

City & County of San Francisco
London N. Breed, Mayor



Office of the City Administrator
Carmen Chu, City Administrator
Michael Makstman, CIO & Executive Director
Department of Technology

Date: December 5, 2024

To: Clerk of the Board of Supervisors

From: Michael Makstman
City CIO, Executive Director
Department of Technology

Re: Approval of the First Amendment to the Citywide Enterprise Agreement with SSP Data, Inc. for Palo Alto Networks Products

The Department of Technology (DT) manages a Citywide Enterprise Agreement (EA) with SSP Data, Inc. for the purchase of Palo Alto Networks software products, equipment and maintenance (“Palo Alto Networks Products”). DT is seeking Board of Supervisors approval of the First Amendment to the EA to enable the City to continue to benefit from the discounts negotiated in 2023. The First Amendment will raise the not-to-exceed amount from approximately \$4.4 million to \$40.0 million and extend the term of the contract from June 30, 2026 to June 30, 2029. Approval is necessary because the amendment will cause the overall spending to exceed \$10 million.

Background

The proposed amended EA would cover all major Palo Alto Networks products for all City departments. Palo Alto Networks products enable City departments to purchase and install firewalls and software products that detect and adapt to cyber threats. These products deliver substantial value to the City at relatively low cost and fast speed. The scalability and flexibility of Palo Alto Networks products make them extremely valuable to the City for cyber defense and security.

The current agreement has a three-year term from June 1, 2023, to June 30, 2026. Because of successful negotiation by DT, the agreement now includes a 50% minimum discount on core products and no mark-up from the reseller. To this end, City departments who initially purchased their equipment with considerable markup in the Technology Marketplace now want to leverage the discount through DT’s EA. The City departments were initially projected to spend approximately \$1 million per year, but spending has accelerated because numerous departments are refreshing their equipment and purchasing additional licenses at an estimated \$3-5 million dollars per year. Spending under the contract will reach the not-to-exceed amount prior to the end of the contract term. Absent an increase in the not to exceed amount, City departments will have to purchase all firewall equipment through the Technology Marketplace or through public bidding, which is extremely time consuming especially when the equipment requires a six to eight week lead time before being shipped.

SSP Data Inc. was selected pursuant to San Francisco Administrative Code Section 21 bidding.

Summary of Proposed First Amendment

The First Amendment would make the following changes to the current EA:

- Extend the end of the term by three years from June 30, 2026, to June 30, 2029.
- Increase the not-to-exceed amount from \$4.353 million to \$40 million.

DT based this new not-to-exceed amount on the following factors:

- The City's expected cost for subscriptions to hardware and software maintenance for the next five years is \$15.877 million (Table 1), which is a 20% discount on top of the discount negotiated in the original agreement. The estimated saving is \$382,964 for FY24-25 or \$4,380,267 for the next four and a half years.
- The estimated current rate of spending of \$3-5 million dollars a year for equipment refresh for all city departments in the next five years. The estimated saving is a minimum of \$2M /year.

Table 1: Citywide Subscriptions to Hardware and Software Maintenance



City and County
of San Francisco



| Agency | Year 2 Balance (7 Months) | Year 3 (12 Months) | Year 4 (12 Months) | Year 5 (12 Months) | Year 6 (12 Months) |
|--|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| San Francisco Public Utilities Commission | \$310,560.59 | \$532,389.58 | \$553,685.16 | \$575,832.57 | \$598,865.87 |
| San Francisco Police Department | \$81,753.33 | \$140,148.56 | \$145,754.50 | \$151,584.69 | \$157,648.07 |
| Hetch Hetchy Water & Power | \$26,515.48 | \$45,455.11 | \$47,273.31 | \$49,164.24 | \$51,130.81 |
| San Francisco Public Library | \$222,973.53 | \$382,240.34 | \$397,529.95 | \$413,431.15 | \$429,968.40 |
| Cal Academy of Science | \$61,639.55 | \$105,667.81 | \$109,894.52 | \$114,290.30 | \$118,861.91 |
| City College of San Francisco | \$50,542.52 | \$86,644.32 | \$90,110.09 | \$93,714.49 | \$97,463.07 |
| San Francisco Water Emergency Transport | \$4,779.40 | \$8,193.26 | \$8,521.00 | \$8,861.83 | \$9,216.31 |
| San Francisco Fine Arts Museum | \$24,744.59 | \$42,419.29 | \$44,116.06 | \$45,880.70 | \$47,715.93 |
| Asian Art Museum | \$18,088.22 | \$31,008.38 | \$32,248.72 | \$33,538.66 | \$34,880.21 |
| Superior Court of California County of San Francisco | \$16,782.66 | \$28,770.27 | \$29,921.08 | \$31,117.93 | \$32,362.65 |
| San Francisco Unified School District | \$161,958.65 | \$277,643.41 | \$288,749.14 | \$300,299.11 | \$312,311.07 |
| San Francisco International Airport | \$296,207.71 | \$507,784.65 | \$528,096.03 | \$549,219.87 | \$571,188.67 |
| San Francisco Department of Technology | \$0.00 | \$1,250,000.00 | \$1,300,000.00 | \$1,352,000.00 | \$1,406,080.00 |
| Department of Emergency Management | \$0.00 | \$0.00 | TBD | TBD | TBD |
| Totals | \$1,276,546.23 | \$3,438,364.97 | \$3,575,899.57 | \$3,718,935.55 | \$3,867,692.97 |

Palo Alto Networks Enterprise Agreement Includes Platinum Level Support, Advanced Threat Prevention, Advanced URL, Advanced WildFire, GlobalProtect, SD-WAN, and DNS Subscriptions

Please be advised that the figures for years 4, 5, and 6 are budgetary estimates only and represent our best projections of the anticipated costs for those years

Price Reasonableness

The prices that DT has negotiated are favorable compared to alternative arrangements. After extensive negotiations, Palo Alto Networks and SSP Data agreed to an additional 20% discount for City subscriptions for an additional five years. In the absence of this amendment, City departments would have to purchase Palo Alto Networks products and licenses from the City's Technology Marketplace resellers. While these resellers most likely receive a 10% discount, this discount would be offset by an 8-10% markup from Technology Marketplace resellers. The result would be an increase cost for the City by more than 33%, from about \$3.4 - 3.9M million/year to \$4.6 - 5.1M million/year. The rates the City receives are also well below those received by other public sector entities. For example, the State of California has historically received a 5-10% discount and the National Association of State Procurement Officials has received a 5% discount.

Cost Control in the context of Increased Utilization

As the central administrator of this EA, DT offers City departments advisory services and has implemented a robust process to help departments minimize costs for Palo Alto Networks products. When departments are considering purchasing new Palo Alto Networks products or renewing their existing subscriptions, DT helps them: (1) identify the lowest cost product for their security needs and (2) minimize the number of licenses they need to purchase.

The contract has several benefits for the City:

1. **Discounts:** The City will receive a minimum 50% volume discount off list prices on core products. In the past, City departments typically received only a 0-33% discount.
2. **Efficiency:** Without this EA, 14 City departments and agencies would have to go through a lengthy procurement process, resulting in duplicative efforts by the City Attorney's Office, the Office of Contract Administration and the applicable departments. They would likely be subject to higher prices due to the loss of volume discounts available to the City as a whole.
3. **Greater transparency and more effective vendor management:** The City's spending on Palo Alto Networks products will be highly visible under one contract. The cost and vendor performance will be centrally monitored and actively managed.

Thank you for your consideration.

Sincerely,



Michael Makstman
City CIO | Executive Director
Department of Technology