



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MARCH 6, 2012

FROM: INFORMATION TECHNOLOGY AND WHARFINGER

SUBJECT: RESOLUTION NO. _____ - APPROVE AGREEMENT BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND KLEIN SYSTEMS GROUP LTD. FOR BILLING SYSTEM ENHANCEMENTS, PORT PILOT SYSTEM UPGRADE AND SUPPORT SERVICES

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) is requesting approval to enter into an agreement with Klein Systems Group Ltd. (KSG), located in British Columbia, Canada, to provide professional technical services for the Harbor Department's Billing System software and Port Pilot system software. These services are needed to expand the capabilities of both systems, including automating billing processes, upgrading the Port Pilot system, and implementing future billing requirements. This recommendation is based on a sole-source selection process because KSG is the only company that provides proprietary and complex services for its software products. The term of the proposed agreement is three years at a not-to-exceed amount of \$975,000. This amount will be capitalized in the Capital Improvement Program (CIP) budget.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that in accordance with the Los Angeles City Charter Section 1022, it is more feasible for outside contractors to perform this work than City employees;
2. Approve the agreement with KSG at an amount not-to-exceed \$975,000 for a three year term;
3. Authorize the Executive Director to execute and the Board Secretary to attest to said agreement; and
4. Adopt Resolution No. _____.

SUBJECT: AGREEMENT WITH KLEIN SYSTEMS GROUP, LTD.

DISCUSSION:

Background – The Harbor Department Billing System (Billing System) is critical as it processes the revenue which finances and supports Harbor Department operations. The Billing System, through its associated database and reports, also supports forecasting processes and the Debt and Treasury Section's bond issuance and renewal. The Billing System also processed and supported the billing adjustments for the economic recovery programs implemented by the Harbor Department in the last few years.

At its May 20, 2010 meeting, the Board approved Agreement No. 2873 with KSG to purchase and implement a new Billing System. The new Billing System replaced the previous 25-year old custom mainframe Billing System. The selection of KSG for Agreement No. 2873 was based on a competitive Request for Proposal (RFP) process, from which KSG submitted the lowest cost proposal and scored highest against the RFP criteria. Agreement No. 2873 supported three major priorities and goals of the Information Technology (IT) Strategic Plan, including migration off the mainframe, minimize custom software, and provide an enterprise approach to data management.

Agreement No. 2873 resulted in the successful implementation of the new Billing System that went live on January 1, 2011. The Billing System generates invoices for approximately 36,000 transactions, 4,000 vessel calls, and over \$400 million in revenue per year. It has significantly reduced the time required to process billing by 50% - 90%. Additional benefits include the elimination of duplicate data entry for Port Pilot transactions, ability to email invoices rather than printing and mailing a hard copy, and the ability to generate invoices on demand. Agreement No. 2873 also included the development of a reporting database and additional training to support both recurring report requirements and ad-hoc queries.

The Port Pilot system, also from KSG, is another critical system that supports the efficient operation of the Port Pilots to provide reliable and efficient pilotage. The system assists Port Pilots operations by automating processes for vessel movement orders, dispatching pilots, and tracking ship berthing activities. Since the Port Pilot system's initial implementation in 2002, the system has assisted the Pilots with more than 52,000 vessel movements.

Proposed Agreement - The proposed agreement is for professional services to enhance and support the Billing and Port Pilot systems. The proposed three-year agreement is for an amount not-to-exceed \$975,000 (Transmittal 1). The Harbor Department is not committed to spending this entire amount. Expenditures based on actual needs will be incurred only when the Harbor Department authorizes services to be performed. Harbor Department staff will continue to perform most tasks, however, vendor services are required for the proprietary and complex tasks.

SUBJECT: AGREEMENT WITH KLEIN SYSTEMS GROUP, LTD.

One of the primary purposes of the proposed agreement is to enable the Harbor Department to continue to utilize the software in the future. KSG services will be used to implement future billing requirements that require software changes that cannot be performed by staff, such as complex changes in the tariff, customer compensation agreements, special billing programs, or changes in the technology such as electronic filing of manifest reports. Without the proposed KSG services, the Harbor Department would not be able to modify the software for complex or proprietary changes. The estimated amount to implement future billing requirements is \$350,000 over three years.

Another purpose of the proposed agreement is to increase the benefits of the existing software by utilizing more of its capabilities. Proposed enhancements that would benefit the Wharfinger, Finance and Port Pilot Divisions, and improve service to the Harbor Department's customers, include consolidating existing standalone systems which support the billing process, implementing shipping industry standard Electronic Data Interchange (EDI) 310 data format for manifest data, electronically receiving and processing rail and truck cargo billing, automating processing and billing flat-rate monthly dockage (e.g. – barges and tugs), developing interfaces to share data across other Harbor Department systems, developing financial and statistical reports, and upgrading of the Port Pilot system to provide improved integration with the Billing System and additional functionality such as tracking Port Pilots' work schedules, monitoring rotations and assignments, Port Pilot statistics and Marine Exchange interface. The proposed enhancements will improve efficiencies by reducing manual data processing, improving billing process accuracy, and improving reporting to address financial requirements and auditor requests. The proposed enhancements will also improve service to Harbor Department customers by enabling electronic data exchange capabilities, such as for tariff-based customers that have requested the ability to electronically submit information. The approximate amount for enhancements is \$625,000 over three years. Transmittal 2 provides the breakdown of enhancements being considered and their estimated costs.

Selection Process – This proposed agreement was based on a sole-source selection because of the proprietary nature of software. Harbor Department staff will continue to perform routine, non-proprietary tasks. However, vendor services are required from KSG for proprietary and complex work on its Billing System and Port Pilot system software. The use of both Harbor Department staff and vendor services is a common model for software development and support. KSG is based in British Columbia, Canada.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an agreement with KSG for technical support, system enhancement and related services for continued use and full utilization of the Billing System that was initially implemented on January 1, 2011. As an administrative

SUBJECT: AGREEMENT WITH KLEIN SYSTEMS GROUP, LTD.

activity, the Director of Environmental Management has determined the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

This Board action will have no direct employment impact for the five-county region since the company is located outside the region.

FINANCIAL IMPACT:

During the initial implementation of the Billing System, \$885,000 was budgeted for Agreement No. 2873, of which \$877,750 was spent to complete the implementation within one year. Approval of the proposed \$975,000 three-year agreement with KSG authorizes the IT Division to implement enhancements to the Harbor Department's Billing System and Port Pilot system, and receive technical support. Staff has reviewed the estimated costs and compared them to similar software services to determine reasonableness. The total amount of both agreements – the proposed agreement and Agreement No. 2873 for the initial implementation – is \$1,852,750.

Subsequent support agreements will likely be required to support future ongoing business requirements that require complex software changes such as tariff changes, new billing programs, and changing agreements with the Harbor Department's customers. Capital Improvement Program funds are available in Fiscal Year 2011/2012 under Work Order 25139, Center 1206, Program 000. Upon Board approval, future fiscal year funds, as shown in the table below, will be requested to be budgeted as part of the annual budget adoption process:

Fiscal Year	TOTAL
2011/12	\$ 100,000
2012/13	\$ 725,000
2013/14	\$ 100,000
2014/15	\$ 50,000
Total Not-To-Exceed Amount	\$ 975,000

The Harbor Department is not committed to spend the entire proposed amount in any given fiscal year listed above. Expenditures are based on an as-needed basis.

A Termination for Non-Appropriation of Funds Clause (also known as a Funding Out Clause) is included in the agreement.

DATE: MARCH 6, 2012

PAGE 5 OF 5

SUBJECT: AGREEMENT WITH KLEIN SYSTEMS GROUP, LTD.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the agreement as to form and legality.

TRANSMITTALS:

1. Agreement with Klein Systems Group Ltd.
2. Descriptions of Enhancements

FIS Approval: ef (initials)
CA Approval: gmc (initials)



LANCE KANESHIRO
Chief Information Officer



DIANE BOSKOVICH
Chief Wharfinger

for 
MOLLY CAMPBELL
Deputy Executive Director


JOHN M. HOLMES
Deputy Executive Director

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

LK:kw