



RESOLUTION NO. _____

BOARD LETTER APPROVAL

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DONNA I. STEVENER
Chief Administrative Officer -
Technology and Security Services

A handwritten signature in black ink, reading 'David H. Wright', is written over a horizontal line.

DAVID H. WRIGHT
General Manager

DATE: March 20, 2019

SUBJECT: Approval of Amendment No. 8 to Agreement No. 47553-7 for software subscription and support, and monthly license charge software with International Business Machines Corporation. The Amendment will increase the contract term by five years and increase the contract amount by \$27,219,000.

SUMMARY

The proposed Amendment No. 8 (Amendment) to Agreement No. 47553-7 (Agreement) is to increase the Agreement amount by \$27,219,000 (budgeted) from an amount of \$52,209,464 to a new not-to-exceed amount of \$79,428,464, and extend the term by five years to a new contract end date of December 31, 2023. Renewing the contract will allow LADWP to continue operating critical International Business Machines Corporation (IBM) software under Enterprise License Agreement (ELA) pricing, avoid significant price increases on mainframe usage charges, and to purchase new software licenses. All other terms and conditions of the Agreement will remain unchanged.

The purpose of the original Agreement, which was approved in April 2007, was to renew software licenses and maintenance support and purchase new software licenses needed to manage various LADWP critical business applications such as the Customer Information Systems, Payroll, Billing, and Financial Systems. The Agreement also consolidated two software license maintenance contracts which were then acquired by IBM. In December 2012, pricing negotiation with IBM resulted in the consolidation of previously separated IBM software contracts into a single ELA administered by the Information Technology Services Division (ITSD). Part of the negotiation was the execution of an Enterprise Software and Services Option (ESSO), which allows LADWP to receive significant discounts on maintenance and purchases of additional licenses with a payment plan structured to meet the existing cash flow requirement. The ELA

also established authority for periodic review and revisions to the pricing structure for the software purchased by LADWP under the Agreement, including product upgrades for current and future applications, and Monthly License Charge Software (MLC). Succeeding change orders, amendments, and administrative amendments were approved to adjust the products mix and to include new licenses and software related to data security and the Enterprise Maximo Asset Management System (Maximo), which are both critical to the replacement of LADWP's mainframe systems and system interfaces. While LADWP is in the process of establishing a new Enterprise Resource Planning (ERP) system, it is anticipated that IBM mainframe products will be needed for three to five years after the implementation of the future ERP system. Nonetheless, an effort to review all IBM goods and services to negotiate a new contract by January 2024 with IBM is underway.

City Council approval is required according to Charter Section 373.

RECOMMENDATION

It is requested that the Board of Water and Power Commissioners adopt the attached Resolution recommending City Council's approval of the Amendment to the Agreement for software licenses, subscriptions, and support of the existing software with IBM as required in Charter Section 373.

ALTERNATIVES CONSIDERED

The only possible alternative to the proposed Amendment is to negotiate a new sole source contract with IBM. However, by the time a new contract is negotiated, all software licenses, subscriptions, and support of the existing software will expire.

FINANCIAL INFORMATION

The Amendment will add five years, and increase the Agreement limit by \$27,219,000. The Agreement amount is approved and funded from LADWP's Power and Water Revenue Funds.

	Current Maximum Expenditure	Requested Amendment No. 8	Amended Maximum Expenditure
Agreement No. 47553-7*	\$52,209,464		\$79,428,464
Amendment No. 8		\$27,219,000	

*Includes all previous amendments.

BACKGROUND

On February 20, 2007, Resolution No. 007-147 authorized the execution of Agreement No. 47553-7 with IBM for renewal of software maintenance support, purchase of new

software licenses for mainframe operating system, software related products, and consolidation of two existing software maintenance contracts with Maintenance, Repair, & Operation (MRO) Software Inc. and FileNet Software which were then acquired by IBM. The Agreement was for one year, with four one-year options, for a total of five years from October 31, 2006 through October 30, 2011, for an amount not to exceed \$17,730,128. The Agreement also created an ELA with IBM, which is the premier software acquisition offering from IBM for a multiplatform environment. The ELA provides software licensing, software subscription and support, and monthly license charge software to LADWP.

Additionally, under the Agreement, LADWP can negotiate with IBM directly for Premier Software Licensing for a discounted price. This will provide the following for LADWP; overall savings due to a bundled bottom line value based price payable in installments, simplified billing process, and price protection for the maintenance of existing software. IBM also provides 24/7 support and maintenance for critical mainframe and distributed software to meet LADWP's operating needs and to support future improvements to the current systems. IBM support maintenance guarantees bug fixes, security patches, and access to new versions of the software without having to re-buy the licenses.

LADWP adopted IBM products as the standard for the following software:

- Application testing software tools
- Asset management solutions
- Content management software
- Document and records management
- Mobile management and security
- Security software
- Unified endpoint management

Other IBM products and applications that are ongoing components of LADWP's computing environment supporting the payroll and financial systems include:

- Account management
- Application infrastructure
- Assistance software
- Business analytics
- Connectivity and application integration
- Database software tools
- Information technology service management
- Mainframe monthly license
- Problem resolution software (web)

The following renewal options, change orders, and administrative amendments have been issued during the life of the Agreement:

		Effective Date	Amount	Description
a)	Contract No. 47553-7 with IBM	October 31, 2006	\$17,730,128	Adopted by the Board; Resolution No. 007-147; one-year term with four one-year renewal options from October 31, 2006 through October 30, 2011, for renewal of software maintenance support, purchases of new software licenses for mainframe operating system software related products, and consolidation of two existing software maintenance contracts.
b)	First-year renewal option	November 1, 2007	\$0	Extend the expiration date through October 31, 2008, to provide mainframe software licenses and continue the software maintenance and support. No additional funding was required.
c)	Change Order No. 1	December 27, 2007	\$0	Price renegotiation of contracted items and FileNet, CMOD, and Monthly License Charge (MLC) Sub-capacity being added to the deliverables. No additional funding was required.
d)	Change Order No. 2	October 1, 2008	\$0	Authorized purchase of new software products under the Agreement that includes Content Management, Security Software, Maximo Asset Management licenses, and the discounted rate of MLC Software programs. No additional funding was required.
e)	Amendment No. 2			Skipped
f)	Amendment No. 3 Second-year renewal option	November 1, 2008	\$0	Extend the expiration date through October 31, 2009, to provide mainframe software licenses and continue the software maintenance and support. No additional funding was required.
g)	Change Order No. 3	June 30, 2009	\$0	Added new Software Implementation Packages for the second phase of the Enterprise Content Management project, including Records Manager and FileNet Capture software, and new licenses for the InfoPrint Transform Software. Software maintenance will continue for the duration of the Agreement. No additional funding was required.
h)	Amendment No. 4 Third-year renewal option	November 1, 2009	\$0	Extend the expiration date through October 31, 2010, to provide mainframe software licenses and continue the software maintenance and support. No additional funding was required.

i)	Amendment No. 5 Fourth-year renewal option	November 1, 2010	\$0	Extend the expiration date through October 31, 2011, to provide mainframe software licenses and continue the software maintenance and support. No additional funding was required.
j)	Amendment No. 6	November 1, 2011	\$19,006,630	<p>Adopted by the Board; Resolution No. 012-108. Extend the Agreement for an additional five years from October 31, 2011 through October 31, 2016, for an amount not to exceed \$36,736,757.53, for Software Licensing, Software Subscription and Support, and IBM MLC Software.</p> <p>An IBM Enterprise Software and Services Option (ESSO) was also established to rework the pricing structure for the software purchased under the Agreement and simplified the billing process. This ESSO has been updated to include new and existing software licenses, quantity, and identify new IBM Software as a Service (SaaS) Offerings.</p>
k)	Amendment No. 7	November 1, 2015	\$15,472,706.38	Adopted by the Board; Resolution No. 016-126. Extend the Agreement for two years and two months from October 31, 2016 through December 31, 2018, for an amount not to exceed \$52,209,463.91, to allow LADWP to continue purchasing IBM software, licenses, subscriptions, and support for existing software.
l)	Amendment No. 8	In process	\$27,219,000.00	Proposed to extend the Agreement for five years from January 1, 2019 through December 31, 2023, for an amount not to exceed \$79,428,463.91, allow LADWP to continue operating IBM software under an ELA pricing, avoid significant price increases on mainframe usage charges, and take advantage of speed, flexibility, and security of adopted critical IBM applications in the Cloud environment.

In November 2017, LADWP conducted another pricing negotiation with IBM to update the listing and quantity of new and existing software licenses and identify the IBM Software as a Service (SaaS) offerings. Consequently, a Strategic Software Agreement between LADWP and IBM was signed which include the addition of the following IBM products into the ESSO:

- TeaLeaf SaaS and SaaS Set Up Costs
- Copy Services Manager (CSM)
- 100K Cytometric Bead Array (CBA) Buffer
- Increased Monthly License Charges (MLC)

- Maximo Scheduler through substitution of undeployed Maximo Health Insights and/or Maximo for Utilities Add-On licenses

The three-year costs for the IBM software and services listed in the ESSO, including the additional IBM products referenced above, would normally exceed \$35,000,000 in IBM Government Entitled Pricing; however, under the newly negotiated ESSO, the costs will not exceed \$15,310,372 – resulting in approximately \$19,300,000 ESSO savings dollars.

Since the execution of the Agreement, IBM products and services have maintained their usefulness, reliability, and cost-effectiveness in providing critical support on mainframe software, and discounts on maintenance and additional licenses. As mainframe software has become obsolete, transforming LADWP's legacy applications from the mainframe to a distributed environment is critical in the implementation of the future ERP system. As such, LADWP expects to continue with IBM solutions for at least the next five years with proposed additional funding and breakdown as follows (based on the newly negotiated ESSO option):

Fiscal Year (FY)	Monthly License Charge for MF Software* + PPA Distributed Software** & MF Software Support**	Sub Payment Total	Contingency*** for Future Purchases	Payment Total
FY 18-19	\$4,037,000	\$4,037,000	\$-	\$4,037,000
FY 19-20	\$4,142,000	\$4,142,000	\$500,000	\$4,642,000
FY 20-21	\$4,839,000	\$4,839,000	\$500,000	\$5,339,000
FY 21-22	\$5,640,000	\$5,640,000	\$500,000	\$6,140,000
FY 22-23	\$6,561,000	\$6,561,000	\$500,000	\$7,061,000
TOTALS	\$25,219,000	\$25,219,000	\$2,000,000	\$27,219,000

*Includes increases to further Version to Version upgrades

** Shows an Increase of 15% YTY on existing Annual PPA Software Subscription and Support for Installed Products

** Shows an Increase of 15% YTY on existing Annual Mainframe Software Subscription and Support for Installed Products

*** Shows an estimate for Future Software Product Purchases

LADWP has done business with IBM before and their performance has been satisfactory.

The Amendment requires City Council approval according to Charter Section 373.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's Report (CAO) was approved on March 11, 2019.

ENVIRONMENTAL DETERMINATION

Determine item is exempt pursuant to CEQA Guidelines 15060 (c)(3). In accordance with Section 15060 (c)(3) of the California Environmental Quality Act (CEQA) Guidelines, an activity is not subject to CEQA if it does not meet the definition of a Project. Section 15378 (b)(5) states that organizational or administrative activities that will not result in direct or indirect physical changes in the environment do not meet that definition. Since the work under this Amendment would provide for continued software licensing, software subscription support, and monthly license charge software, the proposed action is not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Resolution and Amendment as to form and legality.

ATTACHMENTS

- Procurement Summary
- Resolution
- Amendment
- CAO Report