

- SUBJECT:** Management of state electronic services by DIR
- COMMITTEE:** Government Reform — committee substitute recommended
- VOTE:** 4 ayes — Uresti, Otto, Gonzales, Veasey  
2 nays — Y. Davis, Hunter  
1 absent — Frost
- WITNESSES:** For — *(Registered, but did not testify:* Randy Russell)  
Against — Eudean Howard  
On — Larry Olson, Department of Information Resources
- BACKGROUND:** In 1989, the Department of Information Resources (DIR) was established to address the major aspects of information technology management in the state of Texas. DIR oversees cooperative contracts through which governmental entities may purchase information technology commodities and technical services. DIR also 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 for 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 1516 would revise state planning and commodity purchase processes and provide for a project delivery framework and the migration of services to data centers.
- Contracting and planning.** DIR could include terms in a contract that would allow the contract to be used by other governmental entities

including those of other states. A local government purchase through a DIR procurement contract would satisfy competitive bidding requirements.

DIR could approve the designation of a joint information resources manager to serve two or more state agencies. The joint manager could, to the extent appropriate, consolidate the operating plans of each agency served.

DIR would specify the state commodity hardware configurations to be used in each state agency's planning, with the exception of institutions of higher education. The agencies would provide a planned procurement schedule for commercial software, hardware, or commodity services and make certain notifications if substantive changes were to be made to the plan.

**Purchase of commodity items.** DIR would negotiate with vendors to obtain a favorable price for the state government on licenses for commercial software, hardware, or technology services and could charge governmental entities an amount sufficient to recover costs of this process. DIR would compile and maintain a list of these resources available for purchase and would adopt rules regulating purchase by a state agency of a commodity item. The agency would make purchases of commodity items according to a contract with DIR unless exempted or unless it had prior approval from the Legislative Budget Board. DIR would make a good faith effort to provide contracting opportunities and increase contract awards for historically underutilized businesses.

**Texas project delivery framework.** DIR, through consultation with relevant parties, would develop and provide guidelines and forms related to major information resources projects. An agency would have to develop a business case for each proposed project, including anticipated cost savings and efficiency, as well as a statewide impact analysis on the project's effect on the state's common information resources infrastructure. DIR would ensure the project did not duplicate existing technologies.

An agency would have to develop a project plan for each major information resources project and file the plan with the quality assurance team and the Texas Building and Procurement Commission (TBPC). Before issuing a vendor solicitation for a project, the agency would develop a procurement plan and a method to monitor changes to the scope

of each contract. State agencies would provide a post-implementation review of major information resources projects to the agency's executive director, DIR, and the State Auditor's Office.

An agency's executive director, information resources manager, designated project manager, and the agency employee in charge of information security would approve and sign any required documents. The executive director would be required to approve a proposed contract amendment or change order that changed the monetary value or completion date of the contract.

**Data Centers.** CSHB 2698 would require state agencies, excluding institutions of higher education, to use the data centers operated by the Department of Information Resources (DIR). An agency would not be able to 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, the governor approved their establishment, and the Legislative Budget Board (LBB) approved the necessary expenditures. DIR would have to conduct a cost and requirements analysis for each agency it 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 result in an unacceptable loss of effectiveness or operational efficiency. The LBB would be required 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. Federal and state databases or networks used for criminal justice or homeland security purposes would be excluded. 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 be required to migrate at least three environments per fiscal year through 2013. A state agency would not be able to 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:

- repeal sec. 2054.201(c) and 2055.061 of the Government Code; and
- make technical and conforming changes eliminating references to the Department of Information Resources and replacing them with the department.
- transfer authority with respect to telecommunications from the telecommunications planning and oversight council to DIR's executive director;
- require DIR to report on the status of the statewide technology center system migration and consolidation by August 31 of 2006 and 2007;
- require DIR to report on security resources and automated information systems of state agencies by December 31 of 2005;
- require each state agency to enter into a contract with DIR for statewide technology center services by March 31 of 2006.

This bill would take effect September 1, 2005, and would govern contracts for which the notice soliciting bids was given on or after this date.

SUPPORTERS  
SAY:

CSHB 1516 would enhance the buying power of the state, increase efficiency in contracting and managing large projects, and save costs through the consolidation of shared services.

The LBB fiscal note estimates a total positive impact to general-revenue related funds of \$17 million through fiscal 2006-07 with savings steadily increasing through fiscal 2010. This would be in large part attributable to a maximization of state purchasing power on commodity technology. By allowing DIR to purchase hardware and technology services in greater volume, the state would reduce the overall costs of such commodities and relieve individual agencies of the burden of procuring such items.

The enhanced contracting process proposed in CSHB 1516 would establish common sense checkpoints in state contracting for technology allowing for greater efficiency and effectiveness. The bill would require that agencies lay out a business case for a major project so the state could ensure a good rationale prior to making expenditures and review if other agencies possessed similar technology needs. Reducing duplication of project development ultimately would reduce costs for each agency. Providing for more efficient and cost effective service delivery on a statewide basis would remove barriers so that agencies could focus on their mission to serve their constituents.

**Data centers.** CSHB 1516 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 1516 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 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. 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 1516 would infringe on an independent agency's ability to manage its own affairs. Ultimately, the duty of an agency is to employ whatever method would best meet the needs of its constituents, and this is best accomplished through maintaining the ability to tailor services. To this end, individual agencies should be able to employ their own means to plan and develop projects in a manner fitting to the unique character of the agency. Encouraging agencies to consider the similar technology needs of other agencies and jointly develop projects may sound ideal, yet this would ultimately lead to compromises. No two agencies possess identical technology needs, and compromise ultimately would mean that a project would not best serve the interests of the constituents of either agency.

**Data centers.** Consolidating data centers would cost the state millions of dollars without providing any guaranteed benefit. The LBB fiscal note found that five-year costs for the consolidation of data centers would be about \$80 million. The costs during fiscal 2006-07 were estimated to be about \$25.7 million, significantly more than the estimated savings to

general revenue during the same period. Yet these costs are in 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 was dissatisfaction with the performance at the state data centers.

NOTES:

The substitute differs from the original bill in that it would:

- exclude institutions of higher education from additional provisions of the bill;
- include references to commodity items rather than computer hardware;
- require that additional entities receive notifications and submission of plans regarding projects and alter the content of certain submissions;
- amend and add requirements for the procurement planning process and the process of transferring data centers;
- alter requirements for certain authorities to approve decisions and contract amendments;
- add requirements related to historically underutilized businesses;
- add a requirement that DIR work to resolve federal funding issues;
- remove provisions regarding a consolidated telecommunications system.

The fiscal note reflects an anticipated positive impact of \$17 million to general revenue related funds through the end of the biennium. This savings would increase to \$66.9 million by fiscal 2010. There would be

about \$79.6 million in other funds costs through fiscal 2010 for interagency contracts, but the technology centers are estimated to achieve an annual savings of \$29.6 million by fiscal 2010. Savings of \$10.1 million are anticipated over the biennium through a reduction in hardware purchases, and other savings would be realized through such mechanism as negotiated commodity contracting.

The companion bill, SB 1547 by Duncan, passed the Senate on May 9 and has been referred to the House Government Reform Committee.