City and provides software maintenance services, consistent with Administrative Code Section 21.30(d).

According to Mr. McCormick, the Controller's Office chose to amend the agreement to extend the term by five years, rather than one year as had been done nine times previously, because the City has added functions to the eMerge system, including (1) purchasing the Oracle Financials system that will replace the City's Financial and Accounting Management Information System (FAMIS), (2) updating software to PeopleSoft 9.2, and (3) expanding Oracle's online training program, eLearning, and (4) potentially expanding the pilot of the ePerformance program currently underway.

### FISCAL IMPACT

According to data provided by the Controller's Office, out of the presently authorized not-to-exceed amount of \$9,986,845, \$9,757,446 has been expended to date on the license and software agreement with Oracle, with a final payment of \$221,245 to be paid on April 22, 2016, for a total amount spent of \$9,978,690. This leaves an unexpended balance of \$8,154 under the existing total not-to-exceed amount of \$9,986,845.

Under the last year of the existing agreement, the software license and maintenance support cost is \$803,688 per year. Under the proposed tenth amendment to the agreement, this cost will increase by \$56,491 or approximately 7 percent, to \$860,179 per year. According to Mr. McCormick, the increase is due to (a) allocating license amounts to this agreement that were previously under a separate purchase order (\$5,919); (b) an increase in the number of employees using the eMerge system (\$25,121); and (c) an adjustment based on the Consumer Price Index, which increased the contract for a fixed rate over five years (\$25,451).

The total requested not-to-exceed amount of the proposed tenth amendment to the agreement with Oracle is \$4,300,892 over the five year extension, as shown in Table 1 below. Mr. McCormick states that the Controller's Office will request an appropriation from the Board

of Supervisors for agreement with Oracle in its FY 2016-17 and FY 2017-18 budget. The first payment under this requested amendment will not be due until FY 2016-17.

**Table 1: Increased Cost of Requested Tenth Amendment to Oracle Agreement**

<u>Year</u>	<u>Estimated Cost</u>
Year 1	\$860,179
Year 2	860,179
Year 3	860,179
Year 4	860,179
Year 5	860,179
<b>Total</b>	<b>\$4,300,892*</b>

\*Total may vary due to rounding

## RECOMMENDATION

Approve the proposed resolution.