

0150-08048-0002

TRANSMITTAL

TO Marcie L. Edwards, General Manager Department of Water and Power	DATE OCT 28 2015	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

**AMENDMENT 7 TO AGREEMENT 47553-7 BETWEEN THE DEPARTMENT OF
WATER AND POWER AND INTERNATIONAL BUSINESS MACHINES CORPORATION**

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


MAYOR Ana Guerrero

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 27, 2015

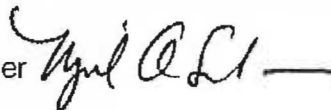
CAO File No. 0150-08048-0002

Council File No.

Council District:

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Communication from the Department of Water and Power dated August 13, 2015; referred by the Mayor for report on August 21, 2015

Subject: **AMENDMENT 7 TO AGREEMENT 47553-7 BETWEEN THE DEPARTMENT OF WATER AND POWER AND INTERNATIONAL BUSINESS MACHINES CORPORATION**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of a proposed resolution authorizing Amendment 7 to Agreement 47553-7 (Agreement) with International Business Machines Corporation (IBM). Approval will allow DWP to continue IBM software licenses, subscriptions, and support, as well as the implementation and potential expansion of the Maximo Asset Management System (Maximo). The term of the current Agreement began on October 31, 2006 and expires on October 31, 2016. Specifically, approval of the proposed Amendment will:

- Extend the current 10 year term by two years and two months, expiring December 31, 2018, resulting in a total duration of 12 years and two months; and,
- Increase the current \$36.7 million expenditure authority by \$15.5 million for a total up to \$52.2 million.

In April 2007, as a component of the Agreement, an Enterprise License Agreement (ELA) was created to consolidate previously separate contracts for software licensing, subscriptions, and support in order to achieve bundled product discounts from IBM as well as to reduce DWP's administrative costs. The expiration date for the ELA was set at December 31, 2015, which is 10 months earlier than the expiration of the main Agreement. Consequently, IBM software and support utilized by various DWP functions may discontinue without the proposed amendment to extend. As proposed, the term of the Agreement and ELA will be coterminous on December 31, 2018. During the proposed extension, DWP plans to negotiate a new contract with IBM to include all IBM goods and services utilized by the Department into one updated Agreement. It is anticipated that the new agreement will begin January 1, 2019.

The cost for IBM software licensing and support totals \$34.4 million over the prior nine year duration of the Agreement and averages \$4.2 million over the recent four year period from 2012 through 2015. As proposed, costs for continuing this Agreement will increase to an annual

average of \$4.4 million over the next three years from 2016 through 2018 resulting in a total cost not to exceed \$13.3 million. The request for funding reflects forecasted costs based on the current expenditure levels and the anticipated increase of DWP staff requiring additional licenses.

An additional \$2.0 million is provided as a contingency for unanticipated software or support purchases. Additional funding of \$2.5 million is also provided for a potential expansion of scope for Maximo to involve functionality that supports the DWP Transmission and Distribution groups. A decision regarding this expanded functionality is anticipated in 2017 and will be subject to approval by the DWP Board of Commissioners.

DWP states that this Agreement has a remaining fund balance of \$2.3 million. As a consequence, the \$17.8 million in proposed funding for 2016 through 2018 is reduced by \$2.3 million to result in a lower request for funding totalling \$15.5 million. The table below provides a summary of the costs associated with this Agreement.

Summary of Costs for DWP Agreement 47553-7 with IBM

Year	Actual Costs (\$M)					Total	Proposed Costs (\$M)				Total
	2006 - 2011	2012	2013	2014	2015		2016	2017	2018		
License Fee, Software and Support Costs	\$17.7	\$4.0	\$6.3	\$2.6	\$3.8		\$4.05	\$4.25	\$5.00	\$13.3	
	Avg Annual Cost: \$4.2 million						Avg Annual Cost: \$4.4 million				
Contingency for Software or Support							\$0.5	\$0.65	\$0.85	\$2.0	
Expansion of Maximo Software Functionality							-	\$2.5	-	\$2.5	
Subtotal	\$17.7	\$4.0	\$6.3	\$2.6	\$3.8	\$34.4 *	\$4.55	\$7.40	\$5.85	\$17.8	
* There is approximately \$2.3 million in funding authorization remaining from the existing \$36.7 Expenditure Authority.											
Total Actual + Proposed Contract Costs							\$52.2				
Expenditure Authority							\$36.7				
Total Additional Funding Requested							\$15.5				

* There is approximately \$2.3 million in funding authorization remaining from the existing \$36.7 Expenditure Authority.

Funding for this proposal is budgeted in both the Water and Power Revenue Funds. City Council approval is required for contracts that exceed three years, pursuant to Charter Section 373. The City Attorney has approved the resolution and Agreement as to form and legality.

CONTRACTING COMPLIANCE

The Department made a Charter Section 1022 determination that concluded these services can more feasibly be performed by an outside contractor, IBM Corporation, because DWP neither owns nor can modify the proprietary software. The Department states that the current agreement with IBM, a sole source provider, was executed in October 2006 and that the contractor has performed in an acceptable manner with respect to its obligations for all previous agreements.

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed resolution authorizing Amendment 7 to Agreement 47553-7 with International Business Machines Corporation to (i) extend the contract by 26 months, resulting in a total duration of 12 years and two months, and (ii) to increase the expenditure authority by \$15.5 million, resulting in a total up to \$52.2 million for DWP to continue software licenses, subscriptions, support, and implementation and expansion of the Maximo Asset Management System; and,
2. Return the proposed Agreement to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed Agreement will increase the expenditure authority by \$15.5 million and result in a total expenditure limit up to \$52.2 million from the Water Revenue Fund and Power Revenue Fund. There is no impact to the City General Fund. The proposed Agreement complies with the Department's adopted Financial Policies.

TIME LIMIT FOR COUNCIL ACTION

Pursuant to Charter Section 373, "Long Term Contracts Approved by Council," and the Los Angeles Administrative Code Section 10.5, "Limitation and Power to Make Contracts," unless the Council takes action disapproving a contract that is longer than three years within 60 days after submission to Council, the contract shall be deemed approved.