



Supply of Microsoft Software and Subscriptions

Date: November 22, 2023
To: TTC Board
From: Chief Financial Officer

Summary

The purpose of this report is to seek the Board's authorization to award two contracts with Microsoft Canada: the Enterprise Subscription Agreement, with a the total contract value of \$15,959,000, inclusive of HST, for a three-year term and the Select Plus Agreement for a three-year term with a total contract value of \$5,660,000, inclusive of HST.

Microsoft software products provide TTC with the technology to improve productivity, collaborate effectively, enable business operations, and secure its systems and data. These software licenses and subscriptions are acquired through two agreements: the Microsoft Enterprise Subscription Agreement and the Microsoft Select Plus Agreement.

The Microsoft Enterprise Subscription Agreement enables the TTC to access a comprehensive suite of Microsoft software through a subscription-based model. This agreement provides continuous access to software updates and ongoing support. With the current Enterprise Subscription Agreement set to expire on January 31, 2024, the renewal of this contract is critical to maintaining uninterrupted access to essential services. The contract value reflects the preferred pricing the TTC has obtained by leveraging the Province's Master Business Agreement plus additional discounts secured through direct negotiations with Microsoft Canada.

The Enterprise Subscription Agreement contract provides software subscription for various cloud hosted software products that support the TTC's customer relationship management (CRM), data analytics, and project management business activities, as well as hosting capabilities for the TTC's public web content management. The software subscriptions will provide continued use of the following specific products: Dynamics 365 CRM, Azure Cloud Services, Project Online, Power BI and Microsoft 365 (formerly Office 365).

Under the Microsoft Select Plus Agreement, the TTC will be able to acquire perpetual licenses for designated Microsoft software versions hosted on the TTC network. As the current contract is set to expire December 31, 2023, a new contract is necessary to renew existing software maintenance and acquire the latest versions of existing

infrastructure software over the next three years. The TTC has leveraged the Province's Vendor of Record Reseller Contract, securing favourable terms and a 19% discount on Microsoft software products.

The products within the Select Plus Agreement include, but not limited to, Microsoft licenses (i.e., Windows Server and SQL Server) required to deliver information technology (IT) infrastructure state of good repair projects and to renew software maintenance on previously acquired Microsoft software licenses.

Recommendations

It is recommended that the TTC Board:

1. Authorize the award of the Enterprise Subscription Agreement (ESA) contract to Microsoft Canada for the Supply of Microsoft Cloud Subscriptions in the amount of \$15,959,000 inclusive of HST for a three year term, commencing February 1, 2024.
2. Authorize the award of the Select Plus Agreement contract for the Supply of Microsoft Software to CDW Canada Corp. as the licensing solution reseller selected by the competitive process conducted by Supply Ontario in the amount of \$5,660,000 inclusive of HST for a three year term, commencing January 1, 2024.

Financial Summary

Contract Expenditures

The total value of the Microsoft Enterprise Subscription Agreement contract award for the three-year term commencing on February 1, 2024 to January 31, 2027 is \$15,959,000, inclusive of HST. The pricing rates were negotiated, resulting in TTC securing a 5-6% increase in subscription rates compared to the 2020 negotiated price. This increase contrasts with the initial expectation of an approximately 17% increase, which was anticipated to account for projected inflationary trends. Furthermore, this expectation was reinforced by Microsoft's announcement in spring 2023, wherein they disclosed an additional 9% price increase for Microsoft 365.

The operating expenditures to be incurred over the term of the contract represent the annual cloud subscription fees for products used by the TTC. The operating expenditures for each year of the Enterprise Subscription Agreement contract term are outlined in Table 1 below:

Table 1: Enterprise Subscription Agreement: Operating Expenditures by Year

Subscription	2024 Feb 1 to Dec 31	2025 Jan 1 to Dec 31	2026 Jan 1 to Dec 31	2027 Jan 1 to Jan 31	Total
Dynamics 365 CRM	511	569	580	48	1,708
Power BI	53	59	61	5	178
Project Online	67	75	76	6	224
Microsoft 365	2,377	2,636	2,909	244	8,166
Azure Cloud Services	1,141	1,279	1,317	110	3,847
Total (not including HST)	4,149	4,618	4,943	413	14,123
HST Non-Rebatable (1.76%)	73	81	87	7	249
Total (including Non-Rebatable HST)	4,222	4,699	5,030	420	14,372
Rebatable HST	466	519	556	46	1,587
Total Authority (including HST)	4,688	5,218	5,586	467	15,959

(in thousands)

The total value of the Microsoft Select Plus Agreement contract award for the three-year term is \$5,660,000, inclusive of HST, which encompasses both capital and operating expenditures. Although the contract secures a 19% discount off Microsoft's listed retail price, Microsoft retains the right to modify the retail price during the contract duration. Hence, the contract value incorporates a 15% contingency, which serves to accommodate any unforeseen pricing adjustments that may arise during the term of the contract.

The capital costs associated with the Select Plus Agreement contract amounts to \$3.14 million, net of HST rebate. These costs encompass the acquisition of server and software licenses as part of TTC's state of good repair program to upgrade the current IT infrastructure, ensuring it remains within its supported lifecycle to mitigate potential risks associated with system failures and cybersecurity threats.

The capital expenditures for each year of the Select Plus contract term are outlined in Table 2 below:

Table 2: Microsoft Select Plus Agreement: Capital Expenditures by Year

Products	2024	2025	2026	Total
Windows Server	482	327	756	1,565
SQL Server	215	476	376	1,067
Microsoft Developer Network (MSDN)	18	18	18	54
Contingency (15%)	107	123	172	402
Total Expenditure (without HST)	822	944	1,322	3,088
Non-Rebatable HST 1.76%	14	17	23	54
Total Expenditure (including Non-Rebatable HST)	836	961	1,345	3,142
Rebatable HST	92	106	149	347
Total Authority (including HST)	928	1,067	1,494	3,489

(in thousands)

The software maintenance ("Software Assurance") renewals, which represent all the operating costs for the Select Plus Agreement are pre-paid in full in the year the maintenance is acquired and is then expensed to the operating budget on a straight-line basis over the three-year term to reflect the year in which the maintenance cost is incurred and valid. Thus, while the contract is only valid until the end of 2026, costs will be incurred until 2029.

Three-year term Software Assurance renewal purchases are planned for each year based on the expiry of the existing maintenance terms. The resulting annual operating budget allocation of expenses for the operating purchases are outline in Table 3 below:

Table 3: Microsoft Select Plus Agreement: Operating Expenditures by Year

Products	2024	2025	2026	2027	2028	2029	Total
Software Assurance	25	180	369	531	376	187	1,669
Contingency (15%)	4	27	55	80	56	28	250
Total (not including HST)	29	207	425	611	433	215	1,920
HST Non-Rebatable (1.76%)	1	4	7	11	8	4	35
Total (including Non-Rebatable HST)	30	211	432	622	441	219	1,955
Rebatable HST	3	23	48	69	49	24	216
Total Authority (including HST)	33	234	480	691	490	242	2,171

(in thousands)

Funding

Capital Funding

Funds for the expenditures associated with the acquisition of "Windows Server Licensing" and "Microsoft Development Network (MSDN) Licensing" are included in the TTC's 2023-2032 Capital Budget and Plan which was approved by the TTC Board at its meeting on January 9, 2023, and by City Council at its meeting on February 15, 2023, under the following capital projects under 7.1 Information Technology; Servers, Storage and Backup SOGR, as well as Software Delivery Environment SOGR.

Funding required to support the lifecycle management of TTC's enterprise database infrastructure and purchases of required SQL Server licenses has not been allocated beyond 2023. The funding requirements for this component has been included as a top funding priority in TTC's 2024 Capital Budget and Plan submission and work is underway to reallocate funds for this expenditure. No 2024 expenditures will be incurred without the express approval of reallocated funds or until such time as the 2024 Capital Budget and Plan is approved by the Board and City Council.

Operating Funding

Funds in the amount of \$4,903,000 have been included in the TTC's 2023 Operating Budget for expenses associated with the products being procured through the two Microsoft agreements. Budget approval was received by the TTC Board at its meeting on January 9, 2023, and by City Council at its meeting on February 15, 2023.

The 2024 expenditure impact from the existing Enterprise Subscription Agreement will be \$263,000 and \$4,222,000 for the new contract award. The 2024 impact from the existing Select Plus Agreement will be \$856,000 and \$30,000 for the new contract award. The resulting 2024 Operating Budget request is \$5,371,000.

The additional funds of \$468,000 will be requested in the 2024 Operating Budget and additional funds will be requested in subsequent future operating budget submissions based on each year's anticipated spending requirements.

Savings

Approximately \$460,000 of the \$468,000 increase in 2024 is attributable to the Microsoft Office 365 subscription fee. This cost pressure is partly attributed to a price rate increase in the new contract but also an upgrade of subscription entitlements for TTC users from Office 365 E3 to Microsoft 365 E3. This change provides a host of advantages, including access to advanced features such as enhanced security, compliance, and productivity tools. The 5-6% price increase was successfully negotiated given TTC's transition to Microsoft 365 E3. Without this change, the TTC would have faced a more substantial price increase had existing subscription entitlement had been retained.

The transition to Microsoft 365 E3 subscriptions grants TTC computer (TTC issued laptop/desktop) users' entitlement to access the Windows 10/11 operating system on their workstations (e.g., laptops and desktop computers) and provides access rights to any business systems running on the Microsoft Windows Server infrastructure. Previously, these access rights were obtained through the Select Plus Agreement. However, because of the proposed upgraded subscriptions, TTC will achieve operating cost savings totaling \$440,000 by opting not to renew Windows 10 Assurance over the next three years.

With the consolidation of the entitlements under the Microsoft 365 E3 subscription, the TTC will realize an operating cost avoidance from anticipated price increases of \$78,000 and a capital cost avoidance of \$237,000 as there is no need to purchase Windows Server Client Access Licenses in 2026.

This new entitlement also enables the TTC to deploy the Microsoft Intune solution, which will replace the current legacy Mobile Device Management (MDM) solution, which is anticipated to be completed by mid-2024. This transition will result in cost savings of \$55,000 by decommissioning the existing solutions. Overall, the net increase due to the subscription upgrade over the three years is \$292,000 due to the cost savings and avoidance that will be realized.

Table 4: Year-over-Year Operating Budget Impact Due to Subscription Upgrade

Products	2024	2025	2026	Total
Incremental Subscription Costs	460	137	278	875
Savings <i>(Windows 10 Assurance)</i>	(58)	(225)	(157)	(440)
Savings <i>(Legacy MDM Decommissioning)</i>		(55)		(55)
Cost Avoidance <i>(Windows 10 Assurance)</i>	(10)	(40)	(28)	(78)
Cost Avoidance <i>(Legacy MDM Decommissioning)</i>		(10)		(10)
Net Cost/Savings	392	(193)	93	292

(in thousands)

The Chief Financial Officer has reviewed this report and agrees with the financial summary information.

Equity/Accessibility Matters

A cornerstone of the TTC’s 2018-2022 Corporate Plan is accessibility, and as a proud leader in providing accessible public transit in the city of Toronto, one of TTC’s service objectives is a commitment to ensuring reliable, safe, and inclusive transit services for all our customers. This service objective is supported through the continued work of the TTC to implement modern and accessible information technology (IT) infrastructure.

The Microsoft licenses and subscriptions acquired through the two contract agreements play a pivotal role in promoting accessibility and inclusivity within the TTC workplace.

The Microsoft 365 applications allow employees to perform their work more effectively and are designed with a commitment to accessibility, ensuring that they seamlessly integrate with screen readers on a wide range of devices.

Moreover, Microsoft 365 applications include a suite of accessibility features such as accessibility checking, accessible templates, and automatically generated alt-text for images. Additionally, these applications are designed with a focus on meeting the criteria of international accessibility standards, including WCAG 2.0 AA (Web Content Accessibility Guidelines for enhancing web content accessibility) and EN 301 549 (the European standard for digital accessibility). These solutions aid TTC in guaranteeing the inclusivity and accessibility of their digital assets, thereby fostering a workplace environment that is more equitable and diverse. Furthermore, they enable collaborative

and remote work, fostering a flexible and accommodating work environment for employees.

Decision History

At its meeting on April 14, 2021, the TTC Board approved an award of contract for the Supply of Microsoft Software to Softchoice LP, in the upset limit amount \$9,519,000, inclusive of HST.

[Supply of Microsoft Software](#)

At its meeting on July 7, 2021, the TTC Board approved an amendment to the previous Supply of Microsoft Cloud Subscriptions contract of \$4,234,045, revising the total contract amount to \$5,912,418, inclusive of HST. This amendment represented approval of amounts for the second and third years of the contract term and included subscriptions for a proof-of-concept assessment of the Microsoft 365 platform. The report can be referenced by the link below:

[Supply of Microsoft Cloud Subscriptions - July 7, 2021](#)

At its meeting on May 18, 2022, the TTC Board approved an amendment to the previous Supply of Microsoft Cloud Subscriptions contract to increase the upset limit of the Enterprise Subscription Agreement contract by \$3,576,134, to a revised upset limit amount of \$9,488,552, inclusive of HST, to the end of the contract term on January 31, 2024.

[Microsoft Cloud Subscription 2022 Update](#)

Issue Background

In today's business environment, organizations must leverage reliable and advanced tools and solutions to help them achieve their business objectives. Microsoft software products provide businesses with the technology they need to improve productivity, collaborate effectively, enable their business operations, and secure their systems and data.

The TTC acquires licenses and subscriptions to effectively utilize Microsoft software, through two comprehensive agreements, namely the Microsoft Enterprise Subscription Agreement and the Microsoft Select Plus Agreement.

Microsoft Enterprise Subscription Agreement

The Microsoft Enterprise Subscription Agreement allows TTC to access a comprehensive suite of Microsoft software products by adopting a subscription-based model. By subscribing to this agreement, the TTC gains continuous access to software updates and ongoing support for an extended duration.

Under this arrangement, the Microsoft software products are owned and hosted by Microsoft, and the TTC incurs a monthly per-user fee for their utilization. Furthermore, the agreement extends the TTC's access to Cloud Services offered by Microsoft Azure,

enabling the TTC to run some services in the cloud and take advantage of scalability that it provides.

The TTC leverages the Province's Master Business Agreement, which allows broader public-sector entities to leverage the same terms, conditions and preferred pricing discount. The pricing in this contract offers the highest level of discount from Microsoft (Government Level D Pricing).

The current contract is set to expire on January 31, 2024, which necessitates the renewal of services for the next three years through a new contract. This renewal is essential to ensure the uninterrupted continuation of existing services after the current contract expires.

Microsoft Select Plus Agreement

The Microsoft Select Plus Agreement provides the TTC the ability to acquire perpetual licenses for the installation and utilization of designated versions of Microsoft software that are hosted on the TTC network.

The TTC leverages and adopts the Province of Ontario's Vendor of Record Reseller Agreement Contract to purchase software licenses from the Microsoft Select Plus Agreement. Under this agreement, the Province has awarded its existing contract to Softchoice LP as its reseller, offering the most substantial discount level from Microsoft. The existing contract entails an 18% discount on Microsoft software products, representing the most favorable rate available for the TTC's procurement of Microsoft licenses. Pursuing separate avenues for Microsoft license acquisitions would not yield more advantageous pricing.

The TTC's existing contract is scheduled to expire on December 31, 2023, necessitating the initiation of a new contract. This new contractual arrangement is essential to facilitate the acquisition of the latest versions of existing infrastructure software (i.e., Windows Server and SQL Server) that will support the TTC's requirements over the next three years.

Comments

As the expiration dates for the two Microsoft agreement contracts approach, the TTC must establish new contracts to maintain uninterrupted access to existing Microsoft Cloud services and to facilitate the acquisition of the latest versions of existing infrastructure software.

The subsequent section provides an overview of the procurement strategy and outlines the specific products to be procured:

Microsoft Enterprise Subscription Agreement

For this contract renewal, the TTC has leveraged the Province's Master Business Agreement, which grants access to the highest level of discount available from Microsoft. In pursuit of best value, the TTC initiated direct negotiations with Microsoft,

successfully securing additional discounts beyond the Master Business Agreement's terms.

As a result, the total value of the contract, based on these negotiated prices, is \$15,959,000 inclusive of HST, reflecting highest level of discount pricing. Authorization of this award will provide the TTC with the authority to maintain the following subscriptions over the next three years.

The annual subscriptions that will be purchased through this agreement are:

- **Microsoft Dynamics CRM 365:** A customer relationship management (CRM) platform that enables the TTC to manage complaints, compliments, and analyze customer interactions, enhance service delivery, and streamline processes.
- **Microsoft Power BI:** A business analytics tool that is used in conjunction with Dynamics 365 CRM and Project Online to visualize and gain insights from data, facilitating informed decision-making and data-driven strategies.
- **Microsoft Project Online:** A cloud-based project management solution that is used by the TTC for project portfolio management to enable staff efficiently plan schedules, track information on their assigned tasks, collaborate on projects, report on portfolios, fostering effective project management practices.
- **Microsoft 365:** A comprehensive suite of productivity and collaboration tools, including popular applications like Microsoft Word, Excel, PowerPoint, Teams, Exchange, OneDrive, and SharePoint. These subscriptions empower the TTC to efficiently utilize Office productivity tools, facilitate seamless document collaboration and management, securely share files with external organizations, and facilitate both internal and external business email communication.
- The TTC is upgrading its subscription entitlements from Office 365 E3 to Microsoft 365 E3 as part of this ongoing rollout strategy. This upgrade makes a host of additional entitlements and features available, including licenses for utilizing operating systems on TTC-issued laptops/desktops, access rights to business systems running on TTC's Windows Server infrastructure, and the capacity to deploy solutions for device management. Additionally, it introduces advanced features that further the cybersecurity posture, such as encrypted user device storage to protect information stored on TTC-issued laptops and desktops, data loss prevention, and improved security controls for emails.
- **Azure Cloud Services:** The agreement grants the TTC access to Microsoft's Azure cloud computing platform, which is used by the TTC as its data warehouse and analytics platform and to host its public facing sites on a secure and scalable cloud infrastructure

Microsoft Select Plus Agreement

In order to secure best value, the TTC will continue to adopt the Province's Vendor of Record (VOR) Reseller Agreement Contract to establish the TTC's Microsoft Select Plus Agreement. The Province's agreement expired on September 30, 2023. The Province conducted a competitive procurement and selected CDW Canada Corp. as the new reseller for the Select Plus Agreement effective October 1, 2023.

The new VOR agreement provides for a discount of 19%. As a result, the total value of the contract is \$5,660,000. Authorization of this award will provide the TTC with the authority to allocate funds over the next three years.

The purchases through this agreement permit the TTC to upgrade the following infrastructure software to the latest version to ensure its environment is in a state of good repair:

- **Windows Server:** Operating system, which is specifically for server environment designed for hosting and managing numerous services, applications, and resources within TTC's corporate IT infrastructure.
- **SQL Server:** Enterprise database management system, which supports the storage, retrieval, and analysis of vast amounts of data generated by various business operations and enabling the functioning of TTC's business systems.
- **Visual Studio:** Integrated development environment (IDE), which allows TTC's IT team to create, test, and deploy applications and interfaces across the TTC's environment, fostering the ability to support existing in-house business systems. Small number of additional licenses are required to ensure that ITS department is compliant in Microsoft licensing.
- **Software Assurance:** Support and maintenance program, which grants the TTC access to essential software updates, upgrades, and vendor technical support, ensuring TTC has access to the latest supported version of the software.

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