

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: June 17, 2013 Budget and Finance Committee Meeting

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Item 1
File 13-0392

Department:
Department of Technology (DT)

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution authorizing the Department of Technology (DT) to enter into a Seventh Amendment to the Citywide 800 MHz Radio System Agreement, between the City and Motorola, Inc. to increase the contract amount to \$28,000,000 for the overall term of September 22, 1997 through September 21, 2017.

Key Points

- In 1996, based on the City's Invitation to Bid, Motorola was determined to be the sole qualified vendor to provide comprehensive services and equipment for the City's 800 MHz radio system. On August 25, 1997, the Board of Supervisors approved a resolution authorizing the City to enter into a \$9,999,999 initial agreement with Motorola to provide an 800 MHz Radio System for the City (Resolution 804-97) for the 10-year term from September 22, 1997 through September 21, 2007.
- On November 17, 2006, the Board of Supervisors approved an increase of \$10,000,001 or 100% to a not-to-exceed \$20,000,000 and extended the term by an additional ten years or through September 21, 2017. At the time of this approval, the Department of Technology estimated that City expenditure levels would remain consistent for the remaining life of the agreement.

Fiscal Impacts

- By October 24, 2006, or nine years into the initial Motorola contract, the City had expended a total of \$9.7 million, or an average of approximately \$1,077,778 per year. Between July 24, 2007 and January 4, 2013, a period of approximately five years and five months, the City paid Motorola a total of \$9,624,602, or an average of approximately \$1,779,039 per year. The \$1,779,039 average annual rate of expenditure over the past five years and five months is approximately \$701,261 or 65% higher than the average rate of expenditures between 1997 and 2006.

Policy Consideration

- (a) Motorola was the sole qualified vendor in 1996 who responded to the City's bid to provide the City's 800 MHz radio system, (b) in 2006, the Board of Supervisors increased the original sole source \$9,999,999 agreement by \$10,000,001 or 100% to a not-to-exceed \$20,000,000 and extended the term by ten years or through September 21, 2017, (c) the proposed resolution would authorize an additional \$8,000,000 or 40% increase from the existing \$20,000,000 to \$28,000,000 for the same term through September 21, 2017, (d) the average annual rate of expenditures over the past five years and five months was \$1,779,039, which is \$701,261 or 65% higher than the average rate of expenditures between 1997 and 2006, although the Department of Technology estimated that City expenditure levels would remain consistent, (e) the Department of Technology is not effectively managing the expenditures under the subject agreement, and (f) the Department of Emergency Management has included \$1,830,000 of General Funds in its FY 2013-14 and FY 2014-15 budgets for the replacement of this Motorola 800 radio system.

Recommendations

- Amend the proposed resolution to reduce the requested total not-to-exceed \$28,000,000 authorization to \$24,000,000, a reduction of \$4,000,000 and urge the Department of Technology to directly manage and monitor the expenditures under this agreement on an ongoing basis, such that the expenditures do not exceed the authorized amount.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

Charter Section 9.118(b) requires that any agreement entered into by a department which extends for ten or more years or has anticipated City and County expenditures of \$10,000,000 or more, or amendments to such agreements of \$500,000 or more be subject to approval by resolution of the Board of Supervisors.

Background

In 1996, Motorola was determined by the Purchaser to be the sole qualified vendor who responded to the City's Invitation to Bid to provide comprehensive services and equipment for the City's 800 MHz radio system¹. On August 25, 1997, the Board of Supervisors approved a resolution authorizing the City to enter into a sole source agreement with Motorola for a not-to-exceed \$9,999,999 to provide a comprehensive 800 MHz Radio System for the City (Resolution 80-497) for the ten-year term from September 22, 1997 through September 21, 2007.

This initial agreement was amended five times to incorporate various changes in definitions, warranties, scheduling and other revisions. As of October 24, 2006, or approximately nine years into the contract, the City had expended a total of \$9.7 million out of the original not-to-exceed \$9,999,999 agreement. On November 17, 2006, the Board of Supervisors approved a sixth amendment to the original agreement to increase the agreement by \$10,000,001 or 100% to a not-to-exceed \$20,000,000 and to extend the term of the agreement by an additional ten years or through September 21, 2017 for a total term of 20 years (Resolution 653-06). At the time of the approval of this additional \$10,000,001, the Department of Technology estimated that City expenditure levels would remain consistent with the initial 10 years \$9,999,999 agreement for the remaining life of the agreement, especially given a 27% favorable discount that was being provided by Motorola to the City.

The purpose of the 800 MHz Radio System is to provide push-to-talk voice communication between various departments and employees in the City. Under the existing Motorola agreement, the City has purchased 800 MHz radios, related equipment and batteries and ongoing radio maintenance services for various City departments, including the Airport, Department of Building Inspection (DBI), Department of Technology (DT), Department of Emergency Management (DEM), Fire Department, Municipal Transportation Agency (MTA), Police Department, and the Public Utilities Commission (PUC). According to Ms. Kendall Gary,

¹ The 800 MHz radio frequency band was the standard radio signal for emergency services nationwide, including police, fire, sheriff, 911 dispatch and other emergency communications activities.

Director of Technology Procurement for the Department of Technology, since 1997, the City has purchased approximately 12,000 800 MHz radios under the subject contract with Motorola and currently has approximately 11,000 800 MHz radios in use.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Department of Technology (DT) to enter into a Seventh Amendment to the Citywide 800 MHz Radio System Project Agreement, between the City and Motorola, Inc. to increase the authorized amount by \$8,000,000 or 40% from the existing \$20,000,000 to the proposed not-to-exceed \$28,000,000 for the same existing term of 20 years from September 22, 1997 through September 21, 2017. In addition, the proposed Seventh Amendment would update language in the City's Agreement with Motorola to be consistent with the City's existing policies and procedures regarding insurance, indemnity, the Health Care Accountability Ordinance, Minimum Compensation Ordinance and Campaign and Government Conduct Code requirements.

FISCAL IMPACTS

According to Ms. Gary, the proposed additional \$8,000,000 would be expended as follows:

• Replace and repair existing radios and various dispatch equipment	\$5,400,000
• Replace related radio equipment, including batteries, antennas, speakers	800,000
• System technical support for 8 radio transmission sites	800,000
• Airport radio purchase and infrastructure replacement and upgrade	<u>1,000,000</u>
Total	\$8,000,000

According to Ms. Dina Quesada, Manager of ITT Business Services at the San Francisco Airport, the requested not-to-exceed \$1,000,000 for the Airport includes approximately \$505,500 for upgraded 700 MHz interoperability radio equipment to be purchased over the next two fiscal years and approximately \$494,500 for annual maintenance and parts replacement and related costs over the next four fiscal years. Mr. Mike Dilallo, Senior Communications System Tech at the Airport advises that the Airport currently operates its radios on both the older 800MHz and the newer 700 MHz broadcast frequencies, such that the requested additional funds would be used to purchase six upgraded consoles which enable digital audio communication which is consistent with the newer 700 MHz radios.

Based on information provided by the Controller's Office, the Table below identifies a total of \$9,624,602 in payments made by various City departments to Motorola from July 24, 2007 through January 4, 2013 for equipment purchases and maintenance services. As shown in the Table below, the Department of Technology, with expenditures totaling \$4,572,990, is the largest equipment purchaser and maintenance user under the subject Motorola contract. However, Ms. Gary advises that because the City's Radio Shop is located in the Department of

Technology, most of the equipment purchases and maintenance services are performed by the Department of Technology on behalf of other City departments. However, Ms. Gary could not provide a breakdown of the City departments that purchased equipment or services through the Department of Technology under the subject Motorola agreement.

Table: City Payments to Motorola from July 24, 2007 through January 4, 2013

Departments	Equipment Purchases	Maintenance	Total
Airport	\$2,322,802	\$133,396	\$2,456,198
Building Inspection		8,611	8,611
Department of Technology	3,561,160	1,011,831	4,572,990
Department of Emergency Management	666,831	151,020	817,851
Fire Department	260,359		260,359
Municipal Transportation Agency	236,297	4,530	240,827
Police Department	1,171,131		1,171,131
Public Utilities Commission	96,635		96,635
Total	\$8,315,215	\$1,309,387	\$9,624,602

As shown in the Table above, between July 24, 2007 and January 4, 2013, a period of approximately five years and five months, the City paid Motorola a total of \$9,624,602, or an average of approximately \$1,776,850 per year. However, as noted above, as of October 24, 2006, or approximately nine years into the initial Motorola contract, the City had expended a total of \$9.7 million, or an average of approximately \$1,077,778 per year. The \$1,776,850 average annual rate of expenditure over the past five years and five months is approximately \$699,072 or approximately 65% higher than the average rate of expenditures of \$1,077,778 from 1997 through 2006.

According to Ms. Gary, expenditures are presently occurring at a faster rate because (a) the Motorola radios only have a useful life of approximately five years, (b) 60% of the radios are beyond their useful life, and (c) the newer radios are more expensive than the older models. However, as noted above, in November 2006, when the additional \$10,000,001 was added to the existing Motorola contract, the Department of Technology estimated that City expenditure levels would remain consistent for the remaining life of the agreement, especially given a 27% favorable discount that was being provided by Motorola to the City.

Ms. Gary could not provide a specific allocation of the funding sources to pay for the subject \$8,000,000 increase in the Motorola contract. However, Ms. Gary advises that each City department that requires these Motorola radios, equipment and maintenance includes the requested funds in their annual budgets, such that the sources of revenues to pay for the subject agreement include the City's General Fund (Police, Fire, Municipal Transportation Agency) as well as Enterprise Funds (Airport, Building Inspection, Public Utilities Commission). The Department of Technology costs are allocated through work orders to individual City departments.

POLICY CONSIDERATIONS

Management of the Motorola Contract

Currently, the Office of Contract Administration (OCA) maintains the blanket purchase order for equipment purchases and maintenance services under the subject Motorola contract. At the same time, the Department of Technology operates the City's Radio Shop and is responsible for overseeing the existing contract authorization for the not-to-exceed \$20,000,000 agreement with Motorola as well as the proposed increase to a not-to-exceed \$28,000,000 agreement. However, the Department of Technology could not identify the level of costs that were incurred each year by each City department nor could the Department of Technology identify the type of radio equipment, the specific number of radios, or the maintenance services requested. Ms. Gary advises that she is currently discussing ways to better manage the subject agreement with Motorola in order to properly account for the agreement expenditures.

City's Information and Communication Technology (ICT) Plan

On April 16, 2013, the Board of Supervisors approved a resolution adopting the City's Five Year Information and Communication Technology (ICT) Plan for FY 2013-14 through FY 2017-18, in accordance with City Administrative Code Section 22A.6 (Resolution 116-13; File 13-0230). This recently approved ICT Plan identifies \$69 million as the initial estimated cost to replace the City's 800 MHz radio voice push-to-talk communications system, which the ICT Plan notes is nearing the end of its service life. The ICT Plan also discusses the need to shift IT funding from older IT projects to support new IT projects and for COIT to review all project requests with the financial strategies identified. The ICT Plan does not mention the need to increase the existing Motorola 800 MHz contract by an additional \$8 million, which is the subject of the proposed resolution. Furthermore, the ICT Plan identifies the 800 MHz radio replacement project as a priority project and recommends that COIT fund critical project development to replace the 800 MHz radios for FY 2013-14 and FY 2014-15, with regular reports back on the scope, budget and timeline for implementation.

The Department of Emergency Management (DEM) has included General Fund budget requests of \$930,000 in FY 2013-14 and \$900,000 in FY 2014-15, for a total General Fund expenditure of \$1,830,000, which includes the creation of one new 0932 Project Manager position, to initiate planning for the replacement of the City's 800 MHz radio system. These budget requests are currently pending before the Board of Supervisors Budget and Finance Committee. In their request, DEM advises that Motorola will no longer support the existing 800 MHz radio system after 2018. As noted above, the existing agreement and the proposed Seventh Amendment to the agreement with Motorola expires September 21, 2017.

Summary

Given that (a) Motorola was determined by the City to be the sole qualified vendor in 1996 who responded to the City's bid to provide the City's 800 MHz radio system, (b) on November 17, 2006, the Board of Supervisors increased the original sole source \$9,999,999 agreement by \$10,000,001 or 100% to a not-to-exceed \$20,000,000 and extended the term by ten years or through September 21, 2017, (c) the proposed resolution would authorize an additional \$8,000,000 or 40% increase from the existing \$20,000,000 to the proposed not-to-exceed

\$28,000,000 for the same term through September 21, 2017, (d) the average annual rate of expenditures over the past five years and five months was \$1,776,850, which is approximately \$699,072 or approximately 65% higher than the average annual rate of expenditures between 1997 and 2006, although the Department of Technology estimated that City expenditure levels would remain consistent for the remaining life of the agreement, (e) the Department of Technology is not effectively managing the expenditures under the subject agreement, as the Department cannot identify the type of radio request, the specific number of radios acquired or the maintenance service requested, and (f) the Department of Emergency Management has included \$1,830,000 of General Fund monies in its FY 2013-14 and FY 2014-15 budgets to plan for the replacement of the subject Motorola 800 MHz radio system, the Budget and Legislative Analyst questions the reasonableness of authorizing an additional \$8 million under the existing Motorola contract.

However, given that the City has fully expended the existing \$20,000,000 authorized amount, and that a new replacement for the outdated Motorola 800 MHz radio system will not be available for several years, the Budget and Legislative Analyst recommends that the Budget and Finance Committee reduce the requested additional \$8,000,000 authorization, or total authorized amount not-to-exceed \$28,000,000 to \$24,000,000, a reduction of \$4,000,000 and urge the Department of Technology to directly manage and monitor the expenditures under this agreement on an ongoing basis to ensure that the expenditures do not exceed the authorized amount.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the requested total not-to-exceed \$28,000,000 authorization to \$24,000,000, a reduction of \$4,000,000, and urge the Department of Technology to directly manage and monitor the expenditures under this agreement on an ongoing basis, such that the expenditures do not exceed the authorized amount.
2. Approve the proposed resolution as amended