



IT Sourcing - The San Diego Experience

A public-private partnership done right

San Diego County Technology Office
July 15, 2011





Discussion

- Why San Diego outsourced its IT operations
- The road to outsourcing – what was the template when no template existed
- Where are we now
- What you need to consider before you outsource
- How do you manage to increase the odds of success
- What you can expect from a sourced IT environment



County Overview

- 2nd largest California County (3.1 million)
- 5th largest County in the nation
- \$5 billion budget
- \$120 + million in annual IT spending (exclusive of Sheriff and DA)
- 16500 employees
- 50+ departments/agencies
- 450 core business applications
- 100+ on-line services



Need for Change

- 1996: New CAO
 - Goal: Improve Public Service through Cultural Change
 - Greater financial discipline
 - Business-like approach to service delivery
 - Better, cheaper, faster
 - “Yellow Pages Test”
 - Consultant hired and Evaluation Performed
 - Determine areas of weakness
 - Determine areas where increased investment will result in an increased ability to reach stated goals

County IT Environment



■ Little Better than Chaos

- No framework for enterprise-wide decision making or strategic planning
- 530 classified IT positions reporting to numerous County Departments
 - 22% vacancy rate
- Decentralized and Antiquated Infrastructure
 - 51 PBXs
 - 38 voicemail systems (31 not Y2K compliant)
 - 8 vendors providing telecommunications equipment and services
 - 38 separate Help Desks
 - 5 disparate E-mail systems
 - 8 Data Centers
 - 20+ year old business applications needing replacement
 - No hardware/software refresh cycles (286, 386, and 486 machines)
- Have vs. Have Nots– No method for Resource Allocation and Prioritization
- **Annual Spend – about \$100 million**

Consultant's Findings



- Technology is key to achieving financial and business goals

"The innovative use of telecommunications and information technology is crucial to the reinvention of government within the County of San Diego. Technology can improve the value of services to citizens, dramatically reduce the cost of government and significantly elevate the quality of our programs".

(Warner Group Report)



Consultant's Findings

- Current state was unsustainable and was not in alignment with the County's goals and objectives
 - Need new structure to hire, train, retain qualified staff
 - ***Need to invest over \$150 million*** for new business applications
 - ***Need to invest over \$100 million*** to refresh infrastructure (network, desktops, servers, etc.)
 - Must even the playing field across all departments
- Alternatives
 - Significant structural change in staffing model coupled with infusion of capital or:
 - Outsource to world-class vendor



Why Outsource

- Private sector ability to recruit and manage **qualified staff**
 - County would only need small management team
- Ability to **spread the cost** of needed investments over multi-year contract
 - Vendor would provide initial infusion of capital and expertise, County would pay off over the life of the Contract
 - Minimize technical obsolescence
- Ability to **share risk**
- Gain **access** to world-class technology services, systems, and resources
- **Improve service levels** through performance-based contract

Decision to Outsource All IT: Primary Goals



Upgrade County information technology to a level consistent with that of other major organizations (Short Term)

Increase the number and quality of services County customers have access to -on line, not in-line. (Long Term)

Ensure that every County employee has the automated tools – telephony, desktop applications, business applications, video – to perform their jobs efficiently and effectively (Short Term/Long Term)



Challenges

- **Organizational Restructuring**
 - For IT Contract and Vendor Management not Service Delivery
- **Human Capital Management**
 - Transition of current IT staff to private sector vendors
- **Organizational Change Management**
 - Ensuring sufficient and sustained support for new structure
- **IT Governance**
 - Supporting the management of IT
- **IT Budgeting and Chargeback**
 - New, centralized system would be needed for both budgeting as well as vendor billings
- **Outsourced Contract Agreement**
 - Designing an outsourcing contract that includes all required services and provides the vehicle for vendor management
- **Vendor Management Expertise**
 - Ensuring the County acquired and maintained staff experienced in vendor management.

"While some are concerned about the risks posed by an IT outsourcing project that is the largest ever undertaken by a local government in the United States, county leaders are sure of one thing: The risks of doing nothing are far greater."

"The Virtual County Coming to San Diego", 9/30/99, San Diego Daily Transcript, pg. 2C

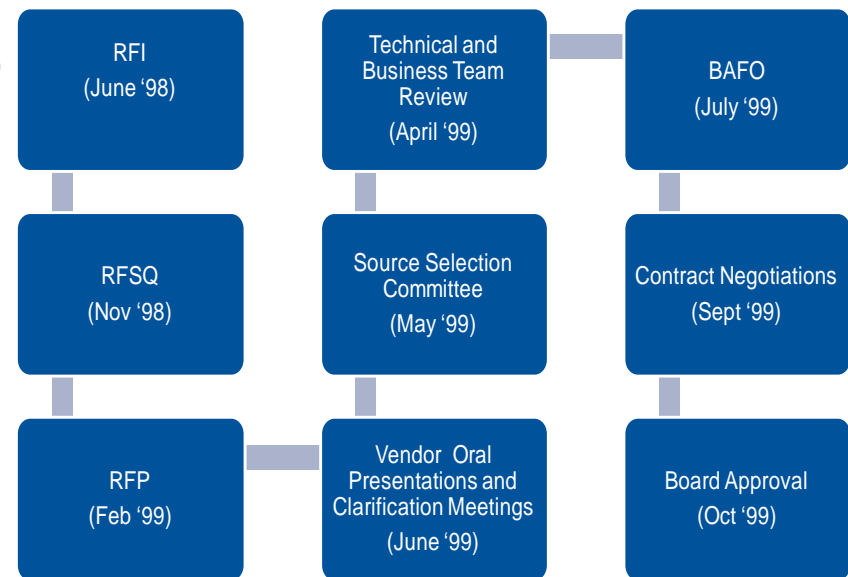
"If approved and executed successfully, such a deal could make life easier for every county resident and worker. . . If it proceeds and fails, it becomes one of those well-publicized, embarrassing computer boondoggles that make headlines. . ."

1/31/99, North County Times, Steve Perez, Pg. D-2



Timeline – 17 Months

- Identified industry interest (RFI) – **June 1998**
- Determined prime vendor candidates (RFSQ) - **December 1998**
- Solicited proposals (RFP) – **February 1999**
- Analyzed proposals – **May & June 1999**
- Solicited best-and-final-offer - **July 1999**
- Analyzed BAFO responses & identified “Best Value” - **August 1999**
- Negotiated contract - **September 1999**
- Signed Contract – **October 1999**



What We Wanted

A Public - Private
Partnership Done
Right



World Class Vendor with Proven Track Record and Financial Stability

Performance-Based Contract with Stated Service Levels

Minimization of Risk

Bundled Services

Vendor Investment

Plan for a Smooth Transition

Provisions for Business Process Reengineering

Pricing Stability and Predictability

County urged to put off technology deal

"This is something that hasn't been tried before on this scale, just wholesale hand over of services. It's everything, soup to nuts, and it's very risky. It's insane." Donald Cohen, labor leader with the San Diego-Imperial County Labor Council

10/14/99, North County Times, Terry Wells

Committed Efforts from Multiple Teams



Efforts from County Members

- Board Members
- Superior Court Judge
- CAO
- Assistant CAO
- CIO
- CTO
- Department Heads
- Purchasing
- County Counsel
- County IT staff

Efforts from Outside Experts

- The Warner Group (now Gartner)
- Gordon & Glickson
- PricewaterhouseCoopers

Contract Review Committee

Best Value Committee

"We have some systems that run on hardware that is no longer made. This is not about saving \$87 million. This is about giving county employees the tools to do a better job." Chair of the selection committee

"Supervisors Unanimously Approve IT Outsourcing Deal," 10/27/99, San Diego Union Tribune



Best Value Determination

PROFILE

- Strengths and weaknesses
- Evaluation team reports
- Scoring on 700 factors
- Site Visits
- Reference Checks
- Scripted Demos
- Terms and Conditions
- Pricing

KEY DISCRIMINATORS

- Likelihood of price stability
- Employee package
- Relationship mgmt
- Added Value offerings
- Immediate results
- Favorable exit profile

Vendor Selection

- Proposals Submitted by:
 - EDS, CSC, IBM
- Selected: The Pennant Alliance
 - CSC - prime contractor
 - SAIC
 - Pacific Bell
 - Lucent
- Best value, price and other factors considered
- Rated best on both technical and price



Key Contract Provisions

- 7 years with additional 3 one-year terms (County sole discretion)
- Pricing: Stated price points for each service or resource unit
 - Pricing level adjustments tied to volumes
- Termination for convenience (County sole discretion)
- Prohibition of work stoppage
- Performance Requirements
 - 65 Detailed Service Levels (MASL)
 - Fee reductions if not met
- Refresh requirements and schedules
- Assumption of liability
- Transition of County IT staff to Vendor
- Base value: Approx \$650 million over 7 years
 - Excluded Sheriff and District Attorney

Key Financial Provisions



- Fixed unit pricing on base services for 7 years
 - Desktops - per seat
 - Telecommunications - per instrument
 - Mainframe and server - per cpu usage
 - Disk storage - per gb
 - Projects - fixed price or T&M as appropriate
- Hardware upgrades included in unit prices
- Asset purchase applied to unit prices
- Smooth investment curve
- Initial capital infusion from CSC
- Built in infrastructure refresh



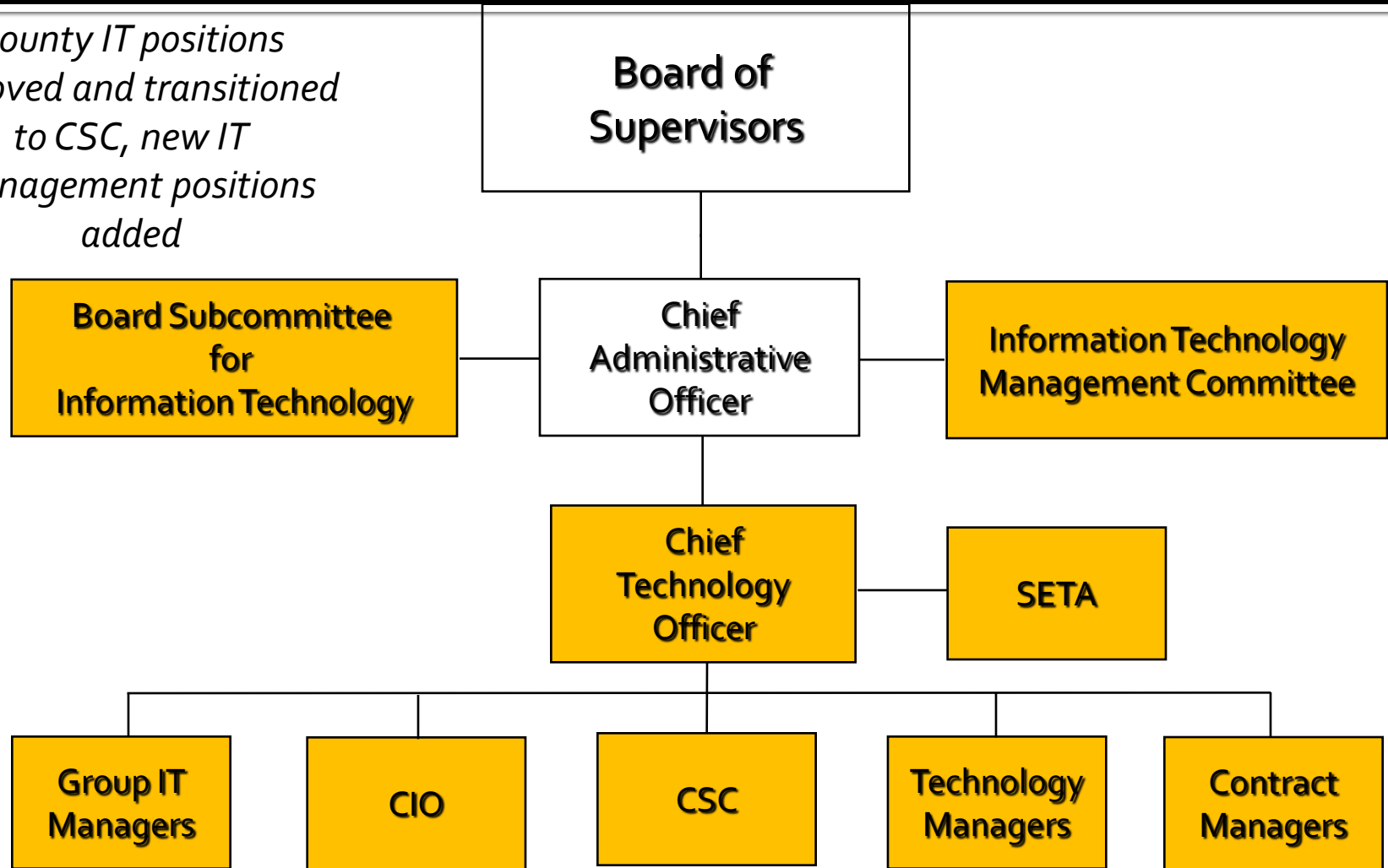
County Commitments

- **First Fiscal Year of the Contract**
 - All Departments fully funded for IT
 - Level the playing field between the have and have not's
 - CTO Office established and fully funded
 - Create new IT Internal Service Funds
 - Create IT Billing and Cost Allocation model
- **Future Fiscal Years**
 - All Departments fully funded
 - CTO Office fully funded
 - No fee increases
 - No program cuts



Organizational Restructure

County IT positions removed and transitioned to CSC, new IT management positions added





Transition Plan – First 2 Years

FIRST 6 MONTHS

- CSC assumes responsibility on Day 1
- Service level requirements phased in
- Move machines and people
- Develop and document procedures
- Document County systems
- Provide backup for critical functions
- Establish disaster recovery process
- Assess security and plan improvement
- Begin replacing PCs and telephones
- Begin ERP implementation

FOLLOWING 18 MONTHS

- Replace all telephones, WAN and LANs
- Replace all PCs, Servers and peripherals
- Provide ongoing training to County employees
- Replace ERPs with an integrated system
 - Payroll and human resources
 - Financial
- Implement a performance management system
- Begin support of business reengineering

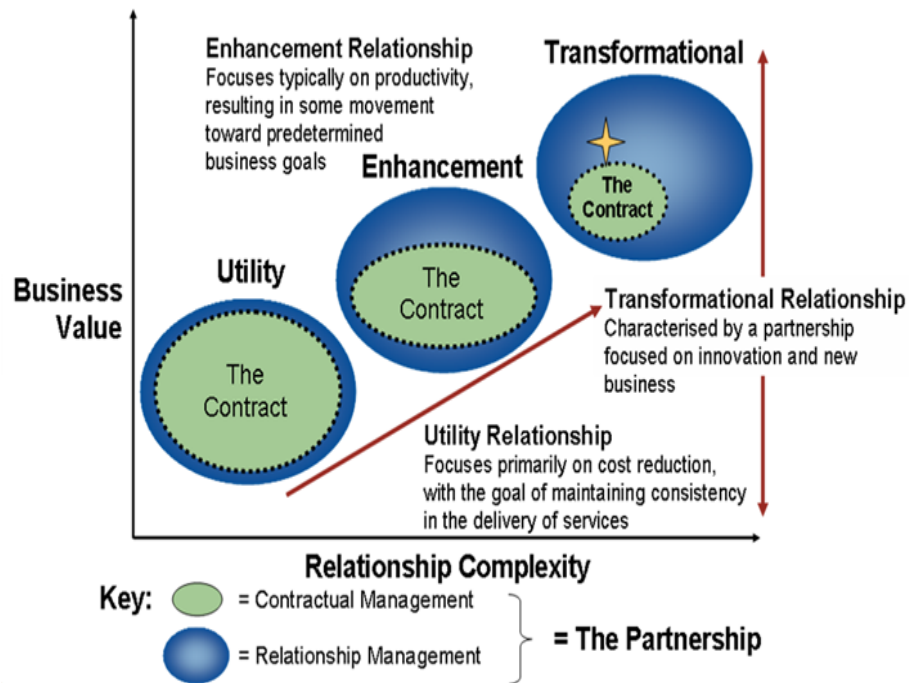
Results: Transition and Stabilization



Before	After
38 Separate Help Desks	1 Integrated Help Desk
5 disparate e-mail systems (GroupWise Standard)	1 Integrated e-mail system (Outlook Standard)
Outdated telephony systems supported by multiple vendors	21,000 standard and integrated phones
8 unprotected data centers and distributed servers	1 Hardened and protected data center
Multiple non-integrated networks	1 Integrated Network
No integrated security systems	Integrated security monitoring and protection
Every imaginable desktop configuration and operating system	12,000 standard state-of-the-art desktop computers with a single operating system
No viable accounting for software licensing	100% software licensing accuracy and accountability
Limited sharing of hardware and software systems between business units	Enterprise (shared) servers and applications
No desktop computer and server refresh cycle (purchased as \$ available)	36 month refresh on all desktop computers and 60 month refresh on all servers
Distributed responsibility for IT	Centralized responsibility for IT
Operational issues dominated IT managers time	Strategic IT planning consumes most of the IT managers time 61% reduction in the # of trouble tickets
Fragmented approach to IT Investments	Collaborative governance system that prioritizes IT investments



Decision to Re-compete



Source: Gartner

- Current “Utility” type contract provided for needed stabilization
 - Moved the workforce ahead
- County now looked for innovation and transformation
 - Provide for enhanced public service
- County decision to re-compete with more emphasis on moving to a “Transformational” model

New Contract

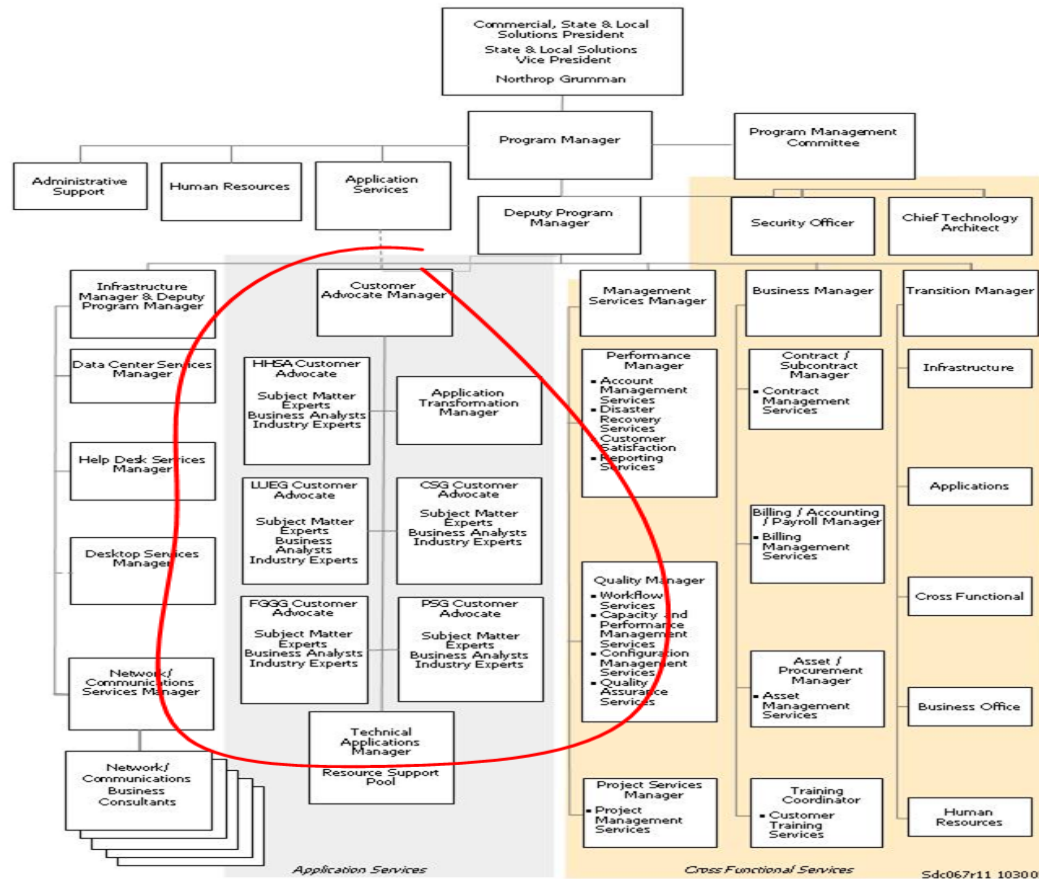


- New 7-year Contract in January 2006 (5 one year options for renewal)
 - Northrop Grumman (prime)
 - EDS – became Hewlett Packard
 - BearingPoint – became Attain
 - AT&T
- Similar structure for services, pricing, performance metrics
- Added emphasis on transformation and innovation

Transformation



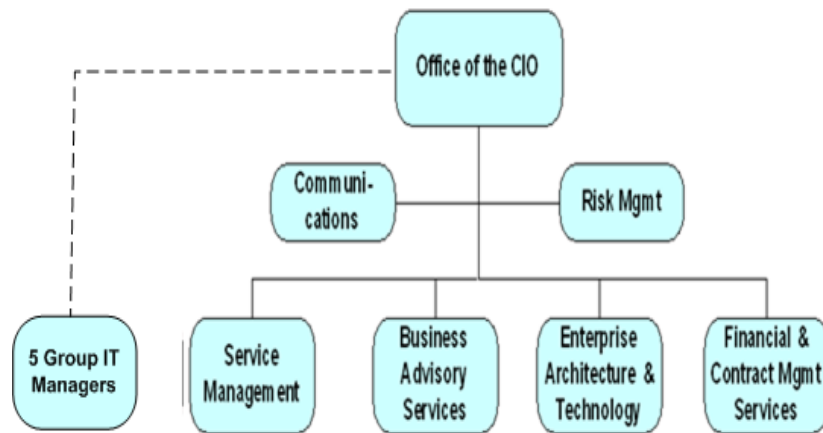
NGIT Team placed emphasis on **Customer Advocates** and **Transformation Manager** to bring IT innovations to the business groups





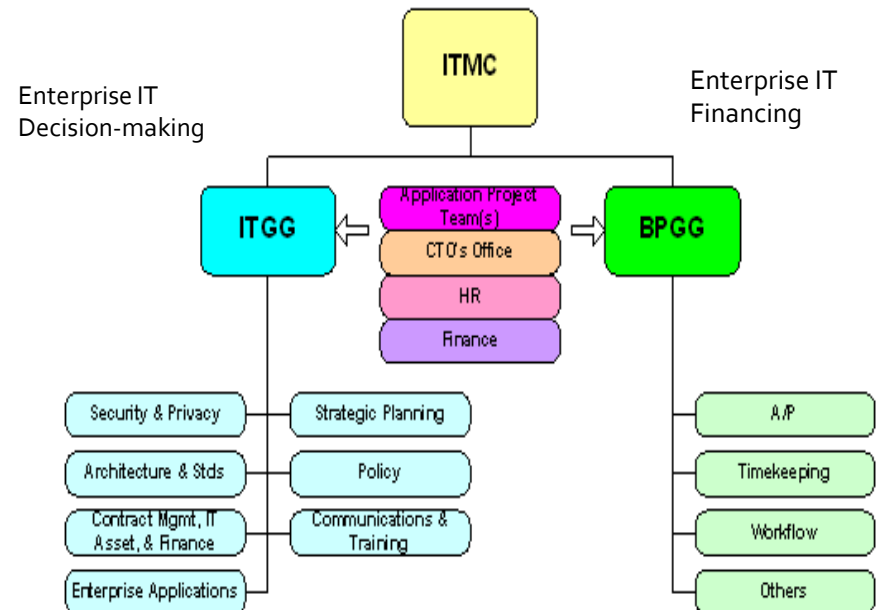
County IT Structure

COUNTY TECHNOLOGY OFFICE – IT STRATEGY AND MANAGEMENT



CIO, ACIO, CISO, 13 Technology and Contract Managers, and 5 Group IT Managers (direct report to Group Managers)

TECHNOLOGY GOVERNANCE STRUCTURE

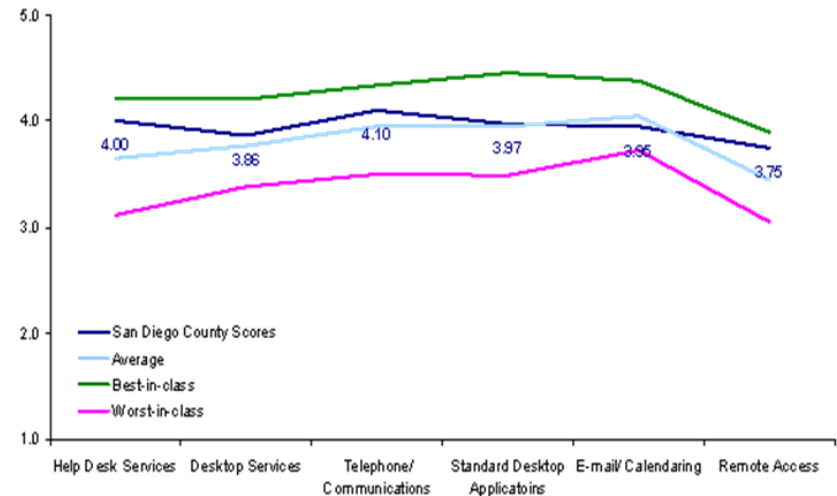




Current Status - Utilities

Before	After
<ul style="list-style-type: none"> 1 San Diego County specific Help Desk 	<ul style="list-style-type: none"> 1 Leveraged Help Desk providing expanded expertise and additional resources
<ul style="list-style-type: none"> 1 Hardened and protected data center located within San Diego County 	<ul style="list-style-type: none"> 2 Tier IV data centers providing redundancy located outside California and improved disaster recovery capabilities
<ul style="list-style-type: none"> Individual physical servers 	<ul style="list-style-type: none"> Mix of individual and virtualized servers saving space, energy, and lowering costs
<ul style="list-style-type: none"> 12,000 standard state-of-the-art desktop computers with a single operating system 	<ul style="list-style-type: none"> Refreshed desktop computers with a single operating system
<ul style="list-style-type: none"> No independent evaluation of customer satisfaction 	<ul style="list-style-type: none"> Third party customer satisfaction survey launched in 2008. Issues are prioritized and addressed by joint NGIT/CTO team. The average satisfaction ratings have improved

Playing field is level - County employees satisfied with current "utility" mix of services



Source: 2008 Customer Satisfaction Survey Conducted by Gartner Consulting



Current Status - Transformation

TRANSFORMATION ACTIVITIES – OVER 100 ON-LINE SERVICES INCLUDING....

Before	After
<ul style="list-style-type: none"> • Collaborative governance system that prioritizes IT investments 	<ul style="list-style-type: none"> • Addition of the Innovation Council to support business transformation efforts (County-driven initiative)
<ul style="list-style-type: none"> • Primary focus on infrastructure replacement and ERP implementation 	<ul style="list-style-type: none"> • More focus on moving services online resulting in the following: <ul style="list-style-type: none"> – Parks and Recreation activity reservation system – Department of Planning and Land Use online permitting services – Library online services including downloadable Audio Books, book club podcasts, and online homework assistance service – Health and Human Services Agency services eligibility screening tool, searchable Network of Care Service Directory, and access to Immunization Records – Office of Emergency Services cell phone alert registration system

AWARDS

Year	Award
2007	<ul style="list-style-type: none"> • Digital Counties Survey – Ninth Place – Population Category 500,000 or Greater
2008	<ul style="list-style-type: none"> • Digital Counties Survey - First Place - Population Category 500,000 or Greater • Best of the Web – County Portal – Second Place
2009	<ul style="list-style-type: none"> • Digital Counties Survey - Eighth Place - Population Category 500,000 or Greater • Best of the Web – County Portal – Finalist • Best of California – Best Local Government Web Site
2010	<ul style="list-style-type: none"> • Digital Counties Survey - Third Place - Population Category 500,000 or Greater • Best of California – Best Local Government Web Site

• Most new initiatives have been County-led, vendor assisted



Decision Point – County

- Continued challenges require sourcing decisions
 - Challenges with innovation and transformation
 - Challenges in applications management
 - New Application acquisition and implementation
 - Applications maintenance and operations
 - Applications enhancements
- Contract was set to expire - January 2013



Decision Point – NG/HP

- On May 1, Northrop Grumman transferred ownership of its \$700 million contract to Hewlett-Packard ahead of the agreement's 2013 end date.
 - County was not unhappy with Northrop Grumman's performance, so it was unexpected — although not surprising — that Northrop Grumman made a business decision to walk away.
 - HP chose to retain most of the existing Northrop Grumman employees working for the county. "The staff are the same, they just have a different logo on their polo shirt," Harold Tuck, County CIO
 - The county extended the entire outsourcing contract through 2018 by picking up option years.



Typical Internal drivers for sourcing

Growth

- ✓ Improve operating costs
- ✓ Turn fixed costs into variable
- Get assets off the balance sheet
- Free up cash for investments
- ✓ Accelerate expansion via provider's capabilities, processes and systems
- Enter new markets

Skills and Technology

- ✓ Improve service levels
- ✓ Access to best-in-class capabilities and/or technologies
- ✓ Skills, technology or resources not available internally
- Free people for other tasks
- Provide employees a better career path
- ✓ Gain process knowledge

Agility

- ✓ Focus on core competencies
- ✓ Shed weight—bigger is not better!
- ✓ Deliver big without being big
- ✓ Develop new solutions faster
- ✓ Move ahead of the competition
- ✓ Use as a tool for transformation
- ✓ Reduce risk of exploring new products and markets

✓ Drivers for San Diego



Areas to Look at

- Infrastructure: Data Center, Desktop, Network
 - Newer Technologies such as virtualization could lower costs
 - Tradeoffs – May need to accept standardization of product set
- Applications: New vs. M&O
 - May be bundled with infrastructure or Business Process offerings
 - Newer cloud-based technology could lower costs
 - Tradeoffs – risk to enterprise
- Business Processes: e.g. HR Systems, Financials, CRM
 - Operational costs spread over client larger base – could lower cost to enterprise
 - Tradeoff – risk as well as acceptance of standardizations
- Entire Deal – San Diego Model
 - San Diego outsourced all of Infrastructure and Applications
 - Minimal use of Business Process Application providers – limited ASP model for non-critical systems

Consider Carefully IT Cost Reduction As the Only Driver



- Cost of Service always impacts:
 - Quality, value, relationship viability, scalability, and sustainability of the business value
- Must align near and long term goals
 - An outsourcing contract that leaves the provider with only marginal profit or limited revenue growth will only hurt the buyer
- Optimal structure is one that shifts from cost control to enhancement and innovation
- New pricing models will provide greater flexibility
 - Virtualization at Desktop and Data Center levels
 - More Usage-based models such as Cloud-services

More than Just Contract Management

A Public - Private
Partnership Done
Right



- Success stems from 3 key areas
 - Right Contract
 - Service definition, performance requirements, pricing, incentives/disincentives, etc
 - Specificity vs. Grey areas
 - County Contract:
http://www.sdcountry.ca.gov/cto/ngit_contract.html
 - Right Vendor
 - Size, track record, corporate structure, alignment with your strategy
 - Right Management Structure



Need Effective Vendor Management

- Formalize the activities and responsibilities for vendor management as part of our sourcing strategy – do it up front, not after the Contract is signed
- Vendor Management requires at least 4 distinct process and skills competencies
 - Contract Management (CM)
 - Performance Management (PM)
 - Relationship Management (RM)
 - Risk Management (Risk)
- Hurdles and Challenges include:
 - Commitment from the organization to invest in Vendor Management
 - Ensuring the organization has the right resources and skill-sets for Vendor Management
 - Providing effective Communication amongst the stakeholders within the organization
- Critical Success Factors include:
 - Alignment of organization and Vendor Goals (e.g. Utility vs. Transformation)
 - The organization manages the Vendor(s) as a program
 - Focus on the most important Vendors



Management Structure

- Centralized vs. Decentralized
 - San Diego: Centralized CTO for Vendor Management
 - Central Contract and performance management
 - Centralize IT expertise
 - Enterprise Architecture and other core disciplines
 - Less bureaucracy
 - Streamlines IT enterprise strategy development
 - San Diego: Decentralized Group IT Management
 - Provides for business-centric understanding and decision-making



Management Toolkit

- Organization
 - Enterprise IT Governance
 - Elevation of CIO to Cabinet-level position
- Contract Management
 - Contract terms and conditions and specific service levels
 - In-house Counsel with intimate Contract, Business, and IT knowledge

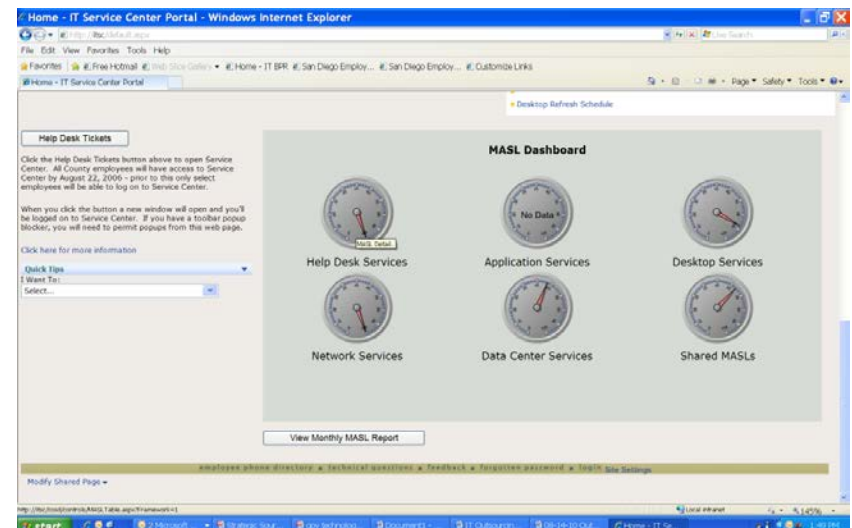
In San Diego, Contract Management expertise centralized in CTO. Closely aligned with in-house Counsel



Management Tool Kit

- Performance Management
 - Defined Service Levels in Contract
 - Penalties for non-performance
 - Daily performance alerts
 - Dashboard reporting
 - Periodic performance reviews

CTO staff all assigned to a specific area of performance management





Management Tool Kit

- Relationship Management
 - Most difficult
 - Inherent differences in goals and objectives
 - Make money vs. save money
 - Must define “success” up front and staff for it
 - Continuous communication with stakeholders
 - Promote vendor visibility and involvement
 - Best rule: Always remain fair and objective



Management Tool Kit

- Risk Management

- IT Risk

- CISO and Vendor Counterpart

- Enterprise Risk

- e.g. Applications obsolescence, strategy and roadmaps, political risk

San Diego CISO, Risk Oversight Committee, as well as CTO staff disciplined in sourcing management and strategies



What to Expect – If Managed Well

- Short Term – Move to Outsourcing
 - Some disruption as services transition
 - Data-center may carry highest risk
 - Some resistance from employee base
 - Over reliance on Contract as a management tool
 - Learning curve
 - Vendor performance failures as they learn how to manage in your environment
 - Your organizational staff's discomfort as they learn to manage and budget in the new environment

What to Expect – If Managed Well



- Long Term – Maintain Outsourcing Model
 - Stable, predictable costs
 - Unit costs defined for hardware and labor
 - Fixed overhead costs
 - Executive/Contractual commitment to IT spending
 - Reduces risk of IT budget being cut in tough times
 - Able to provide County staff with the latest technology
 - Access to wide pool of talent

San Diego Success Factors

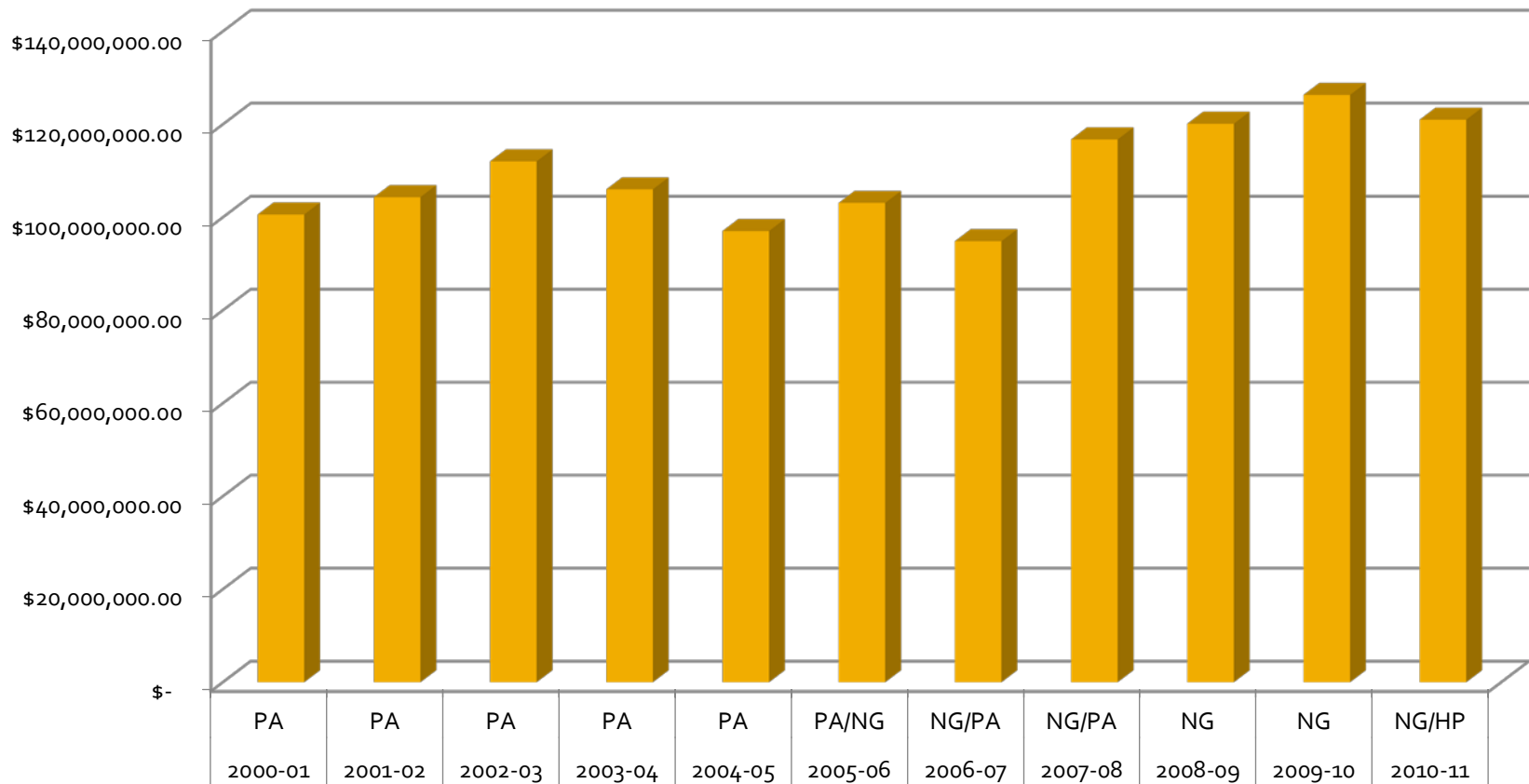
- Executive Buy-in
 - To Outsourcing as a Way to do Business
 - For Continued Funding of IT as a Priority
- Established Governance Structure
 - General Management System Framework (GMS)
 - Overall County Management Design
 - IT Management Committee (ITMC)
 - Approval of CIO's IT Strategy, Policies, and Funding
- Solid Contract
 - Enough detail to predict costs and define services
 - Service levels, resource unit costs, etc..
 - Enough ambiguity to do business
 - "innovation"; "transformation"; etc.

San Diego Success Factors

- County IT Management Structure
 - CIO as part of County Executive Team
 - Centralized management in CTO
 - Mix of Managers and IT Professionals
 - Flexible and geared to problem solving
 - Group IT Managers provide insight into the business/IT connection
- Partnering with the Right Vendor
 - Philosophically aligned with the County
 - Innovation/Transformation
 - Commitment to customer service
 - Flexible and geared to problem solving
 - Willingness to think outside of the box (Contract)
 - e.g: Reinvestment strategies

So what do we spend?

IT Outsourcing Costs



A Public - Private Partnership Done Right

Questions?



Thank You

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