CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Recommendation to proceed with the acquisition of software applications for Human Resources and Payroll from Bi-Tech
DEPARTMENT:	Finance and Human Resources
PRESENTED BY:	Debbie Tarry, Finance Director
	Marci Wright, Human Resources Director
	Tho Dao, Information Systems Manager

PROBLEM/ISSUE STATEMENT: Currently the City does not have an automated human resource system, and the City does not have a payroll system that fully integrates with its financial system. This results in the need for additional manual processes that use staff time, but do not provide additional benefit to the City.

The acquisition of an integrated application to support the Human Resources (HR) and payroll functions is one of the sixteen projects included in the 2002-2003 Technology Plan. The project, as discussed earlier this year by the City Council, has a budget of $180,000. Council requested, at the time the technology plan was presented, that staff provide an update to the Council prior to the deployment of the major projects included in the plan.

FINANCIAL IMPACT: The 2001-2003 technology plan includes a budget of $180,000 for this project. The estimated cost of the contract to acquire the software and related implementation services is approximately $150,000. The remaining $30,000 is for possible hardware needs and temporary services during the implementation process.

RECOMMENDATION
Tonight's presentation is for discussion purposes. Based on Council consensus, staff may bring forward a request for the Council to authorize the City Manager to execute a contract with Bi-Tech in the amount of $147,203 to purchase software and implementation services for the City's HR and payroll applications.

Approved By: City Manager _KTD_

INTRODUCTION

Staff is recommending the acquisition of an integrated application to support the operations of the Human Resources Department and the Payroll section of the Finance Department. The proposed application and its associated costs have been identified in the 2001-2003 Technology Plan, which was endorsed by the City Council in April 2001.

BACKGROUND

In 1999 the City implemented the Bi-Tech financial system. At that time, a payroll module was not acquired due to the time constraints of implementing the other portions of the City's financial system (Accounts Payable, General Ledger, Cash Receipting, etc.). In order to process the City's payroll, the City contracted with Automated Data Processing (ADP) for payroll services. The City processes the payroll using software that is basically "rented" from ADP, and ADP prints the pay checks and produces the related tax reports and year-end W-2 statements. A system to support the HR function has never been acquired.

Although this process has worked for the City for the last few years, it has created some constraints. The biggest dysfunction is the inability to easily integrate payroll information with the City's financial system. Payroll transactions must be posted into the City's financial system in order to have accurate expenditure information. Because of the differences in account structure used between the ADP payroll system and the Bi-Tech financial system, intermediate manual steps have had to be created in order to integrate the information from the payroll files into the City's financial files. This has been further complicated by the expanded use of the Bi-Tech Job Ledger that allows the City to track expenditures on a project basis.

Currently, the only way to get the cost information from the payroll system into the job ledger is to manually manipulate the journal entries created in payroll prior to downloading the information into the Job Ledger. This process takes approximately 12 hours of staff time every two weeks (payroll cycle). As the City desires to become more sophisticated in its ability to track and manage costs, an alternative solution is necessary.

Other deficiencies with the current process include the inability to allow for decentralized time entry, inability for managers to track personnel related information, such as leave usage, inability to generate management reports from the payroll system, and inability to electronically integrate the payroll and human resource information with budget information.

In April, staff received Council's endorsement to proceed with the 2001-2003 Technology Plan. There were sixteen projects contained in the plan and the acquisition of an automated application for HR and payroll was one of the highest priority projects for this year.

Since April, staff has established an internal team of department representatives from HR and Finance to review payroll related business practices, identify and analyze current system deficiencies, and develop a list of requirements that would be needed from an alternative solution. Because the City already had two possible alternatives for a software solution (Bi-Tech and ADP), the City focused on reviewing the options

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available from these two companies. Our review included vendor demonstrations, vendor review of system requirements, existing client on-site visits, and telephone reference reviews.

ALTERNATIVES ANALYSIS

Staff identified a number of system requirements, but four of the overriding criteria that would be required of a new system included:

- Ability to automate manual systems
- Ease of integration of the HR and payroll functions and information
- Ease of integration between payroll and the City's existing financial system
- Long-term cost

Knowing that the acquisition of a software system is a capital investment, similar to a purchase of a piece of equipment, we have estimated the minimum useful life of the payroll system to be 10 years. Even this time period may be short in that most cities go many more years before reinvesting in new software systems. One reason for this is that when a software system is purchased the purchaser pays annual maintenance fees. These fees provide for software support and routine updates and fixes to the software. What is usually not covered under maintenance fees are major changes in the system's operating platform. These types of changes usually require a new investment in software and, often times, a new investment in hardware.

An example is the migration of many software systems from a "DOS" to a "Windows" environment. Many software clients were notified that companies were going to be discontinuing support for the DOS systems and that they would either have systems that were no longer maintained or would need to reinvest and purchase the software operating in the new "Windows" environment. For these reasons, staff believes that a review of costs over a ten-year life cycle is the most accurate way to make recommendations of the options reviewed from a financial perspective.

Option 1 – Status Quo

The status quo option is to continue using the ADP payroll process and not acquire an HR module.

In reviewing the criteria that was established by staff, this option does not provide any software solutions that will enhance the ability to automate manual systems or provide for integration solutions. If the City were to continue with the status quo option, staff would continue to look for ways to improve the integration issues between the payroll system and the City's financial system. Although we have not received a firm price, because of the difference in accounting structures between the two systems, a significant investment would be required to improve the integration functionality. Also, as either software system goes through upgrades, additional programming could be necessary to modify the integration components.

Currently, the City pays ADP approximately $13,300 a year for its services. This is an ongoing cost and, therefore, over a ten-year period, assuming no cost increases, the City will have expended $133,000 for the payroll services to ADP.

One of the opportunity costs that the City currently incurs is the staff time required to transfer information from the payroll system to the City's financial system. The current estimated staff time spent on integration is 12 hours per pay cycle, or 312 hours in a year. This is equivalent to approximately $7,800 in staff time a year or $78,000 over ten years. Spending time addressing integration issues reduces staff resources available to work on other important projects.

The status quo option does not address the need for an automated HR system and is estimated to cost $211,000 over a ten-year period.

Option 2 – Continue to use the ADP Payroll and acquire the ADP Human Resources Module

This option is to acquire the ADP human resources module and ADP's electronic time entry solution. With this option the software is basically "rented" from ADP, and we pay a monthly fee for use of the software and services provided by ADP.

This option would address the need for an automated HR system and would meet the requirement for the integration of the HR and payroll functions, but, like Option 1, it does not fully address the need for ease of integration between the payroll system and the City's financial system.

The estimated annual fee for the ADP HR module is $8,640. This also includes some provision for position budgeting capabilities. The ADP electronic time solution (E-Time) is charged monthly per employee. On the average the City has 180 employees at any given time. This includes both regular positions and temporary positions that perform functions such as recreation leaders and seasonal employees. Using this information, the estimated annual cost for the electronic time solution would be $5,076. Combining the annual costs of the HR and E-Time modules with the current $13,300 annual cost for payroll services, the annual cost for this option is $27,016. Over a ten year period the out-of-pocket costs would be approximately $270,160, assuming no annual increase in fees. In addition there are one-time implementation costs associated with this option, which are estimated at $91,095.

Since this option does not address the integration issues between the payroll system and the City's financial system, staff continued to explore how this deficiency could be addressed. The City of Mercer Island currently uses the Bi-Tech financial system and has contracted with ADP to do their payroll. Based on our discussions with the Mercer Island Finance staff we discovered that in order to address the integration issues between ADP and Bi-Tech, Mercer Island purchased the Bi-Tech payroll module and uses this module to develop their payroll information. Information is then transferred back and forth from the Bi-Tech and ADP modules as needed. Since we have never purchased the Bi-Tech payroll module, we would need to acquire the Bi-Tech module in order to address the integration issues in this manner. The estimated cost for this would be $54,687.

The total estimated cost for this option over a ten year period is $415,942.

Option 3 – Replace the existing ADP Payroll by acquiring Bi-Tech Payroll and HR Modules

This option is to purchase the Bi-Tech payroll and HR modules including position budgeting and web based time card entry.

This option addresses the four main criteria that were developed by staff. It will provide for the automation of HR functions, provide for integration between payroll, HR and the City's financial system, and provide long-term cost advantages over Option 2. With this option, all information can be tracked in a single location, from the time a candidate applies for a City position, throughout his or her employment with the City.

With this option, there is a one-time capital investment for the software and implementation services, and an ongoing maintenance fee. The estimated one-time acquisition cost is approximately $171,000. This would include the contract with Bi-Tech for acquisition and $30,000 in other implementation costs. In addition to the acquisition costs the City will be required to pay an annual maintenance cost equivalent to 18% of the licensing fee, which is $6,187 per year.

Although staff has estimated that we will be able to save approximately 312 hours annually in integration efforts once the system is fully implemented, there will be some additional staff time spent in preparing quarterly tax statements and W-2's. Currently ADP performs this service for the City. We have estimated that preparing the required tax statements will take approximately 116 staff hours, or $2,900 annually, $29,000 over a ten year period. Even with this additional responsibility we are estimating a net gain in 196 hours of staff time that can be redirected from addressing integration issues to focus on other needed functions and projects.

The estimated cost for this option over a ten year period is $261,885.

SUMMARY
The following table summarizes the estimated acquisition costs of each of the options reviewed.

Project Costs	Option 1 Status Quo	Option 2 ADP HR & Payroll	Option 3 Bi-Tech HR & Payroll
One Time:			
Licensing Costs		$2,975	$34,372
Sales Tax		1,570	4,144
External Implementation Costs		56,550	102,500
Integration Software		54,687	0
Other Implementation Costs		30,000	30,000
Total One-Time	0	145,782	171,016
Ongoing (10 Year):			
Staff Opportunity Cost	78,000	0	29,000
Monthly Usage Fees	133,000	270,160	0
Annual Maintenance Fees	0	0	61,870
Total Ongoing Costs	211,000	270,160	90,870
TOTAL COST (One-Time & Ongoing)	$211,000	$415,942	$261,885

Strictly from a financial perspective, option 1 is the least costly option. However, this option does not provide the desired support for the HR function or meet the criteria to automate manual functions and address integration issues.

Although Option 2 addresses the need for an HR automated system and provides for integration between the HR and payroll systems, it would cost the most over the life of the system. Option 3, while requiring the largest one-time investment amount, represents a lower total cost than Option 2, and addresses all of the criteria that were identified by staff. Option 3 will provide approximately 196 hours of staff time annually that can be redirected to other activities, as well as providing enhanced capabilities for reporting and streamlining HR activities.

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