



City of Chula Vista

Staff Report

File#: 16-0373, **Item#:** 4.

RESOLUTION NO. 2016-172 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA AUTHORIZING THE CITY MANAGER TO ACT ON BEHALF OF THE CITY TO NEGOTIATE AND EXECUTE AN AGREEMENT WITH TYLER TECHNOLOGIES, INC. FOR THE IMPLEMENTATION AND LEASING OF ENTERPRISE RESOURCE PLANNING SOFTWARE, AND APPROPRIATING FUNDS ACCORDINGLY (4/5 VOTE REQUIRED)

RECOMMENDED ACTION

Council adopt the resolution.

SUMMARY

The City's current financial system has been in place since 1998. City Staff has anticipated the need to procure a replacement of the financial accounting system with an Enterprise Resource Planning (ERP) system for some time. The Finance Department recently completed a competitive bid process for a new system. Tyler Technologies, Inc. was the low bidder and ranked as the best ERP solution of the qualified bidders to upgrade the system. Tyler proposed the Munis ERP system with utilization of cloud technology over a seven year contract period.

Tyler will replace more than the City's Integrated Financial Accounting System (IFAS). Due to the enhanced capabilities of the Tyler Munis system, the City will be able to replace other enterprise software systems which currently do not interface with IFAS. This will ultimately result in fewer enterprise software systems to be maintained (both hardware and software), fewer systems to train staff on, and a significant reduction in the duplication of work that occurs utilizing two systems which not no interface nor have proper work flow connecting the systems.

ENVIRONMENTAL REVIEW

Environmental Notice

The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

Environmental Determination

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

BOARD/COMMISSION RECOMMENDATION

Not Applicable

DISCUSSION

The City has utilized the SunGard IFAS Enterprise Resource Planning (ERP) System for nearly two decades. However, with the development and efficiency gains of public sector ERP systems in the last several years, IFAS, like many of its contemporaries, has essentially reached the end of its usable life when compared to modern ERP systems.

City Staff has explored multiple ways to elevate the organization's ERP capabilities, including exploring IFAS' successor ERP. Ultimately, Staff determined the best way to yield an optimal solution was a formal Request for Proposal (RFP) process that was conducted in spring 2016 to gain an understanding of the overall public sector ERP options. Four firms replied to the RFP with qualified bids, and each was scored by the Project Steering Committee. Tyler Technologies' Munis ERP, delivered via a cloud based platform called (SaaS) or Software as a Service was ranked unanimously as the first choice by the committee and was also the lowest bidder. Tyler Technologies is the largest public sector ERP provider in the nation and has been in the industry since 1966. The Munis solution is utilized throughout the nation by municipalities of similar size to Chula Vista. In addition, a number of other agencies within the County use it as well.

Tyler Munis will replace more than IFAS, given that a number of ancillary systems currently used in the City will also be phased out with the new ERP. The enhanced capabilities of the Tyler Munis system will allow the City to replace other enterprise software systems which currently do not interface with IFAS. This will ultimately result in fewer enterprise software systems to be maintained (both hardware and software), fewer enterprise systems to train staff on, and a significant reduction in the duplication of work that occurs utilizing two systems which do not interface nor have proper work flow connecting the two systems. The Munis modules/functions to be implemented include: General Accounting, Accounts Receivable, Cash Management, Employee Expense Reimbursement, Fixed Assets, General Billing, HR Management, Business Analytics & Reporting, Payroll, Project & Grant Accounting, Purchasing, Cashiering, and Forms Processing.

Staff has received an on-site demonstration from Tyler on the Munis SaaS ERP, and is convinced it represents the City's best opportunity to move forward with advanced ERP technology. Additionally, Staff has pared back the original Tyler proposal to only the ERP modules that City Staff can fully utilize in an effort to control project costs and maximize short-term use of the system, as referenced above.

The proposed Munis ERP via SaaS agreement is for a period of seven (7) years at a total estimated cost of \$2,600,564. The agreement is structured to auto-renew annually for one-year terms, after the initial seven-year period, at the then-current SaaS fee. However, the City does have the ability to terminate the agreement after this initial period with a 60 day notice to Tyler. The seven year total estimated cost is broken down over the initial contract duration as follows:

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| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | All Years |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| | FY 2016/17 | FY 2017/18 | FY 2018/19 | FY 2019/20 | FY 2020/21 | FY 2021/22 | FY 2022/23 | |
| Munis software lease via SaaS | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$2,183,061 |
| Implementation Consulting Costs | \$237,831 | \$108,214 | \$0 | \$0 | \$0 | \$0 | \$0 | \$346,045 |
| Misc. Forms, Conversions & Hardware | \$71,452 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$71,452 |
| Total Costs | \$621,150 | \$420,081 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$2,600,567 |

Staff is requesting budget amendments reallocating existing appropriations to finance the fiscal year 2016-17 (Year 1) expenses of \$621,150. In Years 2 - 7, expenditure savings created by eliminating other systems and staff-time savings due to increased efficiency in operations will offset the cost of the new system resulting in no net impacts to the General Fund.

DECISION-MAKER CONFLICT

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the 500-foot rule found in California Code of Regulations Title 2, section 18702.2(a)(11), is not applicable to this decision for purposes of determining a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. Procurement of this ERP will greatly enhance the City's operational efficiency and accuracy, thereby increasing its ability to provide great customer service to all of its stakeholders, most notably, its citizens, which in turn contributes to greater Operational Excellence and Economic Vitality.

CURRENT YEAR FISCAL IMPACT

Finance Staff has worked diligently to bring forward a new ERP system agreement with no net fiscal impact to the General Fund. The cost is proposed to be financed via budget amendments of existing appropriations as follows. The cost of the new ERP technology in the first year is anticipated to total \$621,150, of which \$515,753 is the General Fund share and \$105,397 is Other Funds share.

General Fund - The General Fund's share of the first year cost is \$515,753. Included in the fiscal year 2015-2016 adopted budget was \$159,316 to fund a Non-CIP Project for an ERP upgrade (Project 4126110100). This funding is still available and reduces the amount needed in the General Fund to \$356,437.

Staff is recommending the following budget amendments to the fiscal year 2016-2017 General Fund budget to fund the remaining General Fund portion.

| Department | Description | Expense | Revenue | Net Cost |
|---------------------------|--|--------------|-------------|-------------|
| Non-Departmental | Increase in Non-CIP Project Expenditure Category for New ERP | \$ 356,437 | \$ - | \$ 356,43 |
| Non-Departmental | Decrease in Transfers Out category as of COP Refundings (2006 and 2010) | \$ (126,683) | \$ - | \$ (126,68 |
| Various | Decrease in Personnel Services due to unanticipated Personnel Services savings | \$ (229,754) | \$ - | \$ (229,75 |
| TOTAL GENERAL FUND | | \$ - | \$ - | \$ - |

The City is recognizing savings as a result of the City successfully refinancing various Certificates of Participations (COPs). Staff is requesting this savings be transferred, in the amount of \$126,683, from the Transfer Out category to the Non-CIP Project Expenditure category of the Non-Departmental budget.

Staff is also requesting a transfer of \$229,754 from Personnel Services in various departments to the Non-CIP Project Expenditure category of the Non-Departmental budget. This transfer is as a result of unanticipated savings within the Personnel Services category.

The above recommended changes in the General Fund will result in a no net impact.

Other Funds (Environmental Services Fund, Development Services Fund, Sewer Service Revenue Fund, 2004 COP and 2006 COP) -Staff has identified unanticipated savings within the Personnel Services category of each fund. Staff is requesting that the Personnel Services savings be transferred to the Non-CIP Project Expenditure category of each fund to fund its share of the new ERP system.

Also requested at this time are adjustments to various COP funds in order to balance the interfund-Transfers related to the refinancing of various COPs as mentioned above.

The following budget amendments are recommended to the fiscal year 2016-2017 Other Funds budgets. The recommended changes in the Other Funds results in no net impact to the funds.

| Fund | Description | Expense | Revenue | Net Cost |
|-----------------------------|--|---------------------|---------------------|-------------|
| Environmental Services Fund | Transfer of \$5,478 in Personnel Services to Non-CIP Project Expenditures | \$ - | \$ - | \$ - |
| Development Services Fund | Transfer of \$32,281 in Personnel Services to Non-CIP Project Expenditures | \$ - | \$ - | \$ - |
| Sewer Service Revenue Fund | Transfer of \$67,638 in Personnel Services to Non-CIP Project Expenditures | \$ - | \$ - | \$ - |
| 2006 COP | Reductions as a result of savings achieved from COP Refinancing | \$ (12,758) | \$ (12,758) | \$ - |
| 2010 COP | Reductions as a result of savings achieved from COP Refinancing | \$ (113,925) | \$ (113,925) | \$ - |
| TOTAL OTHER FUNDS | | \$ (126,683) | \$ (126,683) | \$ - |

ONGOING FISCAL IMPACT

The proposed agreement is for an initial period of seven (7) years with an estimated total cost of \$2.6 million. After the initial period, the agreement is structured to auto-renew at the then-current SaaS fee, however the City has the ability to terminate the agreement at that time with 60 days' notice to Tyler. The table below outlines the ongoing fiscal impact of the agreement in the initial period (Years 1 - 7.) After the Year 1 budget amendments, the ERP system is anticipated to fully fund itself through the retirement of legacy information technology systems and staff-time efficiency gains.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | All Years |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------|
| | FY 16/17 | FY 17/18 | FY 18/19 | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 | |
| Munis software lease via SaaS | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$2,183,067 |
| Implementation Consulting Costs | \$237,831 | \$108,214 | \$0 | \$0 | \$0 | \$0 | \$0 | \$346,045 |
| Misc. Forms, Conversions & Hardware | \$71,452 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$71,452 |
| Total Costs | \$621,150 | \$420,081 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$311,867 | \$2,600,564 |
| Bond Refunding Savings | (\$126,683) | (\$100,000) | \$0 | \$0 | \$0 | \$0 | \$0 | (\$226,683) |
| Legacy Systems Savings | \$0 | (\$155,933) | (\$311,867) | (\$311,867) | (\$311,867) | (\$311,867) | (\$311,867) | (\$1,715,267) |
| Misc. Savings/New Revenue | (\$494,467) | (\$164,147) | \$0 | \$0 | \$0 | \$0 | \$0 | (\$658,614) |
| Total Estimated Savings | (\$621,150) | (\$420,081) | (\$311,867) | (\$311,867) | (\$311,867) | (\$311,867) | (\$311,867) | (\$2,600,564) |
| Projected Net Fiscal Impact | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

Appropriations for the remaining contract amounts (Years 2 - 7) will be considered by the City Council as part of the normal budget process for the remaining years. Again, Staff anticipates that the savings generated due to existing systems replacement upon full implementation will result in no fiscal impacts.

ATTACHMENTS

Tyler Technologies, Inc. Sales Quote

Staff Contact: Mike Sylvia, MBA, CPFO, Finance & Purchasing Manager