



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Drew Corbett
Khaled Tawfik

SUBJECT: See Below

DATE: October 28, 2024

Approved

Date:

11/7/24

COUNCIL DISTRICT: Citywide

SUBJECT: Amendments to the Microsoft-Related Enterprise Licenses and Service Agreement

RECOMMENDATION

Adopt a resolution authorizing the City Manager or her designee to:

- a) Amend purchase order OP 65248 with Insight Public Sector, Inc. (Chandler, AZ), an authorized Microsoft reseller for Microsoft 365 and related enterprise licenses, to increase the compensation for the agreement by \$4,260,000 for a total not to exceed amount of \$14,577,180 for the initial five-year term ending on May 31, 2026;
- b) Extend the term of the agreement with Microsoft Corporation (Redmond, WA) to purchase Microsoft 365 and related enterprise licenses for an additional five years beginning on June 1, 2026 through May 31, 2031 for a total not to exceed amount of \$31,251,720, subject to the appropriation of funds;
- c) Execute purchase orders in favor of Insight Public Sector, Inc. (Chandler, AZ), to purchase Microsoft 365 and related enterprise licenses during the extended term, subject to the appropriation of funds;
- d) Approve a contingency of \$5,000,000 for unanticipated and related services during the extended term, subject to the appropriation of funds; and
- e) Negotiate and execute amendments, change orders, and enrollment documents as required to cover any unanticipated changes, including additional subscriptions at the Enterprise Agreement discounted rates as may be required, subject to the appropriation of funds.

SUMMARY AND OUTCOME

City staff utilize Microsoft Corporation (Microsoft) systems, software applications, and other productivity tools every day for their work. To ensure continuous availability of the products for staff use, the City entered into a five-year agreement with Microsoft to supply the products through its authorized reseller, Insight Public Sector, Inc. (Insight) on an as-needed basis. The total compensation for the agreement was \$10,317,180 from June 1, 2021 through May 31, 2026. As a result of increased need for the products due to an increase in number of City employees and increases in costs, staff asks for an increase of \$4,260,000 to the compensation amount for a total not-to-exceed amount of \$14,577,180 during this term. Additionally, staff would like to extend the term of the agreement for another five years, to May 31, 2031, for a not-to-exceed compensation of \$31,251,720, subject to annual appropriation.

Increasing the total compensation for the initial five-year term to \$14,577,180 and approving an extension of the term of the agreement by five years to May 31, 2031 will enable staff to continue to obtain these critical business products.

BACKGROUND

The City's adoption of Microsoft technologies has been a crucial investment in the effective and efficient operation of the City in delivering services. Prior to October 2022, the City had two separate agreements with Microsoft for system and software applications, including Windows, Office 365, and Defender (collectively referred to as Business Technology) through its resellers as follows:

1. Insight, which provides productivity and collaboration tools such as Microsoft 365, including Outlook for email, Word for documents, PowerPoint for presentations, Excel for spreadsheets, SharePoint and Teams for collaboration, etc. This agreement is due to expire on May 31, 2026;
2. Crayon, which provided operating systems and platforms software, such as video conferencing, eDiscovery, spam filtering, security detection tools, database systems, and the Windows operating system. This agreement expired on September 30, 2022.

In an effort to better align the parties' engagement with each other and create savings and efficiencies through economies of scale, the City added the scope of the Crayon agreement to the Insight agreement in October 2022. However, the total compensation amount was not increased to match the increased scope. This has led to an early exhaustion of the approved compensation amount, thus necessitating this request.

ANALYSIS

The revised compensation amount for the initial term of the Insight contract is now projected to be 41% (or \$4,260,000) higher than the amount of \$10,317,180 approved by the City Council in 2021¹. This increase is primarily because of the following three reasons:

1. When the Crayon agreement expired in 2022, the services that had been previously procured through that contract were added to the scope for the Insight contract, but the compensation amount was not increased to cover that increased scope;
2. There has been a 6% increase in demand for Microsoft 365 licenses due to the increase in City employees and actual license usage.
3. The cost of software licenses has steadily increased over the years.

Approving this increase in the compensation will enable the City to continue using the software tools essential for operations through May 31, 2026, as defined in the existing agreement with Microsoft and Insight.

Approach for the Five Years after May 2026

Subject to approval by City Council, staff would like to extend the agreement with Microsoft for five years, to May 31, 2031. The extension would be implemented through annual options exercisable at the City's sole discretion subject to appropriation of funds. The projected compensation for the extended term is \$31,251,720. Although the City negotiated favorable rates with Microsoft for the first five-year term, costs for Microsoft products are expected to continue to increase year after year. Since these technology tools are essential to how City staff performs its duties and delivers services, staff will continue trying to find ways to control those cost increases.

EVALUATION AND FOLLOW-UP

This memorandum will not require any follow-up from staff.

COST SUMMARY/IMPLICATIONS

The total recommended increase for the contract is \$4.3 million, which will bring the total not to exceed compensation through 2025-2026 to \$14.6 million. The \$4.3 million amount includes a cost increase of \$760,000 for the remainder of 2024-2025 and another year of service in 2025-2026 at a cost of \$3.5 million. The total cost of the

¹ <http://sanjose.legistar.com/gateway.aspx?M=F&ID=746c9229-fe77-4738-81c3-883368fb2d32.pdf>

contract in 2024-2025 is \$3.5 million, which includes the remaining amount of the current contract of \$2.7 million and the cost increase of \$760,000. The 2024-2025 contract amount is further divided between a baseline cost of \$2.9 million and as-needed additional subscriptions and licenses of an amount up to approximately \$645,000. The baseline cost of \$2.9 million is spread amongst the General Fund and the other following funds as listed in the Budget Reference table below: Airport Maintenance and Operation Fund, Building Development Fee Program Fund, San José-Santa Clara Treatment Plant Operating Fund, Sewer Service and Use Charge Fund, Storm Sewer Operating Fund, Fire Development Fee Program Fund, Planning Development Fee Program Fund, Low and Moderate Income Housing Asset Fund, Water Utility Fund, Integrated Waste Management Fund, Public Work Development Fee Program Fund, Vehicle Maintenance and Operations Fund, South Bay Water Recycling Operating Fund and General Purpose Parking Fund. The remaining amount of \$645,000 for as needed additional subscriptions and licenses is managed by the Information Technology Department and charged to various department funding sources on as-needed basis.

Contract costs in 2025-2026 through 2030-2031 will be incorporated into future year Base Budgets and subject to City Council appropriation.

1. AMOUNT OF RECOMMENDATION

Recommended Contract Cost Increase	\$4,260,000
Recommended Additional Five-Year Contract Cost	\$36,251,720
TOTAL AMOUNT OF RECOMMENDATION	\$40,511,720

2. COST ELEMENTS:

Current Five-Year Contract	Current Purchase Order Amount	Recommended Amount of Increase
Year 1 (2021-2022)	\$1,973,563	
Year 2 (2022-2023)	2,592,728	
Year 3 (2023-2024)	3,005,219	
Year 4 (2024-2025)	2,740,000	\$760,000
Year 5 (2025-2026)	0	3,500,000
CURRENT FIVE-YEAR CONTRACT COST INCREASE		\$4,260,000

Additional Five-Year Contract Cost	Annual Cost
Year 1 (2026-2027)	\$4,200,000
Year 2 (2027-2028)	5,040,000
Year 3 (2028-2029)	6,045,000
Year 4 (2029-2030)	7,257,600
Year 5 (2030-2031)	8,709,120

CONTRACT NOT-TO-EXCEED TOTAL (Five-Year Term)	\$31,251,720
Contingency (subject to an annual City issued purchase order)	5,000,000
GRAND TOTAL NOT-TO-EXCEED TOTAL (Five-Year Term)	\$36,251,720

BUDGET REFERENCE

The table below identifies the funds and appropriations to fund the 2024-2025 contract amount recommended as part of this memorandum.

Fund #	Appn. #	Appropriation Name	Total Appropriation	Amount for Contract	2024-2025 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	0432	ITD Non-Personal/ Equipment	\$14,256,019	\$2,820,000	548	6/18/24, 31102
523	0432	ITD Non-Personal/ Equipment	\$7,686	\$7,686	922	6/18/24, 31102
237	2071	Development Fee Program - Shared Resources Non-Personal/Equipment	\$420,465	\$7,360	932	6/18/24, 31102
513	0432	ITD Non-Personal/ Equipment	\$146,297	\$5,387	1014	6/18/24, 31102
541	0432	ITD Non-Personal/ Equipment	\$20,456	\$2,744	1017	6/18/24, 31102
446	0432	ITD Non-Personal/ Equipment	\$31,460	\$2,118	1023	6/18/24, 31102
240	2071	Development Fee Program - Shared Resources Non-Personal/Equipment	\$45,630	\$1,560	961	6/18/24, 31102
238	2071	Development Fee Program - Shared Resources Non-Personal/Equipment	\$40,622	\$1,514	999	6/18/24, 31102
346	0432	ITD Non-Personal/ Equipment	\$36,078	\$1,470	980	6/18/24, 31102

Fund #	Appn. #	Appropriation Name	Total Appropriation	Amount for Contract	2024-2025 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
515	0432	ITD Non-Personal/ Equipment	\$158,514	\$1,358	1028	6/18/24, 31102
423	0432	ITD Non-Personal/ Equipment	\$103,974	\$1,084	978	6/18/24, 31102
241	2071	Development Fee Program - Shared Resources Non-Personal/Equipment	\$86,031	\$930	1003	6/18/24, 31102
552	432	ITD Non-Personal/Equipment	\$55,696	\$630	1027	6/18/24, 31102
570	432	ITD Non-Personal/Equipment	\$7,489	\$521	1019	6/18/24, 31102
533	432	ITD Non-Personal/Equipment	\$9,401	\$331	967	6/18/24, 31102

COORDINATION

This memorandum has been coordinated with the City Attorney’s Office, the City Manager’s Office, and the City Manager’s Budget Office.

PUBLIC OUTREACH

This memorandum will be posted on the City’s Council Agenda website for the November 19, 2024 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

HONORABLE MAYOR AND CITY COUNCIL

October 28, 2024

Subject: Actions Related to Amendments to the Microsoft Related Enterprise Licenses and Service Agreement

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PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

Jon Andrew Corbett
Acting Director of Finance

/s/

Khaled Tawfik
Director of Information Technology

For procurement and contract related questions, please contact Albie Udom, Deputy Director of Finance and Chief Procurement Officer, Finance Department, at albie.udom@sanjoseca.gov. For program related questions, please contact Shaun Ratchford, Deputy Director, Information Technology Department, at shaun.ratchford@sanjoseca.gov.