

SUBJECT: Requiring state agencies to use state technology centers

COMMITTEE: State Affairs — committee substitute recommended

VOTE: 8 ayes — Swinford, Miller, B. Cook, Farrar, J. Keffer, Martinez Fischer, Villarreal, Wong

0 nays

1 absent — Gattis

WITNESSES: For — Thomas Ratliff, Northrup Grumman Information Technology

Against — None

BACKGROUND: The Department of Information Resources (DIR) oversees the operation of two state data centers that provide computer operations and disaster recovery services to state agencies. These facilities, which are located in San Angelo and Austin, are operated by a private vendor under contract with DIR.

Government Code, sec. 2055.061 expresses the intent of the Legislature that all state agencies and institutions of higher education use the state data center for data center operations, testing disaster recovery plans, and disaster recovery services. Agencies that wish to use other providers must first obtain a waiver from the Legislative Budget Board certifying that the requested service requirements cannot be provided at reasonable cost through the center.

DIGEST: CSHB 2698 would require state agencies, excluding institutions of higher education, to use the data centers operated by the Department of Information Resources. An agency could not contract for or purchase data center or disaster recovery services from another provider unless DIR's executive director approved the expense.

DIR could establish additional centers if the executive director determined that they would promote efficiency and provide the best value to the state, if the governor approved their establishment, and if the Legislative Budget Board (LBB) approved the necessary expenditures. DIR would have to

conduct a cost and requirements analysis for each agency intended to use the center, based on the agency's identification of its needs, costs, and requested service levels. Agencies selected by DIR would be required to enter into an interagency contract with the department to receive the identified services. If an agency disagreed with its selection, it would have 30 days to petition the LBB for approval to spend funds in another specified manner. To receive approval, an agency would have to demonstrate that inclusion of the agency in the technology center would either fail to achieve meaningful cost savings for the state or would result in an unacceptable loss of effectiveness or operational efficiency. The LBB would have to notify the agency, the executive director of DIR, and the comptroller of its decision.

Subject to the governor's approval, DIR could require a state agency using a statewide technology center to transfer resources, including information resources and employees, that the department determined were used to support the operations or services provided by the center. DIR would be required to advise the governor, the lieutenant governor, the speaker of the house, LBB, and State Auditor's Office on the expected cost savings of these transfers. Any transfer of resources that jeopardized federal funding would be excluded. Transferred resources would be exempt from regulations relating to the transfer and disposal of surplus property.

DIR would be required to prioritize migration of services to the centers based on the size of each agency's technology center operational environments, with the largest environments receiving the highest priority. DIR would have to migrate at least three environments per fiscal year through 2013. A state agency could not transfer services from a center unless approved by the governor and DIR's executive director.

DIR would have to set and charge fees to state agencies in an amount sufficient to cover the direct and indirect cost of providing services. DIR could operate the centers directly or contract with a third party for their operation. DIR would not be allowed to establish or expand a center including participation by an institution of higher education unless it was agreed to by the Information Technology Council for Higher Education.

The bill also would require DIR to report on the status of the statewide technology center system migration and consolidation by August 31 of 2006 and 2007 and would repeal sec. 2055.061 of the Government Code.

The bill would take effect September 1, 2005. Each state agency would be required to enter into an interagency contract with DIR by March 31, 2006.

**SUPPORTERS
SAY:**

CSHB 2698 would save the state millions of dollars by consolidating data and other information resources services in statewide technology centers. Although agencies have been required to transition to these centers for several years, compliance has been sporadic. Consequently, the state has realized only a small fraction of the potential savings from consolidation. CSHB 2698 would put stronger mechanisms in place to ensure that state agencies, excluding institutions of higher education, complied with the Legislature's will to consolidate their data and information resources services.

Data services consolidation would reduce costs by allowing the state to benefit from economies of scale. Currently, the 24 largest state agencies spend about \$130 million on data center services. Only 30 percent of this amount is spent on consolidated services within the state data center system. Consolidating these services would result in reduced hardware needs, lower software costs, reduced facilities costs, reduced staffing needs, and the maximized use of federal funds for data center functions. An independent report commissioned by DIR found that the state could save \$29.6 million annually from consolidating data services. Because transition costs would be higher in the first few years, the report estimated a savings of \$3.5 million in fiscal 2006-07, with cumulative savings of \$60 million by fiscal 2010 and \$163.9 million by fiscal 2014. The LBB fiscal note estimated a savings to general revenue of about \$9.8 million in fiscal 2006-07. This consolidation also would free up more than 187,000 square feet of data center space.

The bill also would ensure more consistent and higher service levels by standardizing practices and processes, providing better and more secure facilities, and improving information technology risk management. Consolidating data services also would enable state agencies to concentrate on their core missions, further improving service levels. The bill would ensure that the service of no agency was compromised by allowing an agency to opt out of future technology center consolidations if doing so would result in an unacceptable loss of effectiveness or operational efficiency. If the state was dissatisfied with a particular vendor's service, it could always re-bid the contract.

The bill would not favor a specific vendor because the current contract for the state's data centers will run out in 2007 and be re-bid at that time. By creating a plan for increasing the amount of consolidated data services, the state would increase the value of that contract and stimulate greater competition for the contract, saving the state additional money.

**OPPONENTS
SAY:**

CSHB 2698 would cost the state millions of dollars without providing any guaranteed benefit. The LBB fiscal note found that five-year costs for the consolidation would be about \$80 million. The costs during fiscal 2006-07 were estimated to be about \$25.7 million, significantly more than the \$9.8 million in estimated savings to general revenue during the same period. Yet these costs are included the "other funds" category because they would be paid through interagency contracts. These costs would be expenses over and above what agencies currently are spending on data services - money that they do not have. While some funding might come from federal funds, a large portion would probably have to come from general revenue, requiring either large additional appropriations or a reduction in the agencies' services. Moreover, the state has yet to see any documented savings from consolidation thus far, making it questionable whether the promised savings would materialize. With so many programs underfunded across Texas, the state cannot afford this bill.

The bill also could reduce the quality of state agency services. Just as local governments are better positioned than the federal government to determine the needs of citizens, agencies are closer to the populations they serve and can better determine the needs of those people and how to fulfill them. By dismantling agencies' data services environments, the state would eliminate their ability to resume these functions if there were dissatisfaction with the performance at the state data centers.

NOTES:

The committee substitute differs from the bill as filed by:

- removing a section on legislative findings;
- creating a new subchapter rather than amending current statute; and
- eliminating a requirement that DIR report on migration and consolidation process quarterly, among other changes.