



DATE: MAY 5, 2015

FROM: INFORMATION TECHNOLOGY

SUBJECT: RESOLUTION NO. _____ - AGREEMENT BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND KLEIN SYSTEMS GROUP LTD. FOR BILLING AND PILOT SYSTEMS SOFTWARE LICENSES, MAINTENANCE 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. (Klein), located in British Columbia, Canada to provide software licenses, maintenance, and professional technical support services for the Harbor Department Billing and Port Pilot Systems. These services are needed to continue to use these systems and to improve their capabilities, including enhancing billing processes, streamlining Port Pilot operations, and implementing future billing requirements.

This recommendation is based on a sole-source selection process because Klein is the only company that provides services for its proprietary software products. The term of the proposed agreement is five years at a not-to-exceed amount of \$3,000,000.

The Billing and Port Pilot software licenses, maintenance and support costs are the financial responsibility of the Harbor Department.

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. Find that the proposed Agreement qualifies for award on a sole source basis as a contract for the performance of professional, technical and special services for which competitive bidding is undesirable, impractical, or would not produce an advantage, pursuant to Los Angeles City Charter, Section 371(e)(10) and Los Angeles Administrative Code Section 10.15(a)(10);

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3. Approve the Agreement with Klein Systems Group Ltd. at an amount not to exceed \$3,000,000 for a five-year term;
4. Direct the Board Secretary to transmit the Agreement to the Los Angeles City Council for approval pursuant to Section 373 of the Charter of the City of Los Angeles and Section 10.5 of the Los Angeles Administrative Code;
5. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Agreement, upon approval by the City Council; and
6. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – The Harbor Department utilizes Klein software for its Billing and Port Pilot Systems. The Billing System is critical as it processes the revenue which finances and supports the Harbor Department operations and strategic goals. Revenue includes tariff charges such as wharfage, dockage and pilotage, as well as charges specified in agreements with Harbor Department customers.

The Billing System, through its associated database and reports, also supports staff's need for timely data for use in forecasting processes and the Debt and Treasury Division's bond issuance and renewal activities. It has also been used to process and support past economic recovery programs that the Harbor Department implemented. The system generates invoices for approximately 36,000 transactions, 4,000 vessel calls, and over \$400 million in revenue per year.

The Port Pilot System is another critical system that supports the efficient operation of the Port Pilots to provide safe, reliable and efficient pilotage and marine services. The system provides pilot dispatching solutions and tracks ship berthing activity which is then sent to the Billing System to produce pilotage invoices. Over the last decade, the Pilots have safely completed more than 52,000 vessel movements.

Prior to the proposed agreement, Klein's professional services were provided through Agreement 12-3054. The professional services have been used for: implementing shipping industry standard Electronic Data Interchange 310 data format for manifest data; implementing electronic receipt and processing of rail and truck cargo billing; developing interfaces to the Harbor Department's Enterprise Resource Planning (ERP) system; and upgrading the Port Pilot System to provide improved integration with the Billing System and additional functionality including management of Port Pilot work schedules and assignments. Agreement 12-3054 with Klein was a three-year agreement authorized on March 30, 2012 in the amount of \$975,000, or an average of \$325,000 per year. In addition to the cost of professional services under Agreement 12-

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3054, Klein software maintenance fees were paid through purchase orders. For Fiscal Year 2014/15, the software maintenance fees were \$147,033 for the Billing System and \$63,522 for the Port Pilot System. Therefore, the current total annual expenditure for Klein professional services and software maintenance fees is approximately \$536,000.

Proposed Agreement - The proposed agreement is for both professional services and for software license and maintenance fees. The proposed five-year agreement is for an amount not-to-exceed \$3,000,000. 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.

The Information Technology (IT) Division has two staff assigned full-time to provide technical support to the Billing and Port Pilot Systems. In addition, other IT Division staff provide support on a part-time basis. Harbor Department staff will continue to perform most tasks; however, Klein's professional services are required for the proprietary and complex tasks. Klein's proposed \$3,000,000 authorization for professional services will be used for:

- **Future Requirements:** Klein services will be used to implement future billing and Port Pilot requirements that require software changes that cannot be implemented 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 Klein 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 \$800,000 over five years.
- **Software Enhancements:** Proposed software enhancements that would benefit the Wharfinger, Finance, and Port Pilot Divisions, and improve service to the Harbor Department's customers, include implementing rail and oil billing, developing additional interfaces to share data across other Harbor Department systems, developing financial and statistical reports, enhancing invoice printing capability, enhancing processing of submeter charges, and implementing an interface with the Marine Exchange to retrieve vessel movement data. The estimated amount for enhancements is \$600,000 over five years.
- **Software License and Maintenance Fees:** The software license and maintenance fees are required in order to continue to use the software. Software license fees are for new licenses, such as new modules or additional users. Software maintenance fees are for software updates, security patches, bug fixes and technical support. The Harbor Department is currently licensed to use the following software modules: Visit Management, Resource Management, Cargo Management, Billing Management, Pilot Mobile Management, System Management, and Dispatch Management. The software is patented and

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proprietary to Klein. The estimated amount for software license and maintenance fees is \$1,600,000 over five years.

The annual estimates of the proposed not-to-exceed amount of \$3,000,000 are provided in the Financial Impact Section. On average, the increase above the current expenditure level is approximately 3.8 percent per year over the five year duration of the proposed agreement. This increase is due to anticipated increases in vendor rates and software fees.

Selection Process – This agreement was based on a sole source selection because of the proprietary nature of Klein's software and software services. Keeping Klein software and services is in the best interest of the City and competitive bidding is undesirable, impractical or would not produce an advantage because Klein software licenses, maintenance and technical support services are only available from Klein. The Klein systems are meeting the Harbor Department's billing and port pilot requirements and the proposed cost of continuing to support and maintain these existing systems is significantly less than the alternative cost of replacing them. Klein is based in British Columbia, Canada.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an agreement with Klein for software licensing, maintenance, and technical support services for the Harbor Department Billing and Port Pilot Systems. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of 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 since the company associated with the proposed Agreement is located outside region.

FINANCIAL IMPACT:

The financial impact of the proposed project is that the Harbor Department will expend up to \$3,000,000 over five years for software licenses and maintenance and professional services for its Billing and Port Pilot systems.

The funding of the agreement will be split between the IT Division operating budget and the Harbor Department's capital budget. The initial \$680,000 of capital funds was

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approved at the December 3, 2014 Project Development Committee (PDC) meeting. Funds will be allocated from the following accounts: IT Division Operating Budget, Center 0640, Program 000, Account 54310, and Capital Budget, Work Order 2532400, Center 1206, Program 000

Upon Board approval, future fiscal year funds, as shown below, will be requested to be budgeted as part of the annual budget adoption process.

Fiscal Year	IT Division Operating Budget	Capital Budget	Total
14/15	\$200,000	\$0	\$200,000
15/16	\$210,000	\$250,000	\$460,000
16/17	\$250,000	\$250,000	\$500,000
17/18	\$300,000	\$300,000	\$600,000
18/19	\$310,000	\$300,000	\$610,000
19/20	\$330,000	\$300,000	\$630,000
Total Not-To-Exceed	\$1,600,000	\$1,400,000	\$3,000,000

The actual expenditures may differ from the estimated amounts in any given fiscal year or in any given budget category listed above. However, the total expenditures under the proposed agreement will not exceed \$3,000,000. Expenditures are based on an as-needed basis.

Office space for one to three consultants will be used intermittently within the space reserved for the IT Division. This office space will be used only when on-site work is required. Staff will not be displaced.

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

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CITY ATTORNEY:

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

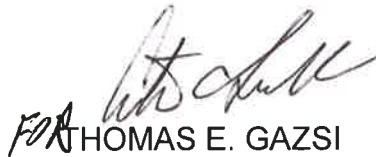
TRANSMITTAL:

1. Agreement with Klein Systems Group Ltd.

FIS Approval: MB (initials)
CA Approval: JS (initials)



LANCE KANESHIRO
Chief Information Officer



FOIA THOMAS E. GAZSI
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APPROVED:



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LK:kw