

Enterprise Licensing Agreement

Presentation by
California State Auditor

Joint Legislative Audit Committee

April 18, 2002

(This briefing document is only intended to outline selected portions of Report 2001-128, *Enterprise Licensing Agreement: The State Failed to Exercise Due Diligence When Contracting With Oracle, Potentially Costing Taxpayers Millions of Dollars* (April 2002). For a more complete explanation of the points outlined in this document, refer to the report.)

SUMMARY

Audit Highlights . . .

On May 31, 2001, the State entered into a six-year enterprise licensing agreement (ELA), a contract worth almost \$95 million, to authorize up to 270,000 state employees to use Oracle database software and to provide maintenance support.

Our audit of this acquisition revealed the following:

- By broadly licensing software, a buyer that has many users, such as the State, can achieve significant volume discounts and reduce its overall administrative costs.*
- However, the State proceeded with this procurement even though a survey of departments disclosed limited demand for new Oracle products.*
- In spite of such limited interest, the Department of Information Technology made no further efforts to assess the State's need for Oracle software.*

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RESULTS IN BRIEF

On May 31, 2001, the State entered into a six-year enterprise licensing agreement (ELA), a contract worth almost \$95 million, to authorize up to 270,000 state employees to use Oracle Enterprise Edition 8i database software (enterprise database licensure) and to provide maintenance support. By broadly licensing software, an entity comprised of many users can potentially achieve significant volume discounts and reduce its overall administrative costs. However, a preliminary survey by the Department of Information Technology (DOIT) of 127 state government departments two months earlier strongly suggested that relatively few state workers might need or want any new Oracle Corporation (Oracle) products. Although only 21 departments responded to this survey, DOIT made no further efforts to assess the State's need for Oracle software. The other 2 state departments normally charged with oversight of large information technology (IT) projects—the Department of General Services (General Services) and the Department of Finance (Finance)—also failed to assess the State's actual need for the contract.

Further, DOIT and Finance could have reviewed the ELA proposal¹ and perhaps saved the State from making a flawed decision, but neither did so, citing a lack of specific procedures and inadequate time. Also, General Services' unprepared negotiating team agreed to a contract that left the State unprotected against numerous risks. In its proposal, Logicon Inc. (Logicon), Oracle's reseller, presented data showing the ELA would save the State millions of dollars over the life of the contract.² General Services, DOIT, and Finance approved the ELA without taking the time to validate Logicon's data, which our review shows to be significantly overstated. Lacking an in-depth

¹ The ELA proposal as it is used here and throughout the report consists of the projected costs and savings amounts that Logicon Inc. provided to the State. The proposal includes Logicon's assumptions and was accompanied as of May 17, 2001, by past state purchase order data for Oracle products and support.

² Logicon Inc. recently changed its name to Northrop Grumman Information Technology.

- ☑ *The decision to support the ELA was likely swayed by Logicon's projections that the State could save about \$111 million.*
- ☑ *The departments of General Services, Information Technology, and Finance approved the ELA without validating Logicon's cost savings projections; unfortunately these projections proved to be significantly overstated.*
- ☑ *Logicon apparently stands to receive more than \$28 million as a result of the ELA, a fact the State may not have been apprised of.*
- ☑ *Nearly 10 months after the ELA was approved, no state departments had acquired new licenses under the ELA, which may be due to the fact that General Services had not issued instructions to state departments on how to do so.*
- ☑ *By June 2002, when the Department of Finance expects to complete the method for charging the ELA's costs to state departments, the State will have accumulated more than \$17 million in ELA costs and interest charges.*
- ☑ *General Services used an inexperienced negotiating team and limited the involvement of legal counsel in the ELA contract, and as a result, many contract terms and conditions necessary to protect the State are vague or missing altogether.*

continued . . .

understanding of whether the ELA might fill a legitimate need for state departments, and without knowing the true costs and benefits of the contract, the State committed millions of taxpayer dollars to a questionable technology purchase.

In November 2001, five months after the ELA took effect, Finance sent out its own survey, this time asking all departments to identify their needs for the newly purchased enterprise database licensure. Preliminary results of this survey indicate that many of the State's largest departments need database software licenses for less than a fourth of their authorized positions. For example, the Department of Corrections has almost 24,000 custody staff whose jobs likely do not require them to have their own computer station or database software. Although the State's actual demand for the software license is uncertain, the contract could establish the perception that Oracle Enterprise Edition 8i database is the de facto standard throughout state departments in spite of a statewide policy that agencies should adopt the best technical solution for their particular needs. The sheer volume of the ELA purchase may create the perception among departments that the Oracle database is the standard software and their most cost-effective choice. Unfortunately, departments' perception of a de facto standard may reduce innovation and flexibility in state IT projects.

Besides not knowing the actual need for statewide enterprise database licensure, the State entered the ELA without any formal evaluation of the contract's technical or business advantages. The State had never evaluated an ELA proposal before and lacked specific procedures to do so. Nonetheless, DOIT and Finance routinely evaluate IT projects and possess the expertise needed to evaluate the ELA proposal—DOIT the need to license 270,000 users and Finance the proposal's cost projections. However, neither validated these aspects of the ELA proposal. To its credit, Finance's Technology Investment Review Unit (TIRU), which is responsible for reviewing IT proposals and ensuring IT expenditures represent a prudent investment of resources and meet state needs, raised concerns about the ELA proposal and recommended postponing it until the next year. However, its concerns and recommendation went unheeded. As a result, the State committed almost \$95 million in taxpayers' money for software that could affect IT decisions across all departments without knowing if the ELA was an appropriate procurement of technology or if its costs and benefits were justified.

- ☑ *Finally, our legal consultant has advised us that a court might conclude that the ELA contract with Oracle is not enforceable as a valid state contract because it may not fall within an exception to the State's competitive bidding requirements.*
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Furthermore, although it had been in effect for nearly 10 months, as of March 20, 2002, no state department had acquired new licenses under the ELA. This may be due to the fact that General Services had not issued instructions to state departments on how to do so. In addition, although Finance is working on a cost allocation model to charge state departments for licenses they acquire under the ELA, it is not yet complete. Until it is complete, state departments will not know the exact cost of acquiring licenses under the ELA. Furthermore, by June 2002, when Finance expects to complete the cost allocation model, the State will have accumulated more than \$17 million in ELA costs and interest charges, and will likely have little benefit to show for it.

By broadly licensing software in an organization, an ELA has potential benefits for both buyer and seller: it can reduce a large consumer's administrative costs and give the seller a firm commitment to purchase in volume. However, General Services' negotiating team was inexperienced and unprepared, with no expertise in software contracts and no in-depth knowledge of Oracle's business and contracting practices. Moreover, General Services limited the involvement of its legal counsel in the ELA contract to a few hours of review just before it was signed, and in general, limits its legal counsel's role in all IT contracts. Therefore, many of the ELA contract terms and conditions necessary to protect the State's interests are vague or missing altogether. Also, the six-year term of the contract, with an option for four more years, deviates from the standard industry practice of limiting contracts of this nature to between three and five years because of the rapidly changing technology field. By entering into a long-term contract that lacks legal safeguards, the State faces considerable financial risk over many years. For example, the ELA gives the State no protection against risks such as Oracle's lowering prices, software upgrades not being included in the purchase price, and a declining need for the licenses. In short, the State had never before negotiated an ELA and let Oracle and its reseller, Logicon, use common vendor negotiating tactics to push through a largely one-sided contract.

The decision to support the ELA was likely swayed by Logicon's estimates that the State would save about \$111 million over and above the contract's cost if it exercised its option for an added four years of maintenance. However, our review of Logicon's proposal and data indicates that rather than saving money by entering into the ELA, the State stands to spend almost \$6 million more on Oracle database licenses and maintenance

than it would without the contract if it exercises its four-year option, and almost \$41 million more if it terminates the contract after its normal six-year term. Although Logicon was responsible for initiating the sales presentations that resulted in the ELA, none of the three departments thoroughly validated the data in Logicon's proposal, a small effort that might have saved the State millions of taxpayer dollars. Furthermore, it appears that Logicon stands to make more than \$28 million as a result of the ELA, a fact that the State may not have been apprised of.

Our legal consultant has advised us that a court might conclude that the ELA contract with Oracle is not enforceable as a valid state contract because it may not fall within an exception to competitive bidding requirements, as claimed by General Services. Logicon's apparent undisclosed role, actions, and compensation raise additional questions about the validity of the ELA contract. However, a finding that the Oracle contract is unenforceable because it failed to comply with competitive bidding requirements would raise questions about the impact on the State's best interests. For example, our legal consultant cautioned that even if a court determined that the ELA contract is void, additional questions are raised by the financing provisions of the ELA contract, in which Logicon assigned a \$52.3 million loan to Koch Financial Corporation (Koch Financial). Because Koch Financial apparently acted in good faith and the State accepted the database license and maintenance support on May 31, 2001, Koch Financial will likely assert that the State is obligated to repay the loan. If that position is correct, the State's recourse for recovering the \$52.3 million may be to recover the money from Oracle and Logicon. Also, the State has agreed under the ELA contract that if the Legislature does not appropriate funds for the financing provisions or the State does not otherwise make payment and the ELA contract is terminated, the State will not replace the Oracle license with substantially similar database licenses for a period of one year from the termination date. Successful enforcement of this provision could effectively shut down many departments' operations. Further legal analysis is required to understand the impact of these provisions on the contract and to make a determination as to whether the contract is void or otherwise unenforceable.

RECOMMENDATIONS

Before pursuing future enterprise licensing agreements, the State should take the following actions:

- DOIT, Finance, and General Services should seek legislation establishing the authority to enter into an ELA that protects the State's interests and defines each department's respective role and responsibility in the ELA process.
- DOIT and Finance should develop policies and procedures on how to evaluate future ELAs. To be effective, one state department needs to take responsibility for developing and justifying the ELA proposal.
- Finance should complete its survey and develop a method to allocate the ELA's cost to state departments.
- General Services should ensure its negotiating team possesses all the types of expertise necessary to protect the State's interests.

To identify the legal measures to take to protect the State's interests, we recommend the following:

- General Services should further study the ELA contract's validity in light of the wide disparities we identified in Logicon's projections of costs and savings, and consult with the attorney general on how to protect the State's best interests.
- General Services should work closely with the attorney general in further analyzing the ELA contract; all amendments, including any and all documents pertaining to the side agreements between Oracle and Logicon; and the laws and policies relating to the ELA, including the potential legal issues that this audit has identified.

If it is determined that the ELA is enforceable, General Services should renegotiate its contract with Oracle to add and clarify the terms and conditions necessary to better protect the State.

The Legislature should consider requiring that all IT contracts above a specified dollar amount receive a legal review by General Services.

AGENCY COMMENTS

General Services, DOIT, and Finance agree with our recommendations. However, General Services disagrees with our conclusion that the ELA may not meet the requirements for a sole-source contract, and DOIT provides a list of changes it requested to an earlier draft of the report. All three departments also discuss some of the steps they are taking to improve and implement the ELA or to develop a process for future ELAs. ■

TABLE 1

**Logicon Grossly Overstated Potential Savings From the ELA
(In Millions)**

Projected Spending	Logicon*		State Auditor†	
	Contractual Period May 31, 2001, to May 30, 2007	Optional Maintenance May 31, 2007, to May 30, 2011	Contractual Period May 31, 2001, to May 30, 2007	Optional Maintenance May 31, 2007, to May 30, 2011
New licenses	\$ 46.8	\$ 31.2	\$ 27.6	\$ 18.4
New maintenance	10.2	6.8	6.0	4.0
Renewed maintenance	53.6	85.0	20.4	40.6
Total spending projected	110.6	123.0	54.0	63.0
ELA payments	(94.6)	(28.0)	(94.6)	(28.0)
Cumulative savings/(cost)	\$ 16.0	\$ 95.0	\$(40.6)	\$ 35.0
		\$ 78.0		\$ 46.0
		17.0		10.0
		138.6		61.0
		233.6		117.0
		(122.6)		(122.6)
		\$ 111.0		\$ (5.6)

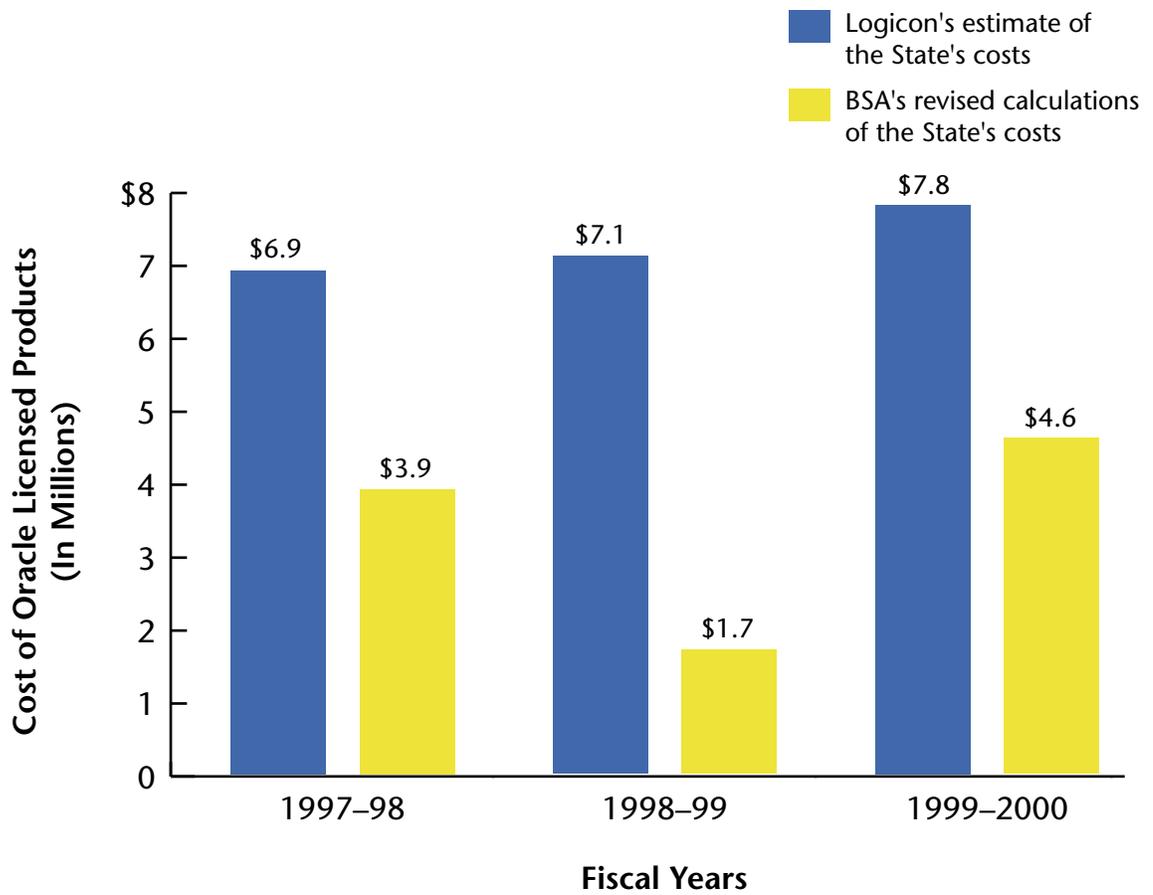
Source: Department of General Services, Procurement Division.

* Logicon's projection assumes that the State will continue to purchase Oracle database licenses and maintenance annually for the next 10 years at the same spending levels as it did in fiscal year 1999-2000.

† We used the same assumptions as those made by Logicon. However, our numbers are based on our review and correction of available purchase order data compiled by Logicon and provided to the State prior to executing the Oracle ELA.

FIGURE 1

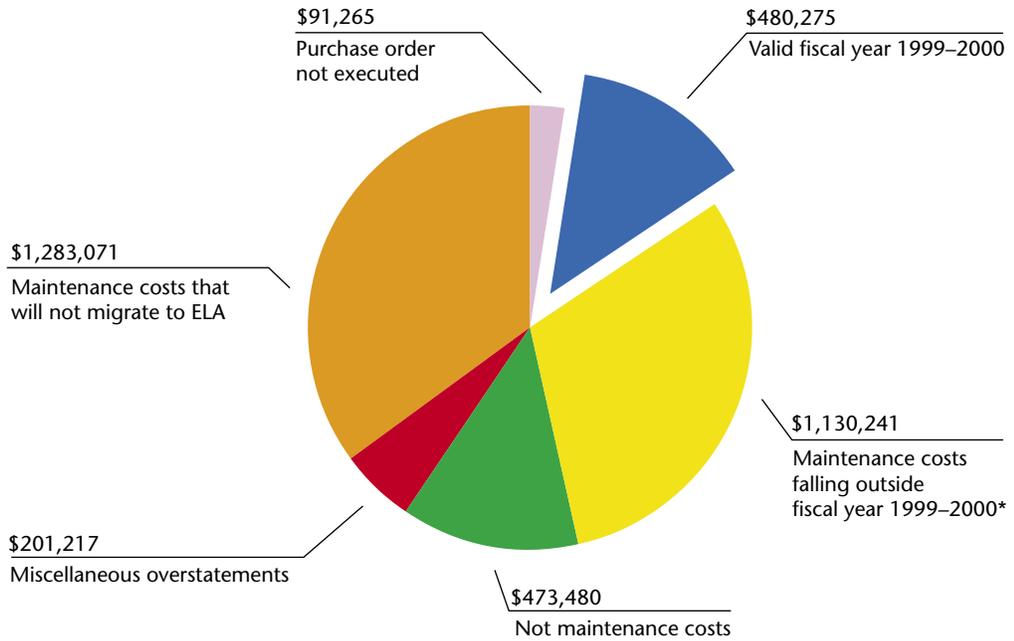
**Logicon Overstated the Costs of the Oracle Licensed Products Purchased by the State
From Fiscal Years 1997–98 Through 1999–2000**



Source: Bureau of State Audits' Analysis.

FIGURE 2

Logicon's Compilation of \$3.6 Million in Renewed Maintenance Support Costs for Fiscal Year 1999–2000 Was Overstated by at Least \$3.2 Million



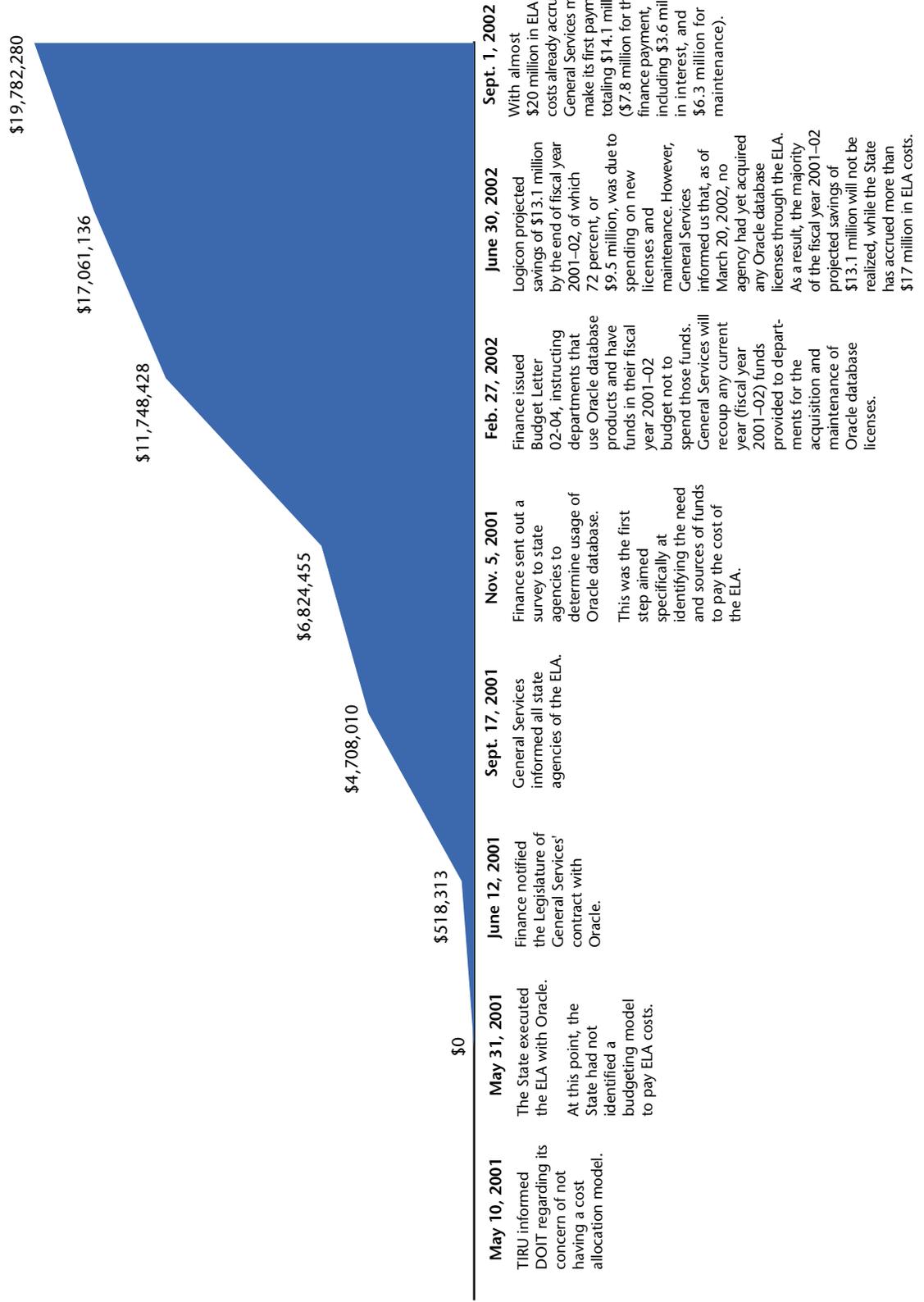
Source: Department of General Services, Procurement Division.

* Maintenance costs falling outside of fiscal year 1999–2000 included the following:

- \$99,879 for fiscal year 1998–99
- \$665,606 for fiscal year 2000–01
- \$364,756 for fiscal year 2001–02

FIGURE 3

The State Is Accruing \$1.3 Million in ELA Costs Each Month* Including Interest



Source: Contract between the State and Oracle Corporation, executed on May 31, 2001; documentation provided by General Services, DOIT, and Finance.

* Costs per month were calculated by allocating the fixed amount of the contract (\$94.6 million over the six-year term), which includes the amount of the assets financed plus interest.

TABLE 2

**The Oracle ELA: Financing and Schedule of Payments
(In Millions)**

Date	Action	General Services	Koch Financial (Assignee)	Logicon (Lender)	Oracle (Contractor)
August 31, 2001	Logicon assigned its rights as lender under the ELA to Koch Financial. Koch Financial paid Logicon \$52.7 million including interest.		\$(52.7)	\$52.7	
August 31, 2001	Logicon paid \$36.5 million to Oracle under a side agreement for the costs of the assets (software licenses) covered by the ELA and first year of maintenance.			(36.5)	\$36.5
September 1, 2002, to September 1, 2006	The State will make five payments to Koch Financial totaling \$63.2 million, which includes \$10.9 million in interest.	\$(63.2)	63.2		
	The State will make five payments to Logicon totaling \$31.4 million for annual maintenance.	(31.4)		31.4	
	Logicon will forward \$26.2 million of the maintenance payments to Oracle.			(26.2)	26.2
	Net (paid) received over contract term	(94.6)	10.5	21.4	62.7
September 1, 2007, to September 1, 2011	If the State exercises the option for four additional years of maintenance.	(28.0)		7.1	20.9
	Totals, including four-year option	\$(122.6)	\$10.5	\$28.5	\$83.6

APPENDIX A

Chronology of Key Events Occurring Before and After the Enterprise Licensing Agreement

The Department of General Services (General Services) entered into an enterprise licensing agreement (ELA) with Oracle Corporation (Oracle) on May 31, 2001. The ELA represented a culmination of events involving General Services, the Department of Information Technology (DOIT), and the Department of Finance (Finance), among others. These entities were attempting to use the State's purchasing power to obtain large discounts on database software licenses from Oracle. Figure A.1 on the following pages is a chronology of key events that led up to the ELA and that have occurred since, based on documents and written statements we obtained from the three departments.

FIGURE A.1

Chronology of Key Events Associated With the ELA

<p>June 9, 2000 DOIT contracts with Logicon for \$93,000 to do the following:</p> <ul style="list-style-type: none">• Identify current practices of large-scale software manufacturers.• Review industry best practices for enterprise licensing.• Review selected current state information technology (IT) licenses to understand existing agreements, costs, and clauses.• Analyze current IT expenditure data and projected acquisitions.• Deliver a document with alternative licensing strategies.	<p>Beginning January 2001 According to DOIT, the enterprise work group—comprised of members of DOIT, the state data centers, and occasionally attended by other state agencies, including General Services and Finance—reaches a consensus that the State leverage its purchasing power for Oracle and Computer Associates products, both widely used in state and local government, by purchasing at a volume discount rate. The work group verbally recommends that the State employ a more beneficial contracting method, but does not specify a type of purchasing vehicle.</p>	<p>April 17, 2001 Logicon presents its proposal on the Oracle software cost reduction initiative. Initially it estimates savings of over \$114 million could result from an ELA. Logicon states that a contract must be signed by May 31, 2001. This is the first Logicon presentation attended by Finance's Technology Investment Review Unit (TIRU).</p>	<p>May 11, 2001 DOIT forwards TIRU's concerns to Logicon to address.</p>	<p>May 17-18, 2001</p> <ul style="list-style-type: none">• Logicon submits a draft contract to General Services.• Logicon provides copies of purchase orders of the State's historical spending on Oracle database licenses and maintenance to TIRU, DOIT, and General Services.	<p>May 1, 2001 DOIT issues a management memo on its IT acquisition policy, focusing on IT acquisition planning and oversight processes. The policy highlights the importance of asset management strategies to take full advantage of savings from enterprise volume purchase agreements.</p>	<p>May 10, 2001 TIRU forwards its concerns about the ELA to the directors of Finance and DOIT. These concerns include:</p> <ul style="list-style-type: none">• None of the assumptions or cost savings projections are validated.• Entering into the contract may create a de facto standard.• A cost allocation model has not been developed.• Logicon's contract model, taken from a federal model, may not be appropriate for California.• A process must be created for the ELA and someone must be responsible and take ownership of the proposal.	<p>Mid—Late May 2001</p> <ul style="list-style-type: none">• General Services asks DOIT to review the purchase orders and determine whether Logicon's compilation accurately reflects Oracle database purchases.• DOIT reviews Oracle's purchase order amounts against copies of the purchase orders Logicon provides and totals the amounts of state purchases of Oracle database products for the past three fiscal years. DOIT also reviews the purchase orders and verbally informs General Services that they appear to be from or connected with state departments.	<p>May 22, 2001 According to TIRU, DOIT agrees to take the lead in formally presenting the Oracle database proposal.</p>
<p>Mid 2000 DOIT holds meetings with various software vendors such as Oracle, IBM, Microsoft, and Computer Associates to explore volume purchasing for IT products with the intent of maximizing the State's purchasing power.</p>	<p>February 28, 2001 Logicon makes the first of several presentations to DOIT and other state agencies regarding enterprise software solutions and the relative merits of various acquisition methods including ELAs.</p>	<p>February 28, 2001 DOIT sends out its survey to all state, city, and county chief information officers, asking for information on their usage of all Oracle products and possible interest and participation in a statewide, pooled acquisition of Oracle software.</p>	<p>February 28, 2001 DOIT sends out its survey to all state, city, and county chief information officers, asking for information on their usage of all Oracle products and possible interest and participation in a statewide, pooled acquisition of Oracle software.</p>					
	<p>December 2000 General Services attempts to negotiate a volume purchase agreement with Oracle, but these negotiations are unsuccessful.</p>							

Summer 2000

Fall 2000

Winter 2001

Spring 2001

FIGURE A.1—CONTINUED

May 23, 2001
 Logicon presents its proposal to the director of E-Government, Office of the Governor. The director raises an issue about the State's future obligations for Oracle database. General Services has committed to review the State's existing multiyear financing obligations to Oracle and the impact on the ELA license. Logicon states that any pre-existing commitments should be honored and the resulting credit be provided as part of the proposed ELA.

May 24, 2001
 DOIT, Finance, and General Services decide that a sole-source contract could only be executed with Oracle, not with Logicon.

May 26, 2001
 General Services drafts the formal proposal for acquiring Oracle database licenses and forwards it to Logicon for review and comment.

DOIT composes part of the draft, including totaling the cost savings projections.

May 27, 2001
 DOIT e-mails General Services and Logicon, stating, "We need to validate the proposal." per TIRU. The e-mail also indicates that both DOIT and General Services need more information to present in their recommendation to proceed with the Oracle ELA.

General Services concurs with DOIT and asks Logicon to explain how it calculated the estimated cost for maintenance shown in the proposal.

May 28, 2001
 General Services and DOIT jointly submit a draft proposal for the Oracle ELA to Finance and formally recommend that Finance evaluate its merits. Finance considers this to be an official request to evaluate the ELA proposal.

May 29, 2001
 DOIT forwards its responses to TIRU's concerns of May 10, 2001, regarding the ELA.

DOIT informs TIRU that it has partnered with General Services to sponsor a consolidated purchase of Oracle database licenses to provide best pricing and terms for the State. DOIT states that its sponsorship relates to its responsibility, as laid out in its charter, to identify and implement best practices in IT management, including acquiring software under terms that yield maximum benefit and flexibility to the State. DOIT states that such terms for acquiring software can only be negotiated by leveraging the aggregate purchasing power of the State.

May 30, 2001
 After receiving DOIT's responses to its concerns, TIRU notifies the director of Finance that while the proposal may have merit, there are several issues the State should consider before entering into the Oracle ELA contract, such as the following:

- Neither DOIT nor General Services seems to have conducted any analysis of the proposal.
- A primary risk for the State is that it will enter into a fixed-price contract for [\$94.6 million], paid in [five] payments over [six] fiscal years, with no assurance the benefits will materialize or can be captured.
- No budgeting model exists that can be used to support this contract.

- How existing state contracts with Oracle would be handled has not been defined.
- The contract could create a de facto standard within the State for Oracle products.

TIRU states that sufficient information has not been presented to assess the ELA proposal. TIRU advises that, should the State decide to enter into the contract, it should be on a policy basis with the understanding that an evaluation of the ELA contract's merits has not been completed.

May 31, 2001
 DOIT, General Services, and Finance agree that the State should enter a sole-source ELA with Oracle.

General Services executes a contract with Oracle to license up to 270,000 users of enterprise database software and related maintenance for six years, and obtain 100,000 universal power units at a cost of \$94.6 million. The contract also includes options for an additional four years of maintenance at \$7 million per year.

Logicon and Oracle enter into two side agreements related to the ELA. One designates Logicon to provide expert on-site support services. The other designates Logicon as the preferred leasing agent. (See Appendix C for details.)

June 4, 2001
 DOIT issues a management memo on software management policy, requiring all state departments within six months to plan an inventory of their software and to report the results to DOIT as of January 31, 2003.

Spring 2001

continued on next page

FIGURE A.1—CONTINUED

<p>August 31, 2001 General Services amends its contract with Oracle. The amendment revises the financing and payment arrangements. The State again designates Logicon as the lender. Logicon will pay Oracle for the assets described in the ELA, one year's maintenance, and applicable taxes on behalf of the State. Logicon is entitled to receive the cost of the assets in consideration for its payment to Oracle. In the same amendment, Logicon again assigns all its rights, title, and interest in the financing agreements; the financed assets; and the right to receive payments due for the assets to Koch Financial Corporation (Koch Financial). The State agrees to make five annual maintenance payments totaling \$31.4 million to Oracle, and five annual payments totaling \$63.2 million (\$52.3 million in principal and nearly \$11 million in interest) to Koch Financial.</p>	<p>July 6, 2001 DOIT meets with Oracle as part of its effort to assist General Services and Oracle in developing a process for asset management. At the meeting, Oracle provides DOIT with a spreadsheet listing which state departments are likely and unlikely to migrate to the ELA.</p> <p>The spreadsheet shows that instead of the \$3.6 million in maintenance renewal cost that Logicon projects in its ELA proposal for fiscal year 2001–02, only \$1.9 million of that amount is likely to migrate to the ELA.</p>	<p>June 12, 2001 Finance notifies the Legislature of the State's contract with Oracle, executed by General Services on May 31, 2001.</p> <p>June 22, 2001 Finance, DOIT, and General Services meet to discuss how to proceed with implementing the contract.</p>
<p>September 17, 2001 General Services issues a management memo to all state departments and agencies, notifying them of its ELA contract with Oracle.</p>	<p>July 10, 2001 General Services requests approval of the justification for a sole-source contract with Oracle from the State and Consumer Services Agency. Approval is granted on August 21, 2001.</p>	<p>November 5, 2001 Finance sends a survey to all state departments and agencies asking for their current and planned usage of Oracle enterprise database licensure.</p>

Spring 2001 **Summer 2001** **Fall 2001**

APPENDIX B

Projected Cost of the Enterprise Licensing Agreement

According to projections prepared by Logicon Inc. (Logicon), the State will save approximately \$111 million if it extends the six-year term of its ELA contract with Oracle Corporation (Oracle) to include four additional years of maintenance service. The \$94.6 million ELA contract provides an enterprise license authorizing up to 270,000 users of Oracle database software plus maintenance support. However, as is shown in Tables B.1 and B.2 on the following pages, Logicon significantly overstated the savings the State can expect to receive over the life of the ELA contract. Table B.1 shows Logicon's projected savings. However, as shown in Table B.2, rather than realize these savings, the State could spend approximately \$41 million more than it would by the end of the first six years if the ELA did not exist and almost \$6 million more if it elects to receive the four years of maintenance options.

TABLE B.1

**Logicon's Projected Savings
(In Millions)**

Fiscal Year	Contract Period					Optional Maintenance Years					Subtotals	Totals	
	01-02	02-03	03-04	04-05	05-06	06-07	Subtotals	07-08	08-09	09-10			10-11
Projected spending:													
New licenses*	\$ 7.8	\$ 7.8	\$ 7.8	\$ 7.8	\$ 7.8	\$ 7.8	\$ 46.8	\$ 7.8	\$ 7.8	\$ 7.8	\$ 7.8	\$ 31.2	\$ 78.0
New maintenance†	1.7	1.7	1.7	1.7	1.7	1.7	10.2	1.7	1.7	1.7	1.7	6.8	17.0
Renewed maintenance‡	3.6	5.6	7.7	9.9	12.2	14.6	53.6	17.1	19.8	22.6	25.5	85.0	138.6
Total spending projected	13.1	15.1	17.2	19.4	21.7	24.1	110.6	26.6	29.3	32.1	35.0	123.0	233.6
ELA payments	—	(14.1)	(16.3)	(18.7)	(21.4)	(24.1)	(94.6)	(7.0)	(7.0)	(7.0)	(7.0)	(28.0)	(122.6)
Annual savings	\$13.1	\$ 1.0	\$ 0.9	\$ 0.7	\$ 0.3	—	\$ 16.0	\$19.6	\$22.3	\$25.1	\$28.0	\$ 95.0	\$ 111.0

Source: Department of General Services, Procurement Division.

* Logicon's projection assumes that the State will continue to purchase Oracle database licenses annually for the next 10 years at the same rate as in fiscal year 1999-2000. Logicon used data from departmental purchase orders for Oracle products.

† First-year maintenance on licenses purchased annually amount to 22 percent of license fees (\$7.8 million).

‡ Renewed maintenance involves maintenance on the license base existing as of June 30 of the past fiscal year, plus maintenance on new licenses purchased in the current fiscal year, and increased by a yearly escalation factor of 5 percent.

TABLE B.2

**Auditor's Revised Calculation of Logicon's Compilation of Projected State Spending
(In Millions)**

Fiscal Year	Contract Period		Optional Maintenance Years				Subtotals	10-11	Subtotals	Totals		
	01-02	02-03	03-04	04-05	05-06	06-07					07-08	08-09
Projected spending:												
New licenses	\$4.6	\$ 4.6	\$ 4.6	\$ 4.6	\$ 4.6	\$ 4.6	\$ 27.6	\$ 4.6	\$ 4.6	\$ 4.6	\$ 18.4	\$ 46.0
New maintenance	1.0	1.0	1.0	1.0	1.0	1.0	6.0	1.0	1.0	1.0	4.0	10.0
Renewed maintenance	0.5	1.6	2.7	3.9	5.2	6.5	20.4	7.9	9.3	10.9	40.6	61.0
Total spending projected	6.1	7.2	8.3	9.5	10.8	12.1	54.0	13.5	14.9	16.5	63.0	117.0
ELA payments	—	(14.1)	(16.3)	(18.7)	(21.4)	(24.1)	(94.6)	(7.0)	(7.0)	(7.0)	(28.0)	(122.6)
Annual savings (added cost)	\$6.1	\$ (6.9)	\$ (8.0)	\$ (9.2)	\$ (10.6)	\$ (12.0)	\$ (40.6)	\$ 6.5	\$ 7.9	\$ 9.5	\$ 35.0	\$ (5.6)

Source: Auditor calculations using Logicon's computations and assumptions, corrected for errors.

Note: We used the same assumptions and methodology that Logicon used in its projections. However, our numbers are based on our review and correction of the purchase order data compiled by Logicon and provided to the State prior to the ELA's execution.