

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 11, 2005

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

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

IN RE: SB1547 by Duncan (Relating to the Department of Information Resources' management of state electronic and telecommunications services.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1547, As Introduced: a negative impact of (\$56,724,637) 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	(\$65,102,910)
2007	\$8,378,273
2008	\$8,124,484
2009	\$13,283,490
2010	\$13,372,788

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from <i>GENERAL REVENUE</i> <i>FUND</i> 1	Probable (Cost) 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
2006	\$3,667,090	(\$68,770,000)	\$1,053,272	\$2,896,392
2007	\$6,534,583	(\$5,000,000)	\$1,284,819	\$5,094,680
2008	\$13,124,484	(\$5,000,000)	\$1,911,133	\$10,554,370
2009	\$18,283,490	(\$5,000,000)	\$2,350,538	\$14,608,176
2010	\$18,372,788	(\$5,000,000)	\$2,387,196	\$14,804,104

Fiscal Year	Probable Savings from <i>OTHER FUNDS</i> 997	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
2006	\$4,449,676	\$2,000,000	\$0	\$1,750,000
2007	\$5,206,150	(\$23,758,738)	\$6,843,690	\$1,750,000
2008	\$7,399,881	(\$26,937,500)	\$0	\$1,750,000
2009	\$8,871,186	(\$25,362,500)	\$0	\$1,750,000
2010	\$9,037,073	(\$1,575,000)	\$0	\$1,750,000

Fiscal Year	Change in Number of State Employees from FY 2005
2006	0.0
2007	(112.0)
2008	(403.5)
2009	(553.0)
2010	(568.0)

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 information centers to provide two or more state agencies, on a cost-sharing basis, information resources services and deployment and development services for statewide applications.

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. The University of Texas System estimates a \$60.5 million cost to general revenue for the 2006-07 biennium. It is possible there could be similar costs to other university systems.

Independent Validation And Verification (IV&V)

The bill requires state agencies to fund and include an independent validation and verification (IV&V) plan with the major information resource project plan. IV&V is an independent function of project management that validates objectively that the work products produced meet quality and conformance guidelines, and that the end result satisfies agency goals, project objectives, and requirements. Industry standards indicate that IV&V is approximately 10 percent of project costs. In fiscal year 2004 the Quality Assurance Team's (QAT) annual report has authority over projects that have a total cost of \$952.7 Million. Currently, there is \$687.7 million for Information Technology projects for fiscal year 2005. This analysis assumes the same amount for 2006, therefore a \$68.8 million cost in fiscal year 2006 to general revenue for IV&V is anticipated. This analysis assumes an additional \$50 million for Information Technology projects in subsequent fiscal years, therefore a \$5 million annual cost is anticipated for fiscal year 2007 through fiscal year 2010 for IV&V.

Statewide Information Centers

The bill authorizes DIR to operate statewide information 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 at the 24 agencies with the largest independent data centers is \$130.8 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 \$101.2 million, resulting in annual savings of \$29.6 million in all funds by fiscal year 2010. This savings will be achieved through the reduction of 568 FTEs at the 24 agencies with the largest independent data centers. 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: 30 FTEs in fiscal year 2007 (\$1.57 million); 22.5 FTEs in fiscal year 2008 (\$2.36 million) and 15 FTEs in fiscal year 2009 (\$0.78 million). In addition, the costs associated with DIR's project management activities are \$0.79 million in fiscal year 2007, \$1.84 million in fiscal year 2008, \$1.58 million in fiscal year 2009, and \$1.79 million in fiscal year 2010. Capital improvement costs of \$14 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 \$50.1 million. Total costs for data center consolidation is estimated to be \$79.6 million in other funds primarily interagency contracts between state agencies and DIR. In this analysis, \$69.4 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 \$6.8 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 \$1.4 million in fiscal year 2009, and \$1.4 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, 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, 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, 304 Comptroller of Public Accounts, 455 Railroad Commission

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