



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Rob Lloyd  
Julia H. Cooper

**SUBJECT:** SEE BELOW

**DATE:** April 12, 2021

Approved

Date

04/14/21

**SUBJECT: REPORT ON ALTERNATIVE PRODUCTIVITY AND COLLABORATION  
TOOLS AND ACTIONS RELATED TO MICROSOFT OFFICE 365  
SOFTWARE RENEWAL**

## **RECOMMENDATION**

- (a) Accept the report on alternative productivity and collaboration tools to Microsoft Office 365.
- (b) Adopt a resolution authorizing the City Manager to:
  - (1) Execute enrollment documentation with Microsoft Corporation ((Redmond, WA) to purchase Microsoft Office 365 and related enterprise licenses pursuant to the Microsoft Enterprise License Agreement for State and Local Governments (“Enterprise Agreement”), a cooperative agreement administered by the County of Riverside, California (“Riverside”) on behalf of State and Local public agencies, for a five-year term beginning June 1, 2021 through May 31, 2026;
  - (2) Execute annual purchase orders with Insight Public Sector (Tempe, AZ), an authorized Microsoft reseller, to purchase Microsoft Office 365 and related enterprise licenses for a five-year term beginning June 1, 2021 through May 31, 2026 in an amount not to exceed \$10,317,180, subject to the annual appropriation of funds; and
  - (3) 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 annual appropriation of funds.

## **OUTCOME**

Provide a report on staff’s evaluation and recommendations for the direction of productivity technology tools to enable effective and efficient collaboration and work by City employees.

## **EXECUTIVE SUMMARY**

Online productivity and collaboration technology tools such as email, scheduling, word processing, spreadsheet, presentation, videoconferencing, and document collaboration are essential to how City staff perform their duties and deliver services. The City also uses specialized software for modeling, project management, data analytics, and reporting. As the City currently spends about \$2 million annually to equip employees with core software tools, it is essential the City select tools that optimize staff productivity at the most effective cost point. Through a Request for Information process and an assessment of staff needs, the Information Technology Department (ITD) determined the best approach is to extend the City's use of Microsoft Office 365 for another five (5) years. If needed, the City can conduct a pilot of Google's G-Suite to evaluate feasibility of shifting some the City's productivity tools in the future to other alternative products.

## **BACKGROUND**

The County of Riverside ("Riverside") administers a cooperative Microsoft Enterprise License Agreement on behalf of State and Local public agencies throughout California. Pursuant to City of San José Municipal Code Section 4.12.225.B.3, the City leverages Riverside's competitive Request for Quotes process and the resulting cooperative agreement to take advantage of volume discounts for which the City would not otherwise qualify.

Under the Riverside agreement, the City contracts through a Microsoft reseller for enterprise productivity and collaboration tools, including email, scheduling, word processing, spreadsheet, presentation, videoconferencing, eDiscovery, spam filtering, and collaboration platforms. The current agreement term approved by Council in May 2018 is set to expire on May 31, 2021<sup>1</sup>. Although the current agreement allows for up to two (2) additional three-year options to extend the term through May 31, 2027, subject to the appropriation of funds, Council directed staff to return to Council with a comprehensive comparison of enterprise productivity and collaboration tools and recommendations for a long-term strategic direction related to these tools prior to executing additional options.<sup>2</sup>

### ***Recovery from a decade of deficits, Microsoft rates, and adoption patterns for Microsoft tools***

The current three-year agreement with Microsoft was executed at a time when the City was still recovering from a decade of technology deficits. The City's technology assets had fallen behind what was available in the market by several versions. Based on fiscal realities, ITD negotiated with Microsoft leadership to secure significant discounts to keep Microsoft expenses flat across all three (3) years (2018-2021) of the current agreement. These favorable rates helped the City

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<sup>1</sup> May 2018 Council Memorandum: [http://sanjose.granicus.com/MediaPlayer.php?view\\_id=2&clip\\_id=10414](http://sanjose.granicus.com/MediaPlayer.php?view_id=2&clip_id=10414)

<sup>2</sup> May 2018 Council Meeting Synopsis: <https://sanjose.legistar.com/View.ashx?M=M&ID=604790&GUID=22C725CD-8C4D-4425-9821-F8E51E1ED19E>

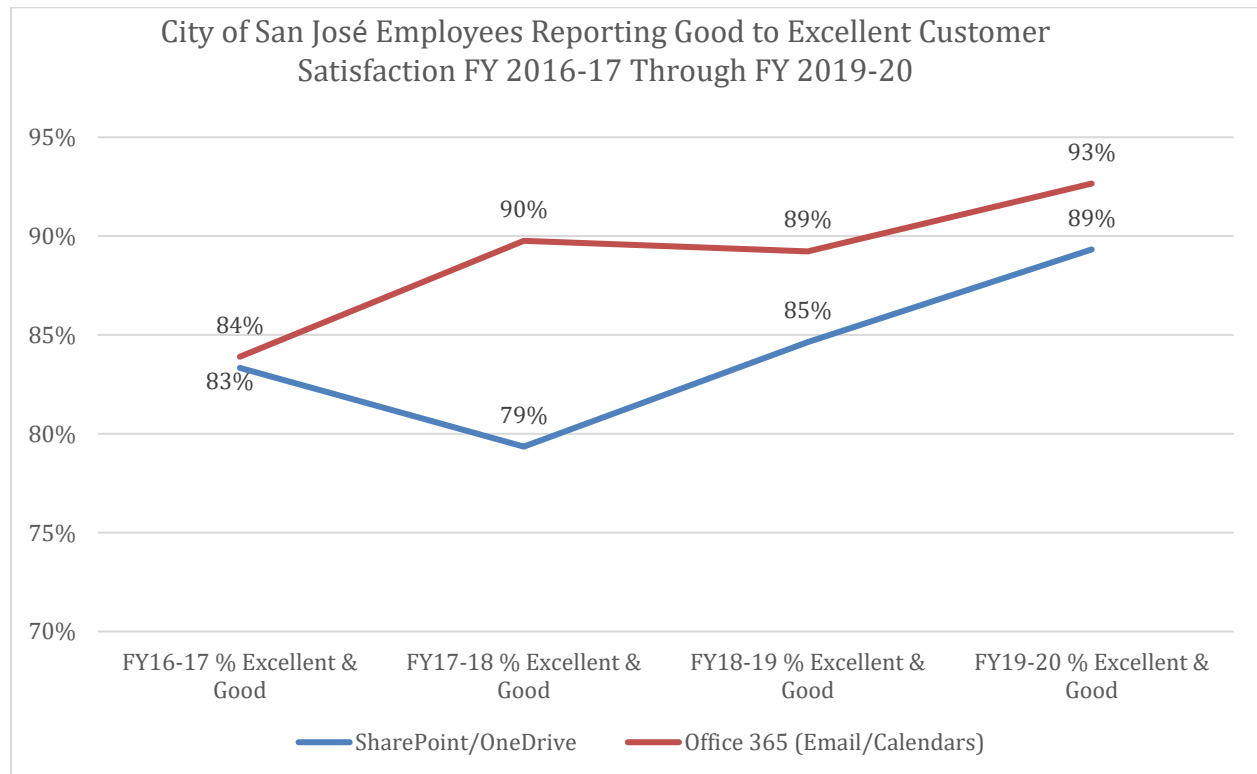
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purchase and update staff to modern and more secure versions of the technology tools across the City.

The City's adoption of Microsoft technologies over the last three (3) years proved to be a crucial investment when the COVID-19 pandemic struck, and City staff were required to work remotely. The City was able to support staff as they transitioned to distributed work settings in a matter of days.



***Negotiation of next option term***

The favorable flat rates provided by Microsoft in the current agreement helped the City update technology tools such as SharePoint, Microsoft Teams, and Microsoft Office to current and more secure versions, while maintaining predictable annual costs. As Microsoft continued to add functionality over the last three (3) years, its rates increased significantly across the rest of its customer base.

During the initial stages of negotiation with Microsoft for the next renewal, proposed rates averaged 30%+ higher than the City's expiring contract, which would have increased the amount paid to Microsoft for productivity and collaboration tools by approximately \$550,000 each year. To address this unsupportable increase, ITD staff focused on two cost reduction strategies:

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- Work with departments to right size the organization's licensing needs so that staff (such as field staff) who do not need the full functionality of an installed client for enterprise productivity and collaboration tools could be moved to lower cost online licenses; and
- Work with Microsoft to negotiate more favorable rates and terms.

Through these efforts, staff identified 953 employees who can be moved to lower cost licensing and negotiated lower rate increases from Microsoft captured across a five (5) year tiered agreement. This is atypical from the standard three (3) year Microsoft Enterprise Agreement term. These combined efforts significantly reduce the initial proposed increase of \$550,000 per year and will save the City \$1.9 million over the five-year term.

	2020-2021 (Base)*	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
<b>Annual Cost</b>	\$1,898,578	\$1,930,089	\$1,974,719	\$2,054,851	\$2,140,001	\$2,217,520
<b>Amount of Increase from Base</b>	N/A	\$31,511	\$76,141	\$156,273	\$241,423	\$318,942
<b>Percent Increase from Base</b>	N/A	1.7%	4.0%	8.2%	12.7%	16.8%

\*Annual rates were flat for each year of the current three-year agreement. Only the last year of the current agreement is shown above as a basis for comparing the next five (5) years as recommended in this Council memorandum.

## **ANALYSIS**

Currently, Microsoft productivity and collaboration technology tools are provided to the City as either inclusive packages or component parts. Some of the higher priced packages include features needed by a portion of City employees who (1) have large email boxes, (2) require the ability to routinely process/edit/publish and share documents, or (3) need interoperability between productivity and collaboration tools and City-issued devices. Lower-priced subscription options offer pared-down email box size limits and provide only browser-based versions of email, calendaring, word processing, spreadsheets, and presentation software, which meet the needs of employees who spend most of their time in the field. The lower-priced options also require add-on components at additional cost to comply with email archiving requirements for litigation holds, e-discovery searches, and to meet cybersecurity baselines (anti-malware, anti-phishing, anti-spam).

The City has been working with Microsoft for the provision of these tools, but Microsoft has made it clear that costs for enterprise content management and collaboration tools, such as SharePoint and Teams, will continue to increase significantly. As a result of these forced increases and at the request of Council, City staff conducted an evaluation of alternative tools that might be able to meet the City's needs.















***Evaluation Approach and Results***



To compare how tools offered by various companies could meet the needs of the City, the evaluation included two tracks:

- ITD staff worked with departments to evaluate different job types across the City and how those different job types use the various productivity and collaboration tools; and
- the City issued a Request for Information (RFI) in February 2021 to gather functionality and preliminary pricing information from vendors for these technology tools. The City received four (4) responses to the RFI, one (1) from Microsoft and three (3) from Google partners.

From a functionality perspective, the major difference between productivity/collaboration tools offered by Google and Microsoft is that Google tools are only offered fully via a web browser, while Microsoft offers versions that can be installed on your local device or accessed through a web browser. While products from both companies have become universally widely used, shifting the City to an entirely browser-based product would require a significant shift in both user and technical administration perspectives. There is also a significant dependency on some Microsoft products that are integrated with the City's major software solutions to complete processing, such as Excel for financials, payroll, and revenue management and Word for agenda management and legal files, that would require the City to continue to purchase some Microsoft products. Staff estimates this retention rate at up to 800 users if a shift was made to Google or some other comparable alternative.

The chart below illustrates the relative ease of transition from Microsoft to another toolset such as Google by tool type<sup>3</sup>. Microsoft is aided in the assessment by being the incumbent.

Features	Microsoft	Google
Word Processing / Spreadsheets / Presentations		
Document Storing, Sharing, and Collaboration		
Email and Calendar		
Team Chat, Collaboration, & Video Conferencing		
Security & eDiscovery		
Document Retention		
Enterprise Applications Integration		

LEGEND:  Currently adopted or easy to transition  Requires significant shift / adoption within the City

<sup>3</sup> According to Gartner Research, Microsoft has approximately 90% of the share for the office suite market. Google has approximately 10% of the market share but has been gaining around 1% of the market share annually (<https://www.ciodive.com/news/Google-Microsoft-Office-collaboration/571740/>).

There are also differences between Google and Microsoft in how the products are offered and priced. Google offers two (2) package options (Enterprise Standard and Enterprise Plus) that are generally inclusive of all their products. Conversely, Microsoft offers several different packages and provides product-specific pricing as add-ons to their package offerings that compels customers to “purchase up” to a more expensive package. Google’s Enterprise Standard package does not include the data protection and security features required by the City. However, the Google Enterprise Plus package is equivalent with or superior to Microsoft’s base enterprise package (E1), which is used by approximately 1,500 City employees. Microsoft’s mid-level package (E3) includes a desktop-installed version that is currently used by more than 5,800 City employees. Based on staff analysis and research, both Microsoft and Google offer viable solutions for email, scheduling, document storage/retention, and video conferencing.

According to the RFI responses, it appears that the City could save money by shifting to Google (or other comparable vendor) for productivity and collaboration tools. However, a mixed environment will be unavoidable if this course is pursued. Specifically, the City would need to continue to purchase Microsoft Office for instances where Microsoft tools are essential and integrated with existing City software and processes. Making a shift of this magnitude would be a sizeable effort for the City and would take time to accomplish, which staff estimates at about two (2) years.

Additional cost/effort considerations include:

- A competitive solicitation process would need to be conducted to comply with the City’s municipal code requirement for competition, barring availability of a cooperative contract similar to the Riverside Enterprise Agreement;
- Third-party implementation/transition costs for services such as data migration, training, and integration with existing City applications would cost the City an additional estimated \$1-2 million; and
- Significant effort would be required to address the cultural effects of this type of change, such as addressing inevitable disruptions to ingrained work processes, training all staff, and major transitions to new tools.

Following is a more detailed analysis of cost estimates for Microsoft and Google.

	<b>Microsoft Negotiated Cost**</b>	<b>Google (Estimated Cost)</b>
2021-2022	\$1,820,218	\$1,335,240
2022-2023	1,864,575	1,335,240
2023-2024	1,944,707	1,335,240
2024-2025	2,029,734	1,335,240
2025-2026	2,107,254	1,335,240
800 Microsoft Users*	N/A	640,000
<b>Total</b>	<b>\$9,766,488</b>	<b>\$7,316,200</b>

\*Additional cost added to Google costs to provide Microsoft Office for 800 City power users.

\*\*Excludes Microsoft Visio, Power BI, and Microsoft Project costs to establish a baseline of comparison as these are niche tools offered by Microsoft.

***Approach over the next five (5) years***

Subject to approval by Council, the City intends to contract with Microsoft for another five (5) years to continue to use Microsoft productivity and collaboration tools. Although the City negotiated favorable rates with Microsoft for the five-year term presented, costs for Microsoft products will continue to increase significantly at each Enterprise Agreement Renewal and even more so in years when the cooperative agreement is renegotiated. Since these technology tools are essential to how the City performs its duties and delivers services, ITD staff will initiate the following actions to continually improve employee productivity, while also controlling costs:

- Continue to work across all City departments on skill development and standardized approaches to achieve consistency around document management, document collaboration, and team collaboration;
- Work with City departments on an ongoing basis to optimize licensing based best fit for team members; and
- Consider a pilot of Google's G-Suite, in accordance with [City of San José Municipal Code Section 4.12.240.B.1](#), for a small group of City employees to evaluate and field test the toolset and determine the feasibility of shifting the City's productivity tools, in full or in part, to Google or a similar alternative in the future as selected through a competitive procurement or by leveraging another cooperative agreement similar to the Riverside agreement.

**CONCLUSION**

Approval of this recommendation will provide City employees with continued access to modern office productivity tools. This enables effective and efficient collaboration and work, as was evidenced by the COVID-19 pandemic and expectations for the City's future hybrid work environment. Over the five-year term of the agreement and as remote work routines are formalized, the City will continue to examine how productivity and collaboration tools can best support staff in rendering City services.

**EVALUATION AND FOLLOW-UP**

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

**CLIMATE SMART SAN JOSE**

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

## **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the April 27, 2021 City Council meeting.

## **COORDINATION**

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

## **COMMISSION RECOMMENDATION/INPUT**

There is no commission recommendation or input associated with this action.

## **COST SUMMARY/IMPLICATIONS**

The following outlines the cost elements for the five-year term. The City may add licenses as required during the term of the enrollment; however, per unit pricing for any additional licenses will be at the standard Enterprise Agreement discounts.

<b>1. AMOUNT OF RECOMMENDATION:</b>	<b><u>First Year Cost</u></b>	<b><u>Five-Year Cost</u></b>
	<b>\$1,930,089</b>	<b>\$10,317,180</b>

### **2. COST ELEMENTS:**

<b><u>Description</u></b>	<b><u>Annual Cost</u></b>
Year 1 Cost	\$1,930,089
Year 2 Cost	1,974,719
Year 3 Cost	2,054,851
Year 4 Cost	2,140,001
Year 5 Cost	2,217,520
<b>Total 5-Year Cost</b>	<b>\$10,317,180</b>

### **3. SOURCE OF FUNDING:** General Fund

### **4. FISCAL IMPACT:** Subject to availability and approval of funding through the annual budget process.



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**BUDGET REFERENCE**

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

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. for Contract*	2020-2021 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
001	0432	IT Department Non-Personal/Equipment	10,423,301	\$1,930,089	VIII - 242	02/09/2021, 30531

\*The Amount for Contract reflects annual costs for the first year of the five-year agreement. The funding for years 2-5 will be programmed through the annual budget process.

**CEQA**

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

/s/  
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/s/  
JULIA H. COOPER  
Director of Finance

For program-related questions, please contact Jerry Driessen, Assistant Chief Information Officer, at [jerry.driessen@sanjoseca.gov](mailto:jerry.driessen@sanjoseca.gov). For contract-related questions, please contact Jennifer Cheng, Deputy Director of Finance, at [jennifer.cheng@sanjoseca.gov](mailto:jennifer.cheng@sanjoseca.gov).