



Board Agenda Item 13

DATE: April 25, 2017

TO: Board of Supervisors

SUBMITTED BY: Robert W. Bash, Director of Internal Services/Chief Information Officer
Paul Dictos, CPA, Assessor - Recorder
Oscar J. Garcia, CPA, Auditor-Controller/Treasurer-Tax Collector

SUBJECT: Agreements with Megabyte Systems, Inc. for installation and support of an Enterprise property tax software solution.

RECOMMENDED ACTION(S):

- 1. Make a finding that it is in the best interest of the County to waive the competitive bidding process consistent with Administrative Policy No. 34 for unusual or extraordinary circumstances for the solicitation of an enterprise property tax system for the Assessor and Auditor-Controller/Treasurer-Tax Collector offices.**
- 2. Approve and authorize the Chairman to execute an Agreement with Megabyte Systems, Inc. for the installation and perpetual licensing of the Megabyte Property Tax System, effective upon execution, not to exceed five consecutive years, which includes a three-year base contract and two optional one-year extensions, total not to exceed \$2,605,500.**
- 3. Approve and authorize the Chairman to execute an Agreement with Megabyte Systems Inc. for the support and maintenance of the Megabyte Property Tax System, effective 30 days after the "installation date" as referenced by Exhibit B of the Megabyte Licensing Agreement, not to exceed five consecutive years, which includes a three-year base contract and two optional one-year extensions, total not to exceed \$2,780,000.**
- 4. Approve and authorize the Clerk to the Board to execute Budget Transfer No. 16 transferring FY 2016-17 appropriations within the Auditor-Controller/Treasurer-Tax Collector Org 0410 from Account 7295, Professional & Specialized Services (\$190,000) and Account 7296, Data Processing Services (\$125,000) to Account 7910, Operating Transfers Out, in the amount of 315,000.**
- 5. Approve and authorize the Clerk to the Board to execute Budget Transfer No. 17 transferring FY 2016-17 appropriations within the Assessor-Recorder Org 0420 from Account 8500, Intangible to Account 7910, Operating Transfers Out, in the amount of \$315,000.**
- 6. Adopt Budget Resolution increasing the FY 2016-17 appropriations and estimated revenues for Internal Services Department, Information Technology Services-Equipment Org 8908 in the amount of \$630,000 (4/5 vote).**

Approval of the first and second recommended actions will allow the Assessor-Recorder's Office (Assessor) and the Auditor-Controller/Treasurer-Tax Collector (ACTTC) to purchase and install the Megabyte Systems Inc. (Megabyte) Property Tax System (MPTS), a fully integrated enterprise solution. Approval of the third

recommended action will allow the Assessor and ACTTC to purchase ongoing maintenance and support services to the MPTS from Megabyte Systems, Inc., the sole owner of the MPTS system. Approval of the fourth and fifth recommended actions will allow for the transfer of appropriations within the ACTTC Org 0410 and Assessor-Recorder Org 0420 in the amount of \$315,000 and \$315,000 respectively, to fund an Operating Transfer Out to the Internal Services Department, Information Technology Services-Equipment Org 8908. Approval of the sixth recommended action will ensure the Internal Services Department (ISD) has sufficient appropriations and revenues to support the first milestone payment due to Megabyte upon execution.

ALTERNATIVE ACTION(S):

If your Board does not approve the recommended actions, the Assessor and ACTTC will have no choice but to continue using and supporting the County's current system, which is obsolete.

SUSPENSION OF COMPETITION/SOLE SOURCE CONTRACT:

The Assessor and ACTTC offices recommend, with concurrence from the Purchasing Division of the Internal Services Department, that your Board waive the competitive bidding process under Administrative Policy No. 34 due to unusual or extraordinary circumstances to allow vendor Megabyte to install and provide maintenance and support for the MPTS integrated tax solution, the only currently available integrated Property Tax System solution compliant with California tax laws.

FISCAL IMPACT:

There is no increase in Net County Cost associated with the recommended actions. Total maximum costs to be paid under the MPTS Software License Agreement are \$2,605,500. The first milestone payment of thirty-five percent (\$630,000) is due upon execution. Sufficient appropriations for this cost exists in the FY 2016-17 Approved Budgets for Auditor-Controller/Treasurer-Tax Collector Org 0410, and Assessor-Recorder Org 0420. Additional costs for modules, data conversion, and enhancements totaling \$805,500 will be included in future requested budgets.

Costs associated with the first year of maintenance and support of the MPTS System (\$465,339) will begin 30 days after the MPTS system first goes into production use by each of the County departments. Costs for additional years of maintenance and support (\$2,314,661) are subject to Fee Changes in accordance with the Consumer Price Index for the region, and will be included in future requested budgets.

Approval of the fourth recommended action will transfer existing FY 2016-17 appropriations within the Auditor-Controller/Treasurer-Tax Collector Org 0410 in the amount of \$315,000 from Account 7295, Professional & Specialized Services (\$190,000) and Account 7296, Data Processing Services (\$125,000) to Account 7910, Operating Transfers Out, to allow for the transfer of funds to the Information Technology Services-Equipment Org 8908. Approval of the fifth recommended action will transfer existing FY 2016-17 appropriations within the Assessor-Recorder Org 0420 in the amount of \$315,000 from Account 8500, Intangible to Account 7910, Operating Transfers Out, to allow for the transfer of funds to the Information Technology Services-Equipment Org 8908. Approval of the sixth recommended action will increase FY 2016-17 appropriations and estimated revenues in the Information Technology Services-Equipment Org 8908 in the amount of \$630,000 to cover the costs associated with the first milestone payment due to Megabyte upon execution. The costs associated with this action will be financed 50% by revenues received as Operating Transfers In from the Auditor-Controller/Treasurer-Tax Collector Org 0410 (\$315,000), and 50% by the Assessor-Recorder Org 0420 (\$315,000).

DISCUSSION:

Since the late 1960's, the Assessor has relied upon a property tax system that was developed by County staff. It is written in the COBOL language and operates on a mainframe. While the system is solid, system programmers versed in COBOL are few, and this lack of availability threatens to make the existing system

obsolete. Thus, staff have searched for an alternative property tax system for some time.

California has developed unique property tax law wherein the assessment process differs greatly from that of other states. In most states, property is assessed at its current fair market value each year. In California, property may only be reassessed upon a change in ownership or new construction. In addition, California has implemented a Supplemental Tax Roll that augments the annual tax roll. Because of these major differences, solutions implemented by vendors in other states are noncompliant and unworkable in California, without major modifications.

Currently, only two vendors offer a California compliant, "Off The Shelf," ready to install system and of these two, only Megabyte actually has their system installed and operating in client counties. The only other potential California compliant vendor is Thomas Reuters. They are building a system for Riverside County, but after many years, the software is still under construction and not currently operable or installed by Riverside County. Megabyte has a thirty-year history. Forty four percent of California's counties are currently on MPTS. Megabyte monitors over two million parcels annually. With the addition of Fresno County to the MPTS, this number will increase by another 304,000 parcels.

In 2011, the Assessor and the ACTTC jointly issued a Request for Proposal (RFP) for an integrated Property Tax System. Only one vendor, Megabyte, submitted a proposal with a system that was already complete, immediately available and currently operating in California counties. Other vendor proposals were reviewed, but none of those vendors currently offered a system that was California compliant, complete and operable. The vendors submitting proposals at that time included: Megabyte Systems, Inc.; Colorado Customware, Inc.; True Automation; and Manatron. Since there was no consensus as to a system that would meet the needs of both County departments, no selection was made and the RFP was cancelled.

In 2012, the Assessor issued a RFP for an Assessor only property tax system solution. Megabyte did not submit a proposal. All responding vendors except one offered systems that were either not California compliant or were incomplete and not currently available for immediately installation. The one exception, gTerra, while California compliant, was not in use in any California county and the system was evaluated as not sufficiently meeting Department needs. The vendors submitting proposals to that RFP included: Brainsharp, Inc.; Colorado Customware, Inc.; Thomson Reuters (Formerly, Manatron); gTerra, Ltd.; and LPS (Formerly, True Automation)

In 2012, the Assessor reviewed a new property tax system built by Orange County for their Assessor, as a possible government-to-government acquisition. The County of Santa Clara commissioned Gartner Group to review the Orange County system as compared to other options, such as building their own new system. It was determined that the Orange County system met only 60% of their requirements and, since it was not compatible with Windows 7, staff concluded that it was not adequate for the County's needs.

In 2015, The Assessor's office began negotiating a contract with Megabyte Systems, Inc. for an Assessor system.

In 2016, The ACTTC began a RFP process, but after the previous Auditor-Controller/Treasurer-Tax Collector announced her retirement, the County Administrative Officer directed the department to cancel the RFP and join the Assessor, as Megabyte's solution is the only California compliant application that meets Assessor, Auditor, and Tax Collector requirements.

The Megabyte Agreements are not in the County model contract format. While Megabyte has agreed to integrate most of the County's contract clauses, some provisions that are unfavorable to the County remain. These include: (1) mutual indemnification language; (2) amounts recoverable under the contract are limited to the amounts paid under contract; (3) statute of limitations for all claims is 1 year; and (4) the requirement in both Agreements that all disputes be resolved via binding arbitration.

Despite the inclusion of the foregoing provisions that represent risks to the County, the Assessor and ACTTC believe that the benefits of these Agreements outweigh all potential risks and recommend approval of the

Agreements by your Board as a prudent business decision.

ATTACHMENTS INCLUDED AND/OR ON FILE:

Attachment A

Suspension of Competition Acquisition Request

On File with Clerk - License and Installation Agreement

On File with Clerk - Maintenance and Support Agreement

On File with Clerk - Budget Transfer No. 16

On File with Clerk - Budget Transfer No. 17

On File with Clerk - Budget Resolution

CAO ANALYST:

John Hays