Budget Brief – Department of Technology Services (ISF)

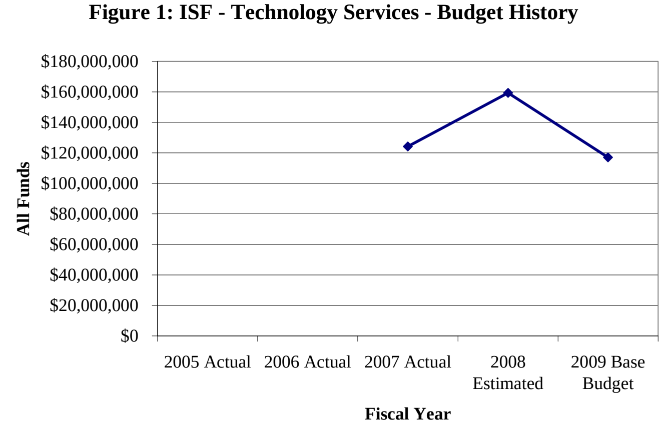
NUMBER CFGO-08-26

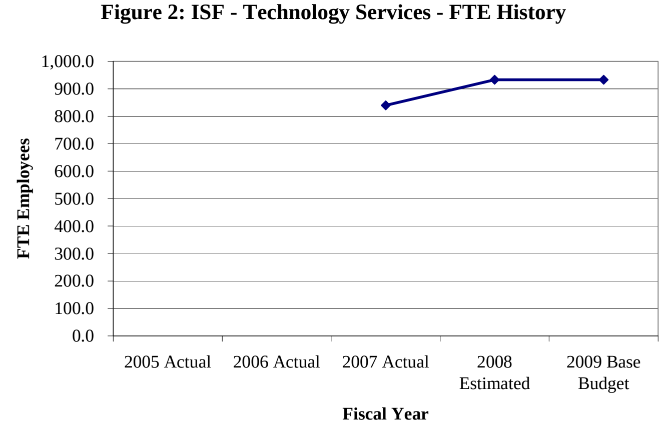
SUMMARY

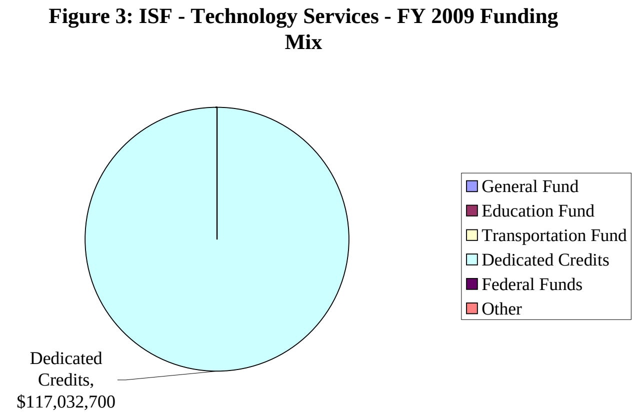
The Department of Technology Services (DTS) acts as Utah's central service provider for information technology (IT) related activities. DTS was created by *Information Technology Governance Amendments* (H.B. 109, 2005 GS) which consolidated the Division of Information Technology Services and all agency IT functions into DTS. The internal service fund (ISF) portion of DTS is financed by billing customer agencies for services provided.

The DTS Internal Service Funds has two programs:

- Agency Services
- Enterprise Services







ISSUES AND RECOMMENDATIONS

Current Rate Structure

House Bill 109 (2005 GS) facilitated a consolidation of IT employees from state agencies into the Department of Technology Services. To ease the transition, DTS kept the IT employees in the same function they previously held within the agencies and billed the agencies for those employee salaries and benefits through the Agency Services program.

The Department has successfully created a new rate structure within the Enterprise Services program that eliminates cross-subsidies. DTS recalculated its rates so that they reflect the full cost of providing the products to state agencies. These more accurate price signals will help DTS customers make better decisions when contemplating information technology.

FY 2009 Rate Structure Realignment

The Agency Service program was only intended to serve as a transition program to allow the Department time to analyze how the functions of those employees relate to IT products it provides to the agencies. FY 2007 and 2008 were the transition period. The Department has proposed a new rate structure for FY 2009 that would transition all but 69 IT directors and administrative staff (of approximately 700 employees) out of the billed Agency Services program and into the rate-based Enterprise Services program.

The Department identified five major functions the Agency Services employees provide to agencies that can now be charged as rates instead of billing for employees:

- Desktop Support
- Security

- Server Administration
- Application Maintenance
- Service Desk

The Analyst recommends adoption of the new rates as detailed in Issue Brief CFGO-08-08.

DTS Rate Impacts

The Department of Technology Services bills state agencies for the technology services they use at rates approved by the Legislature. Typically, the Legislature funds the impact on agencies when rates increase or decrease. When the rates increase the Legislature considers providing agencies with additional funding to cover the increase in rates. Likewise, when rates decrease the Legislature considers removing funding from the agencies. The total impact for this year's rate adjustments, as estimated by DTS and the DTS rate committee, is approximately $2.5 million more than last year.

The Department of Technology Services gives the reasons for this increased impact as follows: $1.3 million was used to give Enterprise Services employees the same compensation increase as other state employees in FY 2008 (5% COLA and increased health benefits); $0.7 million was required by the statewide cost allocation plan (see paragraph below); and $0.5 million is associated with a change in the number of units consumed by the agencies from when rates were calculated by the rate committee to when agencies revised their unit counts (see paragraph below). The Analyst accepts the $1.3 million impact for compensation-related expense, however, the Analyst recommends that DTS reduce its rates by $1.2 million for the $700,000 statewide cost allocation plan charge and the $500,000 offset by changed units.

Agency	Total
ALCOHOLIC BEVERAGE CONTROL	(212,200)
ATTORNEY GENERAL	(12,500)
BOARD OF EDUCATION	(30,700)
BOARD OF PARDONS	(37,000)
CAPITOL PRES BOARD	14,900
CAREER SERVICE REV BD	(600)
DEPT NATURAL RESOURCES	662,900
DEPT OF ADMIN SVCS	172,900
DEPT OF AGRICULTURE	166,500
DEPT OF COMMMERCE	(42,300)
DEPT OF COMMUNITIES & CULTURE	137,300
DEPT OF CORRECTIONS	796,900
DEPT OF ENVIRONMENTAL QUALITY	224,800
DEPT OF HEALTH	597,700
DEPT OF HUMAN RESOURCE MAN	(59,700)
DEPT OF HUMAN SERVICES	773,700
DEPT OF INSURANCE	(25,100)
DEPT OF PUBLIC SAFETY	281,900
DFCM-BUILDING BOARD CONST	(100)
DTS	(242,500)
DWS	(845,300)
FINANCIAL INSTITUTIONS	59,400
GOVERNORS OFFICE	55,700
HOUSE OF REP	(12,800)
JUDICIAL BRANCH	(56,800)
LABOR COMMISSION	(17,200)
MEDICAL ED COUNCIL	(300)
NATIONAL GUARD	7,900
NAVAJO TRUST ADMIN	(400)
PUBLIC LANDS	2,900
PUBLIC SERVICE COMM	20,900
SPORTS AUTHORITY	700
STATE AUDITOR	(800)
STATE TREASURER	(3,300)
TAX COMMISSION	(131,100)
TRUST LANDS ADMIN	19,700
UDOT	232,300
USTAR	1,500
VETERANS AFFAIRS	3,300
Grand Total	2,503,100

Statewide Cost Allocation Plan

Internal service funds typically pay an amount each year into the General Fund Restricted (GFR) ISF Overhead account to cover the costs associated with the Statewide Cost Allocation Plan. By charging ISF these costs, the state is able to leverage federal dollars to pay fixed statewide costs.

With the consolidation of IT services into DTS, the amount DTS would be required to pay into the ISF Overhead account would increase to $700,000 for FY 2009. The majority of the funds collected in the ISF Overhead account are used to pay for the operating costs of FINET (the State's financial system operated by the Division of Finance). Adding an additional $700,000 to the fund would become surplus within the fund. DTS therefore suggested that the $700,000 be re-appropriated as contributed capital to the Enterprise Services ISF to expand the State's core network infrastructure. Instead, the Analyst recommends that the $700,000 not be charged to DTS, but that instead DTS use the savings to decrease rates (see intent language below).

Rate Impact Associated with a Change in Units

DTS set certain of its rates based on the number of computer port connections. When it set those rates, DTS spread the cost of providing those specific services over the number of port connections. When agencies found out the methodology for the rates, they asked DTS for the opportunity to go through and count the number of connections they had. DTS allowed the agencies this opportunity and the agencies returned a number much higher than what DTS originally used to spread the cost impacts. Instead of lowering the rate (more units means a lower rate), DTS kept their rates the same, which translated into a $500,000 rate impact to the state and a windfall to DTS.

Core Network Expansion

The demand for new data and voice technologies such as VOIP (Voice-Over Internet Protocol), digital imaging, and video conferencing has placed an increasing burden on the State's core network infrastructure. These new technologies allow state agencies to operate more efficiently and use resources more effectively. DTS, however, is only able to offer new technologies to the extent there is capacity on the State's network infrastructure. The cost to expand the State network to take advantage new technology is cost prohibitive and DTS requested ongoing funding outside of its internal service rates to fund this expansion.

BUDGET DETAIL

The size and scope of internal service funds are controlled by rates charged to other agencies, full-time employment levels (which for and ISF are binding), and capital outlay authorization. The substantial decrease in revenue, expenditures, and capital outlay from FY 2008 to FY 2009 is a result of excluding pass-through charges for equipment paid for and owned by the agencies, but purchased by DTS.

Intent Language

The Analyst recommends the Legislature adopt the following intent language for FY 2009 to lower the statewide DTS rate impact from $2.5 million to approximately $1.3 million:

> *The Legislature intends that DTS not be charged up to $700,000 in FY 2009 by the Statewide Cost Allocation Plan and use the savings to reduce rates in the Enterprise Services Internal Service Fund. The Legislature also intends that DTS reduce rates within the Enterprise Services Internal Service Fund by at least $500,000 to more accurately reflect units of consumption.*

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. FY 2009 estimated revenues of $117,032,700 for the Department of Technology Services ISF
2. Rates as presented separately (Issue Briefs CFGO-08-09 and CFGO-08-10)
3. 933.0 FTE
4. Authorized Capital Outlay of $7,961,000
5. Intent language as outlined above.

ISF - Technology Services

Sources of Finance	FY 2007 Actual	FY 2008 Appropriated	Changes	FY 2008 Revised	Changes	FY 2009* Base Budget
Dedicated Credits - Intragvt Rev	124,132,500	160,901,500	(1,561,500)	159,340,000	(42,307,300)	117,032,700
Total	$124,132,500	$160,901,500	($1,561,500)	$159,340,000	($42,307,300)	$117,032,700
Programs						
Agency Services Division	76,396,300	113,419,700	(4,135,700)	109,284,000	(102,296,300)	6,987,700
Enterprise Technology Division	47,736,200	47,481,800	2,574,200	50,056,000	59,989,000	110,045,000
Total	$124,132,500	$160,901,500	($1,561,500)	$159,340,000	($42,307,300)	$117,032,700
Categories of Expenditure						
Personal Services	78,493,200	80,602,000	(1,576,000)	79,026,000	4,298,900	83,324,900
In-State Travel	102,700	159,000	(4,300)	154,700	18,400	173,100
Out of State Travel	173,700	340,300	22,300	362,600	45,500	408,100
Current Expense	17,895,800	26,953,900	(9,139,400)	17,814,500	(995,100)	16,819,400
DP Current Expense	24,485,900	46,179,500	(6,887,100)	39,292,400	(29,772,800)	9,519,600
DP Capital Outlay	0	1,766,100	(1,766,100)	0	0	0
Capital Outlay	0	6,444,600	(6,444,600)	0	0	0
Other Charges/Pass Thru	3,417,800	837,200	19,856,600	20,693,800	(19,298,700)	1,395,100
Depreciation	3,265,400	0	4,606,500	4,606,500	786,000	5,392,500
Total	$127,834,500	$163,282,600	($1,332,100)	$161,950,500	($44,917,800)	$117,032,700
Other Data						
Budgeted FTE	933.0	933.0	0.0	933.0	0.0	933.0
Actual FTE	839.6	0.0	0.0	0.0	0.0	0.0
Authorized Capital Outlay	4,583,500	19,307,600	0	19,307,600	(11,346,600)	7,961,000
Retained Earnings	7,153,800	6,933,600	(2,390,300)	4,543,300	0	4,543,300
Vehicles	29	23	0	23	0	23

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.