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**CITY COUNCIL STAFF REPORT
 SUPPLEMENTAL 3**

Meeting: February 19, 2025

Agenda Item #1
Subject

Tyler New World Enterprise Resource Planning (ERP) replacement

Recommended Action

Adopt Resolution No. 25-XXX approving Budget Modification No. 25-380 increasing appropriations in the amount of \$3,744,526 in the General Fund Applications Budget unit (100-32-308 750-237) for the Tyler New World Enterprise Resource Planning (ERP) replacement

Background:

Q1: Can you give us more clarity on the ERP pricing included in the staff report? **(Chao)**

The Importance of Starting with Suitable ERP Pricing for the Replacement Project

Securing the right initial budget for the ERP replacement project is critical to ensuring that City staff can evaluate all relevant options and select the best vendor based on well-defined criteria. At this stage, the cost estimates are based on Cupertino's Needs assessment, expert consultant analysis, but they will only be fully defined once a vendor is selected. The vendor selection process, along with consultant expertise and regional insights, will determine:

- *Implementation Vendor Costs*
- *Implementation timeline*
- *Required resources and staffing levels*
- *Ongoing subscription costs and system maintenance needs*

ERP failures are common, with studies showing that approximately 50% of public sector ERP implementations fail to meet their objectives. The primary causes of failure include:

- *Insufficient Planning: Poor planning can lead to unclear objectives, scope creep, and resource misallocation, weakening the implementation process.*
- *Budget Overruns: Underestimating costs can result in unanticipated expenses that exhaust available funds, causing projects to stall or be abandoned.*

- *Improper Staffing: Without adequate staffing, employees may struggle with system adoption, leading to inefficiencies and errors.*
- *Vendor Management Issues: Poor vendor communication can cause misaligned expectations and system underperformance.*
- *Given these risks, it is our responsibility to ensure that the project is adequately funded from the outset. Proper budgeting will allow the City to:*
 - *Select the best-fit ERP system based on Cupertino's specific needs.*
 - *Ensure sufficient resources are available for successful implementation.*
 - *Avoid the pitfalls that lead to ERP failure in other municipalities.*
 - *Secure long-term sustainability by accounting for future staffing and subscription costs.*

By investing in a well-structured, data-driven ERP implementation process, we can mitigate risks and ensure that Cupertino implements a modern ERP system that enhances efficiency, streamlines operations, and delivers long-term value to both staff and residents.

Regional Analysis for Comparison

	One-Time Implementation Costs - Including temp staff, project management services, and Contingency	Annual/Recurring Licensing Cost	Additional staff added after Implementation	Year Implemented	System Selected
Sunnyvale	~10m	500,000.00	Unknown	2019	Oracle
Mountain View	~1.5m	220,000.00	1 FT BSA Dedicated to ERP	2019	Central Square
Palo Alto	~6m (Vendor Costs only)	900,000.00	Unknown	2020	Oracle
Los Gatos	~1.3m (Vendor Costs only)	Unknown	Unknown	2022	Tyler Munis
Santa Clara	>10m	350,000.00	2.5 (1.5 I&T Dedicated staff & 1 FT HR)	2002	People Soft
Milpitas	3M	250,000.00	1 FT BSA Dedicated to ERP	2023	Tylor Munis
*Cupertino	3.7M	500,000.00	1 FT Internal Support	2025	Unknown

**Note these are the estimated costs.*

Q2: What's the difference in terms of functionality between high-end Tier 2 and low-end Tier 2?
(Chao)

High-end Tier 2 ERP solutions provide greater functionality, automation, and scalability, making them better suited for complex municipal operations. In contrast, low-end Tier 2 solutions often offer limited capabilities that may be too similar to Cupertino's existing system, failing to address key project objectives namely:

Key Current-State Observations

1. **Manual Workarounds** – Many processes rely on spreadsheets and paper-based approvals due to ERP limitations.
2. **Fragmented Business Processes** – Different departments use disconnected systems, leading to data duplication.
3. **Limited System Functionality** – The ERP does not support major functions such as budgeting, personnel actions, and reporting.
4. **Underutilized ERP Capabilities** – Some ERP features, like contracts and bank reconciliation, remain unused.
5. **Decentralized Processes** – Variability in timing and systems makes it difficult to track workflows across departments.

Key Advantages of High-End Tier 2 Solutions:

- Enhanced process efficiencies by integrating more functions into a single system.
- Reduced reliance on multiple disconnected systems, lowering integration costs and improving cross-departmental connectivity.
- Advanced automation features, minimizing manual workload and increasing operational speed.
- Larger customer base, ensuring more real-world public sector experience, better vendor support, and a well-established user network for ongoing improvements and troubleshooting.
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By opting for a high-end Tier 2 solution, Cupertino can maximize efficiency, streamline operations, and future-proof its ERP investment, ensuring long-term sustainability and performance.

Q3: Why does Cupertino need high-end Tier 2 and not the low-end Tier 2? (Chao)

Selecting a high-end Tier 2 ERP allows Cupertino to fully modernize its operations, enhance efficiency, and future-proof its investment. A low-end Tier 2 solution is not likely to provide a significant improvement over the current system, potentially failing to meet the City's operational goals and long-term needs.

Key Reasons for Choosing a High-End Tier 2 Solution:

1. **Selecting a Solution That Meets Cupertino's Needs & Ensures Long-Term Viability**
 - Low-end Tier 2 solutions may lack essential features and could carry over many of the same limitations as Cupertino's existing system.
 - A more robust solution (such as a high-end tier 2 or low-end tier 1) with greater functionality, could reduce the number of systems required, which would minimize integrations. Conversely, selecting a low-end tier 2 solution that lacks some functionality may result in the procurement of a separate system(s) to fulfill those functions, leading to increased integrations/costs.
 - High-end Tier 2 solutions provide meaningful upgrades, ensuring long-term efficiency and avoiding the need for another costly replacement in the near future.
2. **Seamless Integration & System Consolidation**
 - Better cross-departmental integration, reducing reliance on multiple disconnected systems.

- *Enables data sharing and automation across financial, HR, and procurement functions, eliminating manual workarounds and improving efficiency.*
3. *Advanced Automation & Workflow Optimization*
 - *High-end Tier 2 systems reduce manual processes, streamlining approvals, reporting, and financial management.*
 - *Improves data accuracy and real-time reporting, helping decision-makers access critical information faster.*
 4. *Supporting Complex Government Operations*
 - *Cupertino requires robust financial, HR, payroll, procurement, and reporting capabilities, which high-end Tier 2 systems are better equipped to handle.*
 - *More flexible and scalable, allowing the City to adapt as operations grow or change over time.*
 5. *Stronger Vendor Expertise & Public Sector Focus*
 - *High-end Tier 2 solutions have a proven track record with local governments, meaning vendors have a better understanding of municipal challenges and compliance requirements.*
 - *Vendors provide better customer support, regular updates, and future enhancements tailored to public sector needs.*

Investing in a high-end Tier 2 ERP ensures Cupertino selects a scalable, future-ready solution that will increase efficiency, reduce costs, and support the City's long-term operational needs. A low-end Tier 2 ERP may leave gaps in functionality, resulting in unmet goals, inefficiencies, and potential additional costs in the future.

Q4: What's the model they use to determine the price? (Usually, it's based on the number of users?) **(Chao)**

ERP pricing models vary by vendor, with some offering transparent pricing structures, while others tailor costs based on the organization's unique needs. Plante Moran, a leader in ERP implementations, has worked with hundreds of local municipalities, providing expertise in ERP assessments, software selection, and implementation advisory. Their experience has shaped the pricing factors used in our cost estimates, which were further validated by an independent regional analysis.

Based on the ERP Gap Analysis and Action Plan Report, Cupertino's new ERP system must address significant operational inefficiencies, security risks, and manual process burdens. These factors directly impact implementation complexity, system requirements, and overall costs.

Key Factors Influencing ERP Pricing

1. *System Complexity & Modernization*
 - *Cupertino's current ERP requires manual workarounds due to lack of integration.*
 - *The new ERP must automate processes and standardize workflows, impacting costs.*
 - *Proper staffing and governance are needed to ensure smooth implementation.*
2. *User Count & Access*
 - *Pricing is often based on the number of users (named or concurrent).*
 - *Tiered pricing may offer discounts as user numbers grow.*

- *User roles and permissions can affect costs.*
- 3. *Modules & Features*
 - *Costs depend on which modules are included (e.g., Finance, HR, Payroll).*
 - *More integrations are needed to replace manual processes.*
 - *Vendors may charge per module or offer full-suite pricing.*
- 4. *Implementation & Customization*
 - *More customization = higher costs due to added vendor support.*
 - *Standard ERP solutions cost less but may require process adjustments.*

Two Primary Cost Categories in ERP Pricing:

1. *License & Subscription Costs*
 - *Cloud-based ERPs typically use subscription-based pricing, which is tied to the number of users and selected modules.*
 - *On-premise ERP systems often have one-time licensing fees with annual maintenance costs.*
2. *Implementation & Service Costs*
 - *Implementation costs include temporary staffing to cover daily operations, allowing key internal staff to focus on the ERP transition.*
 - *Setup, system configuration, training, and ongoing support also factor into implementation expenses.*
 - *Rigorous User Acceptance Testing (UAT) is required to ensure the system meets operational and business process needs before full deployment.*

While user count is a significant pricing factor, ERP costs are also influenced by organizational complexity, the scope of modules, and implementation effort. Cupertino's final costs will be determined through the RFP process, where vendors will outline specific pricing models, licensing structures, and service fees based on the City's operational needs.

By securing the right funding upfront, Cupertino can ensure seamless implementation, automation of key processes, enhanced security, and improved reporting capabilities, aligning with the strategic goals outlined in the ERP Gap Analysis Report. It will also ensure Cupertino's ERP implementation does not fail due to lack of proper funding.

Q5: What metrics are we purchasing the software in? Is this based on the number of users or the number of residents? (Wang)

We have not yet initiated the RFP and are awaiting Council approval to proceed. The RFP process will provide detailed capabilities, costs, and vendor-specific pricing models for evaluation. Once we have completed vendor selection and negotiation, we will return to the Council for approval to move forward with the contract.

- *Since we have not yet selected a vendor, the specific pricing model has not been determined.*
- *The pricing model will depend on the vendor selected. For example, some solutions are transparent, and price is based on number of users or organization FTE count, while others are*

less transparent but appear to be based on budget or population.

- *Pricing structures (e.g., per user, site-wide, or module-based) will be reviewed during the RFP evaluation.*

Q6: Are we buying by module or suite? What's included today and in the future? **(Wang)**

- *We have not finalized whether the purchase will be a full suite or modular approach — this will depend on the RFP responses.*
- *The cost estimates include core ERP functions such as financials, HR, payroll, procurement, and other essential modules.*
- *Future support, upgrades, and vendor roadmaps will be evaluated during the RFP process to ensure longevity and scalability.*

Q7: Do we know if there are new versions that will split the roadmap? **(Wang)**

- *Not at this stage.*
- *Understanding the vendor's roadmap, product versions, and long-term support plans will be a key evaluation factor in the RFP process.*

Q8: What's the difference between each version? **(Wang)**

- *We have not yet identified specific vendor versions.*
- *The RFP process will provide clarity on differences in capabilities, support levels, and pricing tiers.*

Q9: Do we have tiering on price discounts? (e.g., pricing for the first 100 users, next 100, etc.) **(Wang)**

- *Pricing tiers and discount structures will be a factor in vendor selection and negotiation during procurement.*
- *We will evaluate pricing models based on scalability, number of users, and potential cost efficiencies.*

Q10: If we reduce the number of users or change the purchasing metric, can we flex down on pricing? **(Wang)**

- *This flexibility will depend on the selected vendor's pricing structure.*
- *The RFP responses will outline the scalability of licensing and whether costs can be adjusted based on actual usage.*

Q11: Do we only pay upon implementation (i.e., no payment until go-live)? **(Wang)**

- *We have not yet negotiated contract terms with any vendor.*

- Typically, ERP contracts involve staggered payments for:
 - Licensing
 - Implementation services
 - Project management
 - Post-go-live support
- The payment schedule will be determined through RFP negotiations.

Q12: What do future increases look like in maintenance? (e.g., is this based on CPI +?) **(Wang)**

- Future cost escalations will be reviewed during contract negotiations.
- Common ERP pricing models include fixed-rate increases, CPI-based adjustments, or discretionary vendor pricing.
- Our goal will be to secure predictable cost structures and prevent excessive long-term increases.

Q13: What level of support are we paying for and why? **(Wang)**

- The cost estimates account for standard support levels, but the exact details will be determined through the RFP process.
- We will evaluate vendors based on:
 - Response times and SLAs
 - Availability of dedicated support
 - Training and ongoing technical assistance

Q14: Who's our executive sponsor? **(Wang)**

The City Manager, CTO, and Administrative Services Director will serve as the executive sponsors for this project.

Q15: What are we doing to trade referenceability for discounts? **(Wang)**

We have not yet engaged vendors, so referenceability-based discounts have not been negotiated.

At this stage, we are waiting for Council approval to initiate the RFP. The specific details regarding pricing models, licensing structures, support tiers, and payment schedules will be determined during the vendor evaluation and contract negotiation process. The RFP responses will provide a clear breakdown of costs and capabilities, allowing for a data-driven selection process.

Attachments Provided with Original Staff Report:

A – Draft Resolution 2025-xxx

Additional Attachments Provided with Supplemental 1:

B - ERP Needs Assessment

