

Program Budget Comparison

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

| Program Budget Comparison | | | | | | | | |
|-------------------------------|---------------------|------------------------|-----------------------|-----------------------|--------------------------|--------------------------|----------------------|----------------------|
| Budget Item | Base Fiscal 2012 | Approp. Fiscal 2013 | Budget Fiscal 2014 | Budget Fiscal 2015 | Biennium Fiscal 12-13 | Biennium Fiscal 14-15 | Biennium Change | Biennium % Change |
| FTE | 9.50 | 9.50 | 7.00 | 7.00 | 9.50 | 7.00 | (2.50) | (26.32%) |
| Personal Services | 585,595 | 544,641 | 530,011 | 533,188 | 1,130,236 | 1,063,199 | (67,037) | (5.93%) |
| Operating Expenses | 174,109 | 240,701 | 311,652 | 310,845 | 414,810 | 622,497 | 207,687 | 50.07% |
| Equipment & Intangible Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a |
| Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a |
| Transfers | 761,110 | 1,160,559 | 0 | 0 | 1,921,669 | 0 | (1,921,669) | (100.00%) |
| Total Costs | \$1,520,814 | \$1,945,901 | \$841,663 | \$844,033 | \$3,466,715 | \$1,685,696 | (\$1,781,019) | (51.37%) |
| General Fund | 404,563 | 422,323 | 458,554 | 460,823 | 826,886 | 919,377 | 92,491 | 11.19% |
| State Special | 1,116,251 | 1,523,578 | 383,109 | 383,210 | 2,639,829 | 766,319 | (1,873,510) | (70.97%) |
| Federal Special | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n/a |
| Total Funds | \$1,520,814 | \$1,945,901 | \$841,663 | \$844,033 | \$3,466,715 | \$1,685,696 | (\$1,781,019) | (51.37%) |

Program Description

The State Information Technology Services Division (SITSD) is a proprietary program that manages central computing, data network, and telecommunications services for state government. SITSD provides central mainframe and mid-tier computer services, and manages the statewide data network SummitNet, used by all agencies located throughout the state. SITSD provides local and long distance telephone network services used by all agencies, including the university system, and manages the state's video network. SITSD coordinates electronic government services for the state, and manages the state's Internet presence mt.gov. SITSD also manages the Security and Continuity and IT PM Enterprise Offices.

The division manages the Public Safety Services Office that includes the state's 911, public safety radio, and Montana broadband programs. These programs are funded by state special, federal special, and general funds.

Through the office of the Chief Information Officer, the division develops the Statewide Strategic IT Plan, coordinates information technology (IT) for the state, and reviews and approves IT acquisitions. The division also provides statewide IT training, and establishes hardware, software, and consulting services contracts used by agencies.

Program Highlights

| State Information Technology Division Major Budget Highlights |
|---|
| <ul style="list-style-type: none"> ◆ The majority of the funding in this program is proprietary funds ◆ State special revenues and transfers are reduced due to a proposal contained in HB 38 to transfer responsibilities for the Montana Land Information Act to the Montana State Library (MSL). In FY 2012 the State Information Technology Division (SITSD) transferred funding to MSL but statutorily was responsible for the program |

| Major LFD Issues |
|--|
| <ul style="list-style-type: none"> ◆ Proprietary rates for SITSD include budgetary adjustments that were excluded from the FY 2012 base budget ◆ Proprietary rates, rather than the proposed 60 day working capital rate, can be established in HB 2 for SITSD |

State special revenues decline significantly in the program due to a proposal to transfer responsibilities included in the Montana Land Information Act to the Montana State Library.

| | |
|--------------------|---|
| LFD COMMENT | <p>The Montana Land Information Act designates the Department of Administration as the department that must:</p> <ul style="list-style-type: none"> ○ Work with federal, state, local, private, and tribal entities to develop and maintain land information ○ Develop a land information plan annually ○ Work with the Land Information Advisory Council ○ Monitor grants to implement the land information plan ○ Coordinate technology standards for creating land information ○ Serve as primary point of contact for GIS coordinating groups ○ Provide administrative support staff ○ Report to the Governor and the legislature on the progress made in the ongoing collection, maintenance, standardization, and dissemination of land information ○ Implement conservation easement information requirements <p>Funding for the program is provided through a fee on land transaction recording documents within county offices throughout the state.</p> <p>The executive proposes to shift both the funding and the responsibilities outlined in the Montana Land Information Act from the State Information Technology Division to the Montana State Library, reducing funding in this program by \$1.9 million over the biennium. Functionally, the division transferred the responsibilities and funding under the Montana Land Information Act in FY 2012. However, because of the statutory designation, the legislature must first pass proposed legislation (HB 38) to transfer the responsibilities and funding for the program from the Department of Administration to the Montana State Library before the change can be completed.</p> |
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Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

| Total Department Of Administration Funding by Source of Authority 2015 Biennium Budget - State Information Technology Division | | | | | | | |
|---|--------------------|--------------------------|-------------------------|----------------------|-------------------|---------------|--------------------|
| Funds | HB 2 | Non-Budgeted Proprietary | Statutory Appropriation | Total All Sources | % Total All Funds | MCA Reference | Statutory Category |
| General Fund | \$919,377 | \$0 | \$0 | \$919,377 | 0.9% | | |
| State Special Total | \$766,319 | \$0 | \$27,451,730 | \$28,218,049 | 26.9% | | |
| 02105 Basic 9-1-1 Emrgncy Phone Prog | \$0 | \$0 | \$6,572,348 | \$6,572,348 | 6.3% | 10-4-301 | Direct |
| 02397 Enhanced 9-1-1 Emerg Tel Pgm | \$0 | \$0 | \$6,559,230 | \$6,559,230 | 6.2% | 10-4-301 | Direct |
| 02594 Basic 911 Emerg Phone Program | \$766,319 | \$0 | \$0 | \$766,319 | 0.7% | | |
| 02993 Wireless 911 | \$0 | \$0 | \$6,582,980 | \$6,582,980 | 6.3% | 10-4-301 | Direct |
| 02994 Wireless 911 Providers | \$0 | \$0 | \$7,737,172 | \$7,737,172 | 7.4% | 10-4-301 | Direct |
| Proprietary Total | \$0 | \$75,905,664 | \$0 | \$75,905,664 | 72.3% | | |
| 06522 Isd Proprietary | \$0 | \$75,905,664 | \$0 | \$75,905,664 | 72.3% | | |
| Total All Funds | \$1,685,696 | \$75,905,664 | \$27,451,730 | \$105,043,090 | 100.0% | | |
| Percent - Total All Sources | 1.6% | 72.3% | 26.1% | | | | |

House Bill 2 Funding

General fund provides funding for the administration of the Public Safety Services Office. State special revenues in the program provide support for the administrative costs related to 911 services. Fees are imposed on a per month per access line basis for each telephone subscriber in the state using either land lines or wireless services.

Statutory Appropriations

The majority of the state special revenue funding in the division is statutorily appropriated for 911 services. 911 surcharges are collected by the state and statutorily appropriated for distribution to counties and telecommunications providers.

Proprietary Funding

The majority of the office functions are funded with proprietary funds. These funds are considered and approved as rates charged to other agencies and divisions within this agency and are discussed in the "Proprietary Rates" section of the narrative.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

| Budget Item | -----General Fund----- | | | | -----Total Funds----- | | | |
|--------------------------|------------------------|--------------------|-----------------------|-------------------|-----------------------|--------------------|-----------------------|-------------------|
| | Budget Fiscal 2014 | Budget Fiscal 2015 | Biennium Fiscal 14-15 | Percent of Budget | Budget Fiscal 2014 | Budget Fiscal 2015 | Biennium Fiscal 14-15 | Percent of Budget |
| Base Budget | 404,563 | 404,563 | 809,126 | 88.01% | 1,520,814 | 1,520,814 | 3,041,628 | 180.44% |
| Statewide PL Adjustments | 49,399 | 51,722 | 101,121 | 11.00% | 255,879 | 258,080 | 513,959 | 30.49% |
| Other PL Adjustments | 4,592 | 4,538 | 9,130 | 0.99% | 8,582 | 8,481 | 17,063 | 1.01% |
| New Proposals | 0 | 0 | 0 | 0.00% | (943,612) | (943,342) | (1,886,954) | (111.94%) |
| Total Budget | \$458,554 | \$460,823 | \$919,377 | | \$841,663 | \$844,033 | \$1,685,696 | |

Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

| Present Law Adjustments | | | | | | | | | | |
|---|-------------|-----------------|------------------|-----------------|------------------|-----------------------|-----------------|------------------|-----------------|------------------|
| -----Fiscal 2014----- | | | | | | -----Fiscal 2015----- | | | | |
| | FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 156,607 | | | | | 159,635 |
| Vacancy Savings | | | | | (29,689) | | | | | (29,810) |
| Inflation/Deflation | | | | | (86) | | | | | (59) |
| Fixed Costs | | | | | 129,047 | | | | | 128,314 |
| Total Statewide Present Law Adjustments | | \$49,399 | \$206,480 | \$0 | \$255,879 | | \$51,722 | \$206,358 | \$0 | \$258,080 |
| DP 102 - Allocate Department Indirect/Admin Costs | 0.00 | 4,592 | 3,990 | 0 | 8,582 | 0.00 | 4,538 | 3,943 | 0 | 8,481 |
| Total Other Present Law Adjustments | 0.00 | \$4,592 | \$3,990 | \$0 | \$8,582 | 0.00 | \$4,538 | \$3,943 | \$0 | \$8,481 |
| Grand Total All Present Law Adjustments | 0.00 | \$53,991 | \$210,470 | \$0 | \$264,461 | 0.00 | \$56,260 | \$210,301 | \$0 | \$266,561 |

DP 102 - Allocate department indirect/admin costs - This request funds the division's share of department indirect/administrative costs for services provided by proprietary funded centralized service functions of the agency.

New Proposals

| New Proposals | | | | | | | | | | | |
|---|---------------|--------------|--------------------|-----------------|--------------------|-----------------------|--------------|--------------------|-----------------|--------------------|-----------|
| -----Fiscal 2014----- | | | | | | -----Fiscal 2015----- | | | | | |
| Program | FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds | |
| DP 703 - Montana Land Information Act - Housekeeping (Requires Legislation) | 07 | (2.50) | 0 | (943,612) | 0 | (943,612) | (2.50) | 0 | (943,342) | 0 | (943,342) |
| Total | (2.50) | \$0 | (\$943,612) | \$0 | (\$943,612) | (2.50) | \$0 | (\$943,342) | \$0 | (\$943,342) | |

DP 703 - Montana Land Information Act - Housekeeping - The purpose of the Montana Land Information Act (MLIA) - housekeeping proposal is to finalize the transfer of the Base Map Service Center and administration of the MLIA from the Department of Administration to the Montana State Library. This proposal would reduce 2.5 permanent FTE and eliminate \$1.8 million in state special revenue in the 2015 biennium. The proposal is in response to the recommendations prepared by the Geographic Information System (GIS) Task Force.

This transfer of functions and authority from the Department of Administration to the Montana State Library presents changes to each respective agency budget but no change to the overall budget of the state.

Proprietary Rates

Program Description

The State Information Technology Services Division manages information technology services for state government. Responsibilities of the division include:

- Hosting services, which includes servers, storage, web sites, applications, and enterprise email
- Systems development services incorporating development for applications, web applications, and GIS application development
- Communications and connectivity services for local and long-distance voice services, design and development of telephone equipment and voice applications, Internet access, data network services, and video conferencing services
- Operations support providing for imaging scanning, content management, application printing, systems operations, tape management, local area network (LAN) administration
- Enterprise services that include the following:

- Statewide Continuity Planning
- Information System Risk Management
- Enterprise Security and Computing Systems Monitoring
- Montana Information Technology Act (MITA) oversight of IT activities:
 - IT strategic planning and agency IT plan approval
 - IT policy, standards and procedures
- State Chief Information Officer and Geographic Information Officer activities, Enterprise IT Councils, Advisory Groups and Conference Support, Enterprise-wide IT procurement and contract management, IT training coordination, mt.gov and MINE portal development and website hosting
- Enterprise application hosting - Citrix and Oracle
- Public Safety Services:
 - 9-1-1 program
 - Interoperability Montana (IM) public safety radio program
 - Montana broadband program
- State of MT Data Center

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services costs of \$29.0 million for 188.50 FTE
- Operating costs of \$43.55 million including:
 - \$13.6 million in software programs
 - \$2.3 million in IT vendor services
 - \$3.4 million in computer hardware
 - \$7.6 million in converged traffic
 - \$3.0 million in computer maintenance
- Equipment costs for computers and terminals \$4.8 million

Revenues

Funding for SITSD is from charges to state agencies through the fixed cost process for server and application hosting, and data/network services. The majority of SITSD's budget is funded through proprietary funds.

Budget authority to pay the SITSD allocation is a fixed cost item in each agency's budget. The statewide fixed cost in the executive budget for SITSD is \$1.2 million higher in FY 2014 and \$1.5 million higher in FY 2015. A portion of the increase is related to using the billed invoice rates, with the remaining increase due to projected increases in services or the rates charged by SITSD for the rates.

SITSD uses a methodology to identify and allocate the full cost of each separate service it offers to the users of that service. This is known as the Full-Cost Transparency Model (FTM) and has been in place since the 2011 biennium. Over the past year SITSD has defined about 200 services, allocated costs and staff time to each service, and estimated units of service provided to each agency. Rates are based on a detailed allocation of expenditures and staff time to each service. SITSD also implemented a staff time tracking system to refine the accuracy of staff time allocation. Because SITSD continues to refine the model for the services and the costs to provide them, the allocation of costs to the various state agencies is changed from those allocated in the 2013 biennium.

**LFD
ISSUE****Proprietary Rates For SITSD Include Budgetary Adjustments that were Excluded From FY 2012 Base Budget**

In determining the fixed costs adjustments for SITSD services charged to each agency, the starting point used for the adjustment is the amount of the SITSD invoice billing for the year, not the actual amounts expended by each agency. Figure 14 below shows the differences between the amount each agency expended for SITSD services in the base year and the amount billed (billing invoices for services) to each agency for HB 2 services. The figure also shows the funding for the differences based on the funding of the FY 2012 base.

Figure 14

| Department of Administration State Information Technology Services Division | | | | | | | | |
|--|---------------------|---------------------|--------------------|------------------|------------------|------------------|-----------------|--------------------|
| | Costs | | | General | | State | | Total |
| | In FY 2012 | Invoiced Amount | Difference | Fund | Special | Federal | Proprietary | |
| Legislative Branch | \$427,951 | \$435,886 | \$7,935 | \$6,560 | \$1,375 | \$0 | \$0 | \$7,935 |
| Consumer Council | 18,561 | 20,187 | 1,626 | 0 | 1,626 | 0 | 0 | 1,626 |
| Judicial Branch | 1,535,822 | 1,540,592 | 4,770 | 4,479 | 253 | 16 | 23 | 4,771 |
| Governor's Office | 190,165 | 194,197 | 4,032 | 4,024 | 8 | 0 | 0 | 4,032 |
| Secretary of State | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commissioner of Political Practices | 43,977 | 45,714 | 1,737 | 1,737 | 0 | 0 | 0 | 1,737 |
| State Auditor's Office | 170,756 | 192,597 | 21,841 | 0 | 21,841 | 0 | 0 | 21,841 |
| Office of Public Instruction | 180,949 | 182,666 | 1,717 | 1,352 | 21 | 345 | 0 | 1,718 |
| Board of Crime Control | 92,343 | 93,282 | 939 | 252 | 17 | 670 | 0 | 939 |
| Department of Justice | 2,886,611 | 3,235,701 | 349,090 | 120,890 | 215,005 | 5,132 | 8,064 | 349,091 |
| Public Service Commission | 52,934 | 53,992 | 1,058 | 0 | 1,037 | 21 | 0 | 1,058 |
| Board of Public Education | 19,778 | 19,767 | (11) | (6) | (5) | 0 | 0 | (11) |
| Commissioner of Higher Education | 57,991 | 64,460 | 6,469 | 4,703 | 519 | 1,245 | 0 | 6,467 |
| School for the Deaf and Blind | 23,476 | 23,467 | (9) | (9) | 0 | 0 | 0 | (9) |
| Montana Arts Council | 26,985 | 27,192 | 207 | 72 | 32 | 103 | 0 | 207 |
| Montana State Library | 156,812 | 274,322 | 117,510 | 67,227 | 20,165 | 30,118 | 0 | 117,510 |
| Montana Historical Society | 104,298 | 156,881 | 52,583 | 31,739 | 6,210 | 8,455 | 6,179 | 52,583 |
| Department of Fish, Wildlife, & Parks | 1,404,885 | 1,520,522 | 115,637 | 0 | 90,648 | 24,989 | 0 | 115,637 |
| Department of Environmental Quality | 532,758 | 602,829 | 70,071 | 7,582 | 36,227 | 26,263 | 0 | 70,072 |
| Department of Transportation | 3,768,638 | 3,769,581 | 943 | 0 | 333 | 610 | 0 | 943 |
| Department of Livestock | 182,739 | 189,997 | 7,258 | 721 | 5,537 | 999 | 0 | 7,257 |
| Department of Natural Resources | 1,511,359 | 1,515,355 | 3,996 | 1,779 | 2,052 | 165 | 0 | 3,996 |
| Department of Revenue | 2,450,459 | 2,430,404 | (20,055) | (18,529) | (395) | (100) | (1,033) | (20,057) |
| Department of Administration | 512,233 | 555,767 | 43,534 | 12,742 | 14,183 | 39 | 16,573 | 43,537 |
| Office of the Public Defender | 563,688 | 580,977 | 17,289 | 17,213 | 76 | 0 | 0 | 17,289 |
| Department of Agriculture | 257,295 | 265,910 | 8,615 | 579 | 6,581 | 1,165 | 290 | 8,615 |
| Department of Corrections | 1,708,423 | 1,711,338 | 2,915 | 2,826 | 78 | 0 | 10 | 2,914 |
| Department of Commerce | 96,888 | 99,466 | 2,578 | 483 | 542 | 1,553 | 0 | 2,578 |
| Department of Labor and Industry | 3,300,574 | 3,390,275 | 89,701 | 1,794 | 46,725 | 41,110 | 72 | 89,701 |
| Department of Military Affairs | 74,184 | 57,540 | (16,644) | (2,956) | (566) | (13,122) | 0 | (16,644) |
| Economic Security Services | 566,123 | 575,598 | 9,475 | 1,566 | 148 | 7,761 | 0 | 9,475 |
| Director's Office | 21,140 | 21,494 | 354 | 162 | 38 | 154 | 0 | 354 |
| Operation Services | 6,731,807 | 6,844,479 | 112,672 | 39,244 | 5,318 | 68,110 | 0 | 112,672 |
| Public Health | 127,184 | 129,313 | 2,129 | 129 | 531 | 1,469 | 0 | 2,129 |
| Medicaid and Health Services | 276,609 | 281,239 | 4,630 | 1,191 | 480 | 2,959 | 0 | 4,630 |
| Total | \$30,076,395 | \$31,102,987 | \$1,026,592 | \$309,546 | \$476,640 | \$210,229 | \$30,178 | \$1,026,593 |

The figure above shows the first component of the fixed cost adjustment for SITSD costs including the funding level by agency and funding source as compared to what the agency paid for the services in the base year. As shown, by including the billed amount rather than the actual costs incurred by the agencies in FY 2012, funding has been increased by \$1.0 million each year of the biennium. The direct impact on the general fund for these adjustments is \$0.3 million each year.

**LFD
ISSUE
CONT.**

As part of establishing the FY 2012 base amount, adjustments to the actual amounts expended by an agency are made to remove funding that is:

- Considered one-time-only in terms of continuing the appropriation authority
- Paying for expenditures made in the previous year
- Reclassified from one expense category to another, i.e. operating expenses to grant expenses

About \$0.7 million was removed from HB 2 expenditures for information technology services when the base amount was established in the budgeting system for these types of items. Using the invoiced billing rates as the basis of the 2015 biennial rates bypasses the analysis of the ongoing base funding and reinstates costs of the services that are not considered ongoing in the base budget. This can result in funding for services above the level needed by an agency included in the fixed cost adjustments. If an agency does not need this level of funding for information technology services, the state agencies can use the funding on other costs that may or may not have been reviewed by the legislature.

As the division built the rates for the 2015 biennium based on the invoice bill amounts plus adjustments for agencies' projected use of services, any changes in the rate will impact the level of services the division is able to provide. The legislature may wish to discuss potential impacts prior to reducing the level of funding to the FY 2012 base funding included in HB 2.

Legislative option

Reduce the funding for the SITSD division included in HB 2 by about \$0.7 million each year of the biennium to mitigate the impact of funding budgetary adjustments that were excluded from the FY 2012 base budget.

Once the adjustment to the billed amount is calculated, any changes to the level of services is made to reach a final number of the fixed cost adjustment for each agency.

**LFD
COMMENT**Agency Impacts of SITSD Allocations

Under the full-cost transparency model one difference between the 2013 biennium and the 2015 biennium is how SITSD charges for hosting rates. In previous years all of SITSD's hosting charges to state applications were based on their storage size only. The effect was that large storage applications subsidized smaller applications. SITSD now has the capability to track other metrics and are able to allocate costs not only to storage but also to backup, support, software licensing, servers, etc. This has caused some changes with lower rates and less subsidization for larger users. However, smaller applications are paying higher costs that reflect the actual costs of hosting the services.

Of the 177 services listed on the 2015 biennial rate sheet:

- 61 services declined in costs ranging between 3% and 99%
- 67 services increased in costs ranging between 3% and 511%

**LFD
COMMENT**

Figure 15 shows the amount of the change by each agency for SITSD fixed cost included in the statewide Present Law Adjustment.

Figure 15

| Department of Administration State Information Technology Services Division | | |
|--|--------------------------------|--------------------------------|
| Agency | FY 2014 ITSD Fixed Costs | FY 2015 ITSD Fixed Costs |
| Legislative Branch | 76,105 | 208,755 |
| Consumer Council | (880) | (880) |
| Judicial Branch | 248,504 | 248,504 |
| Governor's Office | 2,129 | 2,129 |
| Secretary of State | 0 | 0 |
| Commissioner of Political Practices | 28,326 | 28,326 |
| State Auditor's Office | 57,283 | 58,013 |
| Office of Public Instruction | 5,687 | 5,687 |
| Board of Crime Control | (14,747) | (14,747) |
| Department of Justice | 444,218 | 481,229 |
| Public Service Commission | 8,988 | 8,988 |
| Board of Public Education | (6,652) | (6,652) |
| Commissioner of Higher Education | 3,177 | 3,177 |
| School for the Deaf and Blind | 13,827 | 13,827 |
| Montana Arts Council | 9,627 | 9,627 |
| Montana State Library | 74,552 | 74,552 |
| Montana Historical Society | (3,266) | (3,266) |
| Department of Fish, Wildlife, & Parks | (165,165) | (165,165) |
| Department of Environmental Quality | 22,589 | 22,589 |
| Department of Transportation | 175,891 | 175,891 |
| Department of Livestock | (2,371) | (2,371) |
| Department of Natural Resources | 24,417 | 24,407 |
| Department of Revenue | 39,757 | 39,757 |
| Department of Administration | 138,574 | 138,574 |
| Office of the Public Defender | 76,307 | 76,307 |
| Department of Agriculture | (21,885) | (21,885) |
| Department of Corrections | (6,337) | (6,337) |
| Department of Commerce | 4,953 | 4,953 |
| Department of Labor and Industry | 165,620 | 345,022 |
| Department of Military Affairs | 62,997 | 62,997 |
| Department of Public Health and Human Services | (268,492) | (294,947) |
| Total | <u>\$1,193,733</u> | <u>\$1,517,061</u> |
| Increases for Billing Invoices Included in Rates | \$1,026,593 | \$1,026,593 |
| Increases for additional services or increases to rates | \$167,140 | \$490,468 |

As shown, the large users of the systems such as DPHHS and FWP have reduced costs overall in part due to the impact of the changes to the hosting rates.

Significant Present Law Adjustments

SITSD is requesting to make 12.49 FTE modified positions permanent. The costs of the personal services for the modified FTE were included in the rates for the 2013 biennium. Due mostly to turnover, the personal service costs associated with the positions funded through the SITSD rates are \$366,000 less in the 2015 biennium.

Proprietary Rates

For the 2015 biennium SITSD is requesting to charge various rates in order to maintain a 30-day working capital.

**LFD
ISSUE**Proprietary Rates Can Be Established in HB 2 for SITSD

The division proposes that instead of approving fees, the legislature provide the program the flexibility to operate as it determines necessary to maintain a 30-day working capital balance to operate the division. As stated above, the previous legislature approved a number of rates for SITSD services and the remaining costs were approved using 30-day working capital. Approving a limit on the maximum working capital a program can maintain does not limit how much can be charged for the services. It only limits the amount of cash the program can accumulate.

Because the 30-day capital rate proposed does not provide a means of limiting either rates or expenditures, the legislature may wish to approve rates that limit the charges for services of SITSD. The 2011 Legislature approved a number of rates for SITSD services including those for enterprise services, web content management, GIS services, voice services, and email.

SITSD's FTM model employs a separate unit for each service. The unit is the increment in which the agency buys the service or product. SITSD offers almost 200 services and establishes a specific rate for each. The allocation of units of service within the state's budget is done based on state agency planned utilization and on the rates for services in the 2015 biennium. There are a few services such as enterprise services and some asset brokerage where the unit allocation is not based on agency specific services. Enterprise services costs are associated with state-wide services and benefits, not agency specific services, and therefore are distributed to agencies on an agency FTE basis. Asset brokerage or fixed enterprise software costs, such as Microsoft, are also allocated to FTEs. See Appendix for the Department of Administration for a list of the proposed rates for FY 2014 compared with FY 2012 invoiced billed rates.

Statute requires that the executive budget submission contain a report for internal services that includes:

“Fees and charges in the internal service fund type, including changes in the level of fees and services, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.”

One argument agencies make in requesting a working capital rate is that otherwise the legislature would have to approve hundreds of rates. Proprietary funded programs also argue that the costs are subject to the choices of service users who control the level of services they purchase from the service provider. State agencies must use most of the services provided by SITSD and as such they are captive to the charges as determined by SITSD.

However, state agencies do control the amount of the services they purchase from SITSD in any given year. The agencies' funding as provided by the legislature and the flexibility to choose the type and amount of services places constraints on SITSD to control costs.

Legislative Option

- Approve the rates as proposed by SITSD.
- Approve the working capital rate as requested.

By approving the working capital rate the legislature would allow SITSD to charge establish the rates for its customers. SITSD would be allowed to set and change the level of the rates throughout the interim.