



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 6007
February 1, 2022
Regular Business**

AGENDA BILL INFORMATION

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| TITLE: | AB 6007: Enterprise Financial Management System Purchase | <input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution |
| RECOMMENDED ACTION: | Discussion only. | |

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| DEPARTMENT: | Finance |
| STAFF: | Matthew Mornick, Finance Director |
| COUNCIL LIAISON: | n/a |
| EXHIBITS: | 1. Mercer Island Needs Assessment Report, July 2021 2. Vendor Demonstration Score and Rating Scale |
| CITY COUNCIL PRIORITY: | 2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability. |

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| AMOUNT OF EXPENDITURE | \$ 986,000 |
| AMOUNT BUDGETED | \$ 250,000 |
| APPROPRIATION REQUIRED | \$ 736,000 |

SUMMARY

EXECUTIVE SUMMARY

This agenda bill seeks to replace the City’s financial management software system.

- A replacement or upgrade of the Financial Management software system was identified in the 2021-2022 work plan. The current system was purchased in 1997.
- In March 2021, staff hired the consulting firm BerryDunn to conduct a needs assessment, draft a Request for Proposals (RFP), and facilitate a competitive process to update or replace the current financial management system.
- The City issued an RFP in August 2021 for “Software and Implementation Services for a Financial Management Software Systems Environment,” also known as an enterprise resource planning (ERP) system.
- After a rigorous vetting process, staff recommends Tyler Technologies, Inc. to replace the existing financial management software system. The total acquisition cost of \$587,000 includes the first year of the software subscription, implementation services, and a project contingency.

- Staff also recommends the City Council authorize the creation of a new Systems Analyst position. This is an ongoing position to manage and advance the new system. The estimated annual cost for this position is \$127,000 (2022 cost estimate).
- And finally, implementation of the new system will require contract support to oversee and manage the implementation in a one-time amount of \$272,000.

This City Council meeting will focus on reviewing the proposal and providing feedback and questions so that staff may follow-up with the City Council for review and final approval at a subsequent meeting.

BACKGROUND

In 1997, the City entered into an agreement with SunGard Bi-Tech for accounting and financial management software called One Solution, presently owned by Central Square. The City's current version of One Solution was last upgraded in 2009. Although still functional, the current software cannot provide data in an efficient and timely manner without significant time devoted to manual data entry. Since the current system does not integrate with other software used in the City, staff manually transfer data to complete accounting processes, glean information, and create reports. This lack of functionality and integration is inefficient. Further, it can lead to financial and security risks should Central Square no longer support our current software version.

Due to the availability and quality of other public sector ERP systems, the significant costs associated with upgrading the existing software, and risk and efficiency concerns inherent in the current systems that are not integrated, staff pursued an open competitive process as part of the 2021-2022 biennial budget (GT0106 – Enterprise Resource Planning System Scoping).

After a competitive search for an experienced consultant in March 2021, the City hired BerryDunn to conduct a Needs Assessment (see Exhibit 1) and facilitate an RFP to upgrade or replace the current financial management software system.

Needs Assessment

In May 2021, BerryDunn conducted an initial project planning meeting with the City project team to review and clarify the project goals, objectives, and schedule; identify known project constraints and stakeholders; discuss planning documents and confirm next steps. Objectives guiding this effort included:

- Assess current applications and identify business needs not currently met.
- Identify challenges and ways to work more effectively and efficiently.
- Educate staff on the tools available in modern systems.
- Encourage staff to rethink business processes to work smarter, not harder.
- Conduct thorough planning for the selection of a modern financial system.

Staff from all City departments were interviewed to understand current business workflows with the existing financial management software and supplemental software systems. A web survey collected feedback from City staff on issues and challenges with current systems and business processes. Over 71 employees participated in the Needs Assessment. Emphasis was placed on collaboration, so a variety of viewpoints and needs informed the priorities.

The primary challenges and main opportunities for improvement resulting from the Needs Assessment are listed below:

1. The reporting capabilities of the existing financial management system are limited. Staff conveyed the current system lacks key reporting and data analysis capabilities, making it difficult to monitor budget and project metrics.
2. The current system has narrow functionality. City needs such as integrated cash receipting, grant and project accounting, and automated business and occupation tax management are not supported by the current system. Staff use third-party applications, paper-based, or Excel-based processes to support these functions.
3. Staff reported the need for a greater amount of data within one system to eliminate duplicate data entry. Departments enter duplicate information into the current system and other department-specific systems.
4. Staff reported a desire to generate custom ad-hoc reports with dashboard functionality without requiring extensive manipulation or intervention from IT staff.
5. Staff indicated current internal business processes may not necessarily be based on best practices and are open to business improvements.
6. Staff discussed that training will be an important component of success with a new financial management system.

These findings shaped the RFP and the ensuing vendor selection process.

DISCUSSION

Vendor Evaluation

The City issued RFP #21-37 in early August 2021. The RFP was developed in tandem with BerryDunn, incorporating best practices outlined by Government Finance Officers Association (GFOA) to encourage complete and comparable responses from different software vendors. The RFP cited over 1,300 functional and technical requirements based on the Needs Assessment in conjunction with input from staff from every City department.

The RFP was posted on the City's website and notice was advertised in the Seattle Daily Journal of Commerce. A total of 47 vendors were notified directly. In September, the City received three responses to the RFP from Central Square, Tyler Technologies, Inc., and Rock-Solid ERP. Inclusive of the proposals was pricing information on deployment models (e.g., cloud vs. on-premise software hosting).

A project team including the BerryDunn consultant team and City staff from Finance and Information Technology reviewed the RFP responses based on the vendors proposed solution functionality, corporate experience, project plan/implementation schedule, staffing and organization, and overall cost.

From these proposals, the City invited all three vendors for further consideration. In November and December 2021, the City conducted in-depth scripted demonstrations. Each vendor presented over a one-and-a-half-day period on all functional areas under evaluation, including:

- Company and Software Background.
- General Ledger, Treasury Management, and Financial Reporting.
- Budgeting.
- Purchasing, Bids, and Contract Management.

- Accounts Payable.
- Business Licensing and Tax Collection.
- Accounts Receivable and Cash Receipts.
- Project Accounting and Grant Management.
- Fixed Assets and Inventory.
- Implementation Proposal.

Sensitive to the number of demands on staff time, the project team invited representatives from IT, Finance, and Public Works to participate in the weeklong scripted demonstrations. Session participants provided feedback on each software system, including likes and dislikes related to their specific area, and provided overall vendor rankings (see Exhibit 2).

Following the scripted demonstrations, staff followed up with vendors for additional questions to round out information from the scripted demonstrations. In December and January, staff made reference calls to other municipalities that use the software systems under consideration. The evaluation team used these vendor references and comprehensive, best, and final cost proposals in final determinations.

Vendor Selection

After completing a comprehensive review and assessment, staff recommends procurement of the Munis software system from Tyler Technologies, Inc. to replace the financial management software system.

By implementing the Tyler Technologies, Inc. Munis software package, the City expects to gain:

1. A user-friendly interface and improved reporting tools with dashboard functionality for staff with non-technical backgrounds.
2. Robust electronic workflow capabilities with improved cash receipting, project and grant accounting, and automated business and occupation tax management.
3. Efficiencies in having a single cloud-based software system with tested security protocols with the potential to eliminate duplicate data entry.
4. An “evergreen” philosophy which states that the City will not be charged additional license fees for any future enhancement releases.
5. The ability to interface with sixteen of the City’s different business software systems.
6. Employee, vendor, and customer self-service portals.
7. A content management system that stores and retrieves electronic copies of documents such as purchase orders, invoices, and payments.
8. Access to local customer service support on Pacific Standard Time based in Renton, WA.

Software Implementation

The project team will conduct a phased implementation approach. This entails grouping modules or core business processes being phased into production on the new system while progressively going live with additional ancillary modules as the implementation progresses and a foundation has been established. The phased approach is more common among local governments of similar size and project scope. This approach typically involves going live on core financials including the General Ledger, Budget, Purchasing, and Accounts Payable first, followed by other modules.

Staff anticipates core financials will take 18-months to implement, with an additional (at minimum) 18-months to then implement ancillary modules, for an estimated three-to-four-year implementation period.

Staff recommends a project schedule with additional resources (outlined below) to be allocated to ensure that key functionality is implemented, and staff are properly trained leading up to go-live dates. These actions equip the City to capitalize on project momentum, maximize the use of software for which license fees are being paid, and more quickly realize the potential return on investment resulting from meeting project goals and objectives.

Implementation Resources

Critical to the successful implementation, ongoing maintenance, and maximum use of a new financial management software system is both ongoing and temporary staff support. Staff recommends the creation of a new Systems Analyst position to manage and oversee the new system.

The new Systems Analyst will be responsible for implementing, integrating, troubleshooting, maintaining, and testing the City's financial management software system. This subject matter expert is like the Asset Management Systems Coordinator in Public Works who oversees CityWorks, the City's Asset Management System.

As the City's liaison between Tyler Technologies and City Departments, the position will train City staff to properly use the software, manage employee access and permission levels, oversee financial report writing for internal operations and State auditing purposes, and identify business and technical solutions to workflow gaps as software improvements rollout. All the business software the City deploys will be – to varying degrees – interfaced with the new financial management software systems. The new position will maintain the integrity of these interfaces throughout scheduled quarterly software updates.

The new financial management software is touched by every employee in the City. The Systems Analyst ensures the organization is equipped to use the new enterprise-wide software effectively and efficiently as the software systems are upgraded and evolve. This specialized skill set will result in increased transparency and improved operational knowledge of the City's finances and operations.

The Deputy Finance Director and Accounting Specialist are two key positions whose day-to-day work will be impacted as they commit time and organizational knowledge to implement the new financial management software system. Given the anticipated phased implementation, the Finance Department will require 18-months of part-time/contract support to sustain day-to-day operations such as general ledger reconciliations, accounting, bank reconciliations, accounts payable, budget tracking, fixed asset management, annual financial reporting, purchase requisitions, project tracking and related reporting, and day-to-day financial support to City Departments.

Financial Impacts and Budgetary Actions

The recommended contract with Tyler Technologies is for an amount not to exceed \$587,000, which includes the first year of the software subscription, implementation services, and a \$150,000 project contingency (20% of three-year project costs) to account for implementation costs not yet defined, additional hardware, added functionality, and for other unforeseen circumstances.

The table on the next page outlines the full extent of the budgetary impacts of the acquisition and implementation of the new enterprise-wide financial management software solution:

| Replacement of the City's Financial Management System (\$ in thousands) | One-time | Annual Ongoing | Total |
|---|-----------------|-----------------------|---------------|
| Tyler Technologies Implementation Services | \$ 281 | - | \$ 281 |
| Recurring Subscription Costs | - | 156 | 156 |
| Project Contingency (20% of 3-year project costs) | 150 | - | 150 |
| Tyler Technologies Subtotal | \$ 431 | \$ 156 | \$ 587 |
| Systems Analyst (tied to CPI-W) | - | 127 | 127 |
| Finance Department Contract Support | 132 | - | 132 |
| Professional Services – Implementation Project Management | 140 | - | 140 |
| Implementation Support Subtotal | \$ 272 | \$ 127 | \$ 399 |
| TOTAL | \$ 703 | \$ 283 | \$ 986 |

**Subscription rate constant thru years 1 - 5, a one-time 5% increase in year 6, constant thru years 6 - 10.*

The recurring software subscription cost is \$156,000 annually. For reference, the 2022 annual subscription fee for the 2009 version of One Solution is \$52,000.

Subscription fees are paid quarterly. Costs associated with project implementation are paid as project milestones are completed. Funding for this project is recommended to come from Fund Balance in the General Fund. Ongoing costs will be incorporated in the General Fund budget.

ALTERNATIVE

Alternatively, the City can upgrade to the latest version of One Solution. This would entail a less extensive project undertaking and a reduction in costs and total staff time. Some key trade-offs include:

1. Software system upgrade that results in user interface improvements rather than process-focused improvements that incorporate up to date best practices in public sector financial management.
2. A less user-friendly interface and with improved yet limited reporting tools and dashboard functionality.
3. Less user-friendly cash receipting, project, and grant accounting capabilities. Automated business and occupation tax management is unavailable.
4. Cloud-based hosting for the latest version of One Solution has untested security protocols. Known software limitations indicate a degree of duplicative data entry likely to continue.
5. Reluctance to integrate with the City's sixteen identified software system interfaces.
6. Access to customer support in Florida that operates during Eastern Standard Time business hours.

Rather than a three-to-four-year implementation period, staff anticipate upgrading One Solution core financials and ancillary software modules within two to three years. The table on the next page outlines the full extent of the budgetary impacts of the acquisition and implementation of the upgraded financial management software solution with Central Square:

| Upgrade the City's Financial Management System (\$ in thousands) | One-time | Annual Ongoing | Total |
|--|-----------------|---------------------------|---------------|
| Central Square Implementation Services | \$ 266 | - | \$ 266 |
| Recurring Subscription Costs (5% increase per year) | - | 102 | 102 |
| Project Contingency (20% of 3-year project costs) | 114 | - | 114 |
| Central Square Subtotal | \$ 380 | \$ 102 | \$ 482 |
| Systems Analyst (tied to CPI-W) | - | 127 | 127 |
| Finance Department Contract Support | 132 | - | 132 |
| Professional Services – Implementation Project Management | 140 | - | 140 |
| Implementation Support Subtotal | \$ 272 | \$ 127 | \$ 399 |
| TOTAL | \$ 652 | \$ 229 | \$ 881 |

**Subscription rate increases 5% per year each year.*

The agreement with Central Square would be for an amount not to exceed \$482,000, which includes the first year of the software subscription, implementation services, and a \$114,000 project contingency (20% of three-year project costs) to account for implementation costs not yet defined, additional hardware, added functionality, and for other unforeseen circumstances. The alternative will result in a \$105,000 initial savings in the first year as compared to Tyler Munis. The recurring software subscription costs amount to \$102,000, which increases 5% per year each year.

RECOMMENDATION

Staff is seeking the City Council's feedback and is prepared to answer questions about the financial management software replacement and implementation. Staff will return to the City Council at a subsequent meeting with additional information, as requested.

RECOMMENDED ACTION

Discussion only.

Suggested draft motions for subsequent City Council meeting:

1. Award RFP #21-37 to Tyler Technologies, Inc., a Maine-based company, for a Financial Management Software System to replace the City's current financial software system.
2. Authorize the City Manager to negotiate and execute an agreement with Tyler Technologies, Inc., in an amount not to exceed \$587,000 which includes the first year of the software subscription, implementation services, and a \$150,000 project contingency, with future funding contingent on Council budget approval.
3. Authorize a new Systems Analyst full-time position in the Finance Department at an annual cost of \$127,000 to facilitate the financial management software implementation and oversee the ongoing maintenance, staff training, and development of the software system's overall functionality.
4. Authorize one-time funding not to exceed \$272,000 to facilitate the successful implementation the new financial management software system.