

Staff Notes on VITA Rate Requests

JLARC staff have completed a review of the rate requests from the Virginia Information Technologies Agency (VITA) dated April 18, 2005, as revised in its submission of May 24, 2005. The review consisted of analysis of the Excel spreadsheets submitted as documentation of the rate calculations, a review of VITA financial statements, and interviews with VITA financial staff. The analysis of the Excel spreadsheets helped staff understand the way the proposed rates were calculated, including many of the assumptions made by VITA staff in developing the rates. In addition, staff of the Auditor of Public Accounts were requested to review the documentation submitted by VITA and to participate in the interviews of VITA financial staff. As a result of these interviews, VITA submitted additional documentation to support its calculation of several of the rates, and revised two of the rates from the original submission.

VITA has requested approval for six rates, five of which are for new services. Overall, the new rates are expected to generate approximately \$130,000 in revenues on \$193,600 in expenses. According to VITA staff, the rates have been set to under-recover costs in the first year with the expectation that revenues will increase as additional customer agencies use the services.

Two of the rates are for customer agency use of shared servers, in which applications are hosted on virtual servers. By configuring multiple virtual servers on a single physical server, the costs for the customer agency are lower. The two rates for the virtual servers cover the different costs for a standard operating system configuration and an enterprise operating system configuration. The current projection is for 22 of the virtual servers. As is the case with all of the submitted rates, the rates are based on projected costs and assumptions about the projected use of the service by customer agencies. The cost estimates of providing the services appear to be based on reasonable expectations of the resources necessary. However, the projected use by customer agencies, and subsequent revenue estimates, appear somewhat "softer." Therefore, the adequacy of the virtual server rates to fully recover costs cannot be confirmed. The rates do appear to be based on reasonable assumptions and the information currently available to VITA.

The third rate is for a similar, shared server arrangement, consisting of the shared use of the SQL database engine by multiple customer agencies. As with the first two rates, the shared SQL database rate is for a new service, so the costs and usage by customers are estimated. For example, the estimated revenue from the SQL database rate is based on use by only three customer agencies. As more customer agencies use the service, revenues will increase.

The fourth rate is for shared email service. The obvious advantage for customer agencies using this service is that they do not have to purchase, configure, operate, and maintain their own email servers. By sharing the service with other agencies, costs are lower. The proposed rate is based on 1800 potential users, but initially the service will be used by seven agencies, with about 400 total users. This results in an under-recovery for the next fiscal year.

The fifth rate is for shared Blackberry (wireless email) email hosting. This shared service provides the same benefits as shared email service, in that customer agencies do not have to bear the full cost of providing the necessary hardware, software, and personnel. It should be noted that this charge is not for the Blackberry service itself, to which agencies will already have to have subscribed. That cost is as much as \$100 per month for each device in use. The VITA service is for email hosting, which links the customer's email to the wireless service provided by the Blackberry vendor.

The final requested rate is a reduction of a billing charge previously approved by the Commission. Government to Government Enterprise Services (G2G) is the VITA service that hosts an interface between local social services agencies and State databases. The actual service is provided by a vendor, MITEM, at a cost of \$30 per user per month plus \$5 per application. The proposed VITA fee of \$24 per user per month is in addition to the vendor charge, and is a reduction of \$10 per month. The VITA charge covers VITA's hardware, software, and personnel costs incurred to host the service and provide connectivity to the State databases. Currently, only four local agencies have requested the service for about 185 local workers. It is not clear how many other local agencies will use the service, since the State Department of Social Services (DSS) is also developing a similar, competing service for local agencies. DSS may make its service available at no cost to the local agencies (although DSS will certainly incur costs in providing the service).

The monthly rates requested by VITA are:

VMWare – Virtual Servers (Standard)	\$250.00 per server
VMWare – Virtual Servers (Enterprise)	\$324.00 per server
Shared SQL Server Database	\$170.00 per server
Shared Email Service	\$ 8.61 per user
Shared Blackberry Service	\$ 4.27 per user
GESI – rate decrease – request reduction from \$34.00 to	\$ 24.00 per user

Based on the review of the documentation submitted by VITA and interviews with VITA staff, JLARC staff draw the following conclusions:

1. VITA appears to have identified the reasonable costs associated with the new services.
2. The apparent under-recovery of costs for some items is probably appropriate given the potential for additional customers to increase revenues in the future.
3. All of the rates are based on several "soft" assumptions, such as the number of customer agencies that might use the services, so the proposed rates should be considered preliminary. VITA should re-evaluate the rates for these services after it has actually implemented the services and has a better idea of potential use by customers.

4. Because the rates are based on some assumptions and other factors that could vary, the rates may not recover the actual costs of the services as implemented. Additional measurement of costs and revenues will be necessary as the services are more fully developed and used by customers.
5. The financial impact on agencies appears minimal, except for Forestry and Arlington County. Since the services are optional, there is no agency impact that would tend to argue against approval of the rates.