State of California

Business, Transportation and Housing Agency

Memorandum

To: Danny Alvarez, Staff Director, Senate Budget and Fiscal Review Committee
Jeff Bell, Staff Director, Senate Republican Fiscal Office
Christopher W. Woods, Chief Consultant, Assembly Budget Committee
Peter Schaafsma, Staff Director, Assembly Republican Fiscal Committee
Anna Brannen, Legislative Analyst's Office

Date: January 24, 2005

From: **Stephen P. Teale Data Center**

Subject: Department of Technology Services (DTS) - Project and Budget Overview

The 2005-06 Governor's Budget proposes the establishment of a Department of Technology Services through the consolidation of the Stephen P. Teale Data Center (Teale), the Health & Human Services Data Center (HHDSC) and the Office of Network Services of the Department of General Services. The attached document provides a brief overview of the proposed project structure and summaries of the 2005-06 DTS budget, the Financial Management Plan and assessments of the initial and future savings and costs of the data center consolidation project. We hope that the information we have provided will assist you in the review of the budget proposal for the new Department of Technology Services (DTS) 2005-06 budget.

If you have any questions, please contact Glen Matsuoka at Glen.Matsuoka@teale.ca.gov or (916) 464-3955.

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Attachments

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DEPARTMENT OF TECHNOLOGY SERVICES
PROJECT AND FINANCIAL OVERVIEW
2005

JANUARY 21, 2005

Department of Technology Services
2005/06 Governor's Budget

In anticipation of Legislative consent of a formal Governor's Reorganization Plan (GRP), the consolidation of the budgets for the Stephen P. Teale Data Center (Teale), Health and Human Services Agency Data Center (HHSDC) and the Department of General Service's (DGS) Office of Network Services (ONS) has been accomplished and displayed in the 2005-06 Governor's Budget. A new department, the Department of Technology Services (DTS), organization code 1955, was established in the State and Consumer Services Agency from the integration of these three budgets.

In support of the reorganization displayed in the Governor's Budget, on January 10, 2005 California's Chief Information Officer (CIO) released a paper entitled *Report and Recommendation on Data Center Consolidation*. The CIO's paper provides a brief history of the data center consolidation effort, outlines the CIO's recommendation for the reorganization, and communicates that a Data Center Consolidation Plan for the data center consolidation project is being finalized. Because the State CIO's paper outlines history and the policy direction for the reorganization displayed in the Governor's Budget, and the Data Center Consolidation Plan will provide project and business planning information, this paper does not address those areas in detail. Instead, this document provides only a brief overview of the proposed project structure and summaries of the 2005-06 DTS budget, the Financial Management Plan and assessments of the initial and future savings and costs of the data center consolidation project.

For the purposes of this paper the term "Consolidation Project" refers to the integration of the HHSDC and Teale as well as the transfer of DGS ONS.

PROJECT OVERVIEW

The purpose of overview is to outline the approach and schedule to establish the Department of Technology Services (DTS), which will reside under the jurisdiction of the State and Consumer Services Agency. This effort encompasses the integration of the Health and Human Services Data Center (HHSDC), Stephen P. Teale Data Center (Teale), and the Department of General Services' (DGS) Office of Network Services (ONS). Consolidation is defined as an integration of organizational and technical functions. It does not imply a physical move of staff and equipment to a single data center facility. The consolidation is anticipated to begin with the start of the FY 2005-06.

BACKGROUND

For close to a decade, several authorities – including the Legislative Analyst Office (LAO)[1], the State Department of Finance (DOF), and the State Chief Information Officer (CIO) have recommended the consolidation of the State's data centers to leverage advancements in technologies, maximize employee resources, and to reduce state spending. California Governor Arnold Schwarzenegger's August 24, 2004, Executive Order (S-13-04) directs the consolidation of

[1] Legislative Analyst's Office, 2003-04 Budget Bill Analysis, February 2003

the Stephen P. Teale Data Center and Health and Human Services Agency Data Center under the management authority of the newly established DTS. The Executive Order further prescribes the realignment of the broader State's information technology (IT) infrastructure and resources. Examples of realignment initiatives include statewide:

- Standardization of servers and networks
- Enterprise applications
- IT procurement/contracts
- Security and privacy.

The consolidation project must be undertaken to enable the State's broader IT realignment.

Why are we undertaking consolidation?
The most powerful reason 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 DGS ONS
- To eliminate duplication of services and infrastructure within the state's data centers including DGS 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.

To achieve these objectives Governor Schwarzenegger's Executive Order S-13-04 and the November 2004 California Information Technology Strategic Plan (CAITSP) prescribed data center consolidation.

Consolidation Benefits

Following are examples of the values to be realized with the completion of the consolidation effort and the establishment of the DTS:

- Fiscal Accountability
  - Consistent charge back methodologies
  - Leverage the State's buying power through effective enterprise-wide acquisition strategies
  - Prudent fiscal policies
  - Easy to understand invoicing
  - Competitive IT service center costs compared to private and public sectors
  - Effective contract management to reduce the cost of government
- Customer Service
  - Business focused portfolio of services
  - Collaborative, cooperative and respectful business environment
  - Structure of "industry best practice" Service Level Agreements
  - Customer-centric approach to management
  - Effective information resources for customers
  - Business value based performance measurements
- Operational Excellence
  - Industry standards and best practices for accountability, reliability and service
  - Policies and processes to ensure excellence
  - Customer based performance measurements
  - Standardized computing platforms
- IT Leadership
  - Enhanced and optimized statewide consolidated computing hosting services, network backbone and effective infrastructure design
  - Meaningful architecture standards
  - Catalyst for innovation
  - Culture of entrepreneurship
  - Effective and strategic statewide policies and standards for IT and Telecommunications
  - Continuous process maturity improvement
- Integrity and Security
  - Provides safe access, integrity, confidentiality and privacy
  - Risk management and contingency planning
  - Operational recovery
  - Assure required availability

CONSOLIDATION PLAN OVERVIEW

Scope of consolidation
Consolidation is defined as the integration of the operational and technical functions of three entities; Teale, HHSDC, and DGS ONS.

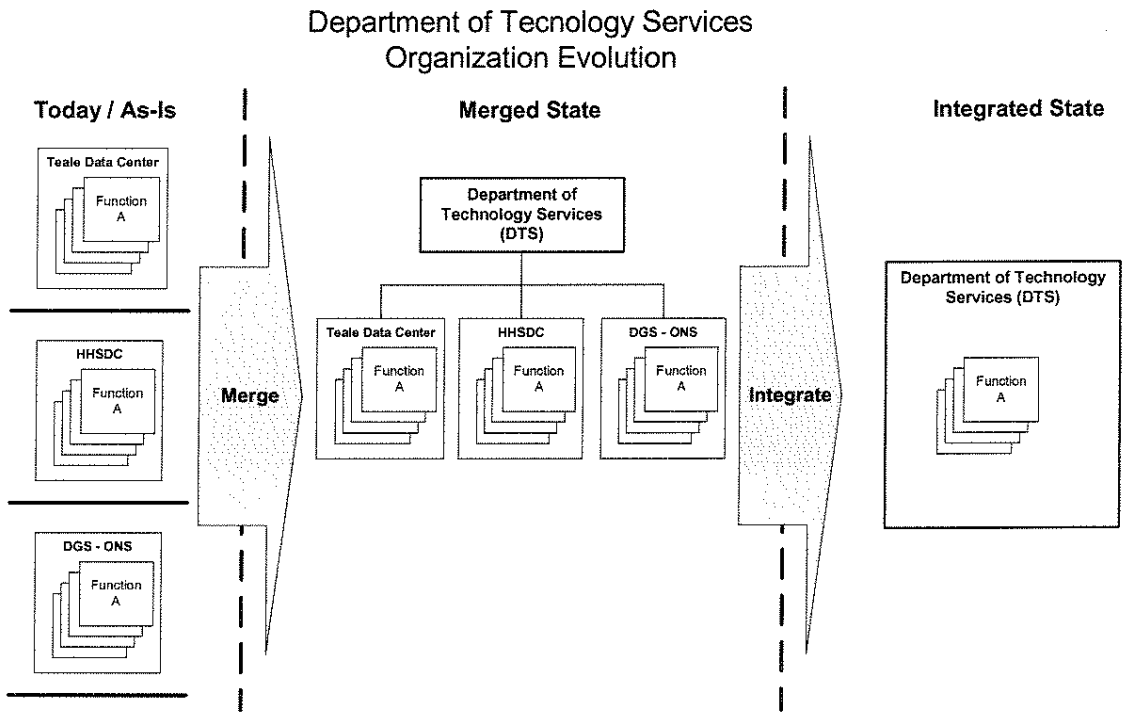
Consolidation does not encompass or include the broader statewide IT realignment efforts. Nor does consolidation include the establishment of a statewide governance structure for technology, or establishment of policies for the management of technology resources. As per the Governor's Reorganization Plan (GRP) for data center consolidation, governance and policy setting for the DTS are the responsibility of the Technology Services Board[2].

Approach: Merge then Integrate
The detailed methodology required to reach full consolidation follows two stages: first Merge, then Integrate. The Merge stage involves the establishment of the DTS followed by an organizational repositioning of the existing HHSDC, Teale, and DGS ONS. The Merge will place similar functional units from both data centers under a single executive at the DTS Division level. The two or more sister units will continue to operate largely as they do now but will report to a single position within the overall DTS hierarchy.

Following the Merge stage, the project will begin the integration of the operational and technical functions of the three entities within the DTS. The goal of the Integrate stage is to remove duplicity and introduce best practices into each DTS Division. No longer will the sub-divisional organization be aligned with the two data centers. Instead, there will be a single sub-divisional organization aligned by function. The completion of the Integrate stage marks the establishment of a consolidated data center function for the State. Because of the technical, security, and recoverability advantages inherent in maintaining two data center locations, both of the major data center facility locations will continue to be operational, but they will function as a single data services organization.

The organizations become one, both functionally and organizationally, as illustrated below in Figure 1 - DTS Organization Evolution.

[2] The permanent "board of directors" organization is the Technology Services Board (TSB) and will act as the DTS governing body.



• Figure 1 - DTS Organization Evolution

Establishing DTS

Establishing DTS is defined as the integration of the HHSDC, Teale, and DGS ONS into one organization. The newly formed DTS can be thought of as the "end-product" of the Consolidation Plan. DTS will be a new organization charged with the authority and responsibility for the streamlined functionalities of the two data centers and to deliver effective telecommunications and technology services statewide.

The success of the consolidation effort and the ongoing operation of the DTS requires the formation of both temporary (CMO and ETAB) and permanent organizations (DTS and TSB) defined below. The temporary organizations provide the guidance, oversight, and management required to establish the DTS. These organizations dissolve upon the completion of the Consolidation Plan and include the following:

- **Consolidation Management Office (CMO)** - provides project management during the transformation from three organizations into one. As the data center consolidation is conducted, State agencies will require continuous delivery of existing systems and services. Keeping both the current and new activities on track will require focused leadership and fully dedicated resources. CMO resources will be different from those managing the daily operations of the existing entities. This organization will cease to exist after the consolidation is complete – anticipated 18 – 24 month duration.

- **External Technical Advisory Board (ETAB)** – provides advice on the consolidation project from private sector leaders who have been through large technology mergers. Members will include former Chief Information Officers and former company presidents of firms such as Cisco, Wells Fargo, Hewlett-Packard, Chevron, and McKinsey Group. The charter is being developed by the State CIO which will establish the project scope and necessary operating processes and procedures including the schedule of meetings (i.e., quarterly).

The DTS will be the general-purpose technology service provider for the Executive Branch with accountability to customers for providing secure, responsive, and cost effective information and telecommunications services. The DTS will provide its services in support of the goals and objectives of the CAITSP and in accordance with the policies established by its "board of directors". The permanent "board of directors" organization is the Technology Services Board (TSB) and will act as the DTS governing body. The TSB will:

- Create an open, accountable corporate governance structure that will ensure the DTS operates in the most appropriate customer-focused and efficient manner
- Act as the governing board for the DTS and oversee all of the department's operations
- Approve the DTS budget, rates, and plan of operations
- Perform the oversight and management functions currently performed by other state entities including the Business, Transportation and Housing Agency (BTH), Health and Human Services Agency (HHS), DGS, and DOF.

Project Duration
Although informal preparatory activities are underway for the consolidation, the official start of the consolidation effort is contingent on the approval of the GRP. It is anticipated with the passage of the GRP; the consolidation project will begin the first quarter of 2005 and conclude by the end of 2007.

FINANCIAL SUMMARY

One of the most significant risks to the success of the data center consolidation project is that there are limited staff and fiscal resources available to address the significant efforts (workload) and expenditures necessary to complete the organizational and technical integration of the data centers. In order to mitigate this risk, no immediate budget or rate reductions are proposed and a detailed Financial Management Plan will be developed and completed by the beginning of March 2005, to ensure the proper and efficient use of the limited resources available and capture and track all efficiencies created in order to pass them on to customers in the form of rate reductions upon completion of the project. This section provides summaries of the 2005-06 DTS budget, the Financial Management Plan and assessments of the initial and future savings and costs of the data center consolidation project.

BUDGET SUMMARY

The DTS budget for fiscal year 2005-06 is the result of combining the three proposed budgets from the Stephen P. Teale Data Center (Teale), the Health and Human Services Agency Data Center (HHSDC) less the Systems Integration Division and the Department of General Services' Office of Network Services (DGS ONS). The DTS budget includes the planned funding provisions for the three organizations in their entirety. Budget reductions to reflect efficiencies have not been made in the 2005-06 DTS budget as it is anticipated the costs of consolidation may exceed the immediate savings. The following table displays the changes to each budget from 2004-05 to 2005-06 and the cumulative total of the three organizations to be included in the consolidation plan.

1955 Department of Technology Services
Budget Detail - FY 2005/06
(Dollars In Thousands)

	Teale Data Center	Health & Human Agency Data Center (less SID)	DGS-Office of Network Services	Totals
2004/05 Budget	$101,063	$120,874	$10,408	$232,345
Compensation Adjustments	2,055	1,453	203	$3,711
Negative Baseline Adjustments	-11,640	-3,449	0	-$15,089
Miscellaneous Baseline Adjustments	45	2,776	62	$2,883
Provision 5	N/A	1,966	N/A	$1,966
Capacity BCPs	8,077	1,553	0	$9,630
Total 2005/06	**$99,600**	**$125,173**	**$10,673**	**$235,446**

2005/06 Budget Detail

	Personal Services	Operating Expenses	Total	Positions
Teale Data Center	33,810	65,790	$99,600	386.0
HHSDC	29,519	95,654	$125,173	377.8
DGS - ONS	4,438	6,235	$10,673	53.1
Salary Savings adjustment to 5%	1,034	-1,034	$0	0
Total DTS	**$68,801**	**$166,645**	**$235,446**	**816.9**

FINANCIAL MANAGEMENT PLAN SUMMARY

The Financial Management Plan included in the Data Center Consolidation Plan recommends the strategy of aggressively pursuing efficiencies, redirecting those resources to the consolidation project, and capturing the ongoing benefit of all efficiencies created through rate and budget reductions upon completion of the project.

The proposed Financial Management Plan was developed to achieve the following Strategic Goal:

> Manage the financial resources of the consolidation project to facilitate the creation of a new, more efficient, customer service oriented DTS to be positioned to accommodate realignment projects as quickly and efficiently as possible with an emphasis on maximizing and expediting the financial benefits of the consolidation to customer agencies through rate reductions and avoiding the use of a temporary rate increase to fund consolidation costs.

The development and execution of this plan in pursuit of the goal stated above, is guided by the following principles:

- Maximize the use of existing resources by redirecting the most efficient sources of expenditure authority and funding.
- Establish and maintain a close collaboration between the Project and Financial Management functions.
- Sustain the established ongoing level of service.
- Avoid rate increases to fund consolidation.
- Pursue additional expenditure authority if necessary to complete the Consolidation Project in the most effective and efficient manner.
- Execute the plan with absolute integrity and transparency.

Consistent with the principles stated above, the Financial Management Plan is intended to leverage the limited existing staff and fiscal resources available at the initiation of the project by applying the resources to projects that will free up additional resources. As projects run through this process (referred to as the Resource Cycle), the pool of resources for consolidation subprojects grows. This methodology is intended to maximize the likelihood that all consolidation costs can be addressed without increasing rates. The Financial Management Plan is summarized in the following outline below:

	FINANCIAL MANAGEMENT PLAN OUTLINE
IDENTIFY	**Identify and Prioritize Consolidation Projects (Project Management and Financial Management)** Step 1: Using the Consolidation Project Plan, identify projects that require resources. Step 2: Quantify the costs of each project and benefits expected from completion of each. Step 3: Prioritize projects. **Manage Resources to Fund Consolidation Projects (Financial Management)** Step 1: Identify Potential Sources of Expenditure Authority and Funding Step 2: Identify the priority for redirecting resources to consolidation projects. Step 3: Identify resources available at the initiation of the Consolidation Project
INVEST	Step 4: Redirect all available resources to establish the initial Pool of Resources for Consolidation Step 5: Manage Projects through the Resource Cycle: A. Assign Resources from Pool and Initiate Subproject B. Manage Resources during Implementation
REINVEST	C. Harvest Resources Upon Completion of the subproject 1) Return initial resources to Pool, if possible 2) Capture financial benefits of completed subproject and transfer to pool, if possible. D. Repeat Step 5 until all subprojects are completed.
RETURN	**Identify Savings (Financial Management)** Step 1: Identify any resources necessary for ongoing operations to the data center operations budget. Step 2: Quantify all ongoing financial benefits created by the completion of the data center consolidation project. Step 3: Present identified saving to the TSB for recommended financial benefits. Step 4: Conclusion of the Consolidation project.

The Consolidation Project Plan is currently being developed and will be finalized when the project management function of the CMO is established. However, there are two key project planning decisions made at this time: 1) an independent, dedicated project management office must be established to plan and manage the Consolidation Project, and 2) the integration of the Administration Division of the data centers will be prioritized and accomplished in the first phase of the project. As a result of these decisions the establishment of the CMO and planning for the integration of the Administration Division has begun and preliminary estimates of the costs of these efforts have been developed.

INITIAL SAVINGS AND COSTS

In this section, preliminary savings estimates are provided for the elimination of duplicate management positions in the Executive Office and the Administration Divisions and the cost of the consolidation teams are in the process of being established. These estimates provide an incomplete picture of the total costs and savings, as the vast majority of consolidation projects have not yet been analyzed to determine the implementation cost and ongoing benefit of each. Communicating these initial estimates at this time is consistent with the principle of executing the Financial Management Plan with absolute integrity and transparency. The DGS, ONS is being transferred intact to the DTS and will be reviewed at a later time to determine if savings or efficiencies can be obtained through incorporation of the resources and staff into the new DTS infrastructure.

INITIAL SAVINGS

The vast majority of the efficiencies to result from the Consolidation Project will be realized upon completion of the integration of a data center function, often after some amount of expenditure was 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 it is critical these be captured and redirected to the Consolidation Project as quickly as possible. The Executive and Administration offices of the two data centers will be the first to consolidate.

Management Duplication

The primary source of immediate savings in the first year will come from the elimination of managerial duplication. All the dollar figures shown below reflect the estimated salary and benefit cost of the positions identified. NOTE: the estimated savings do not reflect the effect of reclassifications or increased management appropriate and needed to establish effective span of control over potentially larger business units.

Consolidate Executive Management	Est. Ongoing Benefit: 14.0 Positions $1.4 Million

From July 2005 to December 2005, it is estimated that 5.0 positions (4.3 PYs in 2005-06) will be identified for redirection from the Joint Executive Management Team. An additional 9.0 positions (4.5 PYs in 2005-06) would be eliminated from the Executive office between January 1, 2006 and July 1, 2006. The phased approach is intended to facilitate a transfer of knowledge and provide change management leadership to each technical division during the integration period.

Department of Technology Services
2005/06 Governor's Budget

Executive *(dollars in thousands)*	2005-06 PY	2005-06 $	Annual Ongoing PY	Annual Ongoing $
Identified July - Dec 2005				
Director	1.0	147	1.0	147
Chief Deputy	0.8	117	1.0	146
Deputy Director, Administration Division	1.0	121	1.0	121
Administrative Assistants	1.5	87	2.0	174
Identified January - June 2006				
Deputy Director, Data Center Operations	0.5	61	1.0	121
Deputy Director, Customer Relations	0.5	61	1.0	121
Deputy Director, Network Systems Division	0.5	61	1.0	121
Deputy Director, Enterprise Division	0.5	61	1.0	121
Information Security Officer	0.5	50	1.0	99
Planning and Consulting/Special Projects	0.5	61	1.0	121
Administrative Assistants	1.5	58	3.0	116
Totals, Executive	**8.8**	**885**	**14.0**	**1,408**

Consolidate Administration Management Est Ongoing Benefit: 6.0 Positions $0.5 Million

At the beginning of the 2004-05 fiscal year the Administration Divisions identified three positions to be dedicated full-time to preliminary consolidation planning efforts. Between July and December 2005 it is anticipated the management of Administration Division business units will occur and an additional 4.0 positions would be available for redirection. The timing of these redirections are dependent on the progress of the business process standardization and possibly the adoption of a joint Financial Management System because it may not be practical to co-locate a business unit and put them under a single manager while the two units still use different processes and tools. Prior to consolidation, there also is duplication in the Facilities and Business Services areas. However, the transfer of administrative positions from HHSDC to the Health and Human Services Agency to support the Office of Systems Integration (OSI) will require several administrative managers be transferred as well, eliminating some manager duplication between HHSDC and Teale.

Administration *(dollars in thousands)*	2004-05 PY	2004-05 $	2005-06 PY	2005-06 $	Annual Ongoing PY	Annual Ongoing $
Identified July 2004						
Human Resources Manager (SSM II Sup)	1.0	94	1.0	94	1.0	94
Budgets (SSM I)	1.0	86	1.0	86	1.0	86
Admin Div Consolidation Mgr (SSM II)	1.0	94	1.0	94	1.0	94
To be Identified July - December 2005						
Rates and Chargeback Manager (SSM II Sup)			0.7	70	1.0	94
Procurement Manager (SSM II Sup)			0.7	70	1.0	94
Personnel Manager (SSM I)			0.7	65	1.0	86
Totals, Administration Management	**3.0**	**274**	**5.1**	**479**	**6.0**	**548**

INITIAL COSTS

Consolidation Teams

The CMO will be the consolidation office having the overall project and change management responsibilities. However, other teams will temporarily become part of the CMO as functional areas are integrated. An Administration Consolidation Team (ACT) has been established and the associated costs are displayed later in this document. It is expected several such function-specific teams will come and go over the course of the consolidation projects. These teams are critical to the success of the consolidation project as they provide the knowledge and expertise necessary to make informed integration planning decisions. These attributes cannot be replaced by consultants. However, the ability to create these teams is closely tied to the temporary retention of duplicated positions during the integration process.

Consolidation Management Office	2004-05	1.9 PYs $0.6 million
	2005-06	6.6 PYs $1.8 million
	2006-07	4.8 PYs $1.0 million

The CMO will provide a coordinated, objective approach to managing data center consolidation. The Office will leverage both consultant services and State resources to form an interdisciplinary program office with the capability and capacity to plan and carry out the consolidation. This core staffing for the office is made up of five high-level positions and two administrative support positions. This core staff will be assisted by additional dedicated staff as appropriate and available, and by consolidation teams that will be established to assist in the integration of functional areas of the data centers. The cost figures cited above also include estimates for the costs of consultants in the following areas and amounts:

	EXPENDITURES			
Purpose	04/05	05/06	06/07	Total
Change Management Program Support	125,000	425,000	200,000	750,000
Project Management Program Support	125,000	275,000	100,000	500,000
Governance & Performance Measures	100,000	300,000	100,000	500,000
Total, External Consulting	350,000	1,000,000	400,000	1,750,000

The estimated budget for the core CMO function can be found in Attachment A.

Administration Consolidation Team	2004-05	3.7 PYs $0.3 million
	2005-06	4.5 PYs $0.4 million
	2006-07	3.4 PYs $0.3 million

The ACT is a cross-functional group of managers from HHSDC and Teale Administration Divisions. This group was formally put together in September 2004 and has done some preliminary planning for the consolidation of the Administration Divisions. The team currently consists of the three full-time managers (2 HHSDC, 1 Teale) identified as position savings above and three part-time members (all Teale). The redirection of positions that have been identified as savings is referred to as Savings Redirection and the redirection of resources that will remain in the ongoing baseline budget of the DTS is referred to as Baseline Redirection. In the case of the ACT, the three full-time members are Savings Redirections, which by definition means that upon completion of the Consolidation Project these positions will be eliminated. The three part-time members of the ACT represent a Baseline Redirection.

As a team, the staff of the ACT represents all functional areas of the Administration Divisions. The ACT will work closely with the CMO during the consolidation of the Administration Divisions and the consolidation of the technical divisions because the expertise (HR, Financial, Procurement, Facilities) that is represented within this group will be needed to complete the consolidation of all divisions. It is also anticipated that the ACT will need to grow in order to complete all consolidation projects as quickly and efficiently as possible.

Summary of Initial Costs and Savings

	2004-05		2005-06		2006-07		Ongoing	
(dollars in thousands)	PY	$	PY	$	PY	$	PY	$
Savings								
Consolidate Executive Management			8.8	885	14.0	1,408	14.0	1,408
Consolidate Administration Management	3.0	274	5.1	479	6.0	548	6.0	548
Total Initial Savings	3.0	274	13.9	1,364	20.0	1,956	20.0	1,956
Costs								
Consolidation Management Office	1.9	556	6.6	1,757	4.8	951	-	-
Administration Consolidation Team	3.7	333	4.5	400	3.4	300	-	-
Total Initial Costs	5.6	889	11.1	2,157	8.2	1,251	-	-
							-	-
Net Cost/(Savings)	**2.6**	**615**	**(2.8)**	**793**	**(11.8)**	**(705)**	**(20.0)**	**(1,956)**

The table above summarizes the savings and cost estimates that have been discussed. Although this table includes only a very small portion of the anticipated costs and savings of the project, it is included here to illustrate the type of information that will be shared as the management of the project progresses. It is important to note that the Costs shown here include the Baseline Redirection of managers to the ACT that will remain in manager positions during the consolidation and on an ongoing basis. These costs are "soft costs" in that they do not introduce new costs nor

do they represent the consumption of savings. In the table above these soft costs are included in the bottom line "Net Cost/Savings" even though they do not represent a new liability. As part of the implementation of the Financial Management Plan, a more sophisticated expenditure authority and funding tracking tool will be developed in order to accurately display the various types of costs and their unique effects on the financial management of the project.

FUTURE SAVINGS AND COSTS

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 achieve efficiencies and/or reductions due to duplicity and redundancy in staffing, functional support levels, and possibly limiting the customer choices for products and other processes.

It should be noted that during the phase of the consolidation, it is expected that IT realignment and/or new IT governance models may be announced and implemented. If this is the case, the DTS will justify the need for redirection of those positions/resources to be utilized by redirecting existing authority rather than submitting budget change proposals for new PYs and expenditures.

FUTURE SAVINGS

Management Duplication

Operational and Technical Divisions - Similar to those duplicate manager and/or supervisor positions that were earlier identified for the Administration Division, the technical and operational divisions currently have similar duplicity. During this phase of consolidation the department will identify all those redundant positions and list those for possible reassignment and/or elimination.

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 our customers to meet their missions, goals and requirements to serve the citizens of California.

Workload Savings

Administration Division - It is anticipated that the adoption of standardized processes, the utilization of a joint FMS, and increased economies of scale in administrative units will create workload efficiencies. However, the transfer of 24.0 positions from HHSDC to OSI to address administrative functions will counteract and may negate some of these efficiencies and potential savings that can be claimed by the data centers. In order to ensure that the DTS is appropriately

staffed in these business units and there is a basis to discuss the workload issues that result from consolidation, the data center will formulate workload measurements that will allow the Department of Finance and Legislature to review the department's successes and challenges.

Technical and Operational Divisions – The efficiencies that will be created by consolidating the technical and operational divisions of the data centers will be discussed in future planning documents. As indicated above, the planning in these areas is a critical concern due to service levels that are currently provided to customers and the unique demands and or requirements of many of our individual customer departments. The data centers need to spend sufficient time to develop estimates of the costs and benefits of the integration of these divisions. The CMO will play a key role in identifying the subprojects that must be accomplished to complete the integration of the technical divisions and quantify both the costs and the benefits of those efforts.

FUTURE COSTS

Both data centers have been collaborating for the past 5 – 6 months to educate and more fully understand the diversity of each department's processes and practices. In order to function as a new department after consolidation almost all processes have to be transitioned to a single method. As of current, neither data center has converted from their existing processes due to the magnitude of the change(s) and the personnel and other related resources that it will take to make the transition/transformation.

While both data centers have been diligently working towards a common goal of consolidation and unification of their many diverse processes and systems, it will take much time and effort to get to this point. An example of this is the Financial Management System (FMS) that both departments have decided upon - HHSDC's PeopleSoft application. At this current time, HHSDC is installing the latest version of the vendor application(s) and Teale is learning the system at the same time. However, during the conversion to the new version both administrative staff 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.

We are also determining estimates for the costs in new expenses and personnel effort that these FMS 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.

Another critical consolidation issue will involve the eventual merger of the processing platforms such as the MVS services. Currently, HHSDC is supporting a JES2 platform and Teale is supporting the JES3 platform. It is eventually envisioned that the DTS may be providing a single operating platform for all the MVS customers, however, the planning and preparation steps are enormous. 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.

Much more work and analysis must be completed before the data centers have a solid grasp of all the intricacies necessary to move forward with many of these individual changes. Additionally, it is anticipated that outside assistance/consultants will also be needed to provide "best practices" or "best of breed" solutions to many of these situations. Listed below are several of the more critical and difficult efforts that need to be completed:

- Human Resource Information System (HRIS) / PeopleSoft
- Financial Management System/MICS-Billing System
- Asset Management System
- Service Request/Customer Services
- Email/Calendaring
- Service Desk Support
- Change Management System
- HHSDC/Teale Server consolidation
- Network Unification

These integration projects require planning and analysis that is likely to occur as a result of the collaboration of consolidation teams and consultants under the project and change management oversight of the CMO. The costs of these projects are expected to be significant and their impact on rates and budget constraints must be managed carefully.

CONCLUSION

This paper provided an overview of the Project, summaries of the proposed 2005-06 budget and the Financial Management Plan, and discussed some of initial and future savings and costs of the project. This paper also provides a status report on the project that indicates there is still much planning and analysis to complete and a Consolidation Management Office is proposed to help the data centers complete these tasks. There are significant challenges given the daily demands of continuing to provide service to customer agencies while planning for the successful consolidation of HHSDC and Teale.

Before an accurate financial portrait can be painted, we must initiate the Financial Management Plan and execute it with absolute integrity and transparency while working closely with key stakeholders. The fact that the DTS budget for FY 2005-06 is the integration of the three organizations' proposed budgets in their entirety is an appropriate and necessary first step in the fiscal management of the data center consolidation project. This action does not indicate that the Administration does not believe that there are efficiencies to be created as a result of the consolidation. It represents a key step in the plan to complete the Consolidation Project as quickly and efficiently as possible because the retention and redirection of the efficiencies created by the project is essential to the project's success. By following this structured process of the Financial Management Plan, we will be able to provide all stakeholders with a level of trust regarding all financial issues of this project and ensure that budget and rate reductions will be made to capture the accumulated efficiencies at the appropriate time.

ATTACHMENT A

NAME: **Consolidation Management Office**
DIVISION: Departmental Summary
SECTION:

Orig/Amend Date:

SALARIES & WAGES	PERSONNEL YEARS 04/05	05/06	06/07	EXPENDITURES 04/05	05/06	06/07
Consolidation Management	0.7	2.6	1.9	56,160	216,480	160,320
Legal, Legislative, and Control Agency Strategies	0.4	1.2	0.9	28,080	104,160	76,080
Organization and Transition	0.4	1.4	1.1	28,080	112,320	84,240
Enterprise Services	0.5	1.8	1.4	32,160	128,640	96,480
TOTAL SALARIES AND WAGES	1.9	7.0	5.2	144,480	561,600	417,120
Salary Savings	0.0	(0.4)	(0.4)	(7,224)	(28,080)	(20,856)
NET SALARIES AND WAGES	1.9	6.6	4.8	$137,256	$533,520	$396,264
STAFF BENEFITS DETAIL:						
OASDI				8,510	33,079	24,569
Health & Welfare				12,436	48,336	35,902
Retirement				23,195	90,165	66,969
Workers Compensation				1,374	5,336	3,963
SUBTOTAL	XXXX	XXXX	XXXX	$45,515	$176,916	$131,403
TOTAL PERSONAL SERVICES	1.9	6.6	4.8	$182,771	$710,436	$527,667
OPERATING EXP/EQUIP (subtotals on page 2)	XXXX	XXXX	XXXX	373,500	1,047,000	423,500
TOTAL EXPENDITURES	1.9	6.6	4.8	$556,271	$1,757,436	$951,167

ATTACHMENT A

NAME: **Consolidation Management Office**
DIVISION: Departmental Summary
SECTION:

Orig/Amend Date:

OPERATING EXP/EQUIP	EXPENDITURES 04/05	05/06	06/07
General Expense	1,500	3,000	1,500
Printing	5,000	10,000	5,000
Communications	0	0	0
Postage	2,000	4,000	2,000
Insurance	0	0	0
Travel: In-state	10,000	20,000	10,000
Travel: Out-of state	5,000	10,000	5,000
Training	0	0	0
Facilities Operations	0	0	0
Utilities	0	0	0
Cons & Prof Svcs: Interdept'l	0	0	0
Cons & Prof Svcs: External	350,000	1,000,000	400,000
Consolidated Data Centers	0	0	0
Data Processing	0	0	0
Central Administrative Svcs - Prorata	0	0	0
Equipment	0	0	0
TOTAL OPERATING EXP/EQUIP	$373,500	$1,047,000	$423,500