

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

May 20, 2005

TO: Honorable Rodney Ellis, Chair, Senate Committee on Government Organization

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: HB1516 by Isett (Relating to the Department of Information Resources' management of state electronic services.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1516, Committee Report 2nd House, Substituted: a positive impact of \$15,436,963 through the biennium ending August 31, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	\$3,667,090
2007	\$11,769,873
2008	\$11,996,217
2009	\$16,529,262
2010	\$16,618,399

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from <i>GENERAL REVENUE</i> <i>FUND</i> 1	Probable Savings from <i>GR DEDICATED</i> <i>ACCOUNTS</i> 994	Probable Savings from <i>FEDERAL FUNDS</i> 555	Probable Savings from <i>OTHER FUNDS</i> 997
2006	\$3,667,090	\$1,053,272	\$2,896,392	\$4,449,676
2007	\$6,182,000	\$1,284,819	\$5,094,680	\$5,146,962
2008	\$11,996,217	\$1,911,133	\$10,554,370	\$7,210,478
2009	\$16,529,262	\$2,350,538	\$14,608,176	\$8,576,702
2010	\$16,618,399	\$2,387,196	\$14,804,104	\$8,742,562

Fiscal Year	Probable (Cost) from <i>OTHER FUNDS</i> 997	Probable Revenue Gain from <i>GENERAL REVENUE</i> <i>FUND</i> 1	Probable Revenue Gain from <i>DIR CLEARING</i> <i>FUND ACCOUNT</i> 997	Change in Number of State Employees from FY 2005
2006	(\$1,633,000)	\$0	\$1,750,000	0.0
2007	(\$19,399,010)	\$5,587,873	\$1,750,000	(91.5)
2008	(\$21,994,469)	\$0	\$1,750,000	(329.6)
2009	(\$20,708,481)	\$0	\$1,750,000	(451.8)
2010	(\$1,285,988)	\$0	\$1,750,000	(464.0)

Fiscal Analysis

The bill requires that state agencies purchase hardware, software, and technology services through the Department of Information Resources (DIR). The bill authorizes DIR to operate statewide technology centers to provide two or more state agencies, on a cost-sharing basis, information resources services

and deployment and development services for statewide applications.

The bill exempts the Comptroller's Office and the Department of Public Safety from the provisions relating to statewide technology center consolidation.

Methodology

Technology Commodities and Services

The bill requires that state agencies purchase hardware, software, and technology services through the Department of Information Resources (DIR). The purchase of hardware through DIR is estimated to produce \$10.1 million savings to all funds (\$2.3 million in GR-related funds) during the 2006-07 biennium. The estimated savings assumes a pricing of \$619 for desktop computers, \$266 for 17-inch monitors, \$1,500 for laptop computers, and a savings of 20 percent on servers and 10 percent on printers.

Purchasing technology services through DIR is estimated to produce a \$13.6 million savings to all funds during the 2006-07 biennium. The estimated savings assumes that a DIR-negotiated statewide commodity technology services contract would reduce costs by 15 percent. It is estimated that \$90.4 million will be expended on commodity technology services during the 2006-07 biennium.

The bill authorizes DIR to charge an administrative fee to a state agency or political subdivision that purchases commodity items through DIR to recover associated costs. DIR is authorized to charge up to a 2 percent fee to state agencies and units of local government for procurement services. The hardware and technology services added by the bill total \$173.2 million for the 2006-07 biennium, therefore up to \$3.5 million could be charged to state agencies which would be a revenue gain to the DIR Clearing Fund Account. In addition, it is possible that DIR's standard hardware configuration would not be appropriate for higher education institutions and higher education medical institutions which could result in additional cost.

Statewide Technology Centers

The bill authorizes DIR to operate statewide technology centers to provide two or more state agencies, on a cost-sharing basis, information resources services and deployment and development services for statewide applications. Current annual cost for data center operations is \$106.8 million. Based on an analysis of peer organizations this analysis assumes Texas' costs for operating its independent data centers is approximately 22.6% higher than those of its consolidated peers. Texas's data center operations costs in the consolidated environment would total \$82.7 million, resulting in annual savings of \$24.1 million in all funds by fiscal year 2010. This savings will be achieved through the reduction of 464 FTEs. This analysis assumes these savings would be realized incrementally in fiscal year 2007 through fiscal year 2009, with maximum savings realized once all the data centers are consolidated in fiscal year 2010.

DIR will require additional staff and resources on a temporary basis to manage the implementation of the outsource vendor contract and the transition process: 24.5 FTEs in fiscal year 2007 (\$1.28 million); 18.4 FTEs in fiscal year 2008 (\$1.93 million) and 12.2 FTEs in fiscal year 2009 (\$0.64 million). In addition, the costs associated with DIR's project management activities are \$0.65 million in fiscal year 2007, \$1.5 million in fiscal year 2008, \$1.29 million in fiscal year 2009, and \$1.46 million in fiscal year 2010. Capital improvement costs of \$11.4 million will be incurred for facility upgrades at the data centers, including uninterruptible power supplies, air conditioning, and other facility improvements required to develop a Tier III facility. Labor and system upgrade costs for the transition of data center operations to a consolidated environment is estimated at \$40.9 million. Total costs for data center consolidation is estimated to be \$64.9 million in other funds, primarily interagency contracts between state agencies and DIR. The funding sources at state agencies would consist of general revenue related, federal and other funds. In this analysis, \$56.7 million in migration costs are shown in the fiscal years in which they are expected to be incurred.

The consolidation initiative would result in a one-time payment from the outsourced vendor for the transfer of state computer assets which would result in a revenue gain of \$5.6 million to general

revenue in fiscal year 2007. Once the data centers now operated within state agencies are fully consolidated, it is estimated that 187,377 square feet of raised floor and office space now used in agency-managed data centers would be released. This would result in a savings of \$1.1 million in fiscal year 2009, and \$1.1 million in fiscal year 2010.

Other Reports and Requirements

In addition, the bill requires state agencies to prepare a planned commodity hardware procurement schedule and a business case, impact analysis, and post-implementation plan for major information resource projects. The costs for these requirements could be absorbed by larger agencies, however such requirements could have significant fiscal impact on smaller agencies. In addition, no significant fiscal implication is anticipated by requirements for DIR to oversee the expanded commodities purchase program, the telecommunications program, and major information resources projects.

Local Government Impact

There could be an impact to local units of government that purchase information resources through DIR.

Source Agencies: 303 Building and Procurement Commission, 304 Comptroller of Public Accounts, 308 State Auditor's Office, 313 Department of Information Resources, 320 Texas Workforce Commission, 329 Real Estate Commission, 362 Texas Lottery Commission, 405 Department of Public Safety, 454 Department of Insurance, 455 Railroad Commission, 456 Board of Plumbing Examiners, 507 Board of Nurse Examiners, 529 Health and Human Services Commission, 551 Department of Agriculture, 582 Commission on Environmental Quality, 601 Department of Transportation, 720 The University of Texas System Administration, 802 Parks and Wildlife Department

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