

**CITY OF OAKLAND**  
**SUPPLEMENTAL AGENDA REPORT**

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND  
2005 FEB 10 PM 8:18

TO: Office of the City Administrator  
ATTN: Deborah Edgerly  
FROM: Finance and Management Agency  
DATE: February 15, 2005

RE: A Resolution approving the successful completion of the Voice-over Internet Protocol (VoIP) pilot project and authorizing the City Administrator or her designee to execute a contract for the lease of telephone equipment and services with ShoreTel (formerly Shoreline) Communications Inc., for an amount not to exceed \$1,650,000 over the term of the contract without return to Council.

A Resolution Authorizing the City Administrator or her designee to execute a contract for the lease of network equipment and services with Enterasys Inc., for an amount not to exceed \$1,500,000 over the term of the contract without return to Council

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**SUMMARY**

On February 8, 2005, the Finance and Management Committee requested that staff present different financing options for implementing the VoIP, including lease terms of 3, 4, 5, and 6 years. In this report, staff is presenting the various financing options and the fiscal impacts associated with each financing option.

**FISCAL IMPACT**

Savings from the implementation of VoIP will cover the cost of the contracts for the ShoreTel telephone equipment as well as the Enterasys network equipment, depending upon the financing option selected. The proposed seven-year agreements will result in a net savings of approximately \$196,000 per year. The proposed agreements will also fund seven years of maintenance costs. Shorter term financing will result in reduced net savings or net additional costs and increased maintenance costs over the period.

**BACKGROUND**

In January of 2003, the Office of Information Technology (OIT) investigated possible cost savings and cost containment initiatives by which the City could reduce or contain its technology spending. One of the areas identified was telephone services. During this time, the costs to replace the City's aging telephone equipment, voice mail system, and network infrastructure

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were identified. A plan was developed and presented to the former City Manager as part of the 2003-2005 budget process that would allow for the savings from the discontinuation of one technology to pay for the implementation cost of another. The resulting initiative produced a method by which aging equipment (telephone instruments & data equipment) would be replaced utilizing the cost savings generated from the use of IP Telephones.

The purpose of this initiative is to provide a converged network where data and voice are one. This converged network would provide significant savings while at the same time expand our telephone capabilities, providing cost containment and lower the City's overall maintenance expenses. This "model" can help the City to contain rising technology costs and position the City to provide upgraded services utilizing existing dollars.

This project is in conjunction with and dependent upon the approval of the pilot project for VoIP at 150 Frank H. Ogawa Plaza. The two projects, while separate contracts, are dependent on each other. The deployment of VoIP will provide the savings to pay for the network upgrade, but in order to deploy the new technology, the network must be upgraded.

The deployment of the new voice technology and the upgrade of the data network will replace outdated equipment and replace it with new, more dependable equipment and services. All of these new costs will be funded using existing funds and savings generated from the deployment of the VoIP technology.

### FINANCING MECHANISM

The City will enter into a lease agreement with a third party for the equipment. The leasing company will provide funds to ShoreTel and Enterasys for the equipment, installation and maintenance for the term of the lease approved by the City after successful completion of the project.

The City will make payments to the leasing company for the term of the lease. The payments are paid one year in arrears. The City will obtain discounted maintenance costs for the longer term financing thereby, lowering the annual lease payments. The following tables provide estimated figures for the different lease options for financing and the estimated savings for each option.

Year	Old System Cost	ShoreTel	Enterasys	Other Costs	Total New System Cost	Net Annual Savings
3	932,160	470,000	308,000	247,134	1,025,134	(92,974)
4	932,160	368,000	255,000	247,134	870,134	62,026
5	932,160	308,000	239,000	247,134	794,134	138,026
6*	932,160	275,000	215,000	247,134	737,134	195,026

\* Payment will be made in arrears thus extending the actual contract to 7 years.

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## **KEY ISSUES AND IMPACTS**

These are the key issues and impacts to be considered in association with this financing:

- Due to budgetary constraints, the City should choose a longer term financing to reduce the annual lease payments and allow annual savings to pay the lease payments. Staff is projecting savings if the City utilizes the 7-year lease term.
- The City will benefit by locking in maintenance costs now and reducing exposure to future inflationary pressures.
- It is preferable to match the useful life of the equipment and the term of the lease.
- The City will have the option to refinance or prepay the lease in the future.

## **RECOMMENDATION(S) AND RATIONALE**

After careful review and analysis, staff recommends a 7-year lease term, which will optimize the savings. This longer lease term will allow the City to pay lease payments without additional supplement from the General Fund. Additionally, the City will be locking in maintenance costs at today's rates over the term of the lease.

## **ACTION REQUESTED OF THE CITY COUNCIL**

Staff requests that the Council approve the Resolution authorizing the City Administrator to enter into a 7-year lease term with ShoreTel and Enterasys, which will optimize the savings. This longer lease term will allow the City to pay lease payments without additional supplement from the General Fund. Additionally, the City will be locking in maintenance costs at today's rates over the term of the lease.

Respectfully submitted,



**William E. Noland, Director  
Finance and Management Agency**

APPROVED AND FORWARDED TO THE  
CITY COUNCIL

  
**OFFICE OF THE CITY ADMINISTRATOR**

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