



Oregon

Theodore R. Kulongoski, Governor

Department of Administrative Services

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March 13, 2006

The Honorable Peter Courtney, Co-Chair
The Honorable Karen Minnis, Co-Chair
State Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of Request

The Department of Administrative Services requests that the State Emergency Board take the following actions:

- Increase the Department's Other Funds expenditure limitation by \$835,547; and
- Transfer Other Funds expenditure limitation of \$496,079 from its Information Resources Management Division to the State Data Center; and
- Establish 56 full-time permanent positions (28.00 FTE) for its State Data Center Operations; and
- Abolish 7 positions (5 permanent and 2 limited duration) from its Information Resources Management Division; and
- Reschedule \$42,218,000 existing Other Funds expenditure limitation for use by its State Data Center Operations.

Agency Action

The budget report for House Bill 5166 directs the Computing and Networking Infrastructure Consolidation (CNIC) Governing Board to evaluate the project and bring recommended adjustments before the Emergency Board. The purpose of this request is to discuss the Governing Board's findings and recommendations during the past nine months. In addition, this letter requests that the Emergency Board approve changes to the project to ensure its continued success. These requested changes achieve the expected operational efficiency savings while delivering the same or better services.

The project budget that was approved during the 2005 Legislative session was based on a high-level business case that had been developed in 2004. Since that time, much work has been completed to more clearly define the scope of the project (what is included and what is not). Detailed planning and design have also occurred, causing the Governing Board to recommend specific plan changes to mitigate risk and ensure success. The Governing Board has found that:

- The original business case assumed a mainframe capacity requirement of 883 million instructions per second (MIPS). Detailed planning has revealed that the target should be 1,185 MIPS to adequately address anticipated near term needs.
- The original business case assumed 1,245 servers in the twelve participating agencies to be consolidated or managed by the State Data Center. This critical business case assumption was understated by at least 700 servers.
- The legislatively adopted budget included seven network and operations security line staff in the Enterprise Security Office. These positions are effectively transferred to the SDC in this request. Further review of the security needs of the SDC indicate the need for four additional positions.
- The risk of consolidating at the same time that agencies are transitioning to the Data Center is far higher than originally anticipated.

The Governing Board used the following criteria in evaluating proposed changes to the original State Data Center consolidation project plan:

- Balance the delivery of savings and services with the project's financial and operational risks;
- Ensure the Center's initial and long-term success; and
- Minimize the risk of disruption to services.

Four project options (including the legislatively approved budget option) were evaluated by the Governing Board in response to the most current information available from the detailed design and implementation phases of the project. These were:

- Continuing with implementation of the legislatively approved plan despite known shortcomings and risks;
- Limiting consolidation to the three largest agencies (Human Services, Administrative Services and Transportation);
- Consolidating only enterprise systems (no server consolidation);
- Consolidating all twelve agency data centers based upon more up to date and accurate information.

It became apparent to the Governing Board, during the various detailed planning and design phases of the project, that the legislatively approved plan had high operational risks. The staffing model is not adequate due to the large increase in the number of servers and mainframe capacity. Without adequate staffing, the risk of service disruption is greater with longer recovery times. This, coupled with no network security staff, makes the original plan untenable. Other options had to be considered, despite the impact on expected operational savings. Limiting consolidation to the Departments of Human Services, Administrative Services and Transportation, would consolidate many of the state's information technology assets. However it would fall short of the original operational and cost efficiencies targeted for the project since nine data centers would remain unconsolidated. Consolidating only the

enterprise systems (mainframes and few existing enterprise servers) would not achieve any meaningful operational efficiency, one of the goals of consolidation.

The Governing Board reviewed business cases, prepared by information technology and budget staff, for all of the above options and with near unanimity agreed on the fourth option of consolidating all twelve agency data centers with adequate operations and security staffing. This option best meets the criteria of generating operational efficiency savings while still ensuring delivery of the same or better services to all participating agencies. It provides the necessary staff to address the most recent detailed design findings (increased mainframe capacity, greater number of servers and network security needs). It also changes the method of consolidation to reduce risk. The Legislatively approved plan assumed that consolidation of agency software applications would occur as agency hardware was "lifted" and placed at the SDC. This was intended to achieve immediate consolidation savings by reducing the number of servers and other hardware assets prior to or shortly after the lift. The risks of this method are high since the state's information technology assets include many older, complex legacy applications running on many different operating systems in different environments. Moving these systems from their current stand-alone environments to different hardware platforms presents an unacceptable risk of service interruption of core functions such as payment processing and tax collections. The Governing Board recommends the lower risk approach of consolidating systems after all assets are moved and made operational. This, coupled with more staff in place at the time of the move, lowers risk.

This option has more upfront costs than the legislatively approved plan. It has 149 positions, 138 in operations and 11 in network and operations security. However, the proposed staffing model is aggressively reduced beginning late in the 2007-09 biennium, reaching a steady state of 101 in 2011-13 (assuming no program growth). This differs from the legislatively approved staffing plan which initially assumed 93 positions, reduced to 72 positions in subsequent biennia. The Board will continue to analyze and refine these numbers as the project moves forward – regularly updating the legislature of their findings.

Under this recommended option, the 2005-2007 adopted budget of \$99,414,508 would be increased to \$100,746,134. The 2007-2009 budget would be approximately \$13.8 million higher than in the legislatively approved plan. However, from that point forward the cost of operating the State Data Center would be less than the costs of operating 12 separate data centers. The savings would grow in each succeeding biennium. Essentially, this option delays the legislatively approved plan's expected consolidation savings by one biennium while mitigating the substantial risk of service disruption or project failure.

The twelve participating agencies are committed to the success of this project and will absorb the additional cost requirements this biennium and those additional costs in the 2007-2009 biennium that cannot be otherwise mitigated. These additional costs would be partially offset by a decrease in each agency's portion of the Enterprise Security Office's assessment since seven of its positions would be transferred to the State Data Center. The net increase in data

center costs to be absorbed by agencies would amount to about one and one-half percent (1.5%) in 2005-2007 and eleven and one-half percent (11.5%) in 2007-2009. The proposed budget and projected savings for this option are attached as Exhibit 1.

While the Governing Board recommends the foregoing changes to the legislatively approved plan, it also reports that several project milestones have been achieved:

- The State Data Center Administrator was hired in July, 2005.
- Detailed implementation planning began in July, 2005.
- The network and computing infrastructure design was completed and approved in August, 2005.
- The State Data Center facility was completed in October, 2005.
- Network connectivity has been completed.
- Management of agency networks was consolidated at the State Data Center in January, 2006.
- Five managers were hired in early 2006.
- The detailed inventory of agency equipment to be moved for Department of Human Services, Oregon Department of Transportation and the Department of Administrative Services was completed in February, 2006.
- A Governing Board evaluation of participating agency actual data center expenditures in 2003-05 and a determination of what project/budget adjustments should be made was completed in March, 2006.

Milestones to be achieved in the next six months:

- Procurement of new technology is underway. The new equipment for the State Data Center's tape library, disk storage and mainframe will be purchased, installed, configured and ready for agency migrations in March and April, 2006.
- Agency-specific transition planning for the three largest agencies (Departments of Human Services, Administrative Services and Transportation) will be completed in early 2006 and the computing infrastructure of these agencies will be moved to the State Data Center by July, 2006.

Actual project and operational expenditures are attached as Exhibit 2.

Action Requested

1. Expenditure Limitation – increase the Other Funds expenditure limitation at Department of Administrative Services, State Data Center by \$835,547.
2. Expenditure Limitation – transfer Other Funds expenditure limitation of \$496,079 from the Information Resources Management Division to the State Data Center.

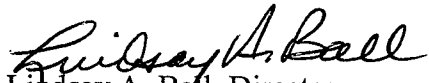
3. Position Authority – establish an additional 56 permanent full-time positions (28.00 FTE) at the State Date Center. In addition, abolish 5 permanent and 2 limited duration positions from the Information Resources Management Division, Enterprise Security Office.
4. Reschedule \$42,218,000 Other Funds expenditure limitation that had been unscheduled pending a request that it be rescheduled. This limitation should be rescheduled so that the project can continue uninterrupted later this year.

Legislation Affected

Increase Other Funds expenditure limitation in Chapter 605, Section 1, Oregon Laws 2005 by \$835,547.

Transfer Other Funds expenditure limitation of \$496,079 from Chapter 601, Section 2 (1), Oregon Laws 2005 to Chapter 605, Section 1, Oregon Laws 2005.

Sincerely,



Lindsay A. Ball, Director
Department of Administrative Services

Attachments: Exhibit 1 - Proposed Budget and projected savings – Recommended Option
Exhibit 2 – Actual Project expenditures as of February 2

State Data Center
Summary of Savings Projections

Original LAB as Adopted	Current Model	Transition Biennium				Cumulative
	2005-07	2005-07	2007-09	2009-11	2011-13	
Transition Costs	38.2	38.2	0.0	0.0	0.0	
Expenditures in Agency Budgets	93.6	31.6	0.0	0.0	0.0	
SDC Operations	0.0	48.0	76.8	72.6	71.7	
Debt Service	0.0	13.3	19.8	16.8	0.0	
Total	93.6	92.9	96.6	89.4	71.7	
Current Model Business Inflated	93.6	93.6	99.0	104.0	108.0	
Savings		0.7	2.4	14.6	36.3	54.0
Positions	155.0	93.0	88.0	72.0	72.0	

Original LAB w-Adjustments & Security	Current Model	Transition Biennium				Cumulative
	2005-07	2005-07	2007-09	2009-11	2011-13	
Transition Costs	38.2	38.2	0.0	0.0	0.0	
Expenditures in Agency Budgets	94.6	31.6	0.0	0.0	0.0	
SDC Operations	0.0	49.0	79.1	75.0	74.2	
Debt Service	0.0	13.3	19.8	16.8	0.0	
Total	94.6	93.9	98.9	91.8	74.2	
Current Model Business Inflated	94.6	94.6	99.0	104.0	108.0	
Savings		0.7	0.1	12.2	33.8	46.8
Positions	166.0	90.0	90.0	90.0	90.0	

All Agencies/All Services Option 3	Current Model	Transition Biennium					Cumulative
	2005-07	2005-07	2007-09	2009-11	2011-13	2013-15	
Transition Costs	38.2	38.2	0.0	0.0	0.0	0.0	
Expenditures in Agency Budgets	94.6	31.6	0.0	0.0	0.0	0.0	
SDC Operations	0.0	49.6	93.5	87.3	81.4	84.4	
Debt Service	0.0	12.9	19.3	16.0	0.0	0.0	
Total	94.6	94.2	112.8	103.3	81.4	84.4	
Current Model Business Inflated	94.6	94.6	99.0	104.0	108.0	112.8	
Savings		0.4	-13.8	0.7	26.6	28.4	42.3
Positions	166.0	149.0	124.0	105.0	101.0	101.0	

State Data Center
2005/2007 Budget
Option 3 - All Agencies/All Services
(PS inflated 5%, S&S 3%)

	2005-07				2007-09			2009-2011			2011-2013			2013-2015			Assumptions	
	The Transition Biennium - No Savings				Improving the Operational Model			Operating at Industry Standards			Transition Financing Paid Off			Steady State Operations				
	Datacenter	Networks	Sub-Total Operations	One Time Costs	Total Budget	Datacenter	Networks	Total Budget	Datacenter	Networks	Total Budget	Datacenter	Networks	Total Budget	Datacenter	Networks	Total Budget	
Personal Services	<i>149 Positions</i>				<i>124 Positions</i>			<i>105 Positions</i>			<i>101 Positions</i>			<i>101 Positions</i>				
Salary & OPE	11,684,140	0	11,684,140	87,576	11,771,716	26,531,685	0	26,531,685	23,372,706	0	23,372,706	21,021,028	0	21,021,028	22,072,079	0	22,072,079	Positions budgeted at top step
Additional 8% (removed by HB 5176)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	Used position step down model provided by SDC
Security positions	1,047,942	0	1,047,942	0	1,047,942	2,305,472	0	2,305,472	2,420,746	0	2,420,746	2,541,783	0	2,541,783	2,668,872	0	2,668,872	11 FTE - 12 months in 2005-07, 24 months
Shift Transition Costs	(4,100,000)	0	(4,100,000)	4,100,000	0													
Total Personal Services	8,632,082	0	8,632,082	4,187,576	12,819,658	28,837,157	0	28,837,157	25,793,452	0	25,793,452	23,562,811	0	23,562,811	24,740,951	0	24,740,951	2007-09 forward, 5% inflation on Personal
Services & Supplies-Limited																		
Position related S&S	1,054,596	365,508	1,420,104	0	1,420,104	1,546,545	515,515	2,062,060	1,592,941	530,980	2,123,921	1,640,730	546,910	2,187,640	1,689,952	563,317	2,253,269	
SGSC	160,611	49,767	210,378	0	210,378	165,429	51,260	216,689	170,392	52,798	223,190	175,504	54,382	229,886	180,769	56,013	236,782	
Additional training	339,583	0	339,583	0	339,583	203,940	67,980	271,920	168,683	60,471	229,154	173,744	62,285	236,029	178,956	64,154	243,110	
Additional building rent	3,216,194	0	3,216,194	0	3,216,194	3,312,680	0	3,312,680	3,412,060	0	3,412,060	3,514,422	0	3,514,422	3,619,855	0	3,619,855	
Rent for offsite equip space	200,000	100,000	300,000	0	300,000	206,000	103,000	309,000	212,180	106,090	318,270	218,545	109,273	327,818	225,101	112,551	337,652	
Professional Services	400,000	21,181,883	21,581,883	0	21,581,883	1,442,000	28,574,785	30,016,785	2,570,000	26,084,529	28,654,529	2,356,000	23,746,165	26,102,165	2,474,000	24,458,550	26,932,550	Additional savings in 07-09 of 500,000; in 09-11
COP Professional Services	0	0	0	15,324,528	15,324,528	0	0	0	0	0	0	0	0	0	0	0	0	
AG	207,720	0	207,720	0	207,720	103,000	0	103,000	106,090	0	106,090	109,273	0	109,273	112,551	0	112,551	
COP AG	0	0	0	135,000	135,000	0	0	0	0	0	0	0	0	0	0	0	0	
COP Issuance Costs	0	0	0	630,270	630,270	0	0	0	0	0	0	0	0	0	0	0	0	
Maintenance Hardware	2,610,239	0	2,610,239	0	2,610,239	4,839,384	0	4,839,384	4,486,109	0	4,486,109	4,158,623	0	4,158,623	4,283,382	0	4,283,382	
Maintenance Software	9,005,490	900,000	9,905,490	0	9,905,490	16,677,638	1,112,400	17,790,038	15,095,434	1,031,195	16,126,629	13,997,837	1,062,131	15,059,968	14,417,772	1,093,995	15,511,767	
Data Processing	1,050,000	0	1,050,000	0	1,050,000	973,350	0	973,350	902,295	0	902,295	836,428	0	836,428	861,521	0	861,521	
Other S&S	100,000	75,000	175,000	0	175,000	103,000	92,700	195,700	106,090	85,933	192,023	109,273	88,511	197,784	112,551	91,166	203,717	
Total Services & Supplies-Limited	18,344,433	22,672,158	41,016,591	16,089,798	57,106,389	29,572,966	30,517,640	60,090,606	28,822,274	27,951,996	56,774,270	27,290,379	25,669,657	52,960,036	28,156,410	26,439,746	54,596,156	From 2007-09 on, 3% inflation factor used on
Capital Outlay																		
Software	0	0	0	3,374,000	3,374,000	0	0	0	0	0	0	0	0	0	0	0	0	
Software replacement	0	0	0	0	0	868,805	0	868,805	894,869	0	894,869	921,715	0	921,715	949,366	0	949,366	
Hardware	0	0	0	14,501,330	14,501,330	0	0	0	0	0	0	0	0	0	0	0	0	
Hardware replacement	0	0	0	0	0	3,734,093	0	3,734,093	3,846,116	0	3,846,116	3,961,499	0	3,961,499	4,080,344	0	4,080,344	
Total Capital Outlay	0	0	0	17,875,330	17,875,330	4,602,898	0	4,602,898	4,740,985	0	4,740,985	4,883,214	0	4,883,214	5,029,710	0	5,029,710	From 2007-09 on, 3% inflation factor used on
Total Expenditures before Debt Service	26,976,515	22,672,158	49,648,673	38,152,704	87,801,377	63,013,021	30,517,640	93,530,661	59,356,711	27,951,996	87,308,707	55,736,404	25,669,657	81,406,061	57,927,071	26,439,746	84,366,817	
Debt Service																		
Principal	10,269,423	0	10,269,423	0	10,269,423	19,300,452	0	19,300,452	16,029,494	0	16,029,494	0	0	0	0	0	0	
Interest	2,675,334	0	2,675,334	0	2,675,334	0	0	0	0	0	0	0	0	0	0	0	0	
Total Debt Service	12,944,757	0	12,944,757	0	12,944,757	19,300,452	0	19,300,452	16,029,494	0	16,029,494	0	0	0	0	0	0	
Total Expenditures	39,921,272	22,672,158	62,593,430	38,152,704	100,746,134	82,313,473	30,517,640	112,831,113	75,386,205	27,951,996	103,338,201	55,736,404	25,669,657	81,406,061	57,927,071	26,439,746	84,366,817	
Summary (in millions):																		
	CBM	Transition																
2005-07	2005-07	2007-09	2009-11	2011-13	2013-15	Cumulative												
Transition Costs	38.2	38.2	0.0	0.0	0.0	0.0												
Expenditures in Agency Budgets	94.6	31.6	0.0	0.0	0.0	0.0												
SDC Operations	0.0	49.6	93.5	87.3	81.4	84.4												
Debt Service	0.0	12.9	19.3	16.0	0.0	0.0												
Total	132.8	132.3	112.8	103.3	81.4	84.4												
Current Model Business (CBM) Inflated	94.6	94.6	99.0	104.0	108.0	112.8												
Savings		0.5	(13.8)	0.7	26.6	28.4	42.3											

Department of Administrative Services
 Computing and Network Infrastructure Consolidation
 Update for April 2006 Emergency Board

Capital Construction Budget:

	Actuals			Total Project Expenditures
	Budget	2003-05 Expenditures	2005-07 Expenditures	
Construction	20,000,000	10,499,892	7,889,144	18,389,036
Cost of COP Issuance	320,000	242,379		242,379
Total	20,320,000	10,742,271	7,889,144	18,631,415

Certificate of Participation Funding:

October 2004 Sale	6,150,000
April 2005 Sale	14,170,000
Total	20,320,000

Note: Actual expenditure data ties to the Rstars 62 screen as of 2-24-06.

Project Budget:

	Actuals			Total Project Expenditures
	Budget	2003-05 Expenditures	2005-07 Expenditures	
Professional Services	16,560,135	3,662,067	8,471,498	12,133,565
Project Management	2,555,969	454,035	357,835	811,870
Agency Backfill	566,515	8,170	5,582	13,752
Hardware	14,501,330	50,500	8,961,413	9,011,913
Software	3,374,000	39,200	14,093	53,293
Legal Fees (DOJ)	100,000	13,808	34,811	48,619
Quality Assurance	346,935	5,000	346,935	351,935
Transitional Staffing	4,218,977	0	102,658	102,658
Contingencies	780,551	7,279	391,166	398,445
Cost of COP Issuance	725,880	95,610	168,125	263,735
Total	43,730,292	4,335,669	18,854,117	23,189,785

Note: S&S expenditure data comes from REFBPS with data thru 1-31-06.
 Transitional Staffing dollars are actuals through 1-31-06.

Certificate of Participation Funding:

April 2005 Sale	11,925,292
October 2005 Sale	24,575,000
May 2006 Sale	7,230,000
Total	43,730,292

Department of Administrative Services
 Computing and Network Infrastructure Consolidation
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