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MARCH 30, 2004

IGNACIO DE LA FUENTE, PRESIDENT  
CITY COUNCIL  
OAKLAND, CALIFORNIA

PRESIDENT DE LA FUENTE AND MEMBERS OF THE CITY COUNCIL

**SUBJECT: A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE A MASTER AGREEMENT WITH SUN MICROSYSTEMS INC. ("SUN") AND SUN MICROSYSTEMS FINANCE INC. ("SUN FINANCE") IN ORDER TO ACQUIRE NECESSARY EQUIPMENT AND SERVICES CONTRACTS TO REFRESH THE CITY'S SUN SERVER PLATFORM IN AN AMOUNT NOT TO EXCEED THREE MILLION SIX HUNDRED TWENTY-SIX THOUSAND FIVE HUNDRED SIXTY DOLLARS (\$3,626,560); AND AUTHORIZING THE CITY MANAGER TO EXECUTE CONTRACTS WITH THIRD PARTY VENDORS FOR EQUIPMENT AND SERVICES REQUIRED TO SUPPORT THE REFRESH OF THE SUN SERVER PLATFORM IN AN AMOUNT NOT TO EXCEED FOUR HUNDRED THIRTEEN THOUSAND DOLLARS (\$413,000); AND AUTHORIZING THE CITY MANAGER TO EXECUTE A MASTER LEASE-PURCHASE AGREEMENT AND RELATED DOCUMENTS WITH SUN FINANCE FOR FINANCING IN AN AMOUNT NOT TO EXCEED FOUR MILLION THIRTY-NINE THOUSAND FIVE HUNDRED SIXTY DOLLARS (\$4,039,560), PLUS THE COST OF FINANCING.**

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**PURPOSE AND SCOPE**

In accordance with the Measure H Charter Amendment, which was passed by the voters at the General election of November 5, 1996, we have made an impartial financial analysis of the Proposed Resolution and accompanying Agenda Report. In making our analysis we also obtained and reviewed copies of the existing and proposed master agreements, as well as Resolution No. 76611, dated July 24, 2001 and the accompanying Agenda Report.

Since the Measure H Charter Amendment specifies that our impartial financial analysis is for informational purposes only, we did not apply Generally Accepted Government Auditing Standards as issued by the Comptroller General of the United States. Moreover, the scope of our analysis was impaired by Administrative Instruction Number 137, effective May 21, 1997, which provides only one (1) week for us to plan, perform and report on our analysis.

**SUMMARY**

On July 24, 2001 the City Council passed Resolution 76611, which authorized the City Manager to negotiate and execute a three-year lease agreement with GE Capital Public Finance Inc. to move the City’s Oracle HR/Payroll, Financial, and Budget applications and databases to a new Sun Microsystems Enterprise Server platform. The lack of capacity of the existing computer system had caused a system-wide slowdown when payroll and financial jobs were run concurrently.

The agreement included a Technology Refresh Clause, which gives the City the option to upgrade, replace, or add equipment after the mid-term of the lease with discounts and on the same terms as similarly situated customers. The purpose for including the option was to avoid equipment obsolescence and lack of sufficient processing capacity. Moreover, the option enabled the Agency to purchase only the amount of capacity needed at that time. The Proposed Resolution requests the Council’s approval to execute the Technology Refresh Clause, as was planned in 2001.

**FISCAL IMPACTS**

The City will purchase the equipment and services from SUN Microsystems and third party vendors, and will finance the purchases through a lease-purchase contract with SUN Finance. The City will make payments to SUN Finance through an escrow agent selected by the City Manager, Director of Finance and Management, or Treasury Manager.

The total costs, excluding financing costs, are \$4,039,560 as summarized below:

<b><u>Description</u></b>	<b><u>Amount</u></b>
Sun Microsystems server equipment	\$ 3,310,000
Taxes, leases buy out, and credits	316,560
Third party equipment and services	<u>413,000</u>
Total	<u>\$ 4,039,560</u>

Although the financing costs are not stated, according to an earlier version of the Proposed Resolution they were “not to exceed \$ 287,925”.

Funds are available from the following sources:

- The annual IT SUN equipment lease budget of \$633,000 in Fund 1010 Organization 46331 (FMA-IT)
- The FY 2003-04 and 2004-05 AS/400 Migration Capital Improvement Program budget of \$515,000
- The FY 2003-04 and 2004-05 Technology Refresh Capital Improvement Program budget of \$641,800

### THIRD PARTY VENDORS

Regarding third party vendors of equipment and services, the Proposed Resolution states that the City will: (1) request informal competitive bid quotations; and (2) provide local vendors maximum opportunity to bid.

### CONCLUSION

The Proposed Resolution appears to be reasonable.

Prepared by:

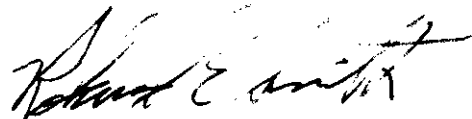


Jack McGinity, CPA

Report completion date:

March 15, 2004

Issued by:



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