

Committee Report

Management Committee



Committee Meeting Date: December 14, 2022

For the Metropolitan Council: January 11, 2023

Business Item: 2022-322

Inflationary Increase in 20P261 Network Equipment Refresh.

Proposed Action

That the Metropolitan Council authorize the Regional Administrator to execute a contract amendment for an amount of \$2,000,000 with Insight Public Sector, Inc., to purchase network equipment for a total contract amount not to exceed \$8,000,000.

Summary of Management Committee Discussion/Questions

Mr. Bantz presented on the need to amend contract 20P261 to a total amount of \$8,000,000 to address inflationary costs related to the chip shortage. The amendment is needed to complete critical IT projects that are planned for the original 3-year duration of the contract but cannot proceed unless additional funds are added to the contract. Funds have been exhausted before the planned contract expiration because of inflationary pressures.

Mr. Bantz explained that while software prices typically increase year over year driven by the rising cost of labor computer IT equipment has almost always declined year over year due to technology innovation. Because hardware declines in cost a discount off list procurement strategy is almost always superior to a fixed price contract because we can capture reduced cost as the hardware price declines. Unfortunately, the unanticipated factors of high inflation and an asymmetrical chip shortage recovery has led to unprecedented increases in specialized network equipment costs. While general inflationary pressures are broadly understood, impacting most industries. The chip shortage recovery however is not as common knowledge, the supply for the most modern generation of chips used in consumer electronics has increased as costs declined from their high the older generations of chips used in network equipment and automotive applications remain constrained and costs have increased. In addition to high costs delays for network equipment are now as far out as eighteen months complicating refresh activities and expansion.

Mr. Bantz presented a graph showing that historically IT network equipment prices have held steady or declined despite the increase in general inflation as measured by CPI. In an unprecedented turn of events the last two years inflation of network equipment has actually exceeded the CPI rather than prices being flat.

Council member Gonzalez inquired as to if we expected more increases in network equipment costs. Mr. Bantz said his intentions were to finish procurements before such increases could happen. Council member Gonzalez ask if we expected prices to fall, Mr. Bantz responded that it will be at least six months before we could hope to see cost reductions.

Motion by Council member Gonzalez, seconded by Council member Lee. Motion carried.

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Network Equipment Refresh, Contract 20P261 Amendment No. 1

District(s), Member(s):	All
Policy/Legal Reference:	FM 14-2, Expenditures for Procurement of Goods, Services, and Real Estate; Minn. Stat. § 471.345
Prepared/Presented:	Craig Bantz, Chief Information Officer, 651-602-1443 Jody Jacoby, Procurement Director, 651-602-1144
Division/Department:	Regional Administration, Information Services

Proposed Action

That the Metropolitan Council authorize the Regional Administrator to execute a contract amendment for an amount of \$2,000,000 with Insight Public Sector, Inc., to purchase network equipment for a total contract amount not to exceed \$8,000,000.

Background

Historically the Council refreshed network equipment on an ongoing basis through a continuous series of smaller procurements. To secure more favorable pricing in the second quarter of 2021 IS bundled three years of network equipment into a single solicitation rather than doing a series of individual procurements. In addition to regular refresh equipment for D Line and Green Line Extension were included in the omnibus network equipment procurement.

At the July 28, 2021, Metropolitan Council meeting the Regional Administrator was authorized to award and execute contract 20P261 with Insight Public Sector, Inc. with business item 2021-169 for \$6,000,000. Contract 20P261 is structured as a discount off list pricing, providing a favorable 10%+ discount off the prices the Council was previously securing.

While software prices typically increase year over year driven by the rising cost of labor computer equipment has almost always declined year over year due to innovation. Because hardware declines in cost a discount off list procurement strategy is almost always superior to a fixed price contract because we can capture reduced cost as the hardware price declines. Unfortunately, the unanticipated factors high inflation and an asymmetrical chip shortage recovery has led to unprecedented increases in specialized network equipment. The inflationary pressures are broadly understood, impacting most industries. The chip shortage recovery however is not as common knowledge, while supply for the most modern generation of chips used in consumer electronics has increased as costs declined from their high the older generations of chips used in network equipment and automotive applications remain constrained and costs have increased. In addition to high costs delays for network equipment are now as far out as eighteen months complicating refresh activities and expansion.

These unexpected cost drivers have resulted in exhausting the original 20P261 contract authorization in less than the three years planned. To both contain costs by ordering before prices

increase further and equally if not more importantly get into the queue for network equipment to ensure transit projects are completed on schedule, we must increase the limit of 20P261. Per the original proposal IS anticipates running a new solicitation at the completion of the initial three years intended for the contract, which is the end of 2023, this business items are only intended to bridge till the planned solicitation can be conducted.

Rationale

The Council is dependent upon equipment that is current and up to date to ensure systems stay operational and secure as is the success of our major transit system expansion projects.

Contract 20P261 when initially solicited resulted in eight plan holders responding, four prime bidders, two subcontractors, two plan rooms and two of plan holders identified as disadvantaged business enterprises.

Thrive Lens Analysis

This supports the Thrive outcomes of Stewardship and Sustainability by ensuring reliability, resilience, security, and cost-effectiveness of the Council's network equipment.

Funding

Information Services operating budget and Transit line project budgets.

Small Business Inclusion

The Office of Equal Opportunity did not set a goal for this project.

