

SAN DIEGO COUNTY WATER AUTHORITY



FMIS/HRIS Replacement Feasibility Study

May 5, 2003

San Diego County Water Authority
Feasibility Study
May 5, 2003



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Background

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- ◆ **In March of 2003 the San Diego County Water Authority engaged Pacific Technologies, Inc. (PTI) to conduct a “situational assessment” of the Authority’s IT planning approach**
- ◆ **PTI recommended that the Authority conduct a feasibility study for replacing PeopleSoft with a “tier two” solution. The study would:**
 - Define PeopleSoft version 8.8 as the baseline (i.e., status quo) option – articulating all associated costs
 - Compare the baseline against costs and benefits of potential tier two solutions
 - Highlight associated tangible (i.e., net present value, internal rate of return) and intangible benefits
- ◆ **This document presents the results of the cost-benefit analysis performed in support of that study**

Approach

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- ◆ PTI prepared a cost-benefit analysis which compares three financial management and human resources management software options to the baseline scenario (as defined on the previous page)
- ◆ Costs were determined by obtaining estimates from two vendors that were chosen to represent lower and higher cost ends of the tier two market space, as well as incorporating PTI's procurement experience. The Authority's decision packages provided the PeopleSoft upgrade figures.
- ◆ The analysis includes both one-time and recurring costs to develop a net present value (NPV¹) of each option as compared to the baseline scenario, as well as calculating the total cost over the 15 year period of the analysis

THE SCENARIOS:

- ◆ **Baseline: Upgrade PeopleSoft to the current version** — the baseline scenario updates the SDCWA's current PeopleSoft financial and HR management software to the current version
- ◆ **Option 1: Upgrade PeopleSoft to the current version and increase support levels** — differs from Option 1 in that it includes the addition of two FTE of application support staff
- ◆ **Option 2: Replace PeopleSoft with Vendor 1** — in this case, the Authority implements a software package at the low end of the tier two price range
- ◆ **Option 3: Replace PeopleSoft with Vendor 2** — implements a "premium tier two product," at the higher end of the tier two range

¹NPV is defined as the present value of a series of future cash flows minus their cost (i.e., the opportunity cost of the expenditure).

Summary Analysis

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The table below presents a summary of our analysis:

SUMMARY	Net Present Value	15 Year Total Cash Flow
Baseline: Upgrade PeopleSoft	n/a	(\$15,482,975)
Option One: Upgrade PeopleSoft/ Augment Staffing	(\$3,321,724)	(\$19,675,741)
Option Two: Replace PeopleSoft with Low-End Tier Two	\$5,672,992	(\$5,525,377)
Option Three: Replace PeopleSoft with High-End Tier Two	\$3,021,140	(\$9,465,668)

Costs presented in current dollars

Pros and Cons

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The table below presents pros and cons of the alternatives:

Option	Pros	Cons
PeopleSoft – current staffing levels	<ul style="list-style-type: none"> ◆ Known commodity ◆ Minimizes change ◆ Opportunity to realize value from large sunk-cost investment ◆ Vendor committed to continual product enhancement 	<ul style="list-style-type: none"> ◆ Complex to use and support ◆ Expensive maintenance fees ◆ Target market is much larger organizations than the SDCWA ◆ Requires more specialized IT skills to support ◆ May be difficult to retain staff in a competitive job market ◆ Vendor historically lacking a strong customer service orientation
PeopleSoft – augmented staffing levels	<ul style="list-style-type: none"> ◆ Provides increased level of IT support, customer service, and user satisfaction ◆ Makes better use of a significant software investment 	<ul style="list-style-type: none"> ◆ Greater cost ◆ Increased head count and administrative overhead
Tier Two vendor	<ul style="list-style-type: none"> ◆ Significantly less expensive ◆ Lower maintenance costs ◆ Greatly simplified IT environment ◆ Won't push the technical architecture of the SDCWA ◆ Vendor more attuned to customers the size of SDCWA ◆ Some vendors specifically target public sector clients ◆ Potential to include other modules from integrated suite of applications 	<ul style="list-style-type: none"> ◆ May not address all of SDCWA's functional needs ◆ Requires retraining IT and business unit staff ◆ May require more business process change ◆ Will require an expensive and time-consuming RFP and procurement process ◆ Vendor may lag the technology curve ◆ Staff may not support the replacement of the current systems

Assumptions

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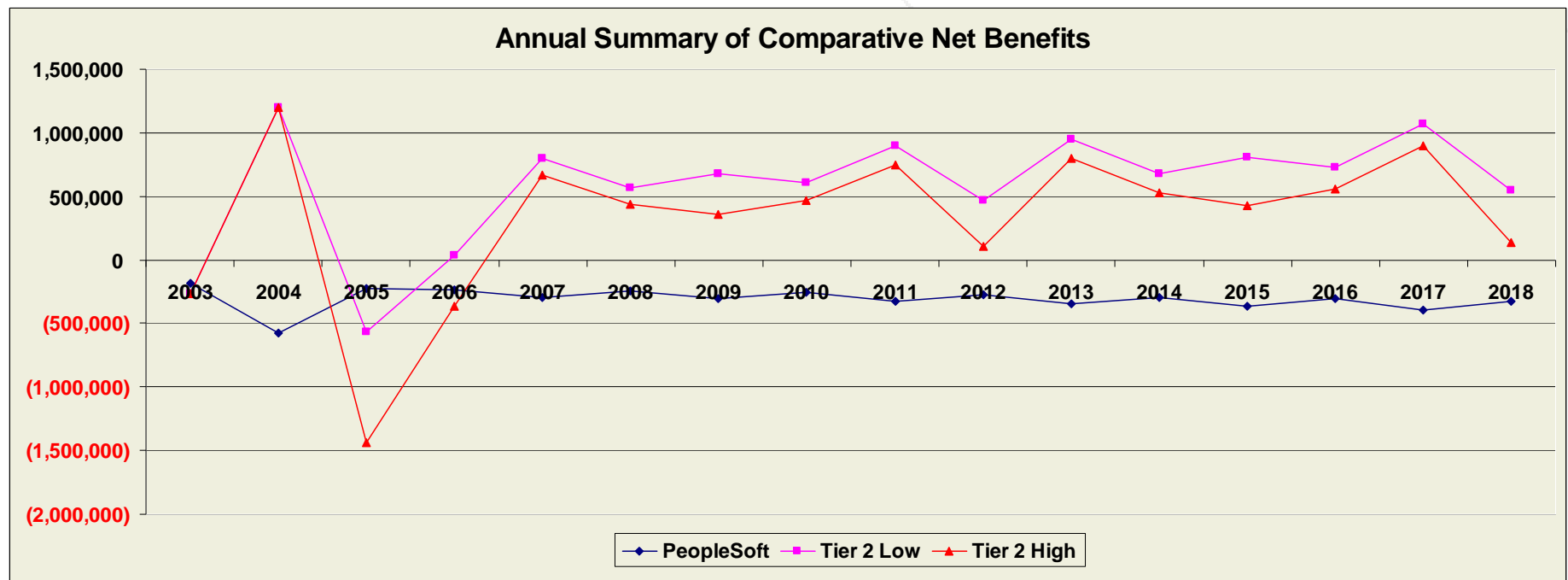
We present the global assumptions which apply to this analysis below:

- ◆ Time horizon is fifteen calendar years
- ◆ The cost of capital is 5%
- ◆ Wages are assumed to inflate at 3% annually
- ◆ Capital costs are assumed to inflate at 3% annually
- ◆ The first year of expenditure is 2003, beginning with the RFP process
- ◆ Hardware costs were deemed by the Authority to be outside the scope of the analysis
- ◆ Implementation time is assumed to be 18 months
- ◆ New software maintenance fees begin in 2006 (Q2)
- ◆ An RFP will be available to vendors by 1/04, with a contract possible by 8/04
- ◆ Burdened labor costs were provided by the SDCWA
- ◆ There are no incremental costs associated with additional office space (i.e., for on-site consultants during implementation)
- ◆ The analysis assumes that internal labor will be utilized for implementation project management
- ◆ Internal project management for each scenario is assumed to be 1 FTE
- ◆ Backfill during implementation for each scenario is \$27,000
- ◆ Change management costs are included in implementation estimates
- ◆ A major software upgrade is assumed to cost 20% of the original implementation; these occur for PeopleSoft every 2 years, tier two every 3 years
- ◆ The analysis does not account for soft dollar benefits/costs (e.g., productivity improvement/degradation) in the business units
- ◆ The Authority's database preference is Oracle -- it is assumed that the current license is sufficient and no costs are included for database licenses
- ◆ The Authority's report writer preference is Crystal Reports -- it is assumed that the current license is sufficient and no costs are included for Crystal licenses

Comparative Cash Flows

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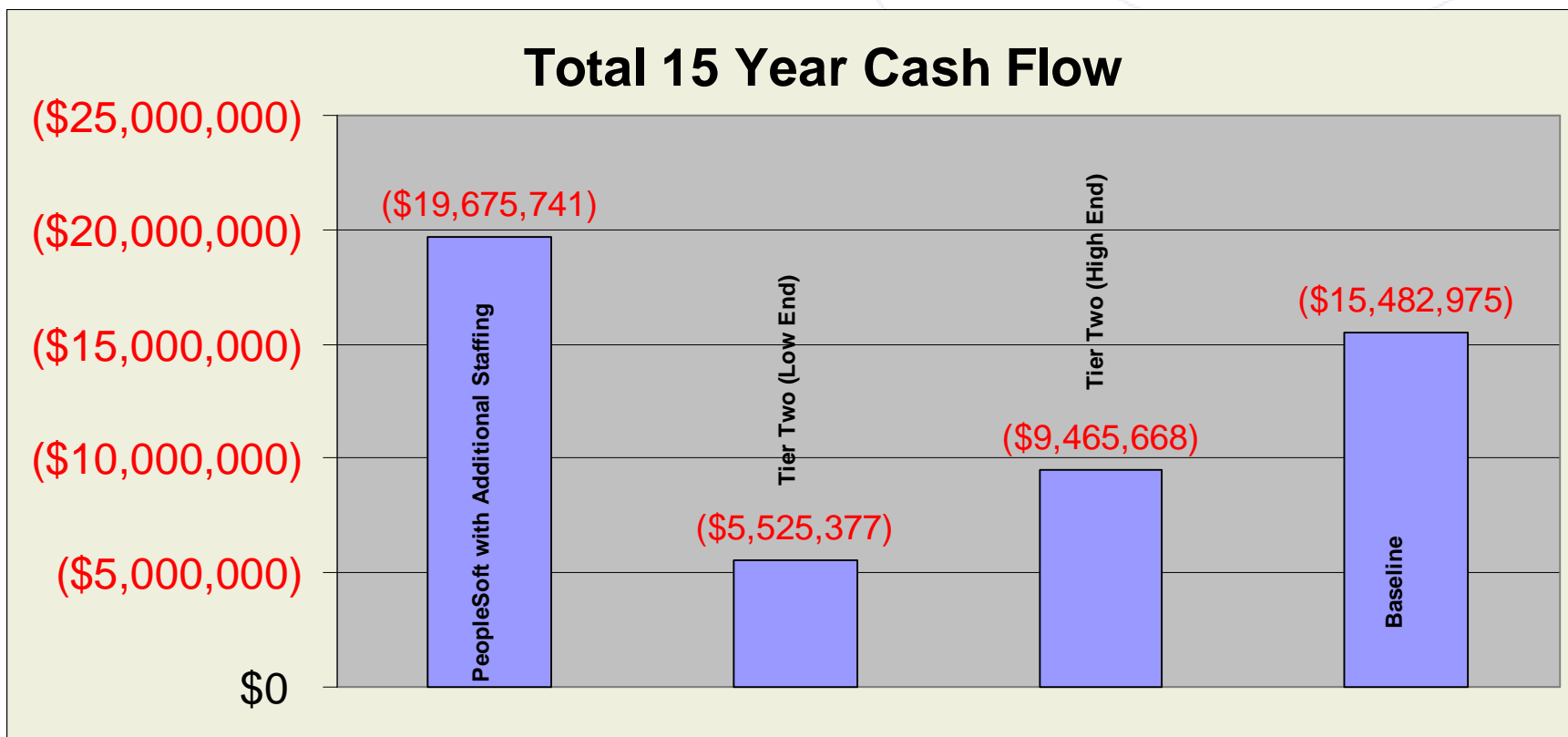
The graph presented on this page depicts the annual net benefits of each alternative in current dollars (as compared to the baseline):



Comparative Cash Flows (cont.)

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The graph presented on this page depicts the total cash flow of each alternative in current dollars:



Recommendations

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The cost benefit analysis yields the following recommendations:

- ◆ **The Authority should explore the viability of replacing its PeopleSoft implementation with a tier two product.** The cost advantages that this analysis reveals suggest that this alternative merits further evaluation.
- ◆ **Some potential tier two vendors include:**
 - Lawson
 - MUNIS
 - Bi-Tech
- ◆ **Next Steps:**
 - Explore functionality fit:
 - Invite vendors to present software capabilities in an informal setting
 - Include key personnel on site visits where the software of interest is in use
 - Identify intangible benefits/costs:
 - Business process change
 - Productivity improvement/degradation
 - Staff support/disapproval of system replacement