



ADMINISTRATIVE REPORT

Report Date: May 31, 2018
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Meeting Date: June 20, 2018

TO: Standing Committee on Policy and Strategic Priorities
FROM: Deputy City Manager and Chief Procurement Officer
SUBJECT: Contract Award for Microsoft Enterprise Agreement

RECOMMENDATION

- A. THAT Council authorize City staff to negotiate to the satisfaction of the City's Deputy City Manager, Director of Legal Services, and Chief Procurement Officer, and enter into a contract with Microsoft Corporation ("Microsoft"), for a Microsoft Enterprise Agreement ("Enterprise Agreement"), for a term of three years, with the option to renew for a subsequent three years, with an estimated contract value of \$6,300,000, plus applicable taxes over the initial three-year term.
- B. THAT Council approve a multi-year capital project budget of \$6,300,000 for the Enterprise Agreement; source of funding to be:
 - i. \$600,000 to be reallocated from the 2015-2018 Capital Budget for Information Technology Infrastructure Maintenance, Upgrades, and Expansion;
 - ii. \$3,300,000 from accumulated surplus funding (capital from revenue) from prior closeouts of Technology Services capital projects; and
 - iii. \$2,400,000 from the Computer Equipment Reserve, to be added to the 2015-2018 Capital Plan;

FURTHER THAT expenditures for 2018 will be managed within the current overall Annual Capital Expenditure Budget; expenditures for 2019 and subsequent years will be brought forward as part of the annual budget process.

- C. THAT the City's Director of Legal Services, Chief Procurement Officer and Deputy City Manager be authorized to execute, on behalf of the City, the contract contemplated by Recommendation A.

- D. THAT no legal rights or obligations will be created by Council's adoption of Recommendation A unless and until such contract is executed by the authorized signatories of the City as set out in Recommendation C.

REPORT SUMMARY

The City has identified a technology gap with its Microsoft products and services. The City is currently on a Microsoft Select Plus Agreement ("Select Plus Agreement"). This Select Plus Agreement is no longer meeting the City's needs and there is an opportunity to improve the product offering for the City. The City engaged Microsoft directly in accordance with the City's Procurement Policy ADMIN-008 to explore how best to fill the technology gap in a manner that also optimized value for money. Through these discussions, and in consultation with other Lower Mainland municipalities and an external IT consultant, Technology Services identified the Enterprise Agreement as the optimal solution for the City. Under an Enterprise Agreement, the City benefits from the same pricing and terms and conditions negotiated by the Province of British Columbia under its Enterprise Agreement. The pricing obtained by the City under the Enterprise Agreement is the lowest pricing given by Microsoft to a governmental body.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

The City's Procurement Policy ADMIN-008 requires that contracts with values over \$2 million must be approved by Council following review and recommendations by the Bid Committee. The Bid Committee has considered and recommends that the City enter into an Enterprise Agreement with Microsoft.

REPORT

Background/Context

Technology Services provides computers that run the Microsoft Windows operating system and the Microsoft Office suite of productivity tools which includes Word, Excel, PowerPoint, and Outlook that City staff regularly use to perform their work. The City also relies on Microsoft's database and server technologies (e.g. Windows Server, SharePoint, SQL Server) in its data centres. These technologies are foundational to the City's entire array of technology based systems and applications; they underpin the City's public facing website and applications, and are relied upon by City staff to provide many of the City's services to its residents and businesses. At present, the City purchases licensing and annual maintenance on some of these products under a Select Plus Agreement.

The major concerns associated with the current Select Plus Agreement, and how the City purchases software under it include:

- Inability to upgrade to the most current version of Microsoft Office because the City is not paying for annual Software Assurance.
- The City must purchase the next version of Microsoft Office when the current version reaches end of life, Microsoft Office 2010 support will end October 2020.
- Inability to access planning services, security patches, training vouchers and the "Home Use Program" for licensed users.

- Using a mixture of vendor technologies and many manual steps results in lack of automation and agility to respond to service requests.
- Windows Pro operating system lacks modern security and management functions impacting Technology Services ability to deliver services.
- Select Plus does not allow for annual true ups, which incurs the administrative burden of hundreds of micro-purchases every year.
- License and annual maintenance costs for purchasing Microsoft products are approximately 25% more expensive under a Select Plus Agreement than the same products under an Enterprise Agreement.

A major change with a move to an Enterprise Agreement with Microsoft is that the City would switch to paying annual maintenance (which Microsoft calls “Software Assurance”) on all Microsoft licensed products used by the City. The primary benefit of paying Software Assurance on products like Windows, SharePoint, and Office is that whenever new versions of these products are released by Microsoft, the City is entitled to these new versions – meaning the City would not be required to rebuy those licenses. Maintaining annual software assurance payments on owned licenses under an Enterprise Agreement is the most cost effective way to: own and use Microsoft products, reduce risks associated with older versions, and maintain entitlement to current product versions. License and annual maintenance costs for purchasing Microsoft products are approximately 20% less expensive under an Enterprise Agreement as compared to the current Select Plus Agreement

Other Software Assurance benefits include (which are determined using a transparent and predefined spend-based calculation included in the Enterprise Agreement): training vouchers, product support, planning services, and the Home Use Program (HUP) which grants City employees the ability to purchase Microsoft Office at a very large discount for use at home.

Strategic Analysis

Technology Services conducted a thorough analysis of the current and future Microsoft products and services required to meet the City’s requirements and fill existing technology gaps. Technology Services confirmed an Enterprise Agreement provides the opportunity to address the City’s current Microsoft technology gap in a manner that optimizes value for money. The following sets out the key benefits of an Enterprise Agreement, the product and service mix that Technology Services has selected, and why this is the optimal mix for the City:

- Eliminates the end of life risks associated with Microsoft Office 2010.
- Provides enterprise level protection and cybersecurity technology for the City’s data including hard drive encryption, malware detection, and robust security patching.
- Provides access to SharePoint to all licensed users; eliminates the risk of a gradual rollout of SharePoint due to license restrictions.
- Provides for an annual true-up process; this process greatly reduces risk of under-licensing for Microsoft products and eliminates hundreds of micro-purchases that are required each time the City provisions a new computer.
- Will allow the City to retire single purpose technologies in favour of the industry best computer fleet management platform (SCCM).
- Provides the opportunity for innovation using Microsoft Azure Cloud platform.

Technology Services selected the following Microsoft products and services mix for the City:

- Windows Enterprise E3: includes key management and security features such as AppV: an industry best application virtualization technology, control and management of access to the Windows Store by City staff, faster Windows deployments, and end user protection.
- CoreCAL Suite + Identity Manager: includes Client Access Licenses for: Windows Server, Exchange, SharePoint, SCCM, and Identity Manager; also includes Skype for Business, as well as all updates and services for these products.
- Office Pro Plus; includes Word, Excel, PowerPoint, Outlook, OneNote, as well as all updates and services for these products.

Technology Services also engaged Gartner Research Services, the City's IT consultant, and its municipal peers; by all accounts the City's mix of Microsoft products and services will address its current technology gap.

Financial

The source of funding for the recommended contract award for the Microsoft Enterprise Agreement at an estimated cost of \$6.3 million and the corresponding multi-year capital project budget is proposed to be as follows:

- \$0.6 million to be reallocated from the 2015-2018 Capital Budget for Information Technology Infrastructure Maintenance, Upgrades, and Expansion;
- \$3.3 million from accumulated surplus funding (capital from revenue) from prior closeouts of Technology Services capital projects; and
- \$2.4 million from the Computer Equipment Reserve (current balance \$5.1 million), to be added to the 2015-2018 Capital Plan.

Expenditures for 2018 will be managed within the current overall Annual Capital Expenditure Budget; expenditures for 2019 and subsequent years will be brought forward as part of the annual budget process.

The contract will be paid in three annual payments of \$2.0 million, \$2.0 million and \$2.3 million over the three years of the contract. Incremental operating costs of \$100,000 in 2020 and approximately \$900,000 from 2021 onwards associated with the Enterprise Agreement will be reviewed as part of the annual operating budget process.

Legal

The City's Procurement Policy requires that all contracts that have been awarded by Bid Committee plus Council will be signed by the Director of Legal Services.

CONCLUSION

In summary, City staff recommends that the City of Vancouver negotiate and enter into a contract with Microsoft Corporation, for an Enterprise Agreement, for a term of three years, with the option to renew for a subsequent three years.

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