

Texas Data Center Strategy

Status Report on Migration and Consolidation



AUGUST 31, 2006

FROM THE STATE'S CHIEF TECHNOLOGY OFFICER

August 31, 2006

House Bill 1516 directed a new focus on information technology collaboration for Texas state agencies. Since July 2005, 27 state agencies have been working together to build a new approach to data center services. This project has yielded tremendous results, achieving much more through working together as an enterprise than agencies can individually.

The new data center system will be a shared infrastructure, with improved security and disaster recovery to protect Texas data. A private sector provider will deliver data center services and agencies will purchase the services they need, rather than acquiring equipment that may be underutilized or quickly out-of-date. As Texas transitions to this shared technology infrastructure model, several principles guide the process:

- **Establish an accurate base case.** Through a comprehensive and ongoing data gathering process, agencies documented current data center assets, costs, and performance—at a level of detail not available before in Texas.
- **Actively promote agency involvement.** Over 300 agency representatives, including technical, IT management, and executive management have generously given of their time to help meet the expectations set forth in House Bill 1516.
- **Follow industry-standard best practices.** With the support of experts in the field, Texas is using a proven approach followed for years by Fortune 50 companies and other public sector organizations.
- **Link the project to key agency milestones.** The project schedule was built around agency budget cycles and the end of the current data center services contract to allow for proper accounting of funds and ample transition time for current operations.

The following report describes the Texas data center services project in more detail. It includes the many accomplishments of the state interagency teams from the 27 participating agencies, details on similar procurements in other states, and the best practice procurement approach Texas has taken.

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ABOUT THIS REPORT

Texas Data Center Strategy: Status Report on Migration and Consolidation gives an overview of current and upcoming technology infrastructure consolidation efforts for the State of Texas. The Texas Department of Information Resources (DIR) prepared this report in response to the reporting requirement set in place by House Bill 1516, passed by the 79th Texas Legislature in Regular Session (see Legislative Charge, below).

As noted in DIR's *Shared Success: Building a Better Texas through Shared Responsibilities* (2005 State Strategic Plan for Information Resources Management), the shared technologies approach is a direction that maximizes technology infrastructure and allows individual agencies to focus efforts on respective core businesses.

These reports can be accessed from the DIR Web site, <http://www.dir.state.tx.us>.

Legislative Charge – Excerpt from House Bill 1516, Section 3.04(c)

Not later than August 31 of 2006 and 2007, the department shall report on the status of the statewide technology center system migration and consolidation under Section 2054.390, Government Code, as added by this Act, describing reviews and transfers during the fiscal year, and an update on the status of any contracts relating to the statewide technology centers. The department shall file the report with (1) the Governor; (2) the Lieutenant Governor; (3) the Speaker of the House of Representatives; (4) the Chairs of the House and Senate committees with primary oversight over the department; (5) the Chairs of the Senate Finance and the House of Representatives Appropriations Committees; (6) the State Auditor's Office; and (7) each member of the Legislative Budget Board.

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Executive Summary

Building a shared data center system is a critical step toward helping government build a more secure, agile, and cost-effective infrastructure for the delivery of government services. The 79th Texas Legislature recognized the importance of a stronger statewide technology infrastructure and, through the passage of House Bill 1516, directed DIR to lead the effort to accelerate consolidation of the state's data center and disaster recovery services.¹

Shared Success: Building a Better Texas through Shared Responsibilities
2005 State Strategic Plan for Information Resources Management

Introduction

Significant progress on data center consolidation has been made in the 14 months since the signing of House Bill 1516 on June 18, 2005. Twenty-seven of the largest state agencies have been working collaboratively for over a year to implement state leadership's vision of shared data center services. These 27 agencies have signaled their commitment to the process by:

- Gathering extensive data on current operations;
- Helping to define the in-scope data center functions; and
- Signing interagency contracts in March 2006 for the assets and resources pledged to the shared data center system.

This extended project team has met all deadlines established by DIR. The project schedule has been accelerated and is on track to complete early, in mid-November or early-December. This highly professional effort has put Texas in a position to set a new benchmark for statewide data center services. Other states are watching our progress—and Texas will deliver.

Texas Strategy

State leadership set clear expectations during the 79th session through House Bill 1516 to move to a shared infrastructure to deploy technology to serve citizens. This directive serves to improve the value of technology in place today and ensure future investments in technology assets and resources deliver maximum returns. As depicted in Exhibit 1, this action forms the basis for the Texas Model of the Enterprise.

Leadership's vision for shared infrastructure, greater collaboration, and agency focus on core missions sparked a renewed interest in working together across agency lines to improve technology services.



Exhibit 1: Texas Model of the Enterprise

A prominent element of this activity was the direction to consolidate state data centers, a topic of discussion and unfulfilled promise over the last decade.

An initial financial and operational base case of data center assets and resources was established during the 79th Legislature. This data pointed a clear direction to consolidate operations and issue a competitive procurement to select a private sector technology provider for the state's data center services. Several public sector entities have embarked on similar initiatives; DIR researched these projects and met with leaders from San Diego County and the Commonwealths of Virginia and Pennsylvania to learn from their experiences. Pennsylvania and San Diego have contracted data center services for several years. Virginia was in the final stages of procurement during DIR's initial contact and, subsequently, signed a ten-year, \$1.9 billion contract including data center and other technology services. All three groups pointed to key lessons learned, best practices for Texas to follow, and continue to be an ongoing resource for information exchange. A Request for Offer (RFO) for data center services was developed by DIR and the 27 participating agencies and released on March 31, 2006.

By selecting a service provider for statewide data center operations, Texas can leverage economies of scale realizing greater value from data center expenditures. An external provider will facilitate an upgrade of data center facilities as agencies consolidate operations, so all agencies can benefit from consistent, measured, robust security and disaster recovery. Moreover, the transition from 31 distinct data centers across 27 agencies to a consolidated system requires specialized knowledge and extensive data center consolidation experience. Many skills, such as planning and executing operations migrations, will not be needed after transition to ongoing operations. For these reasons, an experienced service provider offers the best potential to improve services, reduce risk, and meet the expectations of state leadership.

Proven Approach

While the current Texas process is significant and groundbreaking for the state, it is certainly not without precedent. The information technology (IT) research and analysis firm Gartner, Inc. characterizes the market for data center outsourcing as "one of the most mature" IT service categories.² The market has developed over several decades and data center services contracts have become standard. The global sourcing market continues to account for approximately \$67 billion in total contract value annually,³ with recent growth increasingly fueled by government contracts.⁴ As governments and global private sector companies consolidate and source data center infrastructure, they can find proven methodologies, greater standardization in contracting practices, and strong competition among service providers for business.

DIR is working with several experts in the field of technology sourcing to bring the well-established practices for outsourcing to the Texas data center services transaction. Houston-based Technology Partners International, Inc., (TPI) was hired to help lead the procurement process. Since 2000, TPI has advised on more than 25 percent of worldwide outsourcing contracts. The firm has completed over 780 transactions and the five-member team supporting Texas has a combined 128 years in the business. Through this experience, TPI developed

contracting practices that have become the prevailing methodology in the industry. The Texas TPI team adapted this methodology to create the data center services RFO and help lead the 27 agencies through the procurement process.

Additionally, DIR established a contract with the Houston office of Mayer, Brown, Rowe, and Maw LLP, a law firm with extensive expertise in IT outsourcing contracts, to provide legal counsel for the data center services contract. The attorneys worked closely with TPI and DIR to develop the Master Services Agreement (MSA). The Texas MSA is based on a commercial contract, with the most current industry-standard terms and conditions for technology outsourcing. It ties directly to the Statements of Work published as part of the RFO document set. The firm's contribution will continue through negotiations and execution of the final MSA.

Scope of the Contract

Determining the assets and resources to be included in the data center services contract requires an extensive and ongoing data gathering process. Since August 2005, agencies have produced detailed information about the assets, people, processes, and finances related to data center expenditures—a collection of information that simply did not exist prior to the effort. Many agencies have also begun to track the service levels they deliver to customers at a much finer level of detail. This process has yielded extensive information about operations at the 27 participating agencies.

Today's world—

- Thirty-one (31) independent data centers
- Sixteen (16) mainframes including over 6,000 MIPS (millions of instructions per second)
- Approximately 7,000 servers which are located in approximately 1,300 locations
- Approximately 563 Full Time Equivalent (FTE) positions
- Annual expenditures of approximately \$145 million
- Inconsistent service levels
- Environments not secure, not redundant

These findings underscored the critical need to meet leadership's timeline expectations to deliver a new environment for Texas.

To give the Legislature a clearer view of data center expenditures at an enterprise and agency level, the Legislative Budget Board (LBB) created a new project for the Information Technology Detail (ITD) in the Legislative Appropriations Request (LAR) for the 2007–08 biennium. The ITD project allows agencies to distinguish data center services from other technology expenditures in their LARs. With the total costs by agency and across the state documented, DIR will be able to provide analysis of planned expenditures and document future cost savings for the Legislature.

Collaboration across the Enterprise

From the beginning, data center consolidation has been a statewide project, emphasizing collaboration and consensus among all 27 participating agencies. Starting in June 2005, DIR

hosted town hall meetings with agencies to document their concerns and build awareness and understanding of this new direction for statewide technology services. For over a year, IT Directors from participating agencies have been meeting as the Data Center Services (DCS) Advisory Council. The council established the guiding principles for data center consolidation and provides input to DIR on an ongoing basis. Additionally, members of the Advisory Council lead the communication with affected staff and coordination of all activities related to the DCS project for their agencies.

Members of the DCS Advisory Council and many of their staff have dedicated significant time to the procurement activities. Their activities include:

- **Data Gathering.** Since October 2005, agencies have extensively documented the assets and resources that deliver data center services in their agencies. This effort has included gathering and reviewing contracts, asset inventories, and workforce analysis.
- **Request for Offer Development.** In March 2006, over 60 staff participated in a series of nine full-day workshops to build the requirements, service levels, and governance structures for the Data Center Services RFO. Technical staff and IT leadership worked side-by-side to ensure their agency’s requirements were fully documented in the RFO.
- **Interagency Contract (IAC) Development.** In March 2006, a subcommittee of the DCS Advisory Council met to develop the IAC base contract document. All 27 agencies signed the base contract. Each contract included agency-specific attachments listing the agency’s assets and resources to be included in the RFO.

- **RFO Evaluation.** Approximately 60 agency representatives are participating in the RFO evaluation, an extensive process of proposal review, analysis, and team meetings. The teams, depicted in Exhibit 2, have been instrumental to the process.

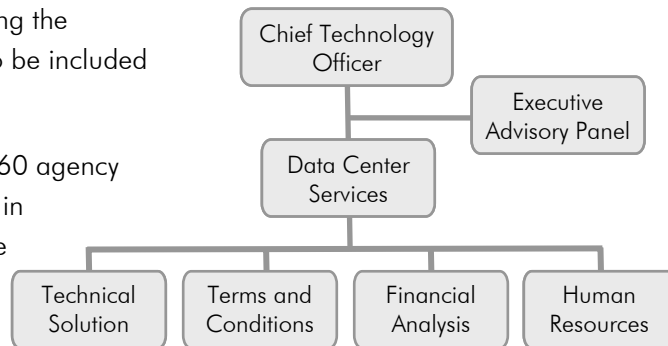


Exhibit 2: RFO Evaluation Structure

Human Resources and Communications

The state has also placed emphasis on respect for state employees affected by this transition. As committed during the legislative session, all state employees affected in this process will be offered employment with the chosen service provider. This is not merely an obligation—these employees are highly valued and needed by the service providers. The job offers will afford them the opportunity to continue to support citizens through their service while growing in their technology skills beyond what could be offered by state government. A human resources (HR) workgroup was established to facilitate organizational change across the agencies, and members of this workgroup participate on the evaluation team. The HR evaluation team assesses the service providers’ proposed employment offers and career opportunities. The

team will make recommendations on negotiation needs to the state's Chief Technology Officer.

To ensure agencies and affected employees have up-to-date information about the data center services project, DIR has placed a priority on communications. In the fall of 2005, DIR's Director of Statewide Technology Operations and several team members met individually with all 27 agencies' executive teams. These highly interactive meetings lasted as long as two hours as DIR presented the project's goals, status to date, and answered questions from the executives. Additionally, DIR created a project Web site to provide information to a broad audience (www.dir.state.tx.us/datacenter/). The Web site contains the bimonthly project newsletter, *Data Center Download*, frequently asked questions, all of the RFO documents, and many project presentations. Additionally, employees can e-mail DIR with questions through a special e-mail account (datacenteremployee@dir.state.tx.us) or send anonymous questions via a Web form.

Federal Collaboration

Throughout the data center services project, Texas has sought to work in close concert with our federal partners to help them understand our process and ensure we fully comply with all requirements for continued federal participation in Texas programs. In August 2005, DIR sent a team to Washington, D.C., to meet with several federal agencies, including the Department of Agriculture (USDA) and the Department of Health and Human Services (DHHS). These general meetings established a foundation for information exchange and paved the way for future conversations about details such as cost allocation methodology, required documentation, and billing.

In February 2006, DIR provided the DHHS Division of Cost Allocation (DCA) a white paper outlining the proposed approach for consolidation and outsourcing of data center services. The document contained an overview of the financial analysis from House Bill 1516, a description of the Texas strategy for data center services, and a review of the implications for federal programs. This communication was followed by several interactive conference calls with federal partners, Texas state agencies with significant federal funding, and DIR. As a result of these efforts, the USDA and the DHHS determined that Texas, or any other states engaging in similar efforts, would not have to submit an Advance Planning Document, which would have required advance approval from all participating federal agencies before issuing the RFO or awarding the contract.

Communications with our federal partners are ongoing. DIR provided DCA with a link to the RFO when it was published and an update on the RFO status in August 2006. With preliminary lines of communication regarding the Texas billing framework well established, the next steps include developing the details for the chargeback methodology and submitting the methodology to DCS in the Statewide Cost Allocation Plans (SWCAP) for 2007 and 2008.

Conclusion

Moving from the environment of 31 data centers supporting the operations of 27 agencies to a shared data center services solution presents an excellent opportunity for the State of Texas. Consolidating and contracting for day-to-day management of data center services will elevate standards in many agencies. It will bring robust security and disaster recovery to all participating agencies—an increasingly important requirement for today’s technology environments—and deliver measured, continuously improving service levels to customers. Equally important, it will leverage the state’s collective size and scale to bring greater value for its investment in technology.

The remainder of this report provides further details on the schedule and progress of the data center services project and the status of agency migrations to existing Texas State Data Center facilities.

Data Center Services Project

A consolidated data center system will give agencies equal access to advanced technologies and will maximize state resources by leveraging economies of scale. Most importantly, by coordinating and sharing resources at the statewide level, agencies can focus more of their technology resources on agency-specific applications that support their unique missions.⁵

Shared Success: Building a Better Texas through Shared Responsibilities
2005 State Strategic Plan for Information Resources Management

Background

The Texas State Data Center (TxSDC) was established in 1996 to provide data center and disaster recovery services to state agencies. Over the years, legislation (including Senate Bill 1701 of the 78th Legislature, Regular Session) and reports (including the Legislative Budget Board's *Staff Performance Report to the 79th Legislature*⁶) have established the benefits of the TxSDC and have encouraged agencies to migrate operations to achieve economies of scale. A number of agencies have moved all or part of their data center operations to the TxSDC. Migration, however, has occurred on a case-by-case basis, minimizing the value from consolidation and broader coordination of operations.

The 79th Legislature (Regular Session) passed House Bill 1516. This legislation, signed by the Governor and effective on September 1, 2005, accelerates the process of data center consolidation in Texas by prioritizing the largest data centers for consolidation, and requiring the migration of at least three data centers each fiscal year to shared facilities.⁷ With the passage of House Bill 1516, agencies received a clear mandate to use the TxSDC fully and approach infrastructure services from a statewide perspective.

In response to the 2005 legislation, the Data Center Services (DCS) project was established to accomplish the following:

- Modernize the statewide technology infrastructure to provide cost-effective data center services to all state agencies;
- Focus agencies' resources on their missions and mission-critical applications; and
- Raise disaster recovery capability, security, and facilities to a uniform standard across the state.

Utilizing a best practices approach for technology procurement, DIR has organized a highly experienced team to develop, administrate, and manage the DCS project. The team is supported by specialists in the field of data center outsourcing, Texas financing and appropriations experts, and outside legal counsel. Together, this group brings extensive

experience in technology, project management, and outsourcing to the data center services initiative.

The DCS Advisory Council, comprised of the IT Directors from the 27 participating agencies, was formed in July 2005 continues to meet regularly to provide an ongoing connection to agencies. One of the group's first acts was to establish Guiding Principles, which are outlined in Exhibit 3.

Exhibit 3: Guiding Principles

- Do no harm during or as a result of consolidation:
 - All services remain at current service levels or better;
 - All data center and disaster recovery changes will be transparent to end users.
- The Department of Information Resources will strive to achieve consensus from the Data Center Advisory Council on issues and policies related to the successful implementation of the project; however, final responsibility and accountability belongs to DIR.
- Issues need to be discussed quickly and effectively. The ability to resolve issues in a timely fashion is critical to the success of this project. In order to expedite issue resolution, a formal process for classifying and resolving issues will be developed and communicated. The definition of this process will also provide equal consideration to all issues and create a level of predictable response expectations.
- Work with the DIR Project Team first to understand and analyze assumptions and issues, then with the committee.
- Consistent communications need to be delivered to agency staff on a timely basis:
 - Meeting minutes will be captured, kept, and reviewed at every meeting, approved in subsequent meetings, and distributed.
 - The mechanism for approving committee recommendations will be formalized and agreed to (e.g., motion second, vote). Simple minority rules, etc.
- Council members should become experts on the project and the process to properly provide the necessary leadership to agencies.
- Council members should be open and honest in their communications.
- Decisions will be made based on the overall benefit to the state.

Opportunity

Data center consolidation is a business strategy that has been successfully employed by governments and many private sector companies to reduce technology costs while maintaining or improving existing services. The 31 data centers supporting the 27 state agencies in the data center services RFO provide significant opportunities for consolidation and resource sharing. By leveraging the collective data center resources of the state, Texas can gain economies of scale unavailable to even the largest agencies and provide round-the-clock service to many small agencies for the first time. Additionally, establishing a robust, shared security and disaster recovery infrastructure provides a consistent level of support to all agencies and positions the state to address global risks and threats. This greater level of

security and infrastructure support enables agencies to focus more of their attention on their missions that serve the citizens of Texas. Consolidating and sourcing data center services for state agencies will allow Texas to:

- Promote common interests and share common functions across agencies;
- Enable business and technology innovations;
- Support the core missions of government agencies;
- Provide consistent, measured, and high levels of security, disaster recovery, and service;
- Pay for services consumed, rather than acquiring IT assets that are quickly out-of-date; and
- Create a best value blend of savings and service improvements for the enterprise.

Agency Participation

House Bill 1516 selected all agencies, except the Comptroller of Public Accounts and certain portions of the Department of Public Safety, for participation in shared data center services. In accordance with the legislation, DIR prioritized 27 agencies, based on IT spend, for the initial consolidation and participation in the Data Center Services RFO. These agencies are listed alphabetically in Exhibit 4.

Exhibit 4: Prioritized Agencies

- | | |
|---|---|
| • Department of Criminal Justice | • Texas Building and Procurement Commission |
| • Department of Information Resources | • Texas Commission of Environmental Quality |
| • Department of Licensing and Regulation | • Texas Department of Agriculture |
| • Department of Public Safety | • Texas Department of Insurance |
| • General Land Office | • Texas Department of Transportation |
| • Health and Human Services | • Texas Education Agency |
| - Department of Aging and Disability Services | • Texas Higher Education Coordinating Board |
| - Department of Assistive and Rehabilitative Services | • Texas Parks and Wildlife |
| - Department of Family and Protective Services | • Texas State Library and Archives Commission |
| - Department of State Health Services | • Texas Workforce Commission |
| - Health and Human Services Commission | • Texas Youth Commission |
| • Office of the Attorney General | • Water Development Board |
| • Public Utility Commission | |
| • Railroad Commission | |
| • Secretary of State | |
| • Texas Alcoholic Beverage Commission | |

Agency participation and collaboration have been key themes for the DCS project from the beginning. Data gathering, RFO development, RFO evaluation, and data center governance have involved, and will continue to involve, all 27 participating agencies. This collaboration

strengthens communication and gives agencies multiple ways to have input into the process. Agency involvement has included over 300 staff in a variety of teams:

- Executive Advisory Panel (agency executives);
- Data Center Services Advisory Council (IT directors);
- HR Workgroup (HR directors);
- Finance Workgroup (chief financial officers);
- Federal Funds Workgroup;
- Technical Workgroups (database administration, disaster recovery, network, security, and technical services); and
- Other Teams: Data Collection, RFO Development, RFO Due Diligence, and RFO Evaluation.

Workgroup activity has evolved over the course of the project. The technical workgroups were formed to develop recommendations for the scope of services. The financial workgroup has helped to explain agency funding requirements. Both groups have completed their mission. Currently, the RFO Evaluation and RFO Due Diligence teams involve staff from all participating agencies; the Executive Advisory Panel meets to provide feedback on the RFO evaluation; and the DCS Advisory Council gives regular input on all aspects of the DCS project.

Definition of Data Center Services

House Bill 1516 required DIR to define data center services by rule. DIR presented the rule to the DIR Board of Directors on October 27, 2005. The rule was adopted on December 14, 2005. Additionally, in conjunction with the DCS Advisory Council and the technical workgroups, DIR established a detailed list of data center services (in scope for consolidation and expenditure approvals) and agency-retained services (out of scope for consolidation and not requiring expenditure approval). The services are as follows.

DATA CENTER SERVICES (IN-SCOPE SERVICES)

MAINFRAME

- Mainframe hardware and operating system installation, support, maintenance
- Mainframe software installation, support, maintenance for specified products/categories (DB2, CICS, IMS, RACF, etc.)
- Mainframe system programming for all in-scope mainframe software

SERVERS (DEVELOPMENT, PRODUCTION, TEST)

- Server hardware and operating system installation, support, maintenance
- Server software installation, support, maintenance for specified products/categories (Oracle, email, DNS, etc.)
- System administration for all in-scope server software
- Remote server administration
- Server support for mobile access devices (PDA, Blackberry, etc.)

COMMON SERVICES

- Computer operations and monitoring
- Production control (batch scheduling, job scheduling)
- Storage management (disk, tape)
- Disaster recovery backups and offsite tape storage
- Physical database administration (Development, Production, Test)
- Data center print services printer operations, reports staging for distribution, ordering paper, special forms, etc., inserts and bulk print mailings)
- Facility and environmental support
- Capacity planning
- Disaster recovery planning and testing for all data center services
- Business continuity planning (service provider processes)
- Support center (for in-scope data center services)
- Hardware/software procurement for in-scope services

SECURITY

- Vulnerability/threat/virus support
- Security software installation and maintenance
- Physical security

PROCESS MANAGEMENT

Incident management, problem management, change management, configuration management, release management

LAN SUPPORT AND MAINTENANCE IN DATA CENTER FACILITIES

General LAN support and maintenance in data center facilities

AGENCY-RETAINED SERVICES (OUT-OF-SCOPE SERVICES)

END-USER COMPUTING

- Desktop support and maintenance (including desktop software)
- Desktop break-fix
- Desktop anti-virus support and maintenance
- Desktop and non-data center network printers
- Mobile access devices (PDA, Blackberry, etc.)
- Multi-function LAN-attached copier/scanner/fax machines

NETWORK

- LAN support and maintenance
- WAN support and maintenance
- Voice/phone support and maintenance

COMMON SERVICES

- Help desk (Tier I – all services, Tier II – retained services, Tier III – retained services)
- Technology planning, strategies, and visioning
- Project management
- Disaster recovery planning and testing for all retained services
- Business continuity planning (agency processes)
- Specialized servers (lab, environmental, etc.) – agencies may elect to move these servers into the RFO scope
- Packaged imaging systems (scanners, servers, optical disks, etc.)

COORDINATION OF DATA CENTER PRINT SERVICES

- Coordinating form changes with business units
- Volume trending

SECURITY

- Data security
- Security design and policy development
- Systems access requests (directory/file, ID creation and removal, determination of access rights)

LOGICAL DATABASE ADMINISTRATION

- All logical DBA functions
- Agency DBAs and developers will retain the authority and access rights to add/change/delete database objects in development and initial test environments

APPLICATION DEVELOPMENT, SUPPORT AND MAINTENANCE

Development, support, and maintenance of agency applications

Interagency Contracts

House Bill 1516 requires agencies to sign interagency contracts (IACs) with DIR for data center and disaster recovery services.⁸ The IACs serve two primary purposes:

- DIR and the agencies use the IACs to document services to be provided, service levels, and finances. For agencies that are not part of the initial consolidation, the IACs document that the assets and responsibility for data center services remain with the agency, or until otherwise notified by DIR.
- The IACs communicate agencies' requirements to potential service providers.

Two IACs were developed, a standard IAC and a short form IAC. The standard IAC was developed by DIR and a sub-committee of the DCS Advisory Council. The base document contains standard terms and conditions for all 27 agencies participating in the RFO process. Each IAC comprises the standard base document and unique attachments containing inventories of the agency's assets and resources committed to the DCS project. All 27 of the

prioritized agencies have signed IACs on file with DIR. The short form IAC was developed by DIR for agencies that are not participating in the initial consolidation. It does not include attachments, as these agencies are not participating in the DCS project.

The IAC process allows for potential expansion of the customer base for data center services. After the data center services contract is signed and pricing and service levels are known, other eligible entities, such as other agencies and city and county government, can contract with DIR using a process similar to the IAC. Agencies who signed the initial IAC in March 2006 will have an opportunity to sign an updated IAC, with pricing, service levels, and the final asset inventory, in December 2006.

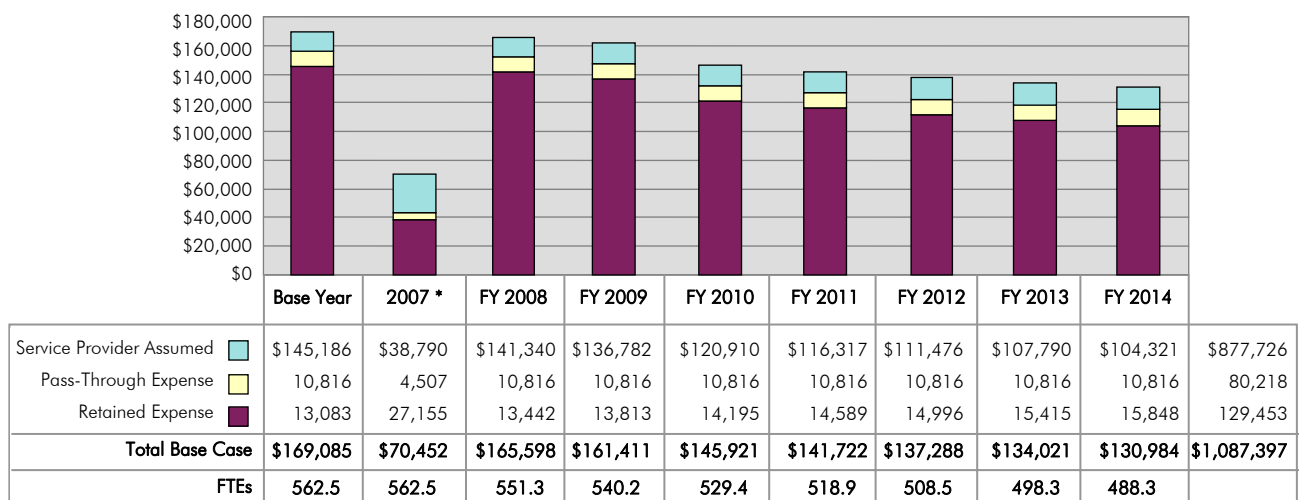
Financial Base Case

The financial base case captures current costs incurred by the agencies in the support of data center services and projects these costs over the life of the contract (seven years). It is used in the financial evaluation of the RFO responses and to complete the business case analysis, which estimates savings and benefits to the state. Costs captured in the financial base case include items like employee salaries and benefits, hardware and software leases, disaster recovery contracts, and other items like postage and printing. The total for the base year was derived from the 27 agencies' self-reported budgets for fiscal years 2006–07. The base case figures represent a point in time and will be adjusted based on due diligence findings and the FTE validation.

The seven-year forecast is based on standard economic modeling factors, including historical productivity gains and price improvements in technology. These expectations result in a decline in expenditures over time when no new programs services are added. The industry-standard factors are based on TPI's extensive experience in data analysis and modeling.

Exhibit V: Seven-Year Base Case Financial Model

Dollars in Thousands



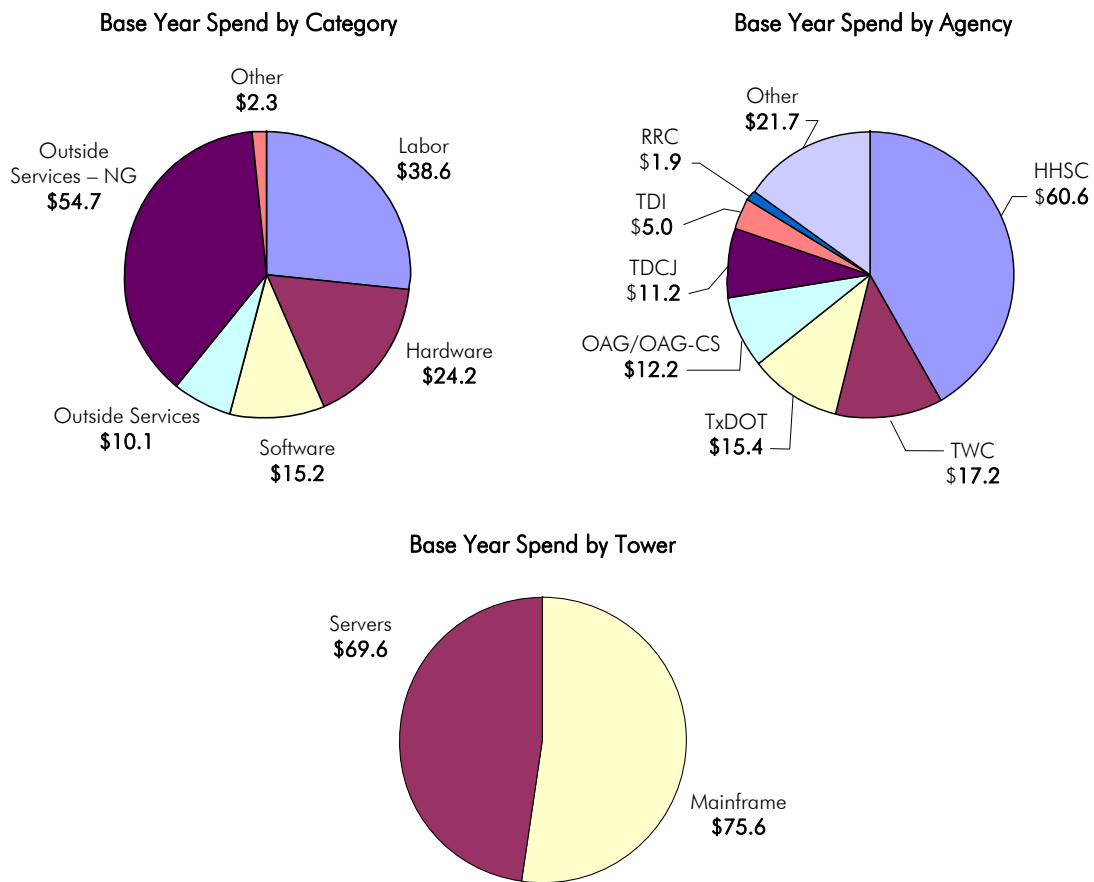
* April 1 through August 31, 2007

The base case for each agency also includes the salary related benefits that are appropriated to the Employees Retirement System (ERS) and the Comptroller of Public Accounts (CPA). For future biennia, the appropriations to ERS and CPA related to the outsourced staff currently supporting in-scope services can be eliminated since this funding will need to be incorporated into the direct appropriations for each agency to pay for data center services.

The total base year spend is approximately \$145.2 million. Exhibit 6 illustrates the base year expenditures by category (type of expense), agency, and tower (IT function).

Exhibit 6: Base Year Spend by Category, Agency, and Tower

Dollars in Millions



Human Resources

The State of Texas is committed to the fair and equitable treatment of all its employees and contract staff. In assessing the viability of sourcing options, DIR and the HR evaluation team are closely examining the service provider’s intended approach to offer comparable employment and benefits and future career opportunities to current state staff.

The RFO requires the service provider (and/or its approved subcontractors) to make comparable employment offers to employees whose positions will be assumed by the service provider. Offers for affected employees will be for an indeterminate period of time, but will be based on the expectation and opportunity for regular employment. Initial base wages or salaries are required to be at least equal to the employee’s current salary. DIR requires the service provider to retain transitioned employees on the DIR account for at least one (1) year, or two (2) years in the case of critical affected personnel.⁹ Exhibit 7 summarizes the number of full time employees (FTEs) for the enterprise, as self-reported by the agencies.¹⁰

Exhibit 7: Personnel Projection Matrix			
Tower	State FTEs	Contractor FTEs	Total In-Scope FTEs
Mainframe	174.4	10.7	185.1
Servers	366.7	10.8	377.5
Mainframe and Server Combined	541.1	21.5	562.6

Evaluation Process and Criteria

The evaluation process for the data center services RFO is truly an enterprise effort. DIR has assembled several evaluation teams from the participating agencies who are working together to review the responses and provide their feedback on the proposals. These teams were actively engaged even before proposals were received by helping to build the requirements in the RFO. They have collectively worked for hundreds of hours on the evaluation and they continue to be vital representatives of their agencies, employees, technical environments, and, most of all, their customers.

All evaluation teams received at least a full day of training. Team members follow a highly structured process for review and assessment of the proposals. Each team focuses on a different element of the solution, with specified weights in the analysis, as listed below.

Business Relationship Terms	20%
Quality of Service (technical)	30%
Human Resources Solution	10%
Terms and Conditions	10%
<u>Financial</u>	<u>30%</u>
Total	100%

The evaluation teams are supported by an Executive Advisory Pane (EAP), which reviews the teams’ analysis and provides feedback to DIR based on the business needs of the state. This panel provides the high-level executive perspective to compliment the teams’ more-detailed review of the technical aspects of the proposals. The evaluation structure is illustrated in Exhibit 2 (see page 1). Details on the evaluation process are described below in Current Activities.

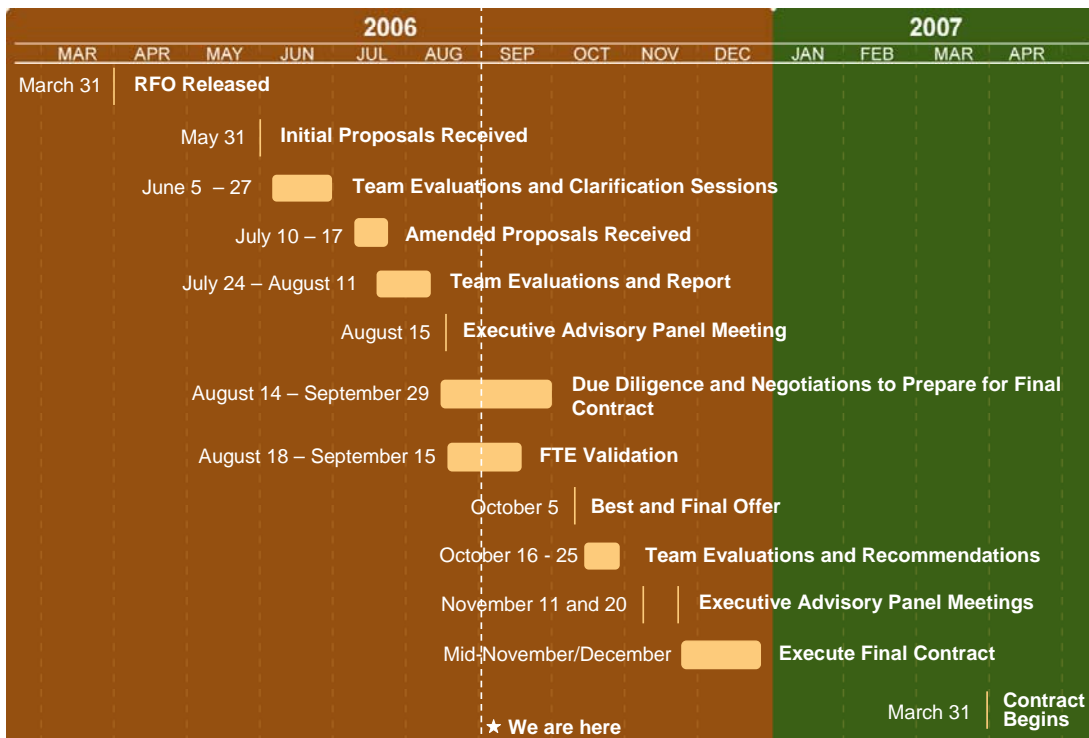
Current Activities

The procurement process is underway and the project team has met all deadlines. Current activities include negotiations with the service providers, due diligence, and a verification of the number of state employees who will receive job offers from the service providers (FTE validation).

- Due Diligence is the process of gathering and verifying data to eliminate assumptions. The state’s due diligence activities may include reference checks and site visits to proposed data center facilities. The service provider’s due diligence activities may include meetings with key state employees, like data center managers, and reviews of critical contract documents.
- Negotiations, occurring in parallel with due diligence, will use information gathered in due diligence to facilitate the final form of the contract.
- The FTE validation will ensure both agencies and the data center have the right number of employees with the necessary skills and experience to successfully manage the required functions.

Exhibit 8 shows the DCS procurement timeline.

Exhibit 8: Procurement Timeline



Next Steps

At the conclusion of due diligence, initial negotiations, and the FTE validation, the service providers will submit their Best and Final Offers (BAFO) to DIR. The BAFO provides an opportunity for service providers to make final changes to their proposal, pricing, and acceptance of terms and conditions. After BAFOs are received, the evaluation teams will convene again to review the BAFO documents and complete their evaluation.

The evaluation teams will produce a report of their analysis for the EAP. The EAP will review the report and meet with the state's Chief Technology Officer (CTO) to give their feedback and perspective on the contract. The CTO will make the final decision on the selection of the service provider. DIR plans to execute the contract in November or December of this year. Contract services will begin March 31, 2007.

Current Migrations

As directed by House Bill 1516, DIR worked with several agencies to evaluate opportunities to migrate operations to the Texas State Data Center (TxSDC). The analysis included new and additional service evaluations.

New Service Evaluations

- **2-1-1 Server Backups** –Texas 2-1-1 is the state's central point for information and referral for health and human services. eLoyalty was selected as the vendor to design, host, and support the ongoing operations of the 2-1-1 solution. eLoyalty contracted with Northrop Grumman for server backups at the TxSDC.

DATE SUBMITTED	AMOUNT	OUTCOME
6-Apr-2006	\$373,833	Transferred to State Data Center/San Angelo

- **RRC** – The Railroad Commission evaluated a new, upgraded mainframe with additional storage and tape capabilities, including a disaster recovery solution. After evaluating the option of migrating to the TxSDC, DIR and RRC determined that it was not cost-effective. The RRC will migrate systems after the new data center services contract is executed.

DATE SUBMITTED	AMOUNT	OUTCOME
15-Nov-2005	\$3,907,662	Held for data center services contract

- **Texas Online SAN (Storage Area Network) & Monitoring** – The SAN is used by Texas Online as a repository for vital records (e.g., births, deaths, marriages, divorces) and is managed by BearingPoint. The SAN and monitoring were transferred to the Austin Disaster Recovery Operations Center (ADROC) in February 2006. The SAN occupies space previously used by DIR, and is physically located inside the DIR cage at the ADROC.

This SAN is a special “write once” type of SAN, and is designed to be mirrored at some point in the future to its counterpart at the TxSDC in San Angelo. Until then, the Texas Online SANs at the ADROC and TxSDC serve as failovers for each other.

DATE SUBMITTED	AMOUNT	OUTCOME
16-Jun and 18-Apr-2006	\$97,374	Transferred to State Data Center/ADROC

- **TxDOT** – The Texas Department of Transportation requested a dedicated mainframe, Registration and Titling System (RTS) servers, and associated disk and tape storage subsystems in the Texas State Data Center. Existing mainframe, storage, and tape capabilities were migrated in June 2005 to the TxSDC in San Angelo, meeting the deadline of TxDOT Rider 42 (2006–07 GAA, p.VII-27).

DATE SUBMITTED	AMOUNT	OUTCOME
15-Jun-2005	\$20,418,727	Transferred to State Data Center/San Angelo (June 2005–July 2009)

Additional Service Evaluations

- **Health and Human Services HSAS Extension** – The Human Services Administrative System (HSAS) is a human resources and financial PeopleSoft® application. The Health and Human Services Commission (HHSC) extended the HSAS contract to August 2007. The contract extension provided for uninterrupted service delivery to the five Health and Human Services Agencies. Additionally, the 18-month service contract extension enables HHSC to reduce its monthly HSAS hosting expenditure, from \$227,071 to \$177,079, a savings of 22 percent.

DATE SUBMITTED	AMOUNT	OUTCOME
22-Feb-2006	\$ 3,187,242	Approved

- **OAG Extension** – The Attorney General’s office received approval to extend their contract with the TxSDC to August 31, 2009. The OAG extension added servers to the distributed Websphere® environment and network file server environment and transferred the Proc Syncsoft® software to Northrop Grumman, who will have operational responsibility.

DATE SUBMITTED	AMOUNT	OUTCOME
30-Sep-2005	\$ 2,078,280	Approved

- **TWC** – The Texas Workforce Commission upgraded the agency’s PeopleSoft® servers and changed to an IBM platform to align with other state agencies. The upgrade and extension to 8/31/2010 was approved.

DATE SUBMITTED	AMOUNT	OUTCOME
24-Oct-2005	\$ 2,813,320	Approved

Appendix:

Summary of Gartner Study

DIR engaged Gartner Consulting, an information technology research and analysis firm, to benchmark the costs and services associated with Texas data center and wide-area network (WAN) operations at the 24 largest state agencies and quantify any potential savings related to consolidating these two functions across multiple agencies included in the assessment.

The Gartner study, published in March 2005, concluded that significant potential data center consolidation savings exist, and recommended that the state aggressively pursue data center consolidation in order to capture savings and performance benefits.¹¹ In the study's data center benchmark comparison with peer groups, the state's data center spending was:

- 22.6 percent above consolidated peers (\$29.6 million per year) and
- 1.2 percent below unconsolidated peers (\$1.6 million per year).

Gartner's recommendation was to outsource and migrate from multiple state data centers to two data centers. Gartner noted additional performance benefits of consolidation:

- Greater economies of scale,
- Improved service levels and accountability,
- Standardized practices, processes, tools and skills,
- Increased flexibility to meet changing needs, and
- Improved usage and leverage of shared infrastructure.

The Gartner study helped to form the basis for the Fiscal Note in House Bill 1516. The complete report can be found on DIR's Web site.

Endnotes

- 1 *Shared Success: Building a Better Texas through Shared Responsibilities* (2005 State Strategic Plan for Information Resources Management), Department of Information Resources, page 8. Retrieved 28-Aug-2006 from <<http://www.dir.state.tx.us/pubs/ssp2005/>>.
- 2 Gartner Research, *MarketScope for Data Center Outsourcing*, North America, 2006, Richard T. Matlus, William Maurer, July 26, 2006, page 2, and Magic Quadrant for Data Center Outsourcing, 2005, Richard T. Matlus, William Maurer, June 22, 2005, page 5.
- 3 "The State of the Sourcing Industry", Peter Allen, Partner and Managing Director, Global Practices, TPI, Inc., 2006 Sourcing Leadership Exchange Conference, May 9–11, 2006, Omni Mandalay Hotel at Las Colinas, TX.
- 4 *Government Sector Drives 49 Percent Increase in Global Spending on Major Outsourcing Projects in 2003*. DM Review, Data Monitor Editorial Staff, January 22, 2004. Retrieved 28-Aug-2006 from <http://www.dmreview.com/article_sub.cfm?articleId=8004>.
- 5 *Shared Success*, page 8 (see note 1).
- 6 *Staff Performance Report to the 79th Legislature*, Legislative Budget Board, January 2005. Retrieved 22-Aug-2006 from <http://www.lbb.state.tx.us/The_LBB/Access/Other_Documents.htm#Perform>.
- 7 Texas House Bill 1516, Section 2054.390, Migration of Services, 79th Tex. Leg. R.S. (2005).
- 8 Texas Administrative Code, Title 1, Part 10, Chapter 215, Department of Information Resources, Statewide Technology Centers for Data and Disaster Recovery Services. Available online at <[http://info.sos.state.tx.us/pls/pub/readtac\\$ext.ViewTAC?tac_view=4&ti=1&pt=10&ch=215](http://info.sos.state.tx.us/pls/pub/readtac$ext.ViewTAC?tac_view=4&ti=1&pt=10&ch=215)>.
- 9 "Exhibit 5: Human Resource Provisions," *Data Center Services - RFO Documents* (Web page), Texas Department of Information Resources, March 31, 2006. Downloaded 29-Aug-2006 from <http://www.dir.state.tx.us/datacenter/docs/RFO/Exhibit%20%205/Exhibit_5_%20HR%20Provisions.doc>.
- 10 "Attachment 5-B: Personnel Projection Matrix," *Data Center Services - RFO Documents* (Web page), Texas Department of Information Resources, March 31, 2006. Downloaded 29-Aug-2006 from <http://www.dir.state.tx.us/datacenter/docs/RFO/Exhibit%20%205/Attach_5B_%20Personnel%20Projection%20Matrix.xls>.
- 11 *Statewide Data Center Assessment: Expenditure and Facilities Assessment, Validation and Analysis*, Texas Department of Information Resources, March 29, 2005, page 3. Retrieved 22-Aug-2006 from <<http://www.dir.state.tx.us/pubs/datacenter/>>.