



April 13, 2005

James P. Mayer
Executive Director
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

Dear Mr. Mayer:

Thank you for the opportunity to testify at the public hearing regarding the Governor's Reorganization Plan to create a Department of Technology Services. The Department of Finance's responses to your questions are outlined below:

1. What are the 2005-06 budget year and annual average five-year net savings or increased costs estimated to result from this Governor's Reorganization Plan?

Savings:

2005-06

The vast majority of the efficiencies to result from the proposed Department of Technology Services (DTS) will be realized upon completion of the integration of a data center function, often after some amount of expenditure is required to complete the integration. As such, it is not reasonable to assume that significant savings would be available immediately after the consolidation of the organizations. However, there are some immediate savings and these are captured and redirected to the consolidation. The Executive and Administration offices of the two data centers will be the first to consolidate and realize savings. Approximately 13.9 Personnel Years and \$1.4 million are estimated to be saved from these two functions in the 2005-06 fiscal year (see attached Project and Financial Overview for details). Examples of the duplicative positions to be saved are Director, Chief Deputy, Deputy Director, Human Resources Manager, Budget Manager, and Procurement Manager. However, a portion of these savings will be reinvested into the Consolidation Management Office, which will provide project management during the transformation from three organizations into one. This organization will cease to exist after the consolidation is complete (anticipated 18 to 24 month duration). The remainder of the savings will be placed into the Administration Consolidation Team, which will conduct the necessary planning to effectuate the consolidation. Permanent, ongoing savings from the Executive and Administration offices are estimated to be approximately 20 Personnel Years and \$2 million beginning in 2007-08.

5-Year

After the integration of the Executive and Administrative areas of the two data centers is well underway, the focus of integration efforts will shift to the technical and operational divisions. It is anticipated that some areas will not be able to be reduced due to workload demands that

continue to grow and where service level agreements require a high degree of customer "hand-holding" and other dedicated support. However, it is also believed that many areas may be able to achieve efficiencies and/or reductions due to redundancy in staffing especially for technical expertise in specific products and 24 hour operations. Considerable efficiencies may be achieved by consolidating users of similar products onto standard versions. During this phase of consolidation the department will identify all those redundant positions and list those for possible reassignment and/or elimination.

An example of this is the eventual merger of the processing platforms such as the MVS services. Currently, Health and Human Services Data Center (HHSDC) is supporting a JES2 platform and the Stephen P. Teale Data Center (Teale) is supporting the JES3 platform. It is envisioned that eventually the DTS may be providing a single operating platform for all the MVS customers, however, the planning and preparation steps are considerable. The concern again, is that the customer not be adversely or negatively impacted when the decision is made to merge to a single MVS platform.

This phase of consolidation will take very careful planning and implementation as current customer expectations/demands for service delivery and contracted service level objectives cannot be compromised throughout the entire consolidation period of the data centers. It is critical that the integration of processes and functions do not negatively affect the ability of the customers to meet their missions, goals and requirements to serve the citizens of California.

Costs:

Both existing data centers have been collaborating for the past several months to evaluate and understand the differences in each department's processes and practices. In order to function as a new department after consolidation, almost all processes will be transitioned to a single method. Neither data center has converted from their existing processes due to the magnitude of the changes and the personnel and other related resources that it will take to make the transition/transformation.

An example of this is the Financial Management System that both departments have decided upon: the HHSDC PeopleSoft application. HHSDC is installing the latest version of the vendor applications and Teale is learning the system at the same time. However, during the conversion to the new version both administrative staffs are finding many dissimilarities in the individual processes and/or practices of each department. Most of the differences cannot be changed during the middle of this fiscal year, so it has been determined that the most efficient and effective time to make these changes are at the beginning of a new fiscal year.

Teale and HHSDC are also determining estimates that these financial management activities will require. New licenses, changes in day-to-day operational administrative tasks, and impacts on internal and external operational or service delivery methods are also being examined in order to minimize disruptions.

2. What are the net savings or increased costs expected from consolidating data center functions and telecommunication services?

The Department of General Services' Office of Network Services (ONS) is being transferred intact to the DTS. There will be a subsequent review to determine what savings or efficiencies can be obtained through incorporation of the resources and staff into the new DTS infrastructure. As the technologies for data and voice communication become more similar and integration becomes more possible, having management of both data and voice communications consolidated with the data center will facilitate cost-effective procurements.

3. What is the fiscal business case for this GRP in regard to improving government productivity and performance?

The most powerful reason for consolidation is to improve the process by which the new DTS and its customers deliver reliable, timely, cost effective and efficient computing hosting services, network and telecommunication services so California residents will receive government services when and where needed. The objectives of the consolidation are:

- To increase responsiveness to the data center's customer's needs.
- To promote more effective and efficient management of the state's data center operations including the ONS.
- To eliminate duplication of services and infrastructure within the state's data centers including the ONS.
- To provide economy of operations and improve service delivery capacity greater than that provided by the separate structures.
- To improve the value realized from State and Federal funds.
- To implement best practices to achieve operational consistency and efficiency.
- To improve the security, quality, and risk management of the state's information systems.

In addition, the Technology Services Board, which is comprised of the customers of the DTS, will be responsible for the oversight and approval of the department's budget, rate setting methodology and plan of operations. This customer-dominated board will be empowered to ensure that the department provides the desired quality of service at a reasonable price.

4. The GRP proposes a continuously appropriated revolving fund to finance the activities of the new department. How would this fund operate? Are there existing examples where the state is using such funds to finance departments?

5. The Legislative Analyst's Office argues that a continuously appropriated revolving fund is not needed. What are the advantages and disadvantages of financing the department's activities using such a fund and why is this the best approach?

6. How will the loss of legislative budget oversight be mitigated?

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7. How will staffing levels be adjusted and capital expenditures of the new department be reviewed, approved and overseen by control agencies and the Legislature?

Both Teale and HHSDC currently have continuously appropriated revolving funds (via statute) that are "in-lieued" in the Budget Act. While the GRP as submitted contains a continuous appropriation, the Administration has agreed to include an "in-lieu" Budget Act appropriation for the DTS, thereby conforming the GRP to current budgetary practice. Adding such language to the Budget Act will subject the DTS to legislative and control agency oversight.

The Budget Act language will preserve the ability of both entities, upon approval of the Director of Finance and notification to the Legislature, to increase expenditures on approved projects when necessary. Similar to the two existing data centers, the consolidated data center will be a reactive organization that needs the flexibility to provide service to customers when they need it. There may come a time where the DTS has demonstrated that it needs a limited amount of true continuous appropriation authority to achieve a business goal or respond to business conditions, and this proposal would not preclude that from occurring, if and when it is warranted.

There will be no loss of legislative oversight because the DTS will be included in the Governor's Budget and the Budget Act. Staffing levels and capital expenditures will continue to be adjusted and overseen by the Legislature and control agencies as they currently are, i.e., through the annual budget process and via mid-year adjustments pursuant to provisional Budget Bill language.

We have attached the DTS Project and Budget Overview document that was provided to the Legislature for additional information. If you have any questions, please contact Matt Paulin, Assistant Program Budget Manager, at (916) 322-2263.

Sincerely,

Mark Hill
Program Budget Manager

Attachment