



## COUNCIL REPORT

Report Date: April 3, 2024  
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Meeting Date: April 24, 2024  
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TO: Standing Committee on City Finance and Services  
FROM: General Manager of Technology Services and Chief Procurement Officer  
SUBJECT: Contract Award for Microsoft Enterprise Agreement

### Recommendations

- A. THAT Council authorize City staff to negotiate an agreement for the Microsoft Enterprise Agreement with Microsoft Canada Inc. for an estimated total contract value of \$33.7M over the five (5) year term (the "Agreement").
- B. THAT Council delegate its authority to execute the Agreement to the City's Director of Legal Services, Chief Procurement Officer, and General Manager of Technology Services.
- C. THAT Council approve the addition of \$1.2M to the 2023-2026 Capital Plan and creation of a new Multi-year Project Budget for the Microsoft Enterprise Agreement. Funding source for the \$1.2M budget will be the Computer Equipment Reserve. 2024 Expenditures for this project will be managed within the approved citywide 2024 Capital Expenditure Budget.

No legal rights or obligations will be created by Council's approval of Recommendations A and B unless and until the City executes and delivers the Agreement.

### Purpose and Executive Summary

This procurement was executed according to the City's Procurement Policy ADMIN-008; specifically, Section 14 – Co-operative Purchasing, whereby the City will leverage the Province of British Columbia's (Province) Microsoft Business and Services Agreement (MBSA).

### Council Authority/Previous Decisions

The City's Procurement Policy (ADMIN-008) requires Council approve contracts with a total value greater \$3,000,000 following review and recommendations by the City's Bid Committee. The Bid Committee has considered the bids and recommends Microsoft Canada Inc. as the successful proponent.

This five-year agreement is a strategic continuation of two previous multi-year Microsoft agreements created by the City's Supply Chain Management division and City Technology Services department, both of which were approved by Council.

### **City Manager's Comments**

The City Manager concurs with the foregoing recommendations.

### **Context and Background**

The City relies on Microsoft technologies as the underlying platform for most City computer systems and applications, and leverages other Microsoft technologies directly used by City employees, such as:

- Windows Server licensing used in the City data centres on hundreds of servers that host most of its applications, databases, and its public facing website;
- Endpoint operating system (Windows) on thousands of laptops and desktops and management software used to configure and secure these devices; and
- Local and cloud-based productivity and collaboration platform including M365 user subscriptions assigned to thousands of employees at the City and Police that includes:
  - Office 365 (Word, Excel, PowerPoint, and Outlook for e-mail)
  - SharePoint Online for collaboration and intranet (Currents)
  - Teams for collaboration, instant messaging, web conferencing, voice and video calls.

This agreement is a strategic continuation of previous multi-year Microsoft agreements approved by Council. As with previous agreements, the City Technology Services department has worked with Supply Chain Management to structure this agreement to achieve the following:

- Version assurance (City is always entitled to the latest version and security patching for all licensed and subscribed products);
- Optimally discounted pricing based on multi-year quantity commitments that cover the City's current server and employee counts; and
- Defined and discounted 'future-pricing' for any growth throughout the entire term of the agreement.

Specifically, the agreement covered in this Council Report includes the following:

- The version assurance, optimally discounted annual payments, and defined future-pricing mentioned above for a five-year term from June 1, 2024, to May 31, 2029;
- Licenses and subscriptions for all endpoint devices and data centre servers already in use plus all City employees already subscribed (which comprises 83% of the agreement's total cost); and
- A step-up in M365 subscription tier plus additional subscription quantities that will allow the City to deliver critical strategic objectives over the coming 6-16 months, the most important of which include:

- Providing M365 subscriptions for the last remaining unlicensed cohort of City employees, thereby ensuring all City employees have City e-mail, and access to City intranet and other M365 based applications (e.g. Teams) – which is an equity driven strategy;
- Additional security features required to mitigate the risks that accompany enabling the ability for all City employees to use M365 applications and services using unsecured personal devices; and
- The data classification and access control features required for delivery of data analytics and AI initiatives (as well as records management capabilities for longer term strategies).

## Discussion

Technology Services and Supply Chain Management considered Microsoft competitors when defining strategy and product selection in the interests of reducing spend and/or achieving improved bargaining leverage – and have indeed selected or kept other technologies where it makes sense (e.g. Oracle, Amazon Web Services (AWS), SAP, open-source options). However, the license and subscription products included in this agreement (primarily Windows Server and M365 subscriptions) are industry standards and are foundational to the City's technology services already in place and in use. This procurement was conducted leveraging on the Province's Microsoft Business and Services Agreement (MBSA). A notice of intent to contract with Microsoft was published publicly as per the Procurement Policy requirements.

Thorough analysis was given to which products and M365 subscription tiers best meet the City's needs. This analysis compared several multi-year options and product mixes in order to identify which would best: allow the City to keep existing technologies in place, meet the requirements for defined use cases (e.g. "Knowledge Workers", "Lite Workers", and "Off Network Staff"), provide required security, data classification and access control capabilities for previously mentioned critical strategic objectives, and lock in pricing for as long as possible while still achieving best value for the City's dollar.

The City consulted its industry intelligence provider, Gartner Research in the development of this agreement. This included attending Gartner workshops, analyst sessions, and using Gartner research materials that provided best practices, tips, and tactics on how to achieve best value for money during negotiation. Most recently, Gartner was engaged to provide an in-depth review of the established agreement which validated that the City had indeed achieved optimal pricing and term.

The analysis, modeling, and pricing comparison work done were led by the Director of Infrastructure and Operations, and involved input, participation, consultation, guidance and/or review from many parties including:

- Senior Category Manager, Supply Chain Management
- Vancouver Police Department Director of Technology Services
- Technology Services persons/branches including:
  - Chief Technology Officer
  - Data & Analytics and AI
  - Enterprise Architecture
  - Cybersecurity
  - Infrastructure Planning
  - Senior Cloud Strategist

- External entities including
  - Gartner Research Services – Technology industry intelligence provider
  - CDW Professional Services – City’s official ‘Software Advisor’
  - Discussions with municipal peers

**Financial Implications**

The source of funding for the Microsoft Enterprise Agreement at an estimated cost of \$33.7 million and the corresponding multi-year budget is proposed to be as follows:

- \$32.5 million from the annual operating budgets (2024-2028).
- \$1.2 million from the Computer Equipment Reserve (current balance \$2.4 million), to be added to the 2024-2028 Capital Plan. This is the component of the cost pertaining to the switch from E3 to E5 licenses (\$1 million) and inclusion of the off- network staff (\$0.2 million).

The contract will be paid in annual payments of \$6 million, \$6.3 million, \$6.8 million, \$7.2 million, and \$7.5 million over the five years of the contract. Incremental operating costs of \$3 million in 2025 and approximately \$3.4 million, \$3.8 million, and \$4 million for 2026, 2027 and 2028 respectively, associated with the Enterprise Agreement will be reviewed as part of the annual operating budget process.

|              | <b>Committed<sup>1</sup></b> | <b>Estimated Growth<sup>2</sup></b> | <b>Total<sup>3</sup></b> |
|--------------|------------------------------|-------------------------------------|--------------------------|
| 2024         | \$ 5,590,000.00 <sup>4</sup> | \$ 400,000.00                       | \$ 5,990,000.00          |
| 2025         | \$ 5,890,000.00              | \$ 400,000.00                       | \$ 6,290,000.00          |
| 2026         | \$ 6,400,000.00              | \$ 400,000.00                       | \$ 6,800,000.00          |
| 2027         | \$ 6,790,000.00              | \$ 400,000.00                       | \$ 7,190,000.00          |
| 2028         | \$ 7,060,000.00              | \$ 400,000.00                       | \$ 7,460,000.00          |
| <b>Total</b> | <b>\$ 31,730,000.00</b>      | <b>\$ 2,000,000.00</b>              | <b>\$ 33,730,000.00</b>  |

<sup>1</sup> Contracted annual payments

<sup>2</sup> Growth projections assume a continued 3% per annum employee growth, and data centre growth

<sup>3</sup> All amounts are pre-tax.

<sup>4</sup> Approximately 21% of year 1 Committed amount would be paid using capital, the rest by operating. Year’s 2-5 Committed amounts would be payable exclusively with operating.

As a result of the contract renewal, the City can achieve cost certainty for the proposed 5-Year term. Prices for existing licenses and quantities, and for additional quantities due to growth, will be locked in at 2024 prices (or lower discounted amounts reflected below) for the term of the contract.

The discount levels in a Microsoft EA are structured as Level A, B, C, or D. Each level offers a different discount percentage, with Level D providing the highest discount. The City is eligible for Level D pricing under the Provincial EA. The full Level D list price for the City’s product mix is \$7.24M per year. The City has negotiated additional price concessions with Microsoft that decrease over the term of the agreement.

**Legal Implications**

The City’s Procurement Policy (ADMIN-008) requires the Director of Legal Services to execute all contracts that have been awarded by the Bid Committee and Council.