LFA LEGISLATIVE FISCAL ANALYST

Budget Brief: Department of Technology Services (ISF)

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

DTS 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 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 transitional period and in FY 2009 the Department transferred 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. In FY 2010 DTS will transfer the remaining 69 employees from Agency Services to Enterprise Services and incorporate them into the cost structure.

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, and Service Desk.

Since 2007, the Department has successfully created a new rate structure within the Enterprise Services program that eliminates cross-subsidies. The rates reflect the full cost of providing IT products to state agencies. These more accurate price signals will help DTS customers make better decisions when contemplating information technology.

Figure 1: ISF - Technology Services - Budget History

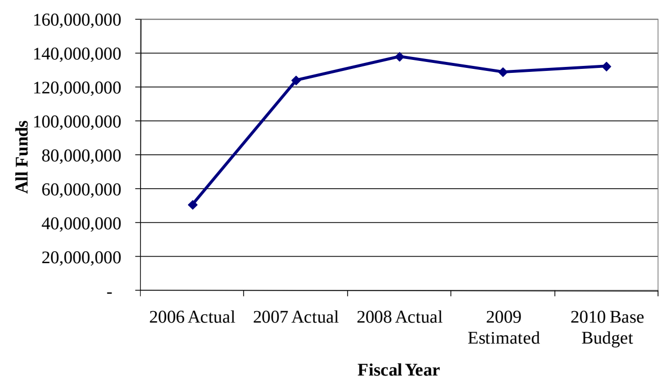


Figure 2: ISF - Technology Services - FTE History

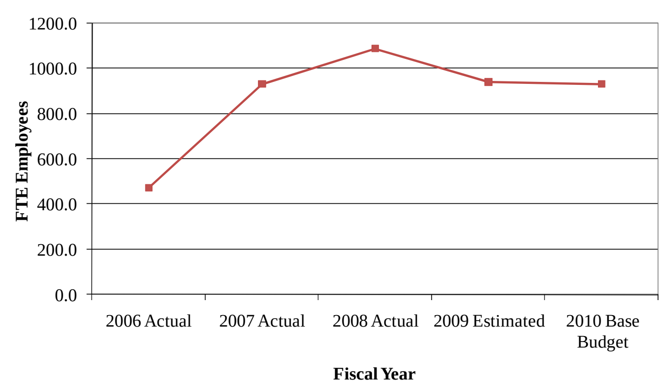
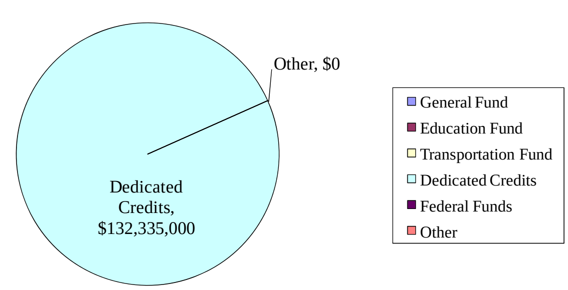


Figure 3: ISF - Technology Services - FY 2010 Funding Mix



FY 2010 Rate Changes and Budget Reductions

The Department of Technology Services presented a request to the DTS Rate Committee for rate increases totaling $3.7 million in FY 2010 to cover the cost of employee Cost-of-Living-Adjustments and benefit increases approved in FY 2009. While the Legislature funds employee compensation increases in appropriated agencies; internal service funds are required to pay for the compensation increases themselves by increasing rates (or finding efficiencies) in the subsequent fiscal year.

While the DTS Rate Committee approved the DTS rates to increase by $3.7 million, the Department of Technology Services was asked by the Governor's Office and the Fiscal Analyst to identify internal cost-savings to offset this increase. The Department came up with approximately a 3% overall budget reduction that would include discretionary budget cuts in operations; employee reductions through attrition (not replacing individuals who leave or retire) of approximately 20 positions; and employee reductions in force equating to approximately 10 positions in administration, application development, and infrastructure. The approximate savings of these reductions equates to $3.97 million and would offset the request for increased rates.

As mentioned previously, the FY 2010 Enterprise rates also include the final consolidation of Agency Services. In FY 2009, approximately 69 IT directors and administrative staff were left in the Agency Services program and were billed out as direct costs by DTS. In order to completely cost-recover for state IT services, the Fiscal Analyst requested that DTS build the remaining Agency Services personnel into the Enterprise rates and terminate the Agency Services program. This results in an approximately $7.2 million shift from Agency Services direct-billing to Enterprise Services rates-for-services.

The Analyst recommends adoption of new DTS rates based on the budget reductions detailed above and included in Issue Brief *DTS ISF Rate Impacts*.

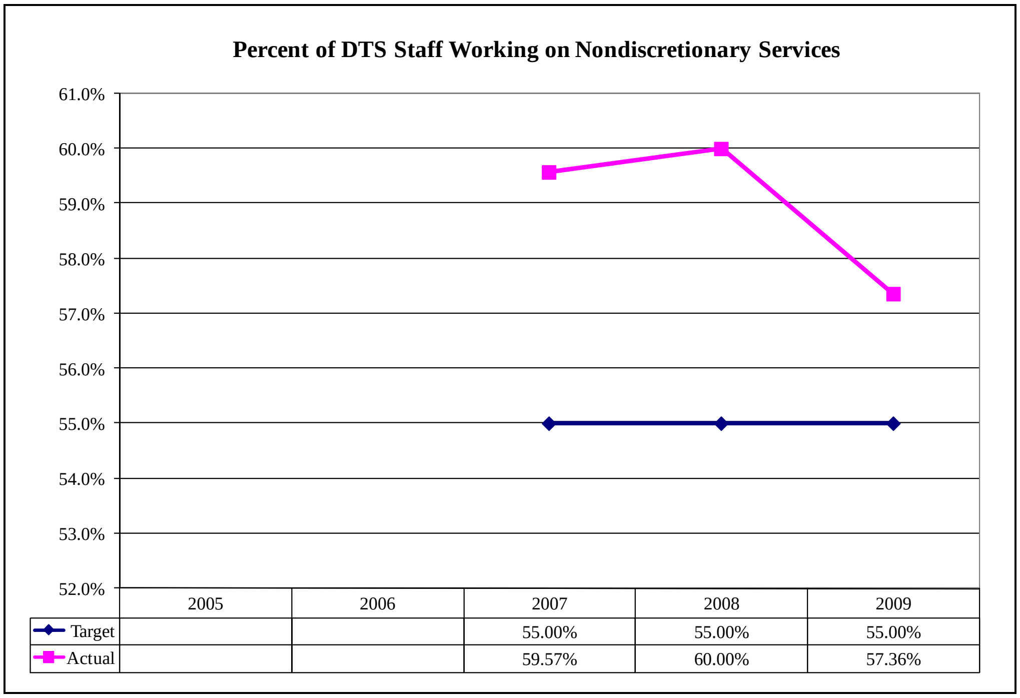
Data Center Consolidation

In addition to the reductions mentioned above, the Analyst requested that DTS examine other ways to further reduce rates for FY 2010. One area of potential savings is in data center and server consolidation. Many agencies currently house their own servers in-house and have on-site DTS (formerly agency) staff available to maintain those servers. In most cases the capacity of the servers are not being fully utilized. Consolidating all the servers state-wide into one data center would allow DTS to efficiently allocate agency applications to servers based on space needs rather than on which server belongs to which entity. Furthermore, such a consolidation would enable DTS to more effectively allocate staff to server maintenance in one location and reduce utility costs. Agencies would benefit from more space for their operations and lower server administration costs. DTS projects that such a consolidation would result in savings of approximately $4 million. If the Legislature were to require such a consolidation, the Department requests at least a year to implement it. The Analyst recommends that the Legislature move forward with a data center consolidation by reducing agency server expenses ongoing in FY 2010 by the amount of the savings and adding back in the same amount one-time in FY 2010 in order to give DTS the necessary time to implement the consolidation.

ACCOUNTABILITY DETAIL

Percent of DTS Staff Working on Nondiscretionary Services

As a service agency, DTS must be responsive to customer (agency) needs. The ISF divides its responsibilities into two main areas: discretionary services and nondiscretionary services. Nondiscretionary services are areas that DTS must provide such as infrastructure and contains the overhead costs of the agency. Discretionary services are services requested by user agencies for DTS to perform such as application development. The goal of DTS is to reduce the time IT staff spend working on nondiscretionary areas to 55% or less.



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 decrease in revenue and expenditures 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.

Capital Outlay Authority

Technology Services requests $7,000,000 of capital outlay authority for FY 2010 as follows:

- Wide Area Network upgrades $1,270,000
- Local Area Network upgrades $ 500,000
- Internet Content Filtering, Security, and Email Archiving $ 935,000
- Microwave paths $ 557,083
- Microwave maintenance and Communication Site Upgrades $ 515,230
- Storage $ 666,000
- Server and other equipment replacement $ 618,800
- Telephone PBX upgrades, voicemail and switch upgrades $1,240,000
- Other Assets $ 697,887

In addition, DTS will need up to $4,000,000 in capital outlay authority in FY 2010 to effectuate the data center consolidation to purchase servers and equipment.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. FY 2010 estimated revenues of $132,335,000 for the Department of Technology Services ISF
2. Rates as presented in the accompanying Issue Brief
3. 903.0 FTE
4. Authorized Capital Outlay of $11,000,000 as detailed above

BUDGET DETAIL TABLE

ISF - Technology Services

Sources of Finance	FY 2008 Actual	FY 2009 Appropriated	Changes	FY 2009 Revised	Changes	FY 2010* Base Budget
Dedicated Credits - Intrag	138,053,700	117,032,700	12,019,500	129,052,200	3,282,800	132,335,000
Sale of Fixed Assets	61,800	0	0	0	0	0
Total	$138,115,500	$117,032,700	$12,019,500	$129,052,200	$3,282,800	$132,335,000
Line Items						
ISF - DTS Operations	138,115,500	117,032,700	12,019,500	129,052,200	3,282,800	132,335,000
Total	$138,115,500	$117,032,700	$12,019,500	$129,052,200	$3,282,800	$132,335,000
Categories of Expenditure						
Personal Services	81,531,500	83,324,900	3,570,100	86,895,000	(2,060,900)	84,834,100
In-State Travel	96,400	173,100	76,800	249,900	0	249,900
Out of State Travel	188,500	408,100	(166,400)	241,700	1,900	243,600
Current Expense	19,457,800	16,819,400	7,042,600	23,862,000	43,200	23,905,200
DP Current Expense	31,303,400	9,519,600	7,536,400	17,056,000	325,700	17,381,700
DP Capital Outlay	5,134,900	0	0	0	0	0
Capital Outlay	0	0	2,400	2,400	(2,400)	0
Other Charges/Pass Thru	677,900	1,395,100	(760,300)	634,800	179,600	814,400
Depreciation	4,088,000	5,392,500	(69,900)	5,322,600	(192,600)	5,130,000
Total	$142,478,400	$117,032,700	$17,231,700	$134,264,400	($1,705,500)	$132,558,900
Other Data						
Budgeted FTE	1089.0	933.0	0.0	933.0	(30.0)	903.0
Actual FTE	804.2	0.0	0.0	0.0	0.0	0.0
Authorized Capital Outla	3,907,400	7,961,000	0	7,961,000	(961,000)	7,000,000
Retained Earnings	2,790,900	4,543,300	(6,062,900)	(1,519,600)	(1,125,700)	(2,645,300)
Vehicles	23.0	23.0	9.0	32.0	(1.0)	31.0

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