

# Senate Finance Committee



## IT Sourcing

*Opportunities to Improve Service,  
Increase Choice, and Reduce Cost*



November 20, 2015

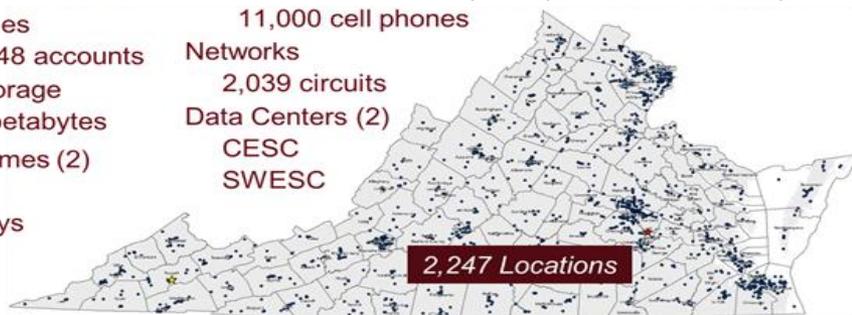


# Why IT Matters

- IT infrastructure (*computers, networks, servers, storage, messaging*) supports all citizen services, from licensing to law enforcement, and the collection of revenues that fund all day-to-day government operations.
- Virginia spends approximately \$1.0 billion on IT expenditures annually.
  - Of this, approximately \$250 million is spent on infrastructure services provided by Northrop Grumman.



Computers	Communications	Printers
59,374 PCs	55,000 desk phones	5,311 network
3,356 servers	6,100 handhelds (PDAs)	22,000 desktop
Mailboxes	11,000 cell phones	
58,948 accounts	Networks	
Data storage	2,039 circuits	
1.5 petabytes	Data Centers (2)	
Mainframes (2)	CESC	
IBM	SWESC	
Unisys		



# Why IT Matters... Now

- Virginia is positioned to remain a national leader in IT service provision by capitalizing on lessons learned from both a decade of IT outsourcing as well as other peer-state experiences.
  - Build upon successful centralization, standardization, and security enhancements achieved through current contract with Northrop Grumman.
  - Provide customer agencies the ability to benefit from both freedom of choice and economies of scale by introducing market competition among service providers.
- Incremental initiation of the next generation sourcing effort has the potential to provide a more seamless transition from the current vendor and reduce risk to citizens, customer agencies, and service providers.



# Virginia's Current IT Sourcing Environment...

- In 2005, Virginia entered into a 10-year partnership initially valued at \$2 billion.
  - Initiated under the PPEA in 2005.
  - Private investment of more than \$270 million to modernize IT infrastructure.
  - In 2010, the Commonwealth exercised an option to extend the term to 13 years; expiring on July 1, 2019.
    - Contractual rate reduction was eliminated.
  - More than \$1.9 billion has been paid to date.
- Effort primarily focused on transforming and consolidating 89 agencies.
  - More than 550 state IT staff became NG employees in 2006.
  - Reduction in duplicative assets.
  - Standardization of operating systems and licensing agreements.
  - Rigorous security improvements have mitigated external threats.

**Most original contract objectives accomplished.**

## Goals and Objectives of the Infrastructure Partnership

- *Integrate and manage the IT infrastructure of executive branch agencies*
- *Implement a secure Intranet encompassing in scope agencies*
- *Establish state-of-the-art data center and back-up facility*
- *Consolidate agency servers*
- *Implement desktop management program*
- *Establish a unified statewide electronic mail service*
- *Provide a statewide customer care center*
- *Employ innovative procurements, supplier partnerships and financing arrangements*
- *Introduce innovative technology solutions*
- *Improve major IT project success rates to best in class levels*
- *Achieve significant annual return on investments*



# ...Has Not Been Without Challenges

## Legislative Reviews Since Inception

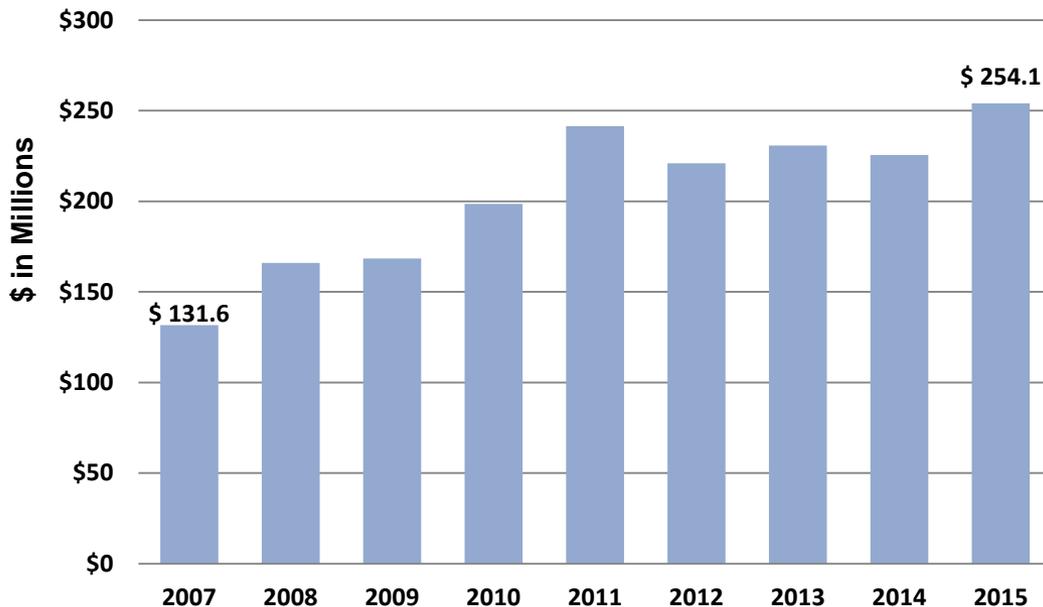
2006	APA	<i>Review of IT Governance</i>
2007	APA	<i>VITA Service Management Organization</i>
2008	JLARC	<i>Interim Review of the Virginia Information Technologies Agency</i>
2009	APA	<i>Interim Review of the IT Partnership</i>
2010	JLARC	<i>Review of Information Technology Services in Virginia: Final Report</i>
2011	JLARC	<i>Summary of the Audit of Northrop Grumman's Performance Related to the DMX-3 Outage and Associated Infrastructure</i>
2014	JLARC	<i>Virginia's Information Technology Governance Structure</i>

- Legislative oversight bodies have documented several implementation challenges with the current model.
  - Approximately 50 recommendations.
  - Generally focused on governance, security, and stakeholder management.
- Customer services challenges persist and services provided have not kept pace with agency business needs.
  - Network service outages have affected citizen transactions.
  - Email outages have impacted business operations.
- Unique business requirements of customer agencies impacted the transformation process.
  - Law enforcement agencies have proven particularly challenging and may require exemption from consolidation.



# While Market Rates for IT Services Decreased, Partnership Costs have Increased

**Payments to NG**  
(Fiscal Year)



Payments have grown 93% since FY 07...

...with the annual cost per FTE growing from \$1,132 to \$2,171

- Agencies are experiencing a 15.1% rate increase over five years primarily from contractual Cost of Living Adjustments (COLAs).
  - Has limited the ability to reduce mandatory IT costs during periods of budget reduction.

**Current and Forecast COLA Fee Adjustment**

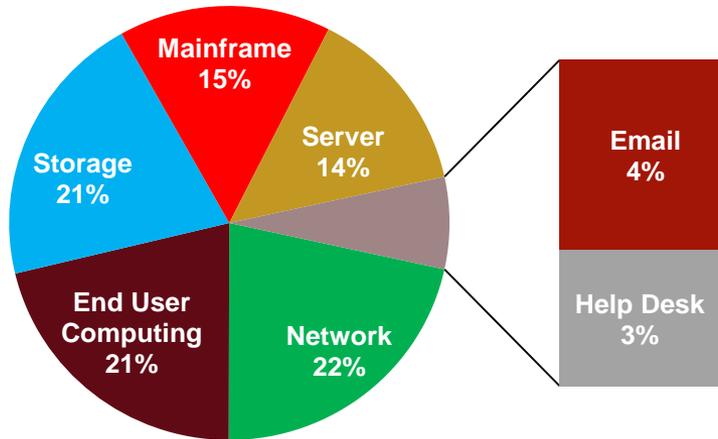
	FY 14	FY 15	FY 16	FY 17**	FY 18
Fee change from prior year	0.77%	4.17%	3.57%	3.09%	2.66%

Source: Joint Legislative Audit and Review Commission

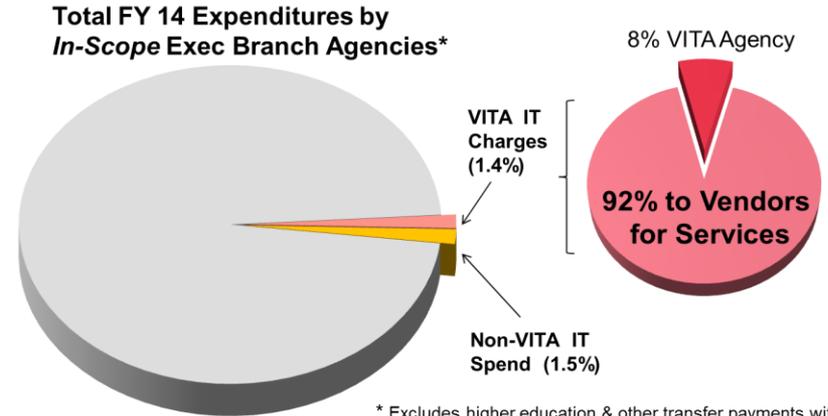


# Charges are Split Among Types of Service, Costs Vary by Agency

7 Towers of IT Service Spend



IT Spending Averages < 3% of State Budget



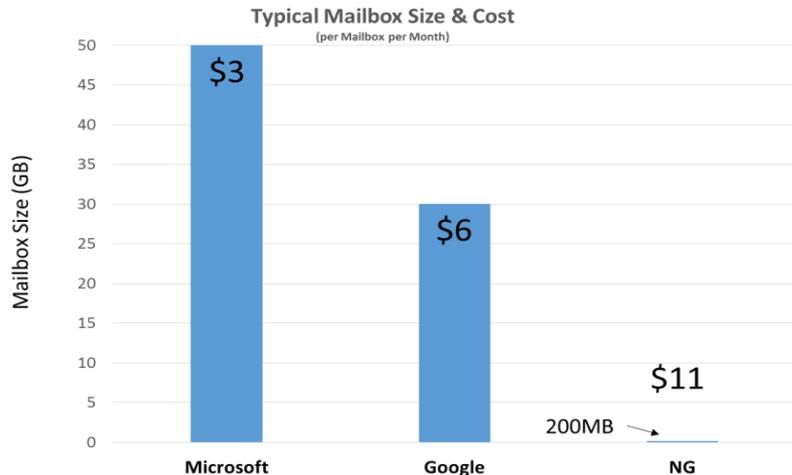
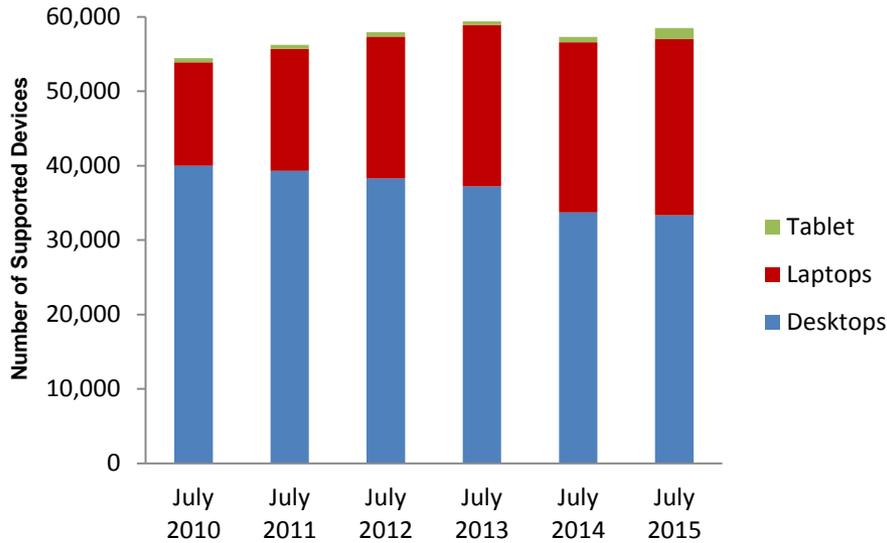
\* Excludes higher education & other transfer payments with own agency code (SOQ, Employee Health Ins., CSA, etc)

- Fees paid to the vendor fall into seven different service towers that account for the majority of infrastructure services.
  - Impact on individual agencies varies based on amount and type of service consumed.

10 Agencies Comprise Three-Quarters of Annual Spend	
Social Services	Taxation
Transportation	VEC
Corrections	ABC
DMV	State Police
Health	DMAS



# Customer Preferences and Market-Based Solutions Have Changed Faster than Partnership Services



- Customer preferences have shifted toward portable computing.
  - 17 percent **decline** in desktops
  - 71 percent increase in laptops
  - 171 percent increase in tablets
- Most commercially available messaging services provide 250 times the capacity of current service, for less than half the cost.
- As mainframe computing is phased-out, current sourcing approach constrains agencies' ability to move forward with improvements.
  - Migration of DSS and DHRM business applications from Unisys mainframe could potentially strand costs for services not consumed.
  - May require approximately \$6.1 million to avoid charges of \$36 million through 2019.
- Introduction of managed print services has allowed agencies the option to purchase commercially available network printing outside of the Partnership.
  - Agency led initiative to reduce cost of printing.
  - Mutual benefits to both the vendor and customer.



# Enabling a Mobile Environment Requires a Policy Decision to Utilize Cloud-Based Solutions

## Software as a Service

- Most basic platform of cloud computing service
- Common for tablet based applications
- Licensed use and vendor upgrades
- Do not own any underlying digital infrastructure

## Platform as a Service

- Custom created software applications
- Programming tools supported by cloud provider
- Disaster Recovery provided remotely

## Infrastructure as a Service

- Computing power, storage, networks
- Flexibility in managing applications as well as underlying operating systems
- Similar to current Partnership

- Cloud services *shift risk* to providers while increasing choice for customer agencies.
  - Technical currency
  - Scalability
  - Security
  - Electricity savings
  - Productivity savings
- Cloud services enhance citizen-centric services by increasing ease of mobile applications development.
  - Improves agency abilities to provide innovative solutions to business problems.
- Difficult for a single vendor to innovate as quickly as the market in response to customer preferences.

Source: Center for Digital Government, *The Future of IT in State and Local Government*, 2015



# Following Legislative Direction, Planning Has Been Underway Since 2013

- Language in the 2013 Appropriations Act directed an assessment of the Comprehensive Infrastructure Agreement.
  - The assessment identified specific concern with the inability of the vendor to provide relevant market analysis of costs as required under the agreement.
- In response to a 2014 JLARC recommendation, Chapter 665 (2015) includes language directing VITA to solicit options for increasing involvement of customer-agency representation in *“planning for the replacement of information technology services currently provided by Northrop Grumman.”*
  - Two actions taken as a result of this direction were the retention of an outside sourcing consultant and the formation of a IT Sourcing Steering Committee.
- Sourcing consultant contract awarded to Integris Applied.
  - Competitive procurement with an 11-month statement of work:
    - Contract and pricing structure analysis,
    - Analysis of current spending for market comparison,
    - Marketplace request for information (RFI), and
    - Final report received in November.
- Steering Committee formed to facilitate a collaborative discussion involving multiple stakeholders.
  - Comprised of executive and legislative branch staff.
  - Provided guidance to the sourcing consultant.



# Critical Challenges Identified with Current Service Delivery Model

## Customer Service Challenges

- Outdated contract terms
- Inflexible services has impacted business operations
- Communications hamper service ticket resolution
- Technology refresh cycle and service lags market

## Business & Financial Challenges

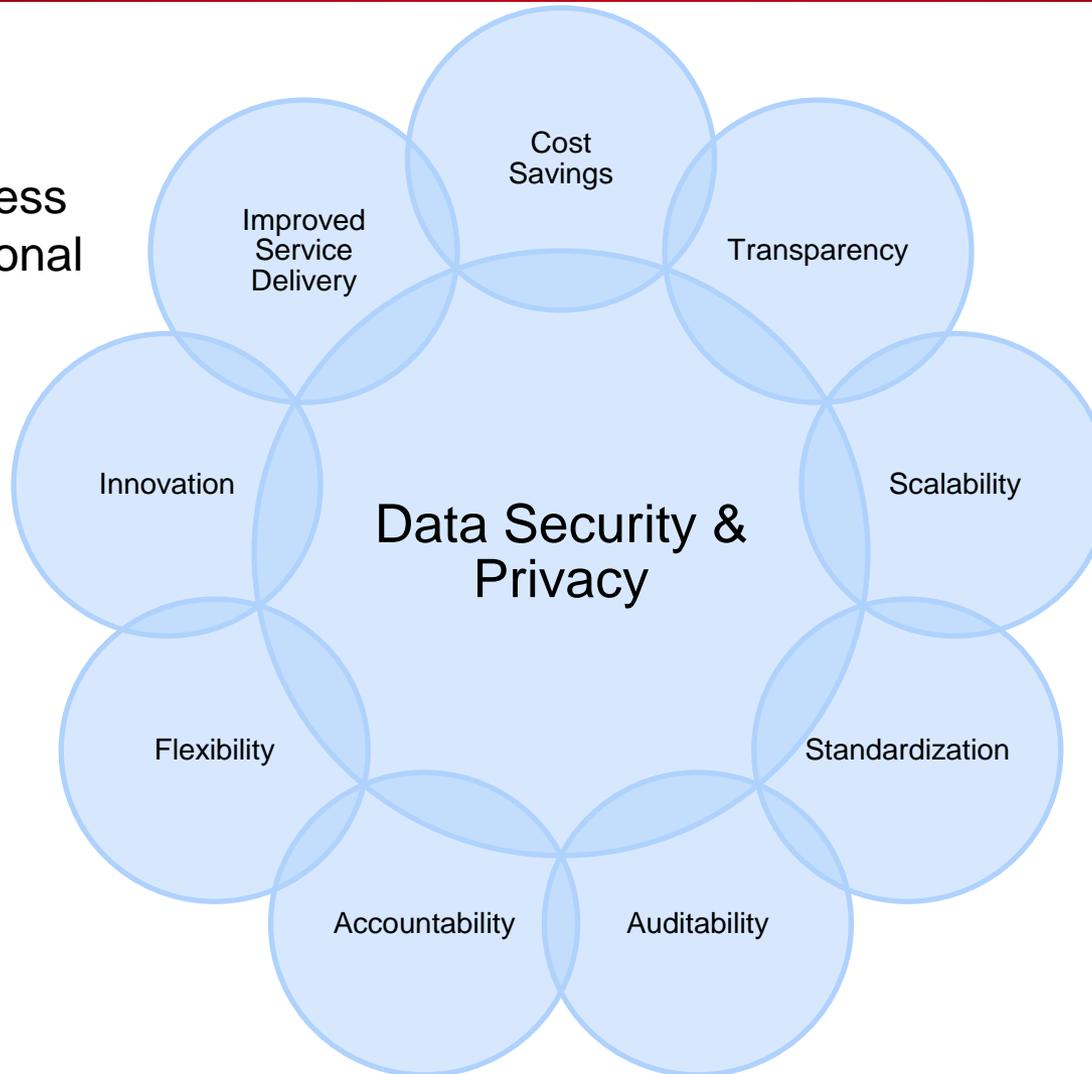
- Inequitable sharing of risk
- Prices well above market for similar services
- High fixed-costs and minimum revenue commitments
- Service levels measured only at the state level do not reflect individual agency concerns



# Next Sourcing Contract Must Balance Competing Priorities

## Agencies

Perspective of individual business units on operational needs

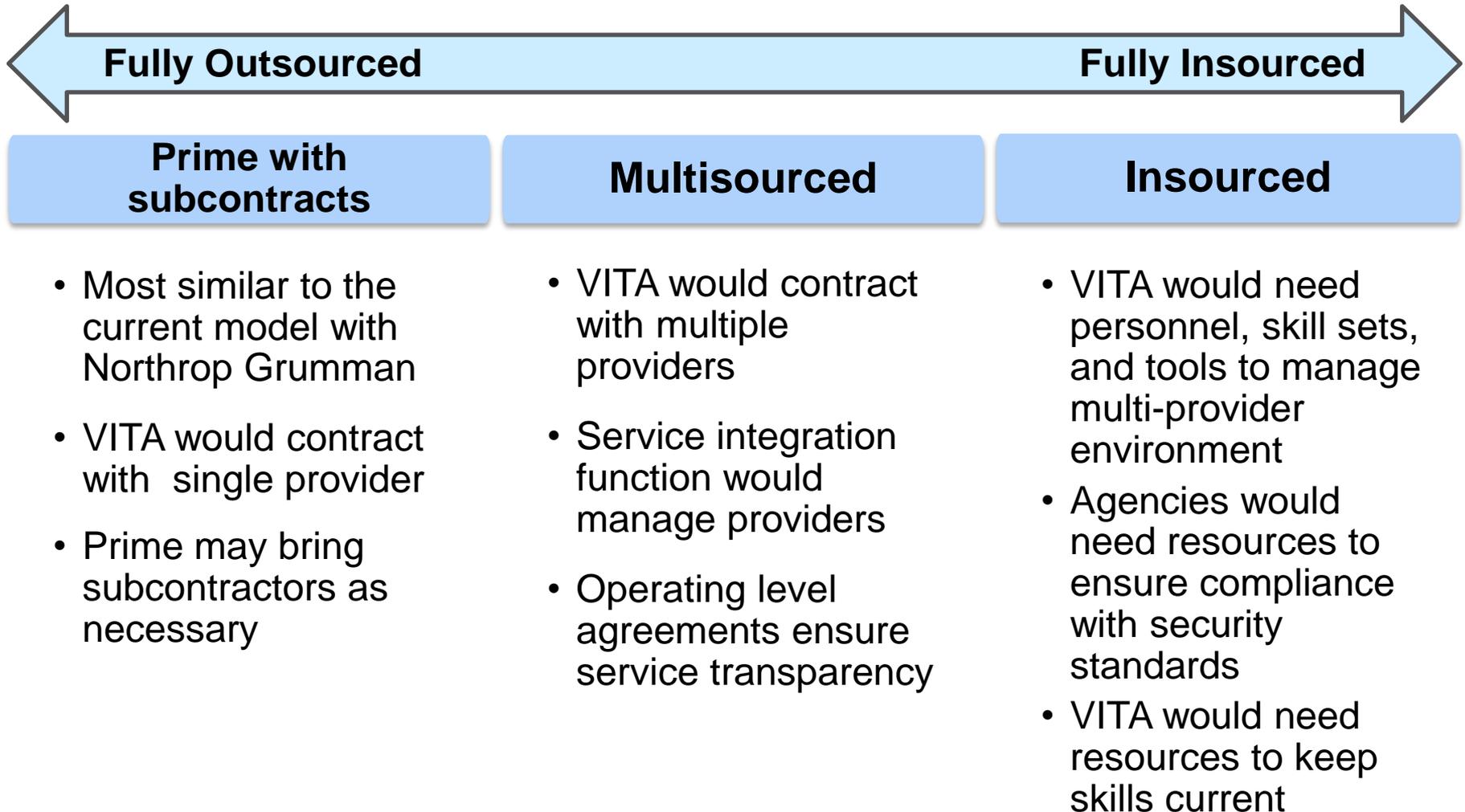


## Enterprise

Perspective of the policy makers on overall statewide priorities and resources



# Three Primary Sourcing Models Exist



# Multiple Contracting Alternatives Exist Within Each Sourcing Model

## Contracting Alternatives

*Rebid full-scope at term with all services outsourced to a prime contractor with its own subcontracts*

*Rebid full-scope at term with towers outsourced to multiple suppliers, internal service integration*

*Rebid full-scope at term with all services, including integration, outsourced to multiple suppliers*

*Rebid in waves for all services, including service integration, to multiple suppliers*

*Rebid in waves for all services, including service integration but towers may be sourced as multiple competitive contracts*

*Full in-source in waves with all services insourced*

*Partial insource in waves with some optional tower outsourcing (i.e. email)*



# Volume of Respondents to Request for Information Indicates Market Interest



***Of 29 respondents, 13 were interviewed. The incumbent vendor did not submit a response.***



# RFI Process Identified Trends in IT Sourcing

- Shorter contract terms ranging from 4 to 6 years, compared to the current 13-year term.
- Shift from single vendor to best-in-breed vendor(s).
  - Use of a contractual Multisourcing Service Integrator (MSI) to support multiple vendors.
  - Role of the integrator is to coordinate and oversee the delivery of technology services to state agencies by multiple service providers.
- Staggered procurements are more manageable than a single “big-bang” approach.
- Cloud computing is a valid and secure option.
  - Virginia is home to multiple vendors and data centers.



# RFI Indicated Marketplace Options

- Agencies may have choices that don't exist in current service model.
  - Catalogue of approved suppliers and services.
  - Choices where to run their applications: cloud, data center, or a hybrid.
  - Multiple levels of service at different price points.
- VITA will also need to adapt.
  - Frequent procurements and transitions may require different staffing skillsets.
  - Align changes in service delivery model with statutory oversight responsibilities.



# IT Sourcing Will Requires Policy Choices

- *Would the Commonwealth be willing and able to increase in-house IT staff resources across executive branch agencies?*
- *Does the Commonwealth have available resources to repurchase computing and data center assets or should these continue to be provided contractually?*
- *Should Commonwealth data physically reside within or outside Virginia?*
- *Do market-based security strategies adequately meet Commonwealth data protection needs?*
- *Is regional economic development a factor in the provision of IT infrastructure?*
- *Would the introduction of market competition among types of infrastructure services provide lower agency costs?*
- *Do the operational risks reduced by staggering procurements over a longer time period outweigh potential concerns with early disentanglement?*
- *Does VITA need to be located closer to customers?*



# IT Sourcing Options

- **Virginia will continue preparing for future provision of IT services.**
  - The Commonwealth has exercised all contract extensions under the current Agreement.
  - Existing contract contemplates a disentanglement period beginning in 2018.
  - Following Public Procurement Act timelines, prerequisite activities for procurement of a follow-on vendor(s) would need to be initiated prior to the end of the current administration.
  - Opportunities for legislative guidance and oversight will occur throughout planning.
- The Commonwealth should consider moving forward with the disentanglement process sooner than later.
  - Provides the ability to gain a better understanding of the incumbent vendor's position with respect to future procurement opportunities.
- A phased approach would provide the ability to facilitate seamless transition while realizing some savings and improving agency business processes.
  - Multiple smaller procurements could improve the Commonwealth's ability to effectively negotiate larger service areas in future procurements.



# Next Steps

- While execution of contracts is the responsibility of the Executive Branch, opportunities exist for legislative stakeholder input.
  - In 2005 and 2010, external involvement of legislature and customer agencies was limited.
- Identifying areas of mutual agreement with the incumbent vendor may be possible, but only once the discussion is initiated.
- Governor's introduced budget may include an increase in the line of credit to begin funding these activities:
  - Modest VITA staffing increase that would be required for managing procurements.
  - Funding may be necessary for retaining advisors and for potential payment of resolution fees.
  - Funding will be needed to transition away from outdated mainframe platforms.
- Legislation may be introduced to exempt the Virginia State Police from transformation requirements.
  - Funding of approximately \$14.4 million GF has been requested by VSP for the upcoming biennium.
- General Government Subcommittee will continue exploration and oversight of this issue during the 2016 Session and throughout the eventual procurement process.

