

**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**VITA Internal Service Fund  
Rate Requests**

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December 8, 2003**

# VITA Rate Requests

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- **In October 2003, VITA requested two internal service fund rate approvals from the Commission:**
  - **Reduction of the Unisys CPU rate**
  - **Creation of new rates for various new services to be provided under the consolidation of IT functions mandated by the 2003 General Assembly**
  
- **The rate requests were authorized by the IT Investment Board on December 1, 2003**

# Reduction of Unisys CPU Rate

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- **VITA has requested a reduction of the Unisys CPU rate from \$.0088 per second to \$.00858 per second**
- **Reduction necessary to avoid \$300,000 in overcharges to the Department of Social Services as it makes changes to how it uses the Unisys mainframe**
- **Change in the rate has no cost or operational impact on any other agency**
- **JLARC staff recommend approval of the requested rate reduction**

# Background and Assumptions for New Rates

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- **VITA's second request is for the creation of rates for new services to be provided as a result of the consolidation of IT functions mandated by the 2003 General Assembly**
  - **Desktop / laptop PC services**
  - **Server operations and support**
  - **Other PC and network equipment and services**
  
- **To avoid complications associated with the phased approach for implementation of the consolidation, VITA based the proposed rates on the assumption of a fully implemented consolidation of agency staff and IT assets**

# Rates for Desktop Services

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- Proposed rates for desktop services are intended to recover the costs of acquisition, maintenance, and support for PCs and laptops

<u>Billing Item</u>	<u>Monthly Rate</u>	
	<u>Standard</u>	<u>High-End</u>
Desktop	\$94.70	\$107.70
Laptop	\$204.03	\$218.03

- Rates are based on cost recovery for 49,588 desktops and 8,133 laptops, generating about \$76.3 million in revenues annually

# Rates for Server Operations and Support

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- Proposed rates for server operations and support are intended to recover the costs for acquisition, operation, maintenance, and support for servers consolidated in VITA from executive agencies

<u>Billing Item</u>	<u>Monthly Rates</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
NT Servers	\$338.00	\$1,335.99	\$2,775.12
UNIX Servers	\$430.76	\$1,619.76	\$3,526.10

- VITA expects to operate about 3,000 servers, generating more than \$20 million in revenue annually

# Rates for Server Software

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- Proposed rates for software are intended to recover the costs for licensing and support in five cost tiers

<u>Billing Item</u>	<u>Monthly Rate</u>				
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>	<u>Tier 4</u>	<u>Tier 5</u>
Software	\$312.66	\$3,012.06	\$10,054.78	\$23,641.14	\$51,556.84

- VITA expects the rates to generate approximately \$21 million in revenue annually

# Rates for Other Equipment and Services

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- Proposed rates for other equipment are intended to recover the acquisition, maintenance, and support costs for network and other devices for which VITA will be responsible

<u>Billing Item</u>	<u>Monthly Rate</u>
Network Equipment - Data	7.70 % of purchase price
Network Equipment - Voice	4.54 % of purchase price
Other Hardware	5.95 % of purchase price

- VITA expects these rates to generate approximately \$37.9 million in revenue annually

# Rates for Other Equipment and Services (cont.)

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- For PC peripheral equipment, PC software, and handheld wireless devices (Blackberry, Palm) VITA's proposed rates recover only the one-time purchase price and administrative overhead

<u>Charge Item</u>	<u>Charge</u>
Additional PC Hardware	Purchase price + 8.9%
Additional PC Software	Purchase price + 8.9%
Wireless Handheld Devices	Purchase, license, maintenance, and usage + 8.9%

- Revenue estimates for these rates are not available

# VITA Projected Profit and Loss

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	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
<b>REVENUE</b>			
Current Services	\$117,498,286	\$119,999,314	\$123,207,291
New Services	\$22,396,854	\$129,271,584	\$155,140,602
Total Revenue	<u>\$139,895,141</u>	<u>\$249,270,898</u>	<u>\$278,347,893</u>
<b>EXPENSES</b>			
Current Services	\$105,255,368	\$106,251,573	\$107,868,841
New Services	\$19,337,453	\$111,663,719	\$134,016,367
Indirect	\$23,631,107	\$29,507,661	\$33,046,486
Start-up	\$3,950,000	\$0	\$0
Total Expenses	<u>\$152,179,927</u>	<u>\$247,422,954</u>	<u>\$274,931,694</u>
<b>PROFIT/(LOSS)</b>	<b>(\$12,284,786)</b>	<b>\$1,847,944</b>	<b>\$3,416,199</b>
Retained Earn (7/1)	\$26,362,876	\$14,084,089	\$15,932,033
Retained Earn (6/30)	<u>\$14,084,089</u>	<u>\$15,932,033</u>	<u>\$19,348,232</u>

# JLARC and APA Review of Rate Calculations

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- **JLARC staff review of the VITA rate requests involved analysis of:**
  - **Calculation of the rates**
  - **Projected revenues and expenses**
  - **Estimates of the financial impact on agencies**
  
- **Because of concerns about the financial information provided by VITA, staff from the Auditor of Public Accounts were requested to complete a review of relevant financial assumptions and documentation**

# Concerns

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- **Review by JLARC and APA staff identified several concerns:**
  - **Data used in the development of the rates has errors**
  - **The projected profit and loss statement double counts revenue for telecommunications services in FY 2005 and FY 2006**
  - **The projected profit and loss statement understates expenses between \$13 and \$18 million over the three year period because some overhead costs are not included**

# Concerns (cont.)

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- **The current VITA billing system will not accommodate the new services or billing rates, placing the consolidation of medium and large agencies at risk**
- **VITA intends to provide credits to customer agencies for the value of equipment transferred to VITA, but has not developed the policies and procedures for administration of the credits on customer bills**
- **The rates do not reflect any effort by VITA to implement the efficiencies anticipated by the consolidation of IT functions and assets**

# Implementation Is Dependent on Rate Approval

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- **Despite the concerns raised by JLARC and APA staff, implementation of the VITA consolidation cannot continue without the revenue that will come from the new services**

# Staff Recommendation

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- **The Commission should approve the rates requested by VITA with the following conditions:**
  - **The rates shall be effective from November 1, 2003 to September 30, 2004**
  - **VITA shall develop a policy for implementation of equipment credits by January 15, 2004**
  - **VITA shall not negotiate reduced rates, discounts, or variations from the approved rates with individual agencies**
  - **VITA shall not accelerate from the statutory schedule the consolidation of any agency prior to the deployment of a billing system that has been certified by the APA**

# Staff Recommendation (cont.)

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- VITA shall provide each month to JLARC and the APA a report on profit and loss showing actual retained earnings
- Failure of VITA to comply with any of the conditions set out in the Commission's approval will be cause for an immediate review and reconsideration of the rates by the Commission