



CITY OF COSTA MESA

77 Fair Drive
Costa Mesa, CA 92626

Agenda Report

File #: 25-354

Meeting Date: 8/5/2025

TITLE:

PROFESSIONAL SERVICE AGREEMENT FOR THE ACQUISITION OF A NEW ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM.

DEPARTMENT: FINANCE DEPARTMENT AND INFORMATION TECHNOLOGY DEPARTMENT

PRESENTED BY: CAROL MOLINA, FINANCE DIRECTOR AND STEVE ELY, INFORMATION TECHNOLOGY DIRECTOR

CONTACT INFORMATION: CAROL MOLINA, FINANCE DIRECTOR, (714) 754-5243, AND STEVE ELY, INFORMATION TECHNOLOGY DIRECTOR, (714) 754-5154

RECOMMENDATION:

Staff recommends the City Council:

1. Approve and authorize the Master Services Agreement and Statement of Work, to Denovo Ventures, LLC, for Oracle ERP implementation services for \$2.9 million, for a five-year term, effective August 5, 2025 - August 4, 2030; a Managed Services Service Order for a Managed Services Post Go-Live for \$0.2 million per term, with an additional term; if needed.
2. Approve and authorize the Ordering Document with Denovo Ventures, LLC for Oracle Cloud ERP subscription licensing, \$285,000 annually per year, for \$1.4 million, for a five-year term, effective August 5, 2025 - August 4, 2030, with option two (2) one-year renewals.
3. Approve and authorize the Cloud Services Agreement with Oracle America, Inc.
4. Authorize a ten percent (10%) contingency in the amount of \$310,000 for unforeseen costs related to the project.
5. Authorize the Interim City Manager and the City Clerk to execute the PSA and within budget limits any future amendments to the agreement.

BACKGROUND:

A core objective of the City Council's Strategic Plan is to achieve long-term fiscal sustainability while preserving and improving the condition of city-owned facilities, equipment, and technology systems. To advance this goal, the City adopted an Information Technology Strategic Plan (ITSP), which outlines key priorities to modernize operations, improve service delivery, and foster innovation across departments. The ITSP includes targeted initiatives that address immediate business needs and replace aging software and infrastructure. Among these, the implementation of a modern Enterprise Resource Planning (ERP) system stands out as a critical project. The City's current financial, human

resources, and payroll systems are antiquated, resulting in administrative manual processes. Migrating to a unified ERP will enhance efficiency, reduce costs, and improve fiscal transparency, all while aligning with broader modernization goals and ensuring long-term operational viability.

The City's current Enterprise Resource Planning (ERP), PeopleSoft, version 7.51 (for Financials) and 8.8 (for Human Resources/Payroll) software system is a hosted, on-premise legacy software solution that, unfortunately, is no longer supported by PeopleSoft due to its age. The software system was implemented 28 years ago and manages a wide variety of day-to-day operational tasks for the Finance Department and Human Resources Division. An ERP is an integrated software system that helps the organization automate and manage core business processes for optimal performance. An ERP solution is the pillar financial information system used to record and manage all financial transactions and minimize risk by automating financial controls and ensuring compliance with local, state, and federal requirements, government accounting, audit-related standards and reporting, and best financial practices and controls. An integrated ERP system provides a comprehensive solution used across multiple City functions, including but not limited to the general ledger, budget, payroll, accounts receivable, accounts payable, cash management, procurement, contract management, project and grant accounting, financial reporting, and human resources management.

PeopleSoft has provided the basic functionality for the past 28 years for both Finance and Human Resources; however, City staff must supplement the lack of key features, functions, and reporting capabilities with standalone applications and custom programming. City staff has adopted customized and complex reports throughout the years that staff has had to create offline and manually update. This has been a challenge, especially with the implementation of constant new reporting requirements. As technology advances and new legal requirements, such as new General Accounting Standards Board (GASB) pronouncements, Generally Accepted Accounting Principles (GAAP) updates, etc., staff has had to create manual processes to ensure compliance. The City's third-party-software integrations with the current ERP system have been limited, difficult and at times unavailable.

The City has identified the critical need for a new ERP system and has developed key objectives for the project:

- Implementation of an Enterprise Resources Planning (ERP) solution to replace functionality provided by current legacy information systems.
- Enhance operational effectiveness by providing timely, accurate and complete information available to residents, the City Council, City Manager and staff.
- Increase productivity by eliminating redundancy and unnecessary tasks.
- Improve management and public policy decision making by increasing the ability to analyze data.
- Utilize and manage technology in a cost-effective manner.
- Reduction of the use of multiple platforms, spreadsheets through the implementation of a single, comprehensive, and integrated solution
- Enhance cross-departmental collaboration through the use of information technology and

enhanced business processes.

- Implementation of best business practices to include the streamlining and automation of standard business transactions, enhanced processing, and online capabilities.
- Implementation of enhanced features and functionality to support increased automation and operational efficiencies (i.e., workflow, self-service, document-imaging, accounts receivable, cashiering, refunds, grant management, etc.)
- Improve the availability of financial, human resources and payroll data.
- Reduce the extent of custom modifications to the City's application portfolio.

Furthermore, the City entered into a Professional Services Agreement (PSA) with ThirdWave Corporation to conduct an analysis of the City's business process to identify the functional requirements for a new ERP system and ensure a streamlined implementation process. This analysis laid the foundation for the development of a Request for Proposal (RFP), (Attachment 1).

ANALYSIS:

The selection of an ERP system required an extended timeline due to the complexity and significance of this critical infrastructure investment. City staff engaged in a thorough evaluation of functional requirements, obtained key stakeholder input, reviewed integration needs, and ensured long-term sustainability. Multiple systems were carefully reviewed to ensure alignment with Departmental workflows and financial oversight objectives. Given the scale and impact of the system, staff undertook a detailed review to ensure the chosen platform could meet operational needs across all City departments. Coordinating input from potential vendors to ensure value, integration capabilities, and contract terms added further complexity. These steps were essential in order to secure a long-term solution tailored to the City's strategic goals. This deliberate approach was essential to selecting a solution that will serve the City's financial management and reporting needs for years to come.

Procurement Approach

The City's evaluation and selection process was handled in accordance with Chapter V, Article 2 of the City's Municipal Code. On February 14, 2024, the City issued Request for Proposal (RFP) No. 24-07, for a new Enterprise Resource Planning (ERP) & Professional Implementation Services via the PlanetBids platform.

The City created a cross-departmental evaluation team, which consisted of staff from all departments. The ERP system was spearheaded by the Finance Department with strong support from the Information Technology Department. The proposals were evaluated based on detailed RFP specifications, software solution functionality and architecture, qualifications of the firm, implementation methodology, project team experience and cost proposal. The top three vendors were invited for software demonstrations.

Each vendor presented their systems' functionality in the following areas: accounts payable, accounts receivable, cash receipts, project accounting, grant management, budget, financial reporting, fixed assets, purchasing, requisition, contract management, human resources (HR) and personnel management, benefit administration, time and attendance timesheets, payroll, technical

requirements, and approach to implementation application interface and data conversion.

The City received four bids to its request for proposal. The table below is the top three vendors that provided an extensive well-qualified ERP solution.

Vendor	Score
Denovo Ventures, LLC	1638
Tyler Technologies, Inc.	1560
CentralSquare Technologies	1412

Denovo Ventures, LLC

Denovo Ventures, LLC, submitted their proposal in a timely manner and met all compliance requirements of the RFP specifications. The Company submitted all required documentation that was listed in the RFP. Denovo is a Certified Authorized Reseller and Certified Implementation Partner for Oracle ERP Solutions. They are also a Certified Managed Services Provider, a status that is only achieved by a select few.

The submitted proposal by Denovo demonstrated a thorough understanding of the project, including Denovo's outstanding customer service that they have demonstrated over 20 years. Their compelling response to the RFP exhibited the team's experience when working with public sector communities. Denovo successfully completed over 850 projects; extensive references of municipal government customers, public agencies customers, and County Government customers. Some of Denovo's experience includes over 60 cities (United States and Canada), 75+ Public Agency customers, and 60+ County Government Customers. Moreover, the Denovo-proposed Oracle solution is being leveraged by local agencies that include the City of Bakersfield, County of Orange, and most recently by the City of Santa Ana.

Denovo has proposed the Oracle Cloud ERP Oracle Software Solution for the City of Costa Mesa and will be the project implementers of the Oracle solution. The Oracle Fusion Applications are hosted, managed, and secured by Oracle's own Infrastructure and Software-as-a-Service (SaaS) solution, and is configurable by customers. The Oracle Cloud (SaaS) delivers a second-generation, modern cloud for today's modern local government - personalized, connected, and secure. The software application is expected to meet over 90% of the City's 500+ functional and technical requirements. The software solution will allow the City to implement key efficiencies and enhancements in general accounting, accounts payable, accounts receivable, purchasing, budget and human resources. Additionally, it will eliminate redundancies and manual tasks and introduce best practices in key financial and human resources processes.

The selected ERP system is designed to integrate with the City's existing 22 business applications to enhance data sharing, operational efficiency, and cross-platform functionality. The ERP system represents a shift toward a fully integrated, enterprise-wide platform that decentralizes operational functions while maintaining centralized oversight and governance. By equipping individual departments with direct access to core business processes - such as procurement, budgeting, reporting, and asset management - the system promotes autonomy, accountability, and real-time decision-making. This architecture ensures that all departments operate within a unified framework, streamlining workflows while enhancing cross-functional collaboration. This system will expand to all departments and across all City locations.

Additionally, cybersecurity was a critical consideration in the ERP selection and implementation process. The selected system incorporates multi-layered security features, including role-based access controls, data encryption, user authentication protocols, and audit logging to safeguard sensitive municipal data. Finance staff worked closely with the City's Information Technology Department and the vendor to ensure compliance with cybersecurity best practices and regulatory standards. Ongoing monitoring and period security assessments will be conducted to proactively manage risks and protect against evolving cyber threats.

Denovo will follow a methodology that will allow the City to leverage the application to its full potential. At each stage, the project will be evaluated against the required criteria before progressing to the next stage. This will provide the City the ability to manage risk, and improve decision-making to increase the successful project completion as the project progresses.

Denovo will provide a project team with Public Sector expertise that the City will be able to leverage in implementation of the new system as well as the improvement of business processes to modernize and leverage the new system to its maximum potential. The Denovo Project Management team will consist of a Project Manager, Enterprise solution architect, and consultant leads on the various implemented modules in both the financial and human resources areas. The Denovo Project Manager will work along-side the City's Finance Manager and Information Technology Manager to ensure the project stays on schedule and implements the City's business models and interfaces with the multitude of other technological systems efficiently. The City's technical leads will collaboratively work with Denovo's technical team to ensure the City's technical requirements are successfully implemented.

Cost Overview

The cost of the proposal includes project implementation services, subscription software fees and managed services post go-live. The cost of the project implementation services is estimated at \$2.9 million. This includes both phase I and II for the project.

The cost of the annual subscription is \$285,000 for years 1 through 5, for a total of \$1.4 million. This annual subscription is available for an additional two years (Years 6 and 7) and will be subject to a 4% annual increase. The annual subscription of the SaaS allows the City to access and leverage the application and underlying infrastructure throughout the implementation, provides the on-going support and maintenance for the system to include application updates on a quarterly basis, at a minimum. The on-going support is provided from Oracle on a 24/7 basis. A managed services contract in the amount of \$195,000 to provide direct support from Denovo following the Go-Live of Phase I of the project. The City has the option to add a second term of managed services for the same flat amount, if needed.

After careful review and evaluation of the proposals, interviews, as well as confirming references, staff find Denovo the most qualified to complete the City's ERP implementation for a single integrated solution. Denovo has a thorough understanding of the scope of work and the prioritizing of the City's efforts to obtain an enterprise system that has the flexibility, reliability, redundancy, and capability to meet current and future business functions into a single computing environment.

Implementation Approach

The ERP project is scheduled to kick off August/September 2025 upon City Council adoption. Due to the complexity of data migration, required Financial and Human Resources processes with other technical systems in this project will be managed in two phases: Finance modules followed by Human Resources/Payroll modules. This will serve to prioritize the application software most needed and reduce the risk of failure, e.g., budget change orders, schedule of overruns, or lack of end user acceptance. Deployment will include software installation and configuration, testing, staff training, report development, at least ten years of data migration, systems interface development and technical support after system cutover.

Overall, the project will consist of implementing the following Oracle Fusion products:

- Financials and Project Management: Financials, Project Financials, Financial Report Center, Transactional Business Intelligence (OTBI), Applications Extensibility Framework
- ERP Self Service: Reporting Access, Transactions and Workflows
- Procurement Service: Purchasing, Supplier Portal, Procurement Contracts
- Procurement Self Service: Catalog Superstore, Catalog Management, Configurable approvals
- Supply Chain Execution Cloud Service: Inventory Management, Cost Accounting
- Document Recognition Service: Automated Invoice Processing
- Human Capital Management: Core HR, Onboarding, Benefits, Absence Management, Workforce Directory Management
- Human Resources Help Desk: HR Inquiries
- Human Capital Management Human Resources (HCM HR) Platform for benefits
- Payroll Process: Payroll Processing, Compliance and Reporting, Automated Tax Filing
- Time and Labor: Time Reporting and Management, Rule-Based Time Recording
- Budget: Position and Capital Budgeting

The implementation of the ERP system requires a significant investment of time, resources, and dedicated focus to ensure its successful deployment. The City will have a core project team dedicated to the project to include the Finance Manager and Information Technology Manager as leads to this project. The core team will also be staffed by functional leads from each key department (Finance, Human Resources, Information Technology). As the project progresses, end users from all other departments will participate as business processes are evaluated and as best practices are implemented. The project scope will also include data conversion of the City's current ERP system and multiple application interface developments.

ALTERNATIVES:

The City Council may choose not to approve the agreements with Denovo and Oracle. However, it could result in an unsupported financial system that will compromise the City of Costa Mesa's

financial ability to operate efficiently.

FISCAL REVIEW:

The funding for the project is available in the Fiscal Year 2025-26 Information Technology Replacement Fund (Fund 603) as per the adopted Information Technology Strategic Plan. The funding includes the proposed agreements with Denovo Ventures: for the project implementation services of \$2.9 million for Phases 1 and 2; Managed Services Contract of \$0.2 million; and Oracle Cloud ERP annual subscription of \$285,000 (totaling \$1.4 million over the course of five years). The proposed Cloud Services Agreement provides the subscription licensing with Oracle America, Inc. that is being purchased through Denovo Ventures, LLC. If needed, the two one-year renewals option will be proposed through the new five-year Information Technology Strategic Plan currently being prepared.

LEGAL REVIEW:

The City Attorney's Office has reviewed this report, the proposed Master Services Agreement (MSA), Ordering Document, Managed Services Service Order, and Statement of Work for Denovo Ventures, LLC and Cloud Services Agreement with Oracle America, Inc. (Attachment 1 through 5) and approves them as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the City Council Goals:

- Maintain and Enhance the City's Facilities, Equipment and Technology.
- Achieve Long-Term Fiscal Sustainability.

CONCLUSION:

Staff recommends the City Council:

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