

Office of the  
Legislative Fiscal Analyst

## **FY 2005 Budget Recommendations**

Joint Appropriations Subcommittee for  
Capital Facilities and Administrative Services

Utah Department of Administrative Services  
**Division of Information Technology Services**  
**Internal Service Fund**

Contents:

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**1.0 Summary: Division of Information Technology Services Internal Service Fund**

The Division of Information Technology Services (ITS) provides centralized data processing and communication service to all agencies of state government as well as various local entities. ITS has authority to establish rates and collect fees for these services

ITS' data processing services include software licensing and development, central computing, wide area network connectivity, and consultation. Its telecommunications services include negotiating the purchase, lease or rental of private or public telecommunications services, and operating the State's network of microwave sites.

	<b>Analyst FY 2005 Base</b>	<b>Analyst FY 2005 Changes</b>	<b>Analyst FY 2005 Total</b>
<b>Financing by Revenue Source</b>			
Dedicated Credits - Intragvt Rev	47,672,800		47,672,800
<b>Total</b>	<b>\$47,672,800</b>	<b>\$0</b>	<b>\$47,672,800</b>
<b>Expenditures by Program</b>			
ISF - ITS Administration and Finance			
ISF - Network Services	13,698,800		13,698,800
ISF - Voice Services	13,838,800		13,838,800
ISF - Mainframe Hosting	14,131,000		14,131,000
ISF - Desktop/LAN Support	5,821,600		5,821,600
ISF - Storage Services	2,147,500		2,147,500
ISF - Web Hosting	1,583,200		1,583,200
ISF - Application Development	3,074,300		3,074,300
ISF - Reporting Services	585,800		585,800
ISF - Wireless Tech Services	2,487,900		2,487,900
ISF - Non-Web Hosting	420,600		420,600
ISF - ITS Support Services	1,528,400		1,528,400
ISF - Clearing	(11,645,100)		(11,645,100)
<b>Total</b>	<b>\$47,672,800</b>	<b>\$0</b>	<b>\$47,672,800</b>
<b>Profit/(Loss)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>FTE/Other</b>			
Total FTE	241		241
Authorized Capital Outlay	6,072,500		6,072,500
Retained Earnings	3,848,600		3,848,600
Vehicles	24		24

The Analyst recommends \$47,672,800 in revenue, \$6,072,500 in capital outlay, and 241 FTE for ITS in FY 2005.

## **2.0 Issues: Division of Information Technology Services (ITS)**

### **2.1 Mandated Rate Review Falls Short of Expectation**

Following Legislative intent language, the Division performed a review of its products and rates during the 2003 interim. Its “Long-Term Cost Recovery Plan” resulted in product families that better identify ITS’ core products. The review did not, however, provide a direct tie between product costs and rates as anticipated by the Legislature. (See page 6.)

### **2.2 Do Not Approve Rates for Administrative Overhead**

ITS and the Internal Service Fund Rate Committee propose increasing to 19% the surcharge ITS collects for products and services purchased off statewide contract. The Analyst recommends the Legislature not approve ITS rates for this overhead, instead transferring the responsibility, and 50% of the funds, to the state’s Division of Purchasing. (See page 15.)

**General Fund.....(\$165,000)**  
**Other Funds.....(\$165,000)**

### **2.3 Division Lost Nearly \$5 Million in FY 2003**

ITS reported a loss of nearly \$5 million, including \$3 million in write-offs, for Fiscal Year 2003. For FY 2004, the Division projects about \$2 million in losses, but has enacted rate cuts that would reduce its revenue by nearly \$700,000. Even further rate cuts are proposed for FY 2005. The Analyst recommends ITS present to the Legislature its plan for returning to full cost recovery in FY 2005.

### **2.4 Continued Capital Investment Inflates General Fund Borrowing**

Even given its planned losses, ITS retains capital investment authority of nearly \$5 million in FY 2004 and \$9 million in FY 2005. Under its submitted budget, such investment would result in long-term general fund debt of \$6.2 million. The Analyst recommends the Legislature limit ITS’ capital outlay authorization until ITS returns to solvency. (See page 7.)

### **2.5 Phase-out Telecommunications Warehouse**

According to ITS, the cost of warehousing telecommunications equipment approaches 36% of the cost of the equipment itself. Given the state’s experience with office supplies, and private sector success in “just-in-time” inventory, the Analyst recommends ITS phase-out its Telecommunications Warehouse beginning in FY 2005. (See page 11.)

**3.0 Programs: Division of Information Technology Services (ITS)**

**3.01 Administration & Finance**

**Recommendation** The Analyst recommends FY 2005 expenditures of \$5,305,100 for Administration and Finance, to be distributed proportionally among other functional areas within the Division. The Analyst also recommends fifty-one full time equivalent (FTE) positions for this cost center. For ITS as a whole, the Analyst recommends \$6,072,500 in capital outlay authority for FY 2005.

<b>Financing</b>	<b>2003 Actual</b>	<b>2004 Estimated*</b>	<b>2005 Analyst</b>	<b>Est/Analyst Difference</b>
<b>Total</b>	\$0	\$0	\$0	\$0
<b>Expenditures</b>				
Personal Services	7,162,700	2,900,800	2,690,200	(210,600)
In-State Travel	4,200	70,400	70,400	
Out of State Travel	14,100	29,600	29,600	
Current Expense	459,900	459,800	459,800	
DP Current Expense	691,200	1,508,700	1,508,700	
DP Capital Outlay	473,900	722,700	546,400	(176,300)
Other Charges/Pass Thru	(8,806,200)	(5,692,000)	(5,305,100)	386,900
<b>Total</b>	(\$200)	\$0	\$0	\$0
<b>Profit/(Loss)</b>				
	\$200	\$0	\$0	\$0
<b>FTE/Other</b>				
Total FTE	51	51	51	
Authorized Capital Outlay	5,745,800	5,732,800	6,072,500	339,700
Retained Earnings	(1,536,300)	(3,629,100)	(3,629,100)	
Vehicles	1	1	1	

\*Non-state funds as estimated by agency

**Purpose** ITS' Administration and Finance functional area provides direction, prepares budgets, develops rates, tracks finances, manages billing systems and contracts, and performs technical writing for ITS. It includes the following activities:

- ▶ Director's Office
- ▶ Administration & Finance
- ▶ Accounting
- ▶ Budgets & Rates
- ▶ Internal Financial Systems
- ▶ Management Services
- ▶ Office Supplies & Miscellaneous

**Intent Language** The Legislature directed ITS to perform a thorough rate analysis in FY 2004 under the following intent language:

*It is the intent of the Legislature that the Division of Information Technology Services (ITS), Department of Administrative Services (DAS), and the Internal Service Fund Rate Committee begin a review of ITS costs, products, and rates prior to the 2004 General Session. It is further the intent of the Legislature that DAS, ITS, and the Rate Committee report to the Capitol Facilities and Administrative Services Subcommittee prior to the 2004 General Session. It is the intent of the Legislature that rate recommendations accurately reflect the cost of services for which the rates are charged.*

*ITS' rate review was a good first step, but did not dramatically reduce cross-subsidization*

ITS completed its *Long-Term Cost Recovery Plan* in August, 2003. The plan roughly calculated total costs for each of ITS' rates. It more accurately organized products and associated rates into product families. It also presented two-year plans for each of the families and proposed certain rate changes, described later, to more accurately link cost and revenue streams.

By ITS' admission, however, the plan did not eliminate cross-subsidization. It did not result in wholesale change to the ITS rate structure. ITS continues to rely upon its traditional revenue centers – mainframe computing, storage, and local telephone – to recoup costs for services whose rates are not adequate, or for services for which rates are not charged.

The Analyst encourages ITS to continue refining its rate structure so that certain customers do not unwittingly pay for services they do not receive. More accurate price signals will lead to better investment decisions by ITS and its customers.

*Non-lapsing Capital Outlay Authorization*

The Legislature included the following intent language related to carry-forward authorized capital outlay in the Appropriations Act for FY 2004:

*It is the intent of the Legislature that, on July 1, 2003, all but \$4,473,000 in capital outlay authorization provided for FY 2003 and prior years shall lapse. It is further the intent of the Legislature that \$4,473,000 in nonlapsing authority shall be used for the following purposes and the approximate amounts indicated: Utah Master Directory Phase 2, \$131,000; Mainframe Upgrade for eREP, \$1,500,000; Channel Extension, \$890,000; Richfield Mainframe Integrated Coupling Facility, \$124,000; Richfield Mainframe Business Resumption Expansion, \$378,000; Communications Upgrade to Richfield, \$500,000; Switching Upgrades for Business Resumption, \$300,000; Voice Over Internet Protocol Pilot Project, \$250,000; High Availability UNIX Servers for Richfield Business Resumption, \$400,000.*

ITS completed mainframe upgrades for eREP and Channel Extensions in FY 2003, obviating the need for carry-forward authority. The agency plans to exercise authority for UMD Phase 2 and the Richfield Integrated Coupling Facility in FY 2004. It plans to carry the remainder of the above listed authority into FY 2005.

*ITS planning to carry-forward into FY 2005 \$3 million in Capital Outlay Authority*

The approach taken by the Capital Facilities and Administrative Services Appropriations Subcommittee in the above intent language is mirrored by Senate Bill 15 for the 2004 General Session. Should Senate Bill 15 pass, all internal service funds would lapse capital outlay authority at the end of each fiscal year unless granted specific carry-forward authority by the Legislature.

ITS' FY 2005 budget request carries-forward \$1.8 million in projects authorized for FY 2003, but not completed before FY 2005. \$1,078,000 of this authority was for projects at the Richfield Data Center. The first project, Richfield Mainframe Business Resumption Expansion (\$378,000), has been cancelled. ITS managers state that, for the remaining Richfield projects (\$700,000), "The Division is in the process of evaluating the current operations and future plans for the Richfield Data Center. At this time a business plan and implementation schedule are not available."<sup>1</sup>

ITS is working with the Utah Education Network to leverage UEN's GeoMax contract and provide communications bandwidth to Richfield. However, it has asked to retain \$500,000 in capital outlay authority for an alternative communications upgrade to Richfield should the GeoMax plan fail to materialize. The last FY 2003 carry-forward project, Voice Over Internet Protocol (VOIP) (\$250,000) is delayed pending a procurement dispute.

ITS has requested new carry-forward authority of \$1.2 million originally associated with specific projects in FY 2004, but no longer needed for those specific projects. Detail on projects for which this carry-forward authority would be used, if granted, was not available at the time this document was drafted.

For ITS to exercise this carry-forward authority, or any new authority for that matter, it would require investment capital. ITS experienced a deficit of \$4.8 million in FY 2003, including write-offs and rebates. It projects another deficit of \$2.3 million in FY 2004. These losses limit the amount of cash ITS has available for capital investment. As a result, the Division would have to borrow \$6 million from the General Fund to acquire new capital in FY 2004 and FY 2005.

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<sup>1</sup> Spencer, Brian C. *Re: Response to Jonathan Ball email dated 1/13/2004*. Memo to Jonathan Ball. January 16, 2004. p. 1.

*Analyst recommends denying carry-forward until ITS finances improve*

Given ITS financial situation, the Analyst recommends the Legislature rescind \$1,078,000 million in outstanding FY 2003 carry-forward capital outlay authority. The Analyst further recommends that the Legislature rescind \$1.2 million in capital outlay authority provided for FY 2004. The Legislature could grant new authority as a supplemental appropriation during the 2005 General Session should ITS' financial condition improve and should detail on viable projects become available.

The following intent language, to be included in a supplemental appropriation, is suggested to implement the above recommendation:

*The Legislature intends that \$1,078,000 in carry-forward capital outlay authority granted by intent language to the Division of Information Technology Services in Item 59, House Bill 1, 2003 General Session, is hereby rescinded. It intends that remaining nonlapsing authority be used for the following projects: \$250,000 for a Voice Over Internet Protocol pilot project; \$500,000 for a Communications Upgrade to Richfield.*

*FTE Flexibility*

The Legislature included the following intent language related to full-time equivalent employment in the Appropriations Act for FY 2004:

*It is the intent of the Legislature that Information Technology Services be allowed to add FTEs beyond the authorized level if it represents a benefit to the state and a decrease of FTEs in the user agency. The total FTEs within state government shall not change with this shift of FTEs. Prior to transferring FTEs to the Internal Service Fund, the Department of Administrative Services shall report to the Executive Appropriations Committee decreased personal service expenditures in the originating agency and corresponding increased Internal Service Fund charges that will result from the transfer.*

*FTE flexibility used to consolidate LAN management in DHRM*

ITS and the Department of Human Resource Management exercised this intent language to move on position from DHRM to ITS. The move allowed ITS to leverage DHRM's position across other agencies of state government. It allowed DHRM to redirect savings on personnel costs to other priorities.

The Analyst recommends that ITS develop a new rate structure based upon the true cost of providing individual services. Those costs would likely include indirect costs of administration and development, but they should not include the cost of providing other established services.

**3.02 Network Services**

**Recommendation**

The Analyst recommends FY 2004 revenue of \$11,989,800 and expenses of \$13,698,800 for Network Services. The Analyst also recommends thirty-four full time equivalent (FTE) positions for this function.

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	11,059,900	11,943,200	11,989,800	46,600
<b>Total</b>	<b>\$11,059,900</b>	<b>\$11,943,200</b>	<b>\$11,989,800</b>	<b>\$46,600</b>
<b>Expenditures</b>				
Personal Services	1,181,700	2,757,700	2,748,200	(9,500)
In-State Travel	4,400			
Out of State Travel	1,500			
Current Expense	5,380,000	5,894,700	5,927,200	32,500
DP Current Expense	1,572,200	1,803,700	1,834,300	30,600
DP Capital Outlay	1,585,100	1,349,900	1,664,700	314,800
Other Charges/Pass Thru	2,451,300	1,650,100	1,524,400	(125,700)
<b>Total</b>	<b>\$12,176,200</b>	<b>\$13,456,100</b>	<b>\$13,698,800</b>	<b>\$242,700</b>
<b>Profit/(Loss)</b>	<b>(\$1,116,300)</b>	<b>(\$1,512,900)</b>	<b>(\$1,709,000)</b>	<b>(\$196,100)</b>
<b>FTE/Other</b>				
Total FTE	34	34	34	
Retained Earnings	(2,940,900)	(4,453,800)	(6,162,900)	(1,709,100)

\*Non-state funds as estimated by agency

**Purpose**

The Network Services product family supplies and maintains the circuits upon which many of ITS’ services “ride”. It incorporates wide area data networks, long-haul trunk circuits, wireless and mobile data communications, and associated security applications. It includes the following products:

- ▶ Wide Area Network
- ▶ Remote Access
- ▶ Wiring Materials and Labor
- ▶ Microwave Circuits
- ▶ Communications Sites
- ▶ State Repeater System
- ▶ Law Enforcement System
- ▶ Wireless LAN
- ▶ 802.11 Hotspots and IP Mobile Data
- ▶ Utah Master Directory (UMD) and Web Authentication

*Network Services part of Utah Wireless Interagency Network (UWIN)*

ITS Network Services will play an integral role in the Utah Wireless Interagency Network (UWIN) – a cross-agency, cross-jurisdiction coordination of public safety and homeland security communications systems. Under UWIN, the Walker Administration hopes to provide administrative and technical channels through which law enforcement agencies at all levels of government will be connected. UWIN is discussed in more detail in the Legislative Fiscal Analyst’s “IT Projects Review”.

**3.03 Voice Services**

**Recommendation**

The Analyst recommends FY 2005 revenue of \$16,085,400 and expenses of \$13,838,800 for Voice Services. The Analyst also recommends thirty-two full time equivalent (FTE) positions for this product family.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	16,331,900	16,489,400	16,085,400	(404,000)
<b>Total</b>	<u>\$16,331,900</u>	<u>\$16,489,400</u>	<u>\$16,085,400</u>	<u>(\$404,000)</u>
<b>Expenditures</b>				
Personal Services	2,110,200	1,969,700	1,963,300	(6,400)
In-State Travel	11,100			
Out of State Travel	2,900			
Current Expense	10,305,000	10,156,100	9,552,100	(604,000)
DP Current Expense	147,400	178,000	178,900	900
DP Capital Outlay	895,000	697,900	637,300	(60,600)
Other Charges/Pass Thru	3,103,700	1,783,900	1,507,200	(276,700)
<b>Total</b>	<u>\$16,575,300</u>	<u>\$14,785,600</u>	<u>\$13,838,800</u>	<u>(\$946,800)</u>
<b>Profit/(Loss)</b>	<u>(\$243,400)</u>	<u>\$1,703,800</u>	<u>\$2,246,600</u>	<u>\$542,800</u>
<b>FTE/Other</b>				
Total FTE	32	32	32	
Retained Earnings	(932,000)	771,800	3,017,900	2,246,100
Vehicles	9	10	10	

\*Non-state funds as estimated by agency

**Purpose**

Voice Services supplies consulting on telephones, voice switches, and other voice services. It provides telephone switch design and configuration; as well as analysis and planning for voice facilities. It includes the following products:

- ▶ Telecom Warehouse
- ▶ Tech Labor
- ▶ Universal Rate
- ▶ Voice Mail
- ▶ Auto Attendant
- ▶ Call Management Services
- ▶ Interactive Voice Response (IVR)
- ▶ Long Distance
- ▶ Toll-free Service
- ▶ Video Conferencing

*Supplier price negotiations net rate decreases*

ITS proposed a number of rate changes in this product family for FY 2005. Primarily among them, the Division proposed, and the Internal Service Fund approved, a \$1 reduction in the “U-Rate” – the monthly price agencies are charged for each “dial tone” or telephone line equivalent. ITS negotiated a lower cost from its private providers, and passed that savings on to state agencies. ITS and the Governor’s Office of Planning and Budget estimate that the U-Rate change will net \$287,000 in savings state-wide.

Other Voice Services rate changes include:

- ▶ Toll-free (WATS) base fee from \$30 to \$60 per month – +\$71,600
- ▶ Toll-free (WATS) incremental fee from \$.06 to \$.05 per minute – (\$141,100)
- ▶ Long Distance from \$.06 to \$.05 per minute – (\$164,000)
- ▶ Video Conferencing and Bridging from \$30 to \$40 per hour – +\$61,200
- ▶ Digital Subscriber Line (DSL) from \$0 to \$90 per month – cost/revenue depends upon demand

*Warehousing could be replaced by just-in-time delivery from vendors*

One rate proposed by ITS, but not approved in the Rate Committee, was an increase in overhead for products shipped from the Telecommunications Warehouse. As part of its long-range cost recovery review, ITS discovered that the Telecommunications Warehouse had overhead costs of as much as 36% of the value of products sold from the Warehouse. ITS originally proposed to increase its previous overhead rate, 10%, to the true cost of the Warehouse, 36%.

Most businesses – even the state’s own Division of Purchasing and General Services – have discovered that “just-in-time” inventory management is much more cost effective than is warehousing. Given the experience of the state in office supplies, as well as ITS’ analysis of overhead costs, the Analyst recommends ITS eliminate warehousing of telecommunications products and switch to state-wide contracts for equipment delivery from private vendors. Assuming the proposed warehouse overhead rate accurately reflected the cost of the warehouse itself, elimination of the warehouse would save ITS as much as \$95,000 per year.

### 3.04 Mainframe Computing

**Recommendation** The Analyst recommends FY 2005 revenue of \$14,048,500, and expenses of \$14,131,000 for Mainframe Computing. The Analyst also recommends twenty-seven full time equivalent (FTE) positions for this product family.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	14,122,200	14,281,700	14,048,500	(233,200)
<b>Total</b>	<u>\$14,122,200</u>	<u>\$14,281,700</u>	<u>\$14,048,500</u>	<u>(\$233,200)</u>
<b>Expenditures</b>				
Personal Services	1,849,500	1,994,500	1,988,000	(6,500)
In-State Travel	600			
Out of State Travel	2,300			
Current Expense	360,300	531,500	531,500	
DP Current Expense	4,165,200	8,316,200	8,354,000	37,800
DP Capital Outlay	1,578,300	1,629,700	2,073,700	444,000
Other Charges/Pass Thru	2,008,800	1,252,100	1,183,800	(68,300)
<b>Total</b>	<u>\$9,965,000</u>	<u>\$13,724,000</u>	<u>\$14,131,000</u>	<u>\$407,000</u>
<b>Profit/(Loss)</b>	<u>\$4,157,200</u>	<u>\$557,700</u>	<u>(\$82,500)</u>	<u>(\$640,200)</u>
<b>FTE/Other</b>				
Total FTE	27	27	27	
Retained Earnings	21,429,700	21,987,400	21,905,400	(82,000)

\*Non-state funds as estimated by agency

**Purpose** The Mainframe Hosting product family supports storage of data and execution of applications designed for a mainframe computing. ITS owns three mainframes – one in Richfield and two in Salt Lake City. In both Richfield and Salt Lake, ITS maintains monitored, physically secure, climate controlled, and power conditioned environments to house these machines and their associated functions.

The products included in the Mainframe hosting family are:

- ▶ Adabas Services
- ▶ DB2 Services
- ▶ Oracle Services
- ▶ Mainframe Hosting Services

*Former “Computing” functional area distributed into more concise product families*

Under the FY 2004 reorganization, ITS separated Mainframe Hosting from a number of other functions previously called “Computing”. The Computing functional area provided mainframe computing, disk storage, tape storage and vault services, microfiche services, customer consulting for special forms design, job scheduling, Capitol operators, customer service/help desk, ITS order desk, and statewide network monitoring. Many of these functions now fall into new product families, as discussed in the following sections.

In its *Long-Term Cost Recovery Plan*, ITS documented that Adabas services traditionally generate large profits that offset losses in other products both within and external to the Mainframe Computing product family. ITS projected that, prior to implementation of internal billing, Adabas would generate \$4.5 million revenue in excess of expenditures. For Fiscal Year 2003, Adabas charges resulted in an overall profit of \$4.2 million for the Mainframe Computing product family.

*ITS unwilling to end dependence upon traditional revenue centers*

Even after documenting these profits, and therefore an associated cross-subsidization, ITS was unwilling to propose lower Adabas rates for FY 2004 or FY 2005. The Division wrote that “since ITS is not raising any rates...ITS should not lower mainframe rates.”<sup>2</sup> Indeed, ITS proposed no rate changes for Mainframe Computing in the most recent round of rate discussions.

The Analyst is concerned that ITS continues to rely upon over-charges to mainframe users for balancing its budget. This practice distorts price signals and may lead to inefficient investment decisions. The Analyst encourages ITS to accurately measure the true cost of mainframe computing products, and develop rates that recover only those costs.

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<sup>2</sup> *Long-Term Cost Recovery Plan*, State of Utah, Department of Administrative Services, Division of Information Technology Services, August, 2003, p. 18.

### 3.05 Desktop/Local Area Network/Server Support

**Recommendation**

The Analyst recommends FY 2005 revenue of \$5,011,900 and expenditures of \$5,821,600 for the Desktop/LAN/Server Support product family. The Analyst also recommends eighteen full-time equivalent employees for this product family. Finally, the Analyst recommends the Legislature not approve rates for equipment maintenance and software resale and that ITS transfer responsibility for those functions to the Division of Purchasing and General Services.

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	4,708,800	4,659,600	5,011,900	352,300
<b>Total</b>	<u>\$4,708,800</u>	<u>\$4,659,600</u>	<u>\$5,011,900</u>	<u>\$352,300</u>
<b>Expenditures</b>				
Personal Services	1,233,700	1,407,200	1,402,600	(4,600)
In-State Travel	3,500			
Current Expense	2,841,400	2,827,300	2,827,300	
DP Current Expense	1,099,700	868,300	885,500	17,200
DP Capital Outlay	180,800	79,500	56,300	(23,200)
Other Charges/Pass Thru	1,354,300	729,600	649,900	(79,700)
<b>Total</b>	<u>\$6,713,400</u>	<u>\$5,911,900</u>	<u>\$5,821,600</u>	<u>(\$90,300)</u>
<b>Profit/(Loss)</b>	<u>(\$2,004,600)</u>	<u>(\$1,252,300)</u>	<u>(\$809,700)</u>	<u>\$442,600</u>
<b>FTE/Other</b>				
Total FTE	18	18	18	
Retained Earnings	(2,004,600)	(3,256,900)	(4,066,700)	(809,800)

\*Non-state funds as estimated by agency

**Purpose**

One of six new product families, the Desktop/Local Area Network (LAN)/Server Support group helps agencies maintain and manage every day technology. It supports desktop and laptop computers, local networks, distributed servers, and software – such as Groupwise and Microsoft Office – that is used by a majority of information workers in the state. While many agencies support these assets “in-house”, a growing number are outsourcing support to ITS and its vendors.

The Desktop/LAN/Server Support product family also encompasses the Provo and Ogden Regional Centers. It provides the following products:

- ▶ Equipment Maintenance
- ▶ Software Resale
- ▶ Server Management
- ▶ Desktop/LAN Management
- ▶ Ogden Regional Center Desktop/LAN Services
- ▶ Provo Regional Center Desktop/LAN Services

While ITS proposed no new rates for this product family, it did adjust a number of existing rates to more accurately account for costs. Primarily, ITS proposes raising its rate for desktop management from \$65 to \$70 per device per month. The Division and the Governor's Office of Planning and Budget estimate that such a change would cost agencies an additional \$77,000 per year.

ITS also proposes increasing its overhead charge for software resale and equipment maintenance. Currently, ITS charges agencies 8% of contract cost to oversee maintenance contracts. The maintenance itself is supplied by CA Service of Salt Lake City.

*Agencies would pay  
19% premium on  
statewide contracts  
under rate proposal*

Under ITS' proposed rates, agencies would pay IT'S a 19% premium on the state's maintenance contract, as well as 19% overhead on any software purchased off statewide contract.

The Analyst believes the Division of Purchasing and General Services can manage these contracts with private vendors, directing agencies to the vendors themselves without ITS acting as middle-man. The Analyst recommends ITS transfer its equipment maintenance and software resale contract management activities to the Division of Purchasing and General Services. The Analyst further recommends the Legislature not approve rates for these activities in ITS for FY 2005, instead directing 50% of the resources that would have been spent on those rates, to the Division of Purchasing for contract oversight and management.

### 3.06 Storage

#### Recommendation

The Analyst recommends FY 2005 revenue of \$4,724,900, and expenses of \$2,147,500 for Storage. The Analyst also recommends nine full time equivalent (FTE) positions for this product family.

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	2,514,400	4,724,900	4,724,900	
<b>Total</b>	<b>\$2,514,400</b>	<b>\$4,724,900</b>	<b>\$4,724,900</b>	<b>\$0</b>
<b>Expenditures</b>				
Personal Services	678,600	727,900	725,500	(2,400)
Out of State Travel	1,400			
Current Expense	19,200	103,100	103,100	
DP Current Expense	346,600	880,600	949,300	68,700
DP Capital Outlay	1,143,800	874,700	137,100	(737,600)
Other Charges/Pass Thru	552,900	350,500	232,500	(118,000)
<b>Total</b>	<b>\$2,742,500</b>	<b>\$2,936,800</b>	<b>\$2,147,500</b>	<b>(\$789,300)</b>
<b>Profit/(Loss)</b>	<b>(\$228,100)</b>	<b>\$1,788,100</b>	<b>\$2,577,400</b>	<b>\$789,300</b>
<b>FTE/Other</b>				
Total FTE	9	9	9	
Retained Earnings	(228,100)	1,560,000	4,137,400	2,577,400

\*Non-state funds as estimated by agency

#### Purpose

This product family provides enterprise-wide data storage on disk and tape for both mainframe and open-systems data. It offers managed and unmanaged space for routine, archival, and business recovery purposes. It includes the following products:

- ▶ Storage Area Network Disk Storage
- ▶ Mainframe Tape Storage
- ▶ Tivoli Back-up/Restore Service for Open Systems
- ▶ Archival Tapes

ITS has successfully implemented data management software and hardware that allows it to better utilize storage space on existing media. Due to technical limitations under previous management schema, space was allocated in large blocks and much of it went unutilized. With recent improvements, ITS can write data serially to leverage existing media.

*New management techniques leverage existing assets*

As a result of its new data management techniques, ITS proposes a number of rate decreases in this product family for FY 2004 and FY 2005:

- ▶ Tape Input/Output from \$0.60 per 1000 operations to \$0.20 per 1000 operations – (\$295,300)
- ▶ Mainframe Tape Storage and Tape Storage Migrated Data from \$0.0375/MB/Mo to \$.0025/MB/Mo – (\$880,600)
- ▶ Open Systems Storage from \$0.0375 per 25 GB increment to \$0.005 per 25 GB increment – (\$105,000)
- ▶ Open Systems Backup Tape Storage from \$0.005/MB/Mo to \$0.0025 per MB/Mo – (\$44,600)

### 3.07 Web Hosting

#### Recommendation

The Analyst recommends FY 2005 revenue of \$1,197,300 and expenditures of \$1,583,200 for Web Hosting. The Analyst also recommends ten full-time equivalent employees for this product family.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	206,500	450,600	1,197,300	746,700
<b>Total</b>	<b>206,500</b>	<b>450,600</b>	<b>1,197,300</b>	<b>746,700</b>
<b>Expenditures</b>				
Personal Services	550,900	733,100	730,500	(2,600)
In-State Travel	400			
Current Expense	48,900	49,000	49,000	
DP Current Expense	275,800	364,700	368,100	3,400
DP Capital Outlay	468,900	434,800	303,700	(131,100)
Other Charges/Pass Thru	351,300	159,100	131,900	(27,200)
<b>Total</b>	<b>\$1,696,200</b>	<b>\$1,740,700</b>	<b>\$1,583,200</b>	<b>(\$157,500)</b>
<b>Profit/(Loss)</b>	<b>(\$1,489,700)</b>	<b>(\$1,290,100)</b>	<b>(\$385,900)</b>	<b>\$904,200</b>
<b>FTE/Other</b>				
Total FTE	10	10	10	
Retained Earnings	(1,489,700)	(2,779,800)	(3,165,700)	(385,900)

\*Non-state funds as estimated by agency

#### Purpose

The Web Hosting product family provides a range of services related to World Wide Web (Internet) home pages and applications. It allows agencies to co-locate agency owned computers in ITS' data centers, offers computer capacity from which agencies may offer information and services on the web, and manages web sites for agencies. The Web Hosting product family includes the following products:

- ▶ Web Application Development
- ▶ Web Hosting (Bronze through Gold service levels)
- ▶ Co-located Web Hosting
- ▶ Dedicated Hosting
- ▶ Managed Services

#### *Rate increases proposed to improve cost recovery*

Prior to FY 2004, no specific rate existed for Web Hosting. The rates established for FY 2004 will not be sufficient to recover Web Hosting costs. As such, ITS proposes increased rates for:

- ▶ Co-located Web Hosting Rack Unit from \$3/rack unit/mo to \$10/rack unit/mo – +\$5,000
- ▶ Co-located Web Hosting ½ Rack from \$50/half rack/mo to \$155/half rack/mo – +\$20,000
- ▶ Co-located Web Hosting Full Rack from \$100/rack/mo to \$310/rack/mo – +\$105,500

### 3.08 Application Development

**Recommendation** The Analyst recommends FY 2005 revenue of \$2,949,600 and expenditures of \$3,074,300 for Application Development. The Analyst further recommends twenty-nine full-time equivalent employees for this product family.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	137,200	2,949,600	2,949,600	
<b>Total</b>	<u>\$137,200</u>	<u>\$2,949,600</u>	<u>\$2,949,600</u>	<u>\$0</u>
<b>Expenditures</b>				
Personal Services	1,290,100	2,497,600	2,489,300	(8,300)
In-State Travel	400			
Out of State Travel	1,000			
Current Expense	117,600	55,500	55,500	
DP Current Expense	323,000	75,900	76,400	500
DP Capital Outlay	322,300	14,000	14,000	
Other Charges/Pass Thru	554,400	476,300	439,100	(37,200)
<b>Total</b>	<u>\$2,608,800</u>	<u>\$3,119,300</u>	<u>\$3,074,300</u>	<u>(\$45,000)</u>
<b>Profit/(Loss)</b>	<u>(\$2,471,600)</u>	<u>(\$169,700)</u>	<u>(\$124,700)</u>	<u>\$45,000</u>
<b>FTE/Other</b>				
Total FTE	29	29	29	
Retained Earnings	(2,471,600)	(2,641,300)	(2,766,000)	(124,700)

\*Non-state funds as estimated by agency

**Purpose**

The Application Development product family includes programmers that work in a variety of programming languages on a variety of computer platforms. The family includes web application development, web design, database administration, mainframe development, and multi-media services. It currently has one broad product – ITS Consulting Services.

For FY 2005, ITS and the ISF Rate Committee propose a new rate for Mainframe Development Consulting of \$85 per hour. The revenue impact of the new rate has not been determined by ITS or the Internal Service Fund Rate Committee.

### 3.09 Reporting

#### Recommendation

The Analyst recommends FY 2005 revenue of \$150,000 and expenses of \$585,800 for Reporting. The Analyst also recommends five full-time equivalent employees for this product family.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev		150,000	150,000	
<b>Total</b>	\$0	\$150,000	\$150,000	\$0
<b>Expenditures</b>				
Personal Services	1,700	390,900	389,700	(1,200)
DP Current Expense	17,300	74,600	75,500	900
DP Capital Outlay	9,500	40,000	40,000	
Other Charges/Pass Thru	7,000	87,300	80,600	(6,700)
<b>Total</b>	\$35,500	\$592,800	\$585,800	(\$7,000)
<b>Profit/(Loss)</b>	(\$35,500)	(\$442,800)	(\$435,800)	\$7,000
<b>FTE/Other</b>				
Total FTE	5	5	5	
Retained Earnings	(35,500)	(478,300)	(914,100)	(435,800)

\*Non-state funds as estimated by agency

#### Purpose

The Reporting product family provides web-based reports drawing upon a number of agency or interagency data sets. It currently has two products – reporting capability itself and consulting upon report design and creation. The product family has only one established rate – the standard ITS Consulting Services rate of \$75 per hour.

The Analyst believes Reporting should establish rates for Actuate reporting itself, or roll the service into another product, prior to the 2005 General Session.

### 3.10 Wireless Services

#### Recommendation

The Analyst recommends FY 2005 revenue of \$2,383,200 and expenditures of \$2,487,900 for Wireless Services. The Analyst also recommends seventeen full time equivalent (FTE) positions for this functional area.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	2,091,300	2,383,200	2,383,200	
<b>Total</b>	<u>\$2,091,300</u>	<u>\$2,383,200</u>	<u>\$2,383,200</u>	<u>\$0</u>
<b>Expenditures</b>				
Personal Services	1,031,500	1,107,400	1,103,700	(3,700)
In-State Travel	13,800			
Out of State Travel	7,500			
Current Expense	1,071,900	1,206,400	1,206,400	
DP Current Expense	12,900	61,500	61,500	
DP Capital Outlay	31,000	33,400	37,300	3,900
Other Charges/Pass Thru	116,500	86,900	79,000	(7,900)
<b>Total</b>	<u>\$2,285,100</u>	<u>\$2,495,600</u>	<u>\$2,487,900</u>	<u>(\$7,700)</u>
<b>Profit/(Loss)</b>	<u>(\$193,800)</u>	<u>(\$112,400)</u>	<u>(\$104,700)</u>	<u>\$7,700</u>
<b>FTE/Other</b>				
Total FTE	17	17	17	
Retained Earnings	(1,524,100)	(1,636,500)	(1,741,200)	(104,700)
Vehicles	12	12	12	

\*Non-state funds as estimated by agency

#### Purpose

The Wireless Services product family provides maintenance of microwave and mobile radios; support for Public Safety radios and dispatch facilities; installation and support of radar guns, video cameras, sirens, and light bars. It sells services not only to state agencies, but to local and Federal law enforcement and land use management agencies. It includes the following products:

- ▶ Microwave Maintenance
- ▶ Wireless Technical Services
- ▶ Wireless Repair Parts
- ▶ Vehicle Equipment Installation
- ▶ Wireless Contracted Services
- ▶ Dispatch Console Services

Wireless Services does not include cellular phones, which are provided under contract by private businesses.

*Wireless Services part of Utah Wireless Interagency Network (UWIN)*

ITS Wireless Services will play an integral role in the Utah Wireless Interagency Network (UWIN) – a cross-agency, cross-jurisdiction coordination of public safety and homeland security communications systems. Under UWIN, the Walker Administration hopes to provide administrative and technical channels through which law enforcement agencies at all levels of government will be connected. UWIN is discussed in more detail in the Legislative Fiscal Analyst’s “IT Projects Review”.

### 3.11 Non-Web Hosting Services

**Recommendation** The Analyst recommends FY 2005 expenditures of \$420,600.

<b>Financing</b>	<b>2003 Actual</b>	<b>2004 Estimated*</b>	<b>2005 Analyst</b>	<b>Est/Analyst Difference</b>
<b>Total</b>	\$0	\$0	\$0	\$0
<b>Expenditures</b>				
Personal Services		34,200	34,100	(100)
DP Current Expense		195,000	199,600	4,600
DP Capital Outlay	25,000	129,500	139,800	10,300
Other Charges/Pass Thru	5,900	51,200	47,100	(4,100)
<b>Total</b>	\$30,900	\$409,900	\$420,600	\$10,700
<b>Profit/(Loss)</b>	(\$30,900)	(\$409,900)	(\$420,600)	(\$10,700)
<b>FTE/Other</b>				
Total FTE	0	0	0	
Retained Earnings	(30,900)	(440,800)	(861,400)	(420,600)

\*Non-state funds as estimated by agency

**Purpose**

The Non-Web Hosting product family hosts UNIX based applications that are not related to the World Wide Web. This product family currently has no defined products or established rates.

The Analyst believes ITS should define new UNIX product(s) and establish interim rates for those services in FY 2004 and FY 2005. The Analyst believes potential customers for Non-Web hosting include the Department of Human Resources Management, the Division of Finance, the Department of Workforce Services, and the Utah College of Applied Technology.

### 3.12 Support Services

#### Recommendation

The Analyst recommends FY 2005 revenue of \$777,300 and expenses of \$1,528,400 for Support Services. The Analyst also recommends ten full time equivalent (FTE) positions for this product family.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	552,200	518,200	777,300	259,100
<b>Total</b>	<u>552,200</u>	<u>518,200</u>	<u>777,300</u>	<u>259,100</u>
<b>Expenditures</b>				
Personal Services	109,100	689,400	687,200	(2,200)
Current Expense	7,800	1,600	1,600	
DP Current Expense	344,000	494,800	396,200	(98,600)
DP Capital Outlay	147,800	302,800	259,900	(42,900)
Other Charges/Pass Thru	146,800	223,700	183,500	(40,200)
<b>Total</b>	<u>755,500</u>	<u>1,712,300</u>	<u>1,528,400</u>	<u>(\$183,900)</u>
<b>Profit/(Loss)</b>	<u>(\$203,300)</u>	<u>(\$1,194,100)</u>	<u>(\$751,100)</u>	<u>\$443,000</u>
<b>FTE/Other</b>				
Total FTE	10	10	10	
Retained Earnings	40,200	(1,153,900)	(1,905,000)	(751,100)
Vehicles	1	1	1	

\*Non-state funds as estimated by agency

#### Purpose

Support Services provides high-volume printing, customer support, training, and capacity planning. It included the following products:

- ▶ Mainframe Laser Printing
- ▶ Mainframe Line Printing
- ▶ Security/ID Badges/Badge Holders
- ▶ Check Stock
- ▶ Help Desk
- ▶ ITS Training Center
- ▶ Internal Capacity Planning

### 3.13 Internal Clearing Account

**Recommendation**

The Analyst recommends for the ITS clearing account an amount equally offsetting the Division’s internal billings for FY 2005.

	2003	2004	2005	Est/Analyst
	Actual	Estimated*	Analyst	Difference
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	(4,193,800)	(11,480,200)	(11,645,100)	(164,900)
<b>Total</b>	<u>(\$4,193,800)</u>	<u>(\$11,480,200)</u>	<u>(\$11,645,100)</u>	<u>(\$164,900)</u>
<b>Expenditures</b>				
Current Expense	(3,625,700)	(4,437,000)	(4,437,000)	
DP Current Expense	(568,100)	(7,043,200)	(7,208,100)	(164,900)
<b>Total</b>	<u>(\$4,193,800)</u>	<u>(\$11,480,200)</u>	<u>(\$11,645,100)</u>	<u>(\$164,900)</u>
<b>Profit/(Loss)</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

\*Non-state funds as estimated by agency

**Purpose**

In FY 2003, ITS began billing internally for products provided and consumed by ITS. For instance, if an ITS product family used 10 Wide Area Network connections, it would pay \$320 per month to another product family for this service. The division began this practice to better inform managers about the cost of resources consumed internally.

The ITS Clearing account eliminates double-counting of expenses and revenue associated with internal billing.

### 3.14 Research and Development

**Recommendation**

The Division of Information Technology Services replaced the Research and Development (also known as “New Technologies”) functional area with a new approach to developing services – the “Product Realization Process”. Using this process, product managers now subject new product ideas to market analysis and management approval before beginning development. The Analyst has included the Research and Development budget here for historical purposes only.

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
<b>Total</b>	\$0	\$0	\$0	\$0
<b>Expenditures</b>				
Other Charges/Pass Thru	702,600			
<b>Total</b>	\$702,600	\$0	\$0	\$0
<b>Profit/(Loss)</b>	(\$702,600)	\$0	\$0	\$0
<b>FTE/Other</b>				
Retained Earnings	(1,460,700)			

\*Non-state funds as estimated by agency

**Purpose**

The New Technologies functional area previously tested cutting-edge applications before they are offered statewide. As technologies became available for statewide use, these activities were migrated into one of the above ITS functional areas. In FY 2004, the products previously in this functional area – IP Telephony, Web Development, and Video Conferencing – were moved into other cost centers or eliminated.

### 3.15 Automated Geographic Reference Center

**Recommendation**

The Legislature transferred funding for the Automated Geographic Reference Center (AGRC) to a separate line-item beginning in fiscal year 2004. The Analyst has included AGRC here for historical purposes only. Information on recommended FY 2005 financing, expenditures, and full time equivalent employment for AGRC can be found the Automated Geographic Reference Center budget analysis (tab 12).

	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
<b>Financing</b>				
Federal Funds	1,080,100			
Dedicated Credits - Intragvt Rev	766,200			
Transfers	360,600			
<b>Total</b>	<b>\$2,206,900</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Expenditures</b>				
Personal Services	866,300			
In-State Travel	8,300			
Out of State Travel	8,000			
Current Expense	602,800			
DP Current Expense	81,300			
DP Capital Outlay	18,800			
Other Charges/Pass Thru	893,700			
<b>Total</b>	<b>\$2,479,200</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Profit/(Loss)</b>	<b>(\$272,300)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>FTE/Other</b>				
Total FTE	9			
Retained Earnings	(632,100)			

\*Non-state funds as estimated by agency

**Purpose**

The Automated Geographic Reference Center (AGRC) was formally created as an operating unit of the Division of Information Technology Services (ITS) by the *Recodification of Department of Administrative Services* act (House Bill 88, 1993 General Session, Section 63A-6-202 Utah Code Annotated). AGRC is mandated to provide geographic information system services to State agencies, the federal government, municipalities, and private persons through utilizing a standardized and integrated State Geographic Information Database (SGID). The Center has received a direct appropriation since 1984, but is authorized, through ITS, to set fees for its services.

**4.0 Additional Information: Division of Information Technology Services Internal Service Fund**

**4.1 Funding History**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Financing by Revenue Source</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated*</b>	<b>Analyst</b>
Federal Funds		542,200	1,080,100		
Dedicated Credits - Intragvt Rev	52,782,200	57,450,200	48,296,800	47,070,200	47,672,800
Transfers	934,400	456,600	360,600		
<b>Total</b>	<b>\$53,716,600</b>	<b>\$58,449,000</b>	<b>\$49,737,500</b>	<b>\$47,070,200</b>	<b>\$47,672,800</b>
<b>Financing by Program</b>					
ISF - Network Services	11,228,100	11,802,700	11,059,900	11,943,200	11,989,800
ISF - Voice Services	16,350,800	16,240,300	16,331,900	16,489,400	16,085,400
ISF - Computing	18,387,600	20,054,200			
ISF - Mainframe Hosting			14,122,200	14,281,700	14,048,500
ISF - Desktop/LAN Support			4,708,800	4,659,600	5,011,900
ISF - Storage Services			2,514,400	4,724,900	4,724,900
ISF - Web Hosting			206,500	450,600	1,197,300
ISF - Application Development			137,200	2,949,600	2,949,600
ISF - Reporting Services				150,000	150,000
ISF - Wireless Tech Services	2,297,100	2,674,900	2,091,300	2,383,200	2,383,200
ISF - ITS Support Services	3,643,500	5,071,700	552,200	518,200	777,300
ISF - Automated Geographic Ref Ctr	1,553,800	2,605,200	2,206,900		
ISF - Research and Development	255,700				
ISF - Clearing			(4,193,800)	(11,480,200)	(11,645,100)
<b>Total</b>	<b>\$53,716,600</b>	<b>\$58,449,000</b>	<b>\$49,737,500</b>	<b>\$47,070,200</b>	<b>\$47,672,800</b>
<b>Expenditures</b>					
Personal Services	16,451,900	17,767,800	18,066,000	17,210,400	16,952,300
In-State Travel	47,800	81,300	46,700	70,400	70,400
Out of State Travel	133,800	100,300	38,700	29,600	29,600
Current Expense	20,158,000	22,231,300	17,589,100	16,848,000	16,276,500
DP Current Expense	9,614,200	11,986,600	8,508,500	7,778,800	7,679,900
DP Capital Outlay	6,208,900	6,410,900	6,880,200	6,308,900	5,910,200
Other Charges/Pass Thru	2,707,600	3,034,300	3,443,000	1,158,700	753,900
<b>Total</b>	<b>\$55,322,200</b>	<b>\$61,612,500</b>	<b>\$54,572,200</b>	<b>\$49,404,800</b>	<b>\$47,672,800</b>
<b>Profit/(Loss)</b>	<b>(\$1,605,600)</b>	<b>(\$3,163,500)</b>	<b>(\$4,834,700)</b>	<b>(\$2,334,600)</b>	<b>\$0</b>
<b>FTE/Other</b>					
Total FTE	242	243	250	241	241
Authorized Capital Outlay	6,208,600	6,410,900	5,745,800	5,732,800	6,072,500
Retained Earnings	14,181,600	11,018,100	6,183,400	3,848,800	3,848,600
Vehicles	18	20	23	24	24

\*Non-state funds as estimated by agency.