



DRAFT

## COMMONWEALTH of VIRGINIA

*Philip A. Leone*  
Director

*Joint Legislative Audit and Review Commission*  
*Suite 1100, General Assembly Building, Capitol Square*  
*Richmond, Virginia 23219*

(804) 786-1258

### **INTERNAL SERVICE FUNDS SUBCOMMITTEE REPORT**

December 10, 2009

TO: Delegate M. Kirkland Cox, Chair  
Members, Joint Legislative Audit and Review Commission

FROM: Senator Walter Stosch, Subcommittee Chair

The JLARC Internal Service Fund Subcommittee met on December 10, 2009, to consider rate requests from the Department of General Services (DGS) and the Virginia Information Technologies Agency (VITA). The Subcommittee heard presentations from DGS and VITA, and reviewed analyses of the rate requests prepared by JLARC staff. The rate requests are attached.

#### **DGS Rates**

On November 2, 2009, DGS submitted for the Commission's approval a request to change rates for the Division of Real Estate Services (DRES) effective FY 2011. DRES began operating as an internal service fund in FY 2009, and provides agencies with a variety of real estate management services.

The DGS request is primarily a refinement based on experience during the first year of DRES operation. It consists of reductions in two of the currently approved lease rates, and the addition of a fee applied to services related to lease transactions. DGS analysis of the first year of DRES operations revealed that DRES staff spent considerable amounts of time providing services—such as lease negotiations—that were not included in the first year's approved rate structure. DGS believes the requested changes described below will result in a closer relationship between agencies' use of DRES services and the amount they pay.

The first two rate changes are reductions in the rate DRES charges agencies to administer single agency and master leases. The rate for services on single agency leases would be reduced from the current 3.25 percent of the lease value to 3.00 percent—an eight percent reduction. The rate for services on master leases would be reduced from the current five percent of the lease value to four percent—a 20 percent reduction.

The third and final requested change is a new hourly rate for activities related to lease transactions, including lease review and negotiation. As noted above, there has previously been no rate associated with these activities. DGS is requesting a rate of \$68 per hour.

Rates being charged will likely be adequate to recover the full cost of services. DRES is projecting total operating expenses of about \$2.1 million in FY 2011, including staffing costs of about \$1.6 million. DRES expects to collect about \$2.1 million in revenue from agencies in FY 2011. This would result in a basically break-even year, with a minimal annual operating loss of \$7,316.

Rates should be adequate to ensure that the fund remains solvent, but without excessive balances (barring unforeseen events or substantial deviations from current projections). DGS notes that the large amount of lease payments that flow through the fund, approximately \$58 million, can make the cash balance volatile. It projects the fund balance, however, will remain relatively stable at about \$1.2 million in FY 2011. This amount represents more than half of the fund's anticipated FY 2011 annual operating expenses of \$2.1 million, which is higher than the 20 percent "rule of thumb" threshold for internal service funds. However, due to the sometimes large lease payments DRES must make on agencies' behalf, a higher percentage seems prudent.

The vast majority of DRES customer agencies will pay lower fees to DRES under this newly requested rate structure. In a few cases, DGS estimates the request to create an hourly rate for activities related to lease transactions will lead to increased payments for agencies that use DRES lease transaction services. DGS estimates that the Department of Conservation and Recreation, the Department of Corrections, and the Department of Health will be among those most affected.

**The Subcommittee recommends that the Commission approve all three DGS rates, to be effective July 1, 2010.**

## VITA Rates

On October 29, 2009, VITA submitted for Commission approval new or revised internal service fund rates for **six** computer services rates, some of which are discontinuations or reductions, and others of which are increases.

### **Discontinuation of Two Rates**

VITA's rate request includes the discontinuation of two rates that pre-date the contract with Northrop Grumman. The services to which these rates applied are now being provided by Northrop Grumman and the rates are therefore obsolete.

***Virtual Private Network (VPN) service.*** VITA received approval in November 2001 for a rate of \$16.51 per user who request VPN services. VITA and Northrop Grumman have now agreed that VPN services will be part of the standard service offering to customers with a personal computer, and VITA is therefore discontinuing charges previously ap-

plied to customers using VPN services. VITA is requesting that this change be made effective October 1, 2009, and the estimated fiscal impact is an annual savings of \$64,785.

***Legacy data center network port charges.*** VITA received approval in October 2000, and November 2004, for two network port charges (\$977.50 and \$268, respectively) for customers that received router services. Routers are network devices that allow other equipment, such as servers and shared printers, to connect to the network. Each device that connects to the network uses a “port” on one of several VITA routers, and VITA charges customers a fee for connecting to the network referred to as a port charge.

VITA reports that these port charges are no longer needed for equipment located at the Chesterfield data center (CESC) for two reasons. First, the rates are based on the legacy services provided by the Department of Information Technology and reflect an environment in which there were fewer devices. Since the number of devices at CESC has grown, the costs can be spread over a substantially higher number of devices. As a result, the rates are too high and VITA has been over-recovering its network costs. Second, Northrop Grumman’s anticipated charges to VITA for network costs, which will result from re-baselining, will not distinguish between CESC and other locations. Therefore, VITA will use a single port charge for all devices, regardless of location, and the discontinuation of these legacy port charges for devices at CESC is a step in that direction.

VITA therefore desires to discontinue the legacy rates for network port charges for servers located at CESC. VITA is requesting that this change be made effective October 1, 2009, and the estimated fiscal impact is an annual savings of \$334,464.

### **Reduction for Existing Personal Computer Encryption Rate**

Northrop Grumman provides VITA’s customers with a service that encrypts the contents of a personal computer’s (PC) hard drive. The service consists of software licensing, maintenance, technical support (deployment, testing, and training) and ongoing technical support. The Commission approved VITA’s request in November 2007 for a monthly rate per PC of \$18.83. Since that time, VITA and Northrop Grumman have agreed upon a reduced unit price for PC encryption services and VITA is requesting a new rate of \$9.59 per PC. VITA is requesting that this change be made effective November 1, 2009, and the estimated fiscal impact is an annual savings of \$246,683.

### **Expanded Definition of Devices to Which Existing Server Disk Storage Rates Apply**

As part of its May 2009 rate request, VITA included a proposed redefinition of the services to which VITA’s server disk storage rates apply. As approved in 2004, VITA’s disk storage rates applied to a “shared disk environment” in which storage space was allocated to customers based on their actual usage. However, the rates did not apply to disk storage which was directly attached to a single server and was therefore not shared among all customers.

VITA is now proposing to broaden the types of services to which disk storage rates apply to include directly-attached storage. In other words, the existing definition is more

narrow and only applies to storage devices that connect to several servers. VITA now wishes to expand the definition, thereby incorporating more devices, to include storage (such as the hard drive inside a server) that is only used by one server. VITA has defined directly-attached storage as “hard drives that are directly attached to a server or workstation” and that are not a part of a storage area network.

In May, it was not clear what (if any) customer impact this redefinition could have. Accordingly, the Commission postponed consideration of the rate until VITA could assess the fiscal impact. VITA has now estimated the annual impact to be an increase in customer charges of \$1,525,431, and requests an effective date of November 1, 2009.

### **Use of Factor for Virtual Server Backup Rate**

The process Northrop Grumman uses to backup the data on virtual servers differs from that used for physical servers. As a result, Northrop Grumman fully backs-up the data on virtual servers each day. In contrast, the data on physical servers are incrementally backed up each day, and fully backed up once each week. The result is that agencies using virtual servers face higher backup charges than agencies using physical servers, creating an inequity since the services are fundamentally the same.

To restore equitable cost recovery, VITA has developed and requests approval of a factor that will reduce the billable volume of backup data for virtual servers to an amount comparable to physical servers. The factor (0.244) is multiplied by the actual amount of storage on a virtual server, which has the effect of reducing the billable amount of storage. Without the use of this factor, VITA would overcharge virtual server customer agencies. VITA has estimated the annual impact to be \$1,049,710, and requests an effective date of November 1, 2009.

### **Internet Access Service**

The last component of VITA’s rate request is for a new service known as Managed Router Internet Access, which is a companion service to VITA’s existing Managed Router service (approved in December 2007). The existing managed router service allows agencies to connect to the State’s network (i.e., the Wide Area Network) and the rate recovers the costs associated with Northrop Grumman’s management of that service. However, the rate for the managed router service does not include the costs associated with access to the Internet.

For most State agencies, VITA reports that the costs of Internet access are included in the standard rates for personal computers and other devices. However, for certain agencies there is a need for another approach. Specifically, some local departments of social services (DSS) receive their IT support from local governments instead of Northrop Grumman. Because of this, VITA does not charge them the standard rate for personal computers and therefore VITA does not have a mechanism for recovering the costs of providing Internet access. This situation may also apply to future VITA customers, such as institutions of higher education. The proposed Managed Router Internet Access service would allow certain designated agencies to use the State’s network to connect to the Internet and provide VITA a means of recovering those costs. This new service is deployed in conjunction with

the Managed Router Service that was established in 2007 and also uses a tiered rate structure where the charges increase as the speed of the Internet connection (or bandwidth) increases (Table 1).

The total cost impact of this new rate is not known because it depends upon the bandwidth option that will be chosen by each local DSS office that will use the service. However, VITA reports that it will coincide with reduction of personal computer charges to the affected DSS offices. Also, the effective date is not known, because it depends upon the completion of negotiations with Northrop Grumman over a contract amendment that will memorialize this service. Of note, the proposed amendment will require each customer to use the service for a minimum time commitment of 36 months, in order for Northrop Grumman to recover its costs.

**Table 1: VITA Proposes New Rate Tiers for Managed Router Internet Access Service**

Network Bandwidth (Speed)	Unit	Proposed VITA Monthly Rates
64 Kbps	Per Router	\$ 142.68
128 Kbps	Per Router	145.75
256 Kbps	Per Router	152.41
512 Kbps	Per Router	202.26
768 Kbps	Per Router	214.52
1.536 Mbps	Per Router	246.54
3.072 Mbps	Per Router	593.23
6.144 Mbps	Per Router	722.91
45 Mbps	Per Router	2,320.93

Source: JLARC staff analysis of Virginia Information Technologies Agency proposed rates request.

**The Subcommittee recommends that the Commission table the rates requested by VITA pending additional information about the impact of the requested changes on agency budgets and any reductions that may be proposed by the Governor.**

Attachments



## JLARC INTERNAL SERVICE FUND RATE REQUEST FORM

<b>Fund Name</b>	<b>Real Estate Services</b>
<b>Fund Description</b>	<p>The Division of Real Estate Services (DRES) provides real estate portfolio management, transactional, and strategic planning services to state agencies through a collaborative relationship that helps customers meet their real estate needs while ensuring quality, efficiency, and cost control.</p> <p>DGS, DRES was formed in 2005. In FY08, DRES began assuming leases from state agencies and administering those leases. For FY09, DRES became a 100% Internal Service Fund activity. Since its inception DRES has documented cost avoidance and/or cost savings of over \$75M.</p>

### *I. Identification of Services / Products and Requested Rate Change and Timing*

I.1 Please list the services / products for which the fund is requesting a rate change, the currently approved and requested rates, and the fiscal year the requested rate would be effective. Add rows to the table below as needed. If the justification and impact of each service / product being addressed is different, a separate rate request form may need to be completed for each.

Service / Product	Rate		FY Effective
	<i>Currently Approved</i>	<i>Requested</i>	
Administration of Single Agency Leases	Cost + 3.25%	Cost + 3.00%	FY11
Administration of Master Leases	Cost + 5.00%	Cost + 4.00%	FY11
Lease Transactions – Hourly Rate	- 0 -	\$68 per hr	FY11

### *II. Justification for Requested Change*

II.1 Please insert an “x” next to any of the below reasons that characterize why the fund is requesting a rate change.

“X” Any That Apply	Reason for Requesting Rate Change
X	Expenses expected to increase / decrease
X	Agency use of products or services expected to change
X	ISF providing different products / services
X	Adjustment to better match agency use with expenses

II.2 Please briefly describe why the rate(s) needs to be changed. The description should elaborate on the reason for the requested change(s) noted in II.2 above.

FY09 was DRES's first full year of operation as the Commonwealth's primary provider of leased office space. DGS conducted a review of DRES expenses and revenue for FY09. Using analysis from its FY09 review, DGS developed a forecast of expenses and revenue for DRES operations in FY10:

	FY10
Revenue Forecast	
Lease Admin Fees (net)	\$1,860,000.00
CBRE Commissions	\$ 20,000.00
Single Transaction Fees	\$ 20,000.00
Lease Admin Fees – DGS/BFM	\$ 20,000.00
<b>Total Revenue Forecast Estimate</b>	<b>\$1,920,000.00</b>
Expenditure Forecast	
	\$2,122,916.00
<b>Forecast Balance</b>	<b>\$ (202,916.00)</b>

DGS believes it has sufficient balances to cover the shortfall in FY10 without having to change fees charged to agencies.

During our analysis, it became apparent that DRES spends a considerable amount of resource time providing "non-reimbursed" services to state agencies and institutions. The "non-reimbursed" services include real property acquisitions, lease negotiation and support for agency leases not administered by DRES, and leases reviewed and negotiated by DRES that the agency fails to execute. The cost of these services is currently being recouped from other revenue sources. Doing this is not in conformance with one of the basic tenets of an internal service fund, which is to appropriately allocate the cost of central services to the service area and fund receiving the service.

For the FY11 and FY12, DGS completed an internal DRES budget analysis to determine the appropriate mix of lease administration fees and other charges necessary to correct this situation. DGS believes DRES should reduce its lease administration fees in FY11 and FY12 and recover its costs for previously non-reimbursed services from the appropriate agencies and institutions.

II.3 Please briefly describe the assumptions and / or benchmark(s) DGS is using to determine the amount the rate needs to change. Refer to and provide attachments as necessary.

	FY10	FY11	
Revenue Forecast			
Lease Admin Fees	\$1,860,000.00	\$ 1,658,000.00	
CBRE Commissions	\$ 20,000.00	\$ 20,000.00	
Single Transaction Fees	\$ 20,000.00	\$ 30,000.00	
BFM OCH/MSC Lease Admin	\$ 20,000.00	\$ 20,000.00	
Other DRES services (i.e.)	\$ -	\$ 387,600.00	Total estimated 5700 annual hrs * \$68 per hour
- Real Property Acquisitions			
- Lease negotiation support to agencies for agency administered leases			
- Leases started by DRES that are canceled by the requesting agency			
- Lease review/recommendation			
- Other non-lease admin services			
Total Revenue Forecast Estimate	\$1,920,000.00	\$ 2,115,000.00	
Expenditure Forecast			
	\$2,122,916.00	\$ 2,122,916.00	
Forecasted Balance	\$ (202,916.00)	\$ (7,316.00)	

### III. Impact of Requested Change on ISF

III.1 Please briefly describe how DGS estimates the requested change will impact the fund's gain / loss in the affected fiscal years. Please explain any substantial changes in magnitude or direction in the context of the fund's historical gain / loss (provided below as reference).

FY05 the fund was used exclusively for sales of surplus real property. The Appropriation Act allowed DGS to recover 115% of its actual costs for selling property. At the end of FY05, the fund had accumulated a fund balance of \$108,514. FY06 was the first year DRES added a master lease. So the activity in the ISF increased, but DRES remained 75% general funded. During FY07, DRES added additional master leases but still retained its general fund to cover the majority of operating expenses. During FY08, DRES continued to add master leases and toward the end of the fiscal year had begun assuming some of the single leases from other agencies. FY08 was the last year DRES had general funds to offset a portion of its operating expenses. In FY09, DRES had converted totally to an internal service fund and continued assuming single leases from other state agencies. For FY10, DGS is predicting an operating loss of just over \$100,000. This loss can be absorbed by current fund balances. For FY11 and FY12, our analysis indicates that the fund will be approximately at a breakeven point based on the implementation of the requested rates.

	2005	2006	2007	2008	2009
Gain / Loss (%)		24%	24%	(1.4%)	1.9%
Gain / Loss (\$)	108,514	490,708	759,112	(220,647)	265,630

III.2 Please briefly describe how DGS estimates the requested change will impact the fund's cash balance in the affected fiscal years. Please explain any substantial changes in magnitude or direction in the context of the fund's historical cash balance (provided below as reference).

Because of the large volume of cash flow through this fund (approximately \$58 million in lease payments), the cash balance at any point in time is much more volatile. It is anticipated that the operating expenses of the fund will have modest to no growth in the foreseeable future. Therefore three months operating expenses or approximately \$530,000 should be an adequate cash balance to sustain the fund.

	2005	2006	2007	2008	2009
Cash balance (% of op. exp.)		33%	54%	8%	24%
Cash balance (\$)		\$492,696	\$1,266,428	\$1,309,852	\$481,668

III.3 Please briefly describe how DGS estimates the requested change will impact the fund balance in the affected fiscal years. Please explain any substantial changes in magnitude or direction in the context of the fund's historical balance (provided below as reference).

	FY10	FY11	FY12
Revenue Forecast			
Lease Admin Fees	\$1,860,000.00	\$ 1,674,000.00	\$ 1,674,000.00
CBRE Commissions	\$ 20,000.00	\$ 20,000.00	\$ 20,000.00
Single Transaction Fees	\$ 20,000.00	\$ 30,000.00	\$ 30,000.00
BFM OCH/MSC Lease Admin	\$ 20,000.00	\$ 20,000.00	\$ 20,000.00
Other DRES services (i.e.)	\$ -	\$ 387,600.00	\$ 387,600.00
- Real Property Acquisitions			
- Lease negotiation support to agencies for agency administered leases			
- Leases started by DRES that are canceled by the requesting agency			
- Lease review/recommendation			
- Other non-lease admin services			
Total Revenue Forecast Estimate	\$1,920,000.00	\$ 2,115,600.00	\$ 2,115,600.00
Expenditure Forecast	\$2,122,916.00	\$ 2,122,916.00	\$ 2,122,916.00
Forecasted Balance	\$ (180,000.00)	\$ (7,316.00)	\$ (7,316.00)

	2007	2008	2009	2010	2011	2012
Fund balance (% of op. exp.)	59%	34%	69%	58%	58%	59%
Fund balance (\$)	\$1,358,334	\$1,137,688	\$1,403,318	\$1,223,318	\$1,231,318	\$1,239,318

*IV. Impact of Requested Change on Agencies*

IV.1 Please briefly describe how DGS estimates the requested change will impact the total amount an agency pays the ISF. If possible, identify any agencies that may be affected more or less compared to other agencies.

See attached spreadsheet for agency by agency breakdown of reduced service charge on single agency and master leases. Agencies predominantly affected by the hourly work are Department of Conservation and Recreation, Department of Corrections, and Department of Health.

IV. 2 Please briefly describe how DGS estimates the requested change will impact agency use of the ISF products / services. If possible, identify any agencies that may be affected more or less compared to other agencies.

We are not anticipating any significant change in workload due to this rate change.

*V. Other Information*

V.1 Please provide any additional information DGS believes may be necessary to facilitate review of the requested rate change by JLARC staff, the internal service fund subcommittee, or the Commission. Refer to and provide attachments as necessary.

Please return this completed form, along with any additional information, to Justin Brown at [jbrown@jlarc.virginia.us](mailto:jbrown@jlarc.virginia.us).



DRES Revenue Model FY2011-2012

Agency	Single Agency Lease - Annual Expense	FY 10 Fee Total @ 3.25%	FY 11 Fee Total @ 3.0%	Master Lease - Annual Expense	FY10 Fees on ML (5%)	4%	FY 10 Totals (3.25% Fee & ML 5% Fee)	FY11 Totals (3.0% Fee & 4% ML Fee)	Difference
750 - DCE	10,359.00	336.67	310.77			-	336.67	310.77	(25.90)
751 - VDDHH	-	-	-	94,767.24	4,856.40	3,790.69	4,856.40	3,790.69	(1,065.71)
762 - DRVD	-	-	-			-	-	-	
765 - DSS	6,191,792.00	201,233.24	185,753.76	1,147,949.40	61,069.80	45,917.98	262,303.04	231,671.74	(30,631.30)
777 - DJJ	697,031.00	22,653.51	20,910.93	36,549.96	1,894.20	1,462.00	24,547.71	22,372.93	(2,174.78)
778 - DFS	-	-	-	545,220.00	27,261.00	21,808.80	27,261.00	21,808.80	(5,452.20)
848 - IDC	-	-	-	82,852.80	5,858.76	3,314.11	5,858.76	3,314.11	(2,544.65)
912 - DVS	80,886.00	2,628.80	2,426.58	50,596.80	2,578.20	2,023.87	5,207.00	4,450.45	(756.54)
937 - SVHEC	509,686.00	16,564.80	15,290.58			-	16,564.80	15,290.58	(1,274.22)
938 - NCU	85,596.00	2,781.87	2,567.88			-	2,781.87	2,567.88	(213.99)
960 - DFP	382,411.00	12,428.36	11,472.33		534.72	-	12,963.08	11,472.33	(1,490.75)
962 - EDR	27,646.00	898.50	829.38			-	898.50	829.38	(69.12)
963 - VLO	66,046.00	2,146.50	1,981.38		69,069.00	-	2,146.50	1,981.38	(165.12)
T J PLANNING DIST					3,453.45	2,762.76	3,453.45	2,762.76	(690.69)
DCG					1,070.40	831.34	1,070.40	831.34	(239.06)
	44,983,844.00	1,461,974.93	1,349,515.32	7,717,290.48	385,864.05	308,691.62	1,847,838.98	1,658,206.94	(189,632.04)

**Budget Center: DRES Operating Costs**

**Proposed**

111100	Employer Retirement Contrib	135,106
111200	Federal Old Age Insurance-FTE	91,500
111300	Federal Old Age Insurance-Wage	383
111400	Group Life Insurance	9,866
111500	Medical Hospital Insurance	107,052
111600	Retiree Medical/Hospitalizatio	14,197
111700	Long Term Disability Insurance	23,339
112300	Salaries - Classified	1,207,970
113800	Deferred Comp Match Payments	4,320
115300	Pymt of Short Term Disability	
116200	Annual Leave	
119900	Intra-Agency Recov. For Pers S	0
	<b>Salaries &amp; Fringe Benefits</b>	<b>1,593,732</b>
114100	Wages - General	5,000
	<b>Wages &amp; Overtime</b>	<b>5,000</b>
	<b>TOTAL PERSONAL SERVICES</b>	<b>1,598,732</b>
121200	Outbound Freight Services	250
121300	Messenger Services	
121400	Postal Services	750
121500	Printing Services	
121600	Telecommunications	10,200
121700	Tele. Svcs. (Non-State)	1,380
121900	Inbound Freight Services	
122200	Publication Subscriptions	
122400	Employee Training (not IT)	
122700	Employee Trng Trans Lodge Meal	
124100	Auditing Services	
124700	Legal Services	11,000
124800	Media Services	
124900	Media Advertising	
125300	Equipment Repair & Maint. Svcs	2,500
126100	Architectural & Engineering Sv	
126300	Clerical Services	
126500	Laundry & Linen Services	
126800	Skilled Services	
127300	Info Mgt Des/Dev(Vndr/NonVITA)	10,000
127600	Computer Op Svcs (VITA)	
127800	VITA Info Tech Infrastruc Svcs	41,250
128200	Travel, Personal Vehicles	200
128300	Travel, Public Carriers	
128400	Travel, State Vehicles	3,000
128500	Travel, Subsistence & Lodging	3,000
128800	Travel Reimbursement - Overnig	
	<b>Contractual Services</b>	<b>83,530</b>

**Budget Center: DRES Operating Costs**

130900	Chrg Card Purch of Supp/Mat	
131200	Office Supplies	5,000
132300	Gasoline	
135400	Mech. Rep. and Maint. Material	1,500
	<b>Supplies &amp; Materials</b>	<b>6,500</b>
141300	Premiums	
	<b>Transfer Payments</b>	
153400	Equipment Rentals	
153500	Building Rentals	59,386
154100	Agency Service Charges	2,500
154101	Human Resources Service Charge	14,238
154102	Fiscal Services Service Charge	70,000
154103	ISS Service Charge	246,311
154104	DGS Procurement Service Charge	8,838
154400	Water & Sewer Service Charges	
154500	DGS Parking Charges	
155100	General Liability Insurance	715
155500	Workman's Compensation	7,166
	<b>Continuous Charges</b>	<b>409,154</b>
221200	Mobile Client Computers	
221700	Other Computer Equipment	10,000
221800	Computer Software Purchases	10,000
223300	Voice & Data Transmission Equi	
226400	Office Machines	5,000
232800	Construction Bldg. Improvs.	
460100	Depreciation Expense-Equipment	
	<b>Fixed Asset Expenditures</b>	<b>25,000</b>
	<b>Cost Allocations</b>	
	<b>TOTAL MTCE &amp; OPERATIONS</b>	<b>524,184</b>
	<b>GRAND TOTAL</b>	<b>2,122,916</b>





# COMMONWEALTH of VIRGINIA

George F. Coulter  
Chief Information Officer  
Email: [cio@vita.virginia.gov](mailto:cio@vita.virginia.gov)

## Virginia Information Technologies Agency

11751 Meadowville Lane  
Chester, Virginia 23836-6315  
(804) 416-6100

TDD VOICE -TEL. NO.  
711

October 29, 2009

Mr. Philip Leone, Director  
Joint Legislative Audit and Review Commission  
Suite 1100  
General Assembly Building  
Richmond, Virginia 23219

Dear Mr. Leone:

The attached rates requests are provided for the Commission's consideration at its earliest opportunity. The proposed changes reflect VITA's continuing refinement of chargeback schedules as part of the migration of our rate structure to align with managed services charges Northrop Grumman will be employing to bill the Commonwealth.

VITA is committed to reducing its charges to customers wherever possible, while ensuring that the cost recovery from these charges is equitable – in balance with the expenses of providing the managed services – and compliant with Commission and federal OMB circular A-87 policies. Our efforts are also intended to address concerns raised by the Auditor of Public Accounts related to such policy compliance.

Information on the proposed rates was briefed to the Information Technology Investment Board (the Board) both in its written financial report and at the October 15, 2009 meeting. As no concerns were raised by the Board then or since – and consistent with its 2004 policy on delegated approval authority – I am presenting this request on behalf of the Board and the CIO. If you have any questions, please don't hesitate to call me at 416-6009.

Sincerely,

A handwritten signature in black ink that reads "Dana B. Smith".

Dana Smith  
Controller

### Attachments

c: The Honorable Len Pomata, Secretary of Technology  
Dan Timberlake, Director, Department of Planning and Budget  
George Coulter, Chief Information Officer

## **November 2009 – Rate Requests**

### **Virtual Private Network (VPN) service**

VITA and Northrop Grumman have agreed that single factor authentication VPN services will be part of the standard service offering to PC customers. VITA is therefore discontinuing charges previously applied to customers using VPN services.

*Effective October 1, 2009*

### **Legacy data center network port charge**

The model by which Northrop Grumman will be charging VITA for network costs makes no distinction between CESC and remote locations. VITA is therefore discontinuing charges previously applied to customers using legacy network ports for servers located at CESC.

*Effective October 1, 2009*

### **PC Encryption**

Northrop Grumman has reduced the unit price for PC encryption services. Accordingly, VITA requests approval of the reduced rate as shown in the attached spreadsheet.

*Effective November 1, 2009*

### **Direct attached server storage**

VITA's approved rate for disk storage associated with servers hosted at CESC is applicable to the shared storage environment generally referred to as SAN or NAS storage. In December, 2008 VITA requested an expansion of the definition to include storage that is directly attached to servers. This request was made so that VITA could generate sufficient revenue to pay Northrop Grumman (NG) for storage and storage management services. JLARC requested a customer impact analysis of those agencies using direct attached storage at CESC before granting approval of the rates. At that time, NG was unable to provide VITA with sufficient detail to facilitate the impact analysis.

Northrop Grumman will begin charging VITA for all storage, regardless of the architecture in November, 2009. Accordingly, VITA requests JLARC approval of the expanded definition for server disk storage to include direct attached storage, both located at the CESC. Sufficient detail is now available to facilitate the customer impact analysis which is shown in the attached spreadsheet. Without expanding the definition, VITA will not generate sufficient revenue to pay the NG charges in full. Additionally, there would be inequity among customer agencies as some would not be paying for services received.

*Effective November 1, 2009*

### **Virtual server backup factor**

As Northrop Grumman virtualized more servers, VITA discovered that charges to customers for backing up data associated with virtual server applications hosted at CESC were becoming higher than for physical servers. Research determined that the architecture Northrop Grumman uses to back up data related to virtual servers is different from the traditional backup performed for physical servers. Specifically, physical server data is generally backed up incrementally each day and fully once each week. Virtual server data is backed up fully each day. VITA was compelled to discontinue charges for virtual server backup until the architecture differences (and resulting billing inequities) could be resolved. After numerous meetings and discussions with Northrop Grumman on this topic, NG continues to maintain that the backup architecture employed for virtual server data is the most practical and effective solution available.

The goal of equitable cost recovery will be achieved by resuming billing to all customers who receive the benefit of backup services at CESC. Accordingly VITA has developed and requests approval of a factor that will reduce the billable volume of backup data for virtual servers to an amount comparable to physical servers. The factor was developed by determining the average amount of data backed up for physical servers during daily incremental backups as compared to the total backup conducted weekly. By applying this factor to the volume of data backed up for virtual servers, the resulting quantity becomes comparable to that which is charged for physical servers. Actual data used to develop this factor is shown in the attached spreadsheet. Without the use of this factor, either VITA will not generate sufficient revenue to pay the NG charges in full (as in our current non-bill state) or VITA will overcharge virtual server customer agencies. Additionally, there would be inequity among customer agencies as some would either be paying more than others for services received while some would not be paying anything.

*Effective November 1, 2009*

### **Internet Access Service**

Much of the work of the State Department of Social Services is performed by County government employees in local offices. The Department of Social Services provides PC's to these employees, however in some larger counties the PC's are supported by local government IT staff and are connected to local government data networks. Due to this unique situation, it became necessary for Northrop Grumman to separate Internet Access Services from basic PC services. This new service is deployed in conjunction with the Managed Router Service that was established in 2007 and utilizes a similar tiered rate structure that increases in keeping with bandwidth requirements. The VITA rates developed for this service follow the same tiered structure. Rate development details are provided in the attached spreadsheet.

*Effective date will coincide with reduction of PC charges to affected DSS offices*

**Estimated charges to agencies using direct attached storage on servers hosted at CESC**

Agency Number	Direct attached storage quantity	Direct attached storage charge
<b>121 Total</b>	1,872.0	\$3,145
<b>122 Total</b>	208.0	\$349
<b>132 Total</b>	3,319.0	\$5,576
<b>136 Total</b>	8,483.0	\$14,251
<b>140 Total</b>	1,365.0	\$2,293
<b>154 Total</b>	1,305.0	\$2,192
<b>157 Total</b>	0.0	\$0
<b>161 Total</b>	22,758.0	\$38,233
<b>165 Total</b>	2,221.0	\$3,731
<b>173 Total</b>	271.0	\$455
<b>182 Total</b>	17.0	\$29
<b>194 Total</b>	10,494.0	\$17,630
<b>222 Total</b>	661.0	\$1,110
<b>232 Total</b>	0.0	\$0
<b>261 Total</b>	272.0	\$457
<b>301 Total</b>	5,196.0	\$8,729
<b>405 Total</b>	294.0	\$494
<b>411 Total</b>	204.0	\$343
<b>440 Total</b>	2,736.0	\$4,596
<b>501 Total</b>	1,568.0	\$2,634
<b>505 Total</b>	1,426.0	\$2,396
<b>601 Total</b>	1,404.0	\$2,359
<b>720 Total</b>	416.0	\$699
<b>765 Total</b>	2,894.0	\$4,862
<b>777 Total</b>	3,909.2	\$6,567
<b>848 Total</b>	145.0	\$244
<b>861 Total</b>	876.0	\$1,472
<b>912 Total</b>	1,312.0	\$2,204
<b>962 Total</b>	0.0	\$0
<b>999 Total</b>	40.0	\$67
<b>8280 Total</b>	0.0	\$0
<b>Grand Total</b>	<b>75,666.2</b>	<b>\$127,119</b>

**Annualized**

**\$1,525,431**

**Analysis of physical server backup to determine factor to apply to virtual server backup**

**35 days of server backup data**

<b>Server ID</b>	<b>No. of backup jobs</b>	<b>Total daily incremental backup kbytes in retention</b>	<b>Total weekly full backup kbytes in retention</b>	<b>Total Inc. / Total Full</b>
armada02	99	155243714	412929224	0.38
armada03	230	9676355220	9318136936	1.04
armada04	96	41706755	183353163	0.23
armada05	99	171941196	456186538	0.38
armada06	96	39683447	160516408	0.25
armada07	99	153645150	386623402	0.40
armada08	99	134725936	301102694	0.45
armada09	128	517512393	196371528	2.64
armada10	99	92775126	83287438	1.11
armada11	100	98305880	137249316	0.72
armada12	128	77855626	379654396	0.21
armada13	100	133102902	222988372	0.60
armada14	281	117518414	90152656	1.30
armada15	330	409398374	1294481498	0.32
dcgserver01	98	543643218	1056955696	0.51
dcjsnet	229	1479291672	2205449840	0.67
dcjs-nt4	102	207747998	317149006	0.66
dcjssql	198	931992930	3857328952	0.24
dcjsweb	101	72682874	240412334	0.30
ivory09	102	81449412	109338586	0.74
ivory10	97	73311240	169688462	0.43
ivory11	203	427370336	955661568	0.45
SDITAR01	102	94933702	97674142	0.97
sditar02	102	136937086	537526064	0.25
sditar04	102	56707180	98122162	0.58
sditar06	99	22519222	57758981	0.39
SDITBO02	99	19608193	132007572	0.15
SDITBO03	102	125374812	333410090	0.38
sditbo04	102	62497214	126558260	0.49
SDITDC01	99	17969856	12024405	1.49
SDITDC02	102	47788490	81926940	0.58
SDITSA01	100	15986303	60680444	0.26
SDITSA02	98	22369456	29457624	0.76
SDITSA03	98	21692450	25774768	0.84
sditsc01	231	88564304	925634377	0.10
sditsc02	231	55597375	96815292	0.57
SDITSW01	99	18306861	20564836	0.89
SDITSW02	99	19467561	17433168	1.12
snickers	245	16712954	421680936	0.04
surya1	1187	17914312906	7538196768	2.38
surya2	1460	10646326648	11440650468	0.93
surya3	303	727529180	1811002278	0.40
surya4	645	3158723286	4835593560	0.65
surya5	145	184662948	329599768	0.56
surya6	544	6039157196	3935660636	1.53

surya7	96	66950570	222942896	0.30
surya8	116	46971050	176111542	0.27
surya9	136	51654990	181304864	0.28
SVITAR01	99	16714363	36378065	0.46
SVITAR02	99	45811026	38856187	1.18
SVITAR03	99	57532882	49633135	1.16
SVITAR04	99	51468371	107424971	0.48
SVITAR05	99	51135230	44111594	1.16
SVITAR06	99	56018089	107307994	0.52
SVITAR07	99	16384200	42672157	0.38
SVITAR09	99	55137701	55298147	1.00
SVITAR10	99	58457575	121769624	0.48
svitaws01	132	49950752	136488016	0.37
svitaws02	132	29905049	146380742	0.20
taxsun50	170	31916140	94174648	0.34
taxsun51	170	103263054	110381076	0.94
taxsun52	202	76354386	80124018	0.95
taxsun62	171	76684846	155867768	0.49
taxsun63	70	56300248	87489142	0.64
taxsun65	272	395993160	1893955242	0.21
taxsun66	204	1536941450	1455464060	1.06
taxsun69	374	2332350738	671634132	3.47
taxsun70	409	1893251340	1069048126	1.77
taxsun73	134	35872166	78002610	0.46
taxsun74	170	106973706	447591146	0.24
taxsun75	544	1265358608	1257550994	1.01
taxsun81	816	1333879270	1577452774	0.85
taxsun82	845	3423710076	4221522520	0.81
taxsun84	1735	987278910	3743351528	0.26
taxsun85	746	1826323404	3419433130	0.53
taxsun86	1121	2483626356	1236144442	2.01
taxsun87	1086	1276963024	3005064170	0.42
taxsun88	644	1116927316	1536876330	0.73
vadcjs-exch1	100	96010288	144144448	0.67
vectdb01	136	190165840	719959892	0.26
vwnpdb01	238	843491026	834056658	1.01
vwnpdb02	102	38472148	37079486	1.04
webserver	99	473204410	1881989176	0.25
Average Incremental / Full				0.71

Server backups average 71% in incremental backups compared to full backups.

Full backups represent 100% of server data per week * 5 weeks =	500%
Incremental backups represent 71% of 500% =	355%
Average volume of data in retention per server	855%
Number of days of backup data	35
Average backup volume per day per server	24.44%

**Resource unit extensions and fixed fee allocations**

Service Descriptions	RU Number	Unit	* NG RU Rates	NG RU Quantities	Rated Extensions	* VITA BE Description	RU to BE % distribution	RU to BE dollars distribution	Desktop Tower mngt fee	Network Tower mngt fee - NG Ports
<b>Service Descriptions</b>										
Fixed expense to Allocate									197,848	695,169
<b>Base of Allocation</b>									4,042,357	2,177,280
<b>Desktop Computing</b>										
<b>PC related RU's</b>										
PC encryption	T338	qty installed	7.52	2,800	21,056	74900 PC Encryption	100.00%	\$21,056	1,031	
<b>Data Network</b>										
Managed Router – 64Kbps	T504	Per Router	\$ 188.58	25	4,715	33000 Managed Rou	100.00%	\$4,715		
Managed Router – 128Kbps	T505	Per Router	\$ 569.80	25	14,245	33000 Managed Rou	100.00%	\$14,245		
Managed Router – 256Kbps	T506	Per Router	\$ 600.74	25	15,019	33000 Managed Rou	100.00%	\$15,019		
Managed Router – 512Kbps	T507	Per Router	\$ 625.79	25	15,645	33000 Managed Rou	100.00%	\$15,645		
Managed Router – 768Kbps	T508	Per Router	\$ 813.57	25	20,339	33000 Managed Rou	100.00%	\$20,339		
Managed Router – 1.536Mbps	T509	Per Router	\$ 940.28	25	23,507	33000 Managed Rou	100.00%	\$23,507		
Managed Router – 3.072Mbps	T510	Per Router	\$ 1,945.34	5	9,727	33000 Managed Rou	100.00%	\$9,727		
Managed Router – 6.144Mbps	T511	Per Router	\$ 3,123.97	1	3,124	33000 Managed Rou	100.00%	\$3,124		
Managed Router – 45Mbps	T512	Per Router	\$ 5,370.73	1	5,371	33000 Managed Rou	100.00%	\$5,371		
Mngd Rtr Internet Access – 64Kbps	T504	Per Router	102.66	1	103	33000 Managed Rou	100.00%	\$103		
Mngd Rtr Internet Access – 128Kbps	T505	Per Router	104.87	33	3,461	33000 Managed Rou	100.00%	\$3,461		
Mngd Rtr Internet Access – 256Kbps	T506	Per Router	109.66	1	110	33000 Managed Rou	100.00%	\$110		
Mngd Rtr Internet Access – 512Kbps	T507	Per Router	145.53	1	146	33000 Managed Rou	100.00%	\$146		
Mngd Rtr Internet Access – 768Kbps	T508	Per Router	154.35	1	154	33000 Managed Rou	100.00%	\$154		
Mngd Rtr Internet Access – 1.536Mbps	T509	Per Router	177.39	1	177	33000 Managed Rou	100.00%	\$177		
Mngd Rtr Internet Access – 3.072Mbps	T510	Per Router	426.83	1	427	33000 Managed Rou	100.00%	\$427		
Mngd Rtr Internet Access – 6.144Mbps	T511	Per Router	520.14	1	520	33000 Managed Rou	100.00%	\$520		
Mngd Rtr Internet Access – 45Mbps	T512	Per Router	1,669.92	1	1,670	33000 Managed Rou	100.00%	\$1,670		

Rate change being requested  
 New rates being requested  
 Current rates - no change requested

RU - Resource Unit  
 BE - Billing Element



