

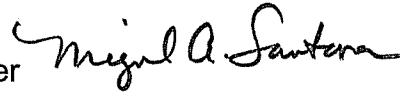
CITY OF LOS ANGELES  
INTER-DEPARTMENTAL CORRESPONDENCE

0150-08813-0003

Date: October 26, 2009

To: Honorable Members of the City Council

From: Miguel A. Santana, City Administrative Officer

Subject: **ADDITIONAL INFORMATION REQUESTED BY THE BUDGET AND FINANCE COMMITTEE REGARDING THE CONTRACT WITH COMPUTER SCIENCE CORPORATION FOR THE REPLACEMENT OF THE CITY'S E-MAIL SYSTEM****SUMMARY**

On October 19, 2009, the Budget and Finance Committee considered two reports from the Office of the City Administrative Officer (CAO), dated July 9, 2009, and October 7, 2009, regarding the request from the Information Technology Agency (ITA) to enter into a contract with Computer Science Corporation (CSC) to replace the City's e-mail system. The Committee raised the following questions that are addressed in this report:

1. How do the costs of implementing the Google system compare to the costs of the current system?
2. Does the CAO recommend the use of funding identified in the prior reports to pay for the unbudgeted \$1,951,260 required for the implementation of the Google system in 2009-10?
3. What are the impacts of not implementing this contract?
4. Will all City data be stored in "Gov Cloud" facilities?
5. When will we know whether the California Department of Justice will approve of the use of the "Gov Cloud" to protect sensitive City data?
6. What other large public sector jurisdictions are using the Google system?
7. Are there penalties to Google if there is a security breach that impacts City data?
8. Are Google's office applications compatible with Microsoft Office?
9. What is the cost of returning to the current system if the City is not satisfied with the Google system?
10. By what date must Council act on this contract?
11. What is the City's current disaster recover system for e-mail and why is disaster recovery important?

**1. How do the costs of implementing the Google system compare to the costs of the current system?** In ITA's initial proposal for implementation of the Google system, it stated that the contract would generate hard savings between \$0.7 and \$8.9 million and soft savings between \$25 and \$52 million. This Office evaluated those estimates and has determined that the five-year costs of administering the Google system, approximately \$17.6 million, are in fact lower than the costs of administering the GroupWise over the same period of time, approximately \$23 million. A summary of these costs is presented in the following

table:

<u>Item</u>	<u>Google</u>	<u>GroupWise</u>
Cost of System	\$ 10,664,445	\$ 15,459,438
Cost for GroupWise in 2009-10	907,913	Included above
Microsoft Office Licenses	<u>5,984,126</u>	<u>7,536,804</u>
<b>System Cost</b>	<b><u>\$ 17,556,484</u></b>	<b><u>\$22,996,242</u></b>

Google Costs. The cost of transitioning to the Google system is \$17,556,484 over the five-year term of the contract and is comprised of the following components:

- Cost of the Google System - \$10,664,445. This includes the five-year cost of: 1) Google implementation and subscriptions; 2) associated applications required to run the Google system; 3) a required Internet upgrade; and, 4) two servers and four positions that will be required to administer the system on an ongoing basis.
- Costs for GroupWise in 2009-10 - \$907,913. This includes the costs for GroupWise licenses and associated software to allow for the continued use of GroupWise during Google implementation. Although these costs do not relate to the operation of the Google system, operation of GroupWise during 2009-10 while Google is being implemented is required and thus the costs are included.
- Microsoft Office licenses - \$5,984,126. Although the City will gain access to Google's office applications through this contract, Microsoft Office will continue to be used by selected City employees, and licenses will continue to be purchased. The number of Microsoft Office licenses required under the Google system will be lower than the number required under the current GroupWise system, in which all employees that require office applications use Microsoft Office.

GroupWise Costs. The cost of retaining GroupWise over the next five years is \$22,996,242 and is comprised of the following components:

- Cost of the GroupWise system - \$15,459,438. This includes the costs for GroupWise licenses, an upgrade to GroupWise, applications required to run GroupWise, and 90 servers and 13 staff that are dedicated to the system on an ongoing basis.
- Microsoft Office licenses - \$7,536,804. This assumes a continuation of the current level of Microsoft Office purchases.

### **Cost Avoidance through Google Contract**

The prior reports from this Office stated that ITA had proposed that nine staff and 60 servers that are currently dedicated to GroupWise but not required for Google be retained within ITA and used to address other needs. The five-year cost of these resources is \$6,961,528. While these resources are not associated with the Google system, this Office did not consider them to be budgetary savings since the funds used for these resources would continue to be required and could not be used for other budgetary purposes.

Following discussions between this Office and ITA, ITA agreed to support the elimination of these nine positions, three of which will be vacated in the near future. Eliminating these positions will help to mitigate ITA's salaries account shortfall. In addition, ITA has agreed

to use the 60 servers to replace obsolete servers that would otherwise have to be funded through future budget processes. ITA reports that 245 servers currently in use by the City are five to 10 years old and thus considered to be obsolete. Over the past five years, the City has included an average of approximately \$1 million in the budget to purchase an average of 52 new and replacement servers. Combined with five virtual servers with a capacity equivalent to 30 standard servers each that were included in the 2009-10 Budget, these 60 servers can be used to delay future budgetary appropriations for servers. The \$6,961,528 in savings would begin to be generated in 2010-11 since the staff and servers will continue to be required until June 30, 2010 to run GroupWise during the Google implementation.

**2. Does the CAO recommend the use of funding identified in the prior reports to pay for the unbudgeted \$1,951,260 required for the implementation of the Google system in 2009-10?** Yes. This Office has identified \$1,951,260 in unbudgeted one-time funds required to implement the Google system in 2009-10. In both prior reports this Office recommended that the General Manager of ITA be authorized to seek reimbursement for the qualifying hardware and software purchased by the City pursuant to the 2006 class action antitrust settlement agreement with Microsoft up to the full remaining balance of \$1,507,209. ITA has compiled the documentation required to claim that full amount and is prepared to submit invoices. Further, it was also recommended that upon receipt, those funds be transferred to ITA through a Financial Status Report.

In addition, this Office supports the use of the \$180,000 in savings that ITA has identified in its Communications Services account. No recommendation was made regarding those savings since they are already included in the department's budget. The CAO further negotiated with CSC to receive a \$250,000 advance on rebates included in the contract to be used to offset the cost of the contract in 2009-10. Finally, ITA has agreed to absorb the final \$14,051 required within its 2009-10 Budget. None of these funds are programmed in the 2009-10 Budget, and their use will not negatively impact the deficit projections. The required 2009-10 funding and proposed sources of funds are summarized in the following table:

<b><u>2009-10 Funding Requirement for Google</u></b>	<b><u>Amount</u></b>
User Subscriptions	\$ 863,860
Implementation	890,900
Internet Upgrade – Leases	180,000
Internet Upgrade – Hardware	16,500
<b><i>Total Funding Requirement</i></b>	<b><u>\$ 1,951,260</u></b>
<b><u>2009-10 Available Funding</u></b>	
ITA Savings – Communications Services	\$ 180,000
Other ITA Savings	14,051
City Settlement with Microsoft	1,507,209
Rebate Advance	250,000
<b><i>Total Available Funding</i></b>	<b><u>\$ 1,951,260</u></b>

It is important to note that with the exception of the \$250,000 advance on the rebate which is contingent on the contract being approved, these funds are unrestricted and can be used to address any other priority identified by the Council and Mayor. However, given the one-time nature of these funds, use of these dollars should go toward one-time projects that

will enhance the operations of City government and generate efficiencies. This Office is supporting the use of these one-time funds for this project because it falls within this category.

**3. What are the impacts of not implementing this contract?** The City's GroupWise e-mail system will continue to operate at its current level, using the existing resources, although further budgetary reductions in ITA could reduce the resources available for GroupWise and compromise the service level. ITA has stated that the current GroupWise system will need to be upgraded at a cost of \$700,000 and that 30 servers will require replacement in the near term. Those costs are included in the analysis presented above, but funding for any upgrades would be considered through the City's budget process. It should be noted that during the Budget and Finance Committee meeting a representative from Novell stated that the City's GroupWise system could be upgraded and operated at a lower cost than the cost reflected in the CAO report. Novell has since stated that it would provide all architectural and design services required for the upgrade at no cost to the City. The company estimated that doing so would reduce the cost of the upgrade for the City by \$375,000. In the absence of a plan for the upgrade of GroupWise, this Office cannot assess how Novell's offer would in fact impact the cost of the upgrade. Should the City choose not to pursue the Google contract and void all proposals, it is this Office's recommendation that the City at a minimum seek to enhance GroupWise and fund the identified costs of upgrading the existing system.

It is important to note that should the City choose to implement Google at a later date, the terms, conditions, and price of the current contract would no longer be available to the City. There is a risk that the new provisions would be less favorable.

**4. Will all City data be stored in "Gov Cloud" facilities?** Google recently introduced a new offering referred to as the "Gov Cloud" through which sensitive government data would be stored in dedicated facilities within the continental United States and be managed by individuals who would be subject to high level security clearances, including FBI fingerprint checks. ITA has stated that Google agreed to store all City data in its "Gov Cloud" facilities.

**5. When will we know whether the California Department of Justice will approve the use of the "Gov Cloud" to protect sensitive City data?** While the Police Department has stated that it is satisfied that the "Gov Cloud" will adequately address its security concerns, approval must still be secured from the California Department of Justice. Based on the requirements identified throughout the process by the Department of Justice, it appears likely that the "Gov Cloud" will also address its security concerns. Formal approval, however, can only be gained through its review of the actual functioning of the new system during the pilot period. The approving body at the Department of Justice meets twice annually and should be able to consider this proposal prior to full implementation in June, 2010. In the meantime, the City will seek provisional approval from Department of Justice staff.

**6. What other large public sector jurisdictions are using the Google system?** Washington DC is the only large public sector entity that has a current, implemented contract to use Google's e-mail and office applications. In this Office's discussions with representatives with Washington DC they stated that Google's system has not replaced the existing e-mail and office applications but is running in parallel to the existing system, available to all City employees and used at their discretion. The representatives stated that most City employees continue to use the existing system, and have not shifted to exclusively use Google's system. They further stated that the City has no intent to require City employees to exclusively use the

Google system. Therefore, Washington DC's implementation is different from ITA's plan for Google's e-mail to completely replace the current GroupWise system.

**7. Are there penalties to Google if there is a security breach that impacts City data?** Subsequent to the October 19, 2009, Budget and Finance Committee meeting on this matter, ITA and CSC negotiated changes to the contract to include credits for the City if Google system downtime is in excess of the agreed upon level. The updated contract language, including an unrelated technical revision, is included in Attachment 1.

There are, however, no penalties or liquidated damages for Google included in the contract in the event of a security breach that impacts City data. The Committee requested the City Attorney and ITA to work with CSC and Google to address this issue, and those discussions are underway. It should be noted that under the contract the City does retain the right to seek unlimited damages in the case of a security breach. Liquidated damages are not included in the current contract with Novell.

**8. Are Google's office applications compatible with Microsoft Office?** Even after the proposed implementation is complete, there will be users of both Microsoft Office and Google's applications in the City. Converting documents between Microsoft and Google formats is not seamless, as formatting and formulas can be lost. Advanced features used to create Microsoft documents cannot transition to Google formats. Google stated that it will continue to improve these compatibility shortcomings, but until and unless that occurs, the lack of complete compatibility may result in productivity losses for City employees.

**9. What is the cost of returning to the current system if the City is not satisfied with the Google system?** The costs of returning to the GroupWise system if the City is not satisfied with the Google system depend on when the decision to return occurs. If the City decides to stop the implementation of Google during 2009-10 while GroupWise is still in use, parallel to Google, there will be no additional cost to the City other than the costs already expended associated with implementing Google. After implementation, the costs of returning to GroupWise, or a similar in-house system, are more significant. It would require the purchase and implementation of a new system, and the use of a large number of City staff and servers on an ongoing basis. The actual cost would vary based on whether the staff and servers that had been dedicated to GroupWise were available to be reassigned to the replacement e-mail system.

**10. By what date must Council act on this contract?** Council must act on a contract within 60 days of its receipt by the Council or the contract is deemed approved (Los Angeles Administrative Code Section 10.5). The most current version of the contract was attached to the prior CAO report which was received by the Council on October 7, 2009. Thus, the City Attorney has advised that the Council must act on this contract by December 6, 2009 or it will be deemed approved.

**11. What is the City's current disaster recover system for e-mail and why is disaster recovery important?** The City currently backs up the e-mail servers on tapes which are stored in the same geographical area as the servers but in a separate, secured facility. Under the current system, if there is a large scale failure that impacts the entire system, data not written to the back up is lost and prior data would not be available to City users until the servers can be brought back on line, and any lost data reloaded on the servers. This process

would take a significant amount of time. The Request for Proposal for the replacement e-mail system included as a core service enhanced data recovery specifications. In response, the proposed system copies and stores data in multiple data centers located in different geographic locations. If a failure occurs copies are accessed and data can be restored quickly, expediting the City's return to normal operations.

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ATTACHMENT 1:

CITY OF LA CSC/GOOGLE CONTRACT AMENDMENTS – October 23, 2009

The following change removes the requirement for the City to wait for completion of Implementation to Cancel Contract for Convenience and makes that cancellation opportunity available throughout the contract.

15.4.3 Paragraph 1:

***Old Language:***

**Termination for Convenience and Associated Payments.** After the “Implementation Warranty” and upon providing Contractor, at least, thirty (30) days written notice, the City may terminate for convenience pursuant to PSC 10 in Appendix A.

***New Language:***

**Termination for Convenience and Associated Payments.** Upon providing Contractor, at least, thirty (30) days written notice, the City may terminate for convenience pursuant to PSC 10 in Appendix A.

**ATTACHMENT 1:**

**CITY OF LA CSC/GOOGLE CONTRACT AMENDMENTS – October 23, 2009**

The following change will swap service credit days to be added at the end of the contract for liquidated damages to be applied to the following years service or rebated at the end of service and increases the requirement for monthly uptime from 99.9% to 99.99%.

Appendix J – Exhibit A Paragraph 9:

**Old Language:**

"Service Credit" means the following:

<b>Monthly Uptime Percentage</b>	<b>Days of Service credited to the following year of Service term by Customer's Reseller or rebated at end of service.</b>
< 99.9% - ≥ 99.0%	3
< 99.0% - ≥ 95.0%	7
< 95.0%	15

**New Language:**

"Service Credit" means the following:

<b>Monthly Uptime Percentage</b>	<b>Days of Service</b>
< 99.99% - ≥ 99.0%	3
< 99.0% - ≥ 95.0%	7
< 95.0%	15

Service Credit shall be applied as liquidated damages against the following year of service cost. If service is discontinued for any reason, the Service Credit shall be in the form of a rebate at the end of service.

Service Credit shall be computed by dividing the number of Days of Service credited by the number 365 and multiplied by the Annual Service Fee.



**ATTACHMENT 1:**

**CITY OF LA CSC/GOOGLE CONTRACT AMENDMENTS – October 23, 2009**

The following change allows for monetary damages for Service Credits, rather than service days.

Appendix J – Exhibit A Paragraph 9:

***Old Language:***

Maximum Service Credit. The aggregate maximum number of Service Credits to be issued by Reseller on behalf of Google to Customer for any and all Downtime Periods that occur in a single calendar month shall not exceed fifteen days of Service added to the end of Customer's term for the Service. Service Credits may not be exchanged for, or converted to, monetary amounts.

***New Language:***

Maximum Service Credit. The aggregate maximum number of Service Credits to be issued by Reseller on behalf of Google to Customer for any and all Downtime Periods that occur in a single calendar month shall not exceed fifteen days of Service Credit.