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DECEMBER 14, 2004

IGNACIO DE LA FUENTE, PRESIDENT
CITY COUNCIL
OAKLAND, CALIFORNIA

PRESIDENT DE LA FUENTE AND MEMBERS OF THE CITY COUNCIL

SUBJECT: A CITY COUNCIL RESOLUTION AUTHORIZING A CONTRACT IN AN AMOUNT NOT TO EXCEED \$485,000 WITH HOUSING DEVELOPMENT SYSTEMS, INC., TO PURCHASE SOFTWARE, EQUIPMENT, INSTALLATION, CUSTOMIZATION AND MAINTENANCE SERVICES FOR THE IMPLEMENTATION OF A GRANT AND LOAN INFORMATION MANAGEMENT SYSTEM, ALLOCATING UP TO \$200,000 IN PREVIOUSLY BUDGETED CAPITAL IMPROVEMENT FUNDS AND REALLOCATING IN PREVIOUSLY BUDGETED MORTGAGE REVENUE BOND FUNDS; AND REALLOCATING \$200,000 IN PREVIOUSLY BUDGETED MORTGAGE REVENUE BOND FUNDS FOR THIS PURPOSE AND RELATED COSTS, AND ACCEPTING UP TO \$100,000 FROM THE REDEVELOPMENT AGENCY PURSUANT TO THE CITY/AGENCY COOPERATION AGREEMENT, AND A REDEVELOPMENT AGENCY RESOLUTION REALLOCATING UP TO \$100,000 PREVIOUSLY BUDGETED FOR PRIOR YEAR ADMINISTRATIVE COSTS FROM THE LOW AND MODERATE INCOME HOUSING FUND FOR THIS PURPOSE AND RELATED COSTS

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 accompanying Proposed Resolutions, Agenda Report, and attachments. We also obtained a copy of Resolution No. 78316, which the City Council passed on January 20, 2004, as well as the independent auditor's management letter dated February 27, 2004, and the Solicitations for Bids.

The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

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. Due to this time constraint, we did not verify financial and statistical data contained in the Proposed Resolutions or Agenda Report.

SUMMARY

Since the City is phasing out its AS/400 computer system, CEDA staff needs to replace and upgrade the Loan Servicing System, (which the AS/400 supports) with a Grant and Loan Information Management System. According to the Agenda report, the proposed system will manage a portfolio of approximately 2,000 existing residential loans that generate almost \$5 million in revenue.

FISCAL IMPACT

The costs of implementing the system will total \$500,000 -- \$485,000 for the professional services contract and related costs (such as additional computer software and hardware) and \$15,000 for Contract Compliance fees. Funds will be available from:

<u>Description</u>	<u>Amount</u>
Capital Improvement Funds	\$200,000
Reallocation of Mortgage Revenue Bond funds carried forward from FY 2003-04	200,000
Reallocation of Low and Moderate Income Housing carried forward from FY 2003-04	<u>100,000</u>
Total	<u>\$500,000</u>

According to the Agenda Report, purchase of this system will result in estimated annual costs of \$40,000. First-year costs are included in the purchase price. Costs in subsequent years can be absorbed through:

1. existing budgets for administration and program management in the HOME Program (Fund 2109) and the Low and Moderate Income Housing Fund (Fund 9580); and
2. a portion of savings that will result from the more efficient collection of loan repayments.

VENDOR SELECTION PROCESS

Staff recommends that the City Council waive the competitive bidding requirement, and authorize the award of a contract with Housing Development Systems, Inc.

In searching for a vendor to install the replacement system, staff concluded that, because of the specialized nature of the City's requirements, there were only two major vendors available -- The Mitas Group, Inc. (Mitas) and Housing Development Systems, Inc. (HDS). The alternative would be to have a custom application written for the City.

The Mitas Group was founded in 1969 and has extensive experience in accounting and loan servicing operations for both banking institutions and public agencies. At present Mitas is working to expand its presence in the California market. Mitas clients include many state housing finance agencies and local housing and community development agencies, including the Portland Development Commission, the City of Chicago and the City of New Orleans.

Housing Development Systems was founded in 1998 by former employees of the Mitas Group. Based in Fort Lauderdale, Florida, HDS has extensive experience in systems analysis and design, software programming, housing finance, and federal housing and community development programs. The company is also familiar with the HUD formula grant requirements and with the business processes used by housing and community development agencies. HDS clients include the California Housing Finance Agency, the City of San Jose, the City of Los Angeles, the District of Columbia Department of Housing and Community Development, and the State of Louisiana.

SOLICITATION OF BIDS

Prior to soliciting bids from Mitas and HDS., staff arranged for both companies to give demonstrations of their software that allowed staff to view first-hand the capabilities of both systems. Staff also conducted extensive interviews with both firms. Based on the demonstrations and interviews, staff was unanimous in its support for the HDS system.

Staff then invited both companies to submit bids based on specifications and functional requirements identified by the City. HDS submitted the low bid:

<u>Company</u>	<u>Amount</u>
Mitas Group	\$528,875
HDS	\$417,400 to \$440,760

INDEPENDENT AUDITOR'S RECOMMENDATION

The independent auditor's February 27, 2004 report to the City Council for the year ended June 30, 2003 concluded that CEDA staff did not have the expertise required to properly account for and monitor the City's loans, and recommended that:

“the City consider assigning the servicing procedures to staff of the Finance and Management Agency in order to work with CEDA to ensure that notes and loans are properly reported in accordance with GAAP.”

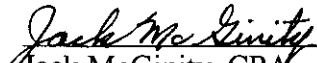
The Director of the Finance and Management Agency told us via email that he agreed with the independent auditor's recommendation for the most part, but that his Agency had not as yet been able to implement it. He concluded that, since there is an urgent need to replace the AS/400, and the process used to select HDS appears to have been sound, it makes sense to implement the HDS system and afterwards address the independent auditor's concerns.

CONCLUSION

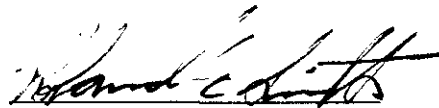
The Proposed Resolution appears to be reasonable.

Prepared by:

Issued by:



Jack McGinity, CPA
Report completion date:
December 2, 2004



Roland E. Smith, CPA, CFS