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INFORMATION SERVICES FUND

State of Alaska
FY 2011 Statewide Cost Proposal
Section II Information
DOA - Information Services Fund

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III. Responsibilities

The Information Services Fund includes two sections, Computer Services and Telecommunications Services.

IV. Billed Services

The Computer Services section bills for data processing, storage, printing and programming. The Telecommunications section bills for basic telephone service; network services for transmission of voice and data between State offices; support of radio facilities and of paging facilities; and repair and maintenance of radio and telephone equipment. A description of services offered by the Information Services Fund is provided in Exhibit E.

V. Financial Statements

Financial statements for the Funds are provided at the fund level in the State's Comprehensive Annual Financial Report. A Statement of Net Assets (CAFR Statement 4.41) at the section level is provided as Exhibit A. A Statement of Revenues, Expenses and Changes in Fund Net Assets (CAFR Statement 4.42) at the section level is provided as Exhibit B. A statement identifying section level revenues by customer is also attached as Exhibit B2.

VI. Billing Methodology

A description of the Fund's charge-back methodology is provided in Exhibit E. FY 2009 service rates are provided in Exhibit F.

VII. Transfers

Transfer in of \$2,500,000 was made from the General Fund.

VIII. Fund Reconciliation

Reconciliation to OMB A-87 guidelines have been developed for Computer Services and Telecommunications Services. In accordance with instructions provided by the Division of Cost Allocation of the U.S. Department of Health and Human Services, imputed interest has been calculated on monthly cash and investment balance and included in the reconciliations.

- Exhibit C is a reconciliation of the Computer Services Division of the Fund to OMB A-87 guidelines.
- Exhibit D is a reconciliation of the Telecommunications Services Division of the Fund to OMB A-87 guidelines.

IX. Miscellaneous Exhibits

- Exhibit G – Allocation of Interest Earnings.

Alaska Department of Administration Enterprise Technology Services Rate Setting Methodology

Enterprise Technology Services (ETS) provides integrated, centralized data processing, data communications and telecommunications systems and services. These services are utilized by state and other governmental agencies as authorized by Alaska Statutes and paid for from the Information Services Fund. The Information Services Fund is an internal service fund that relies on service rates for the funding of its services.

Internal Service Fund

Internal service funds are used by state and local governments to account for the financing of goods and services provided by one department or agency to other departments or agencies, and to other governments, on a cost-reimbursement basis. The use of internal service funds is not required by generally accepted accounting principles. However, the following factors have been identified as benefits obtained from using an internal service fund to operate cost-reimbursement services:

- Internal service funds provide the ability to accumulate the total cost of each activity.
- Internal service funds provide ease in costing and pricing services.
- Internal service funds allow for the accumulation of resources for equipment replacement.
- Internal service funds more effectively claim administrative and support cost reimbursement from grant programs.

During the 1990 Legislative session, the Legislature established the Information Services Fund in the Department of Administration and classified it as an internal service fund. The Fund is used to record all expenditures and revenues of ETS.

Reasons for implementing service rates:

The following reasons were identified for establishing rates for ETS services:

- Encourage users to utilize ETS efficiently by providing them with timely financial and technical data to empower cost effective decision making processes.
- Utilize the State of Alaska's demand to obtain economies of scale advantages whenever possible, to provide effective and efficient use of information resources.

- Identify and assess the State of Alaska's costs, expenditures and funding sources involved in providing and using ETS.
- Establish cost recovery methods for ETS that are consistent with the needs of information service providers and users, with the requirements of state control agencies and the federal government, and which will facilitate predictable levels of funding for the future acquisition of centralized information resources.
- Improve and maintain communications with the Office of the Governor and the Legislature to ensure that ETS needs of the State of Alaska are recognized and adequately addressed.
- Maximize the use of funding from external sources for ETS services, including the federal government.

Service Rate Development Policies

ETS has established the following policies related to the development of rates for ETS services:

- Service rates must reflect the actual costs of providing the service, including both operating expenditures and depreciation on existing assets to accumulate cash for future asset replacement.
- Rates include the total cost of provisioning for the services, including direct and administrative/support costs.
- The budget impact to ETS customers should be relatively stable from year to year, provided usage is also stable.
- If changes to either the rate for services or the method for calculating those rates should result in major funding shifts or shortfalls, every effort will be made to hold user agencies harmless.
- Rates will be set to prevent either an accumulation of resources or deficits over the longer term. This may include rate adjustments during a fiscal year and/or the roll forward of prior period net gains and/or losses in the Information Services Fund.
- ETS will adjust mainframe rates to absorb variations in computer usage.
- Equipment, software or services procured, licensed or contracted by ETS dedicated to a single client application will be charged solely to that client.
- ETS will develop rate methodologies that take into consideration the ability to project customer usage and eliminate, to the extent possible, the undesirable budget impacts.

- ETS will take advantage of economies of scale whenever possible to provide the best value to the State of Alaska.
- ETS will budget its resources to obtain economical and efficient goals.
- Major service additions or expansion that significantly increase chargebacks must be pre-approved jointly by the State of Alaska IT Governance process. Approved service additions or expansion costs may be passed through to the customer until such time as the cost can be budgeted by ETS and chargeback rates adjusted accordingly.
- The Office of Management and Budget (OMB) will approve rates on an annual basis for inclusion in the next budget.
- Prior period adjustment for net income/(loss) will be determined by comparing expenditures and transfers charged to a service center to revenues received for that service. Any over or under recovery will be rolled into the next rate calculation and the subsequent two years.
- Whenever possible incentives will be applied to rates to encourage cost effective use of time and resources. Rates for mainframe services set for prime time (8:00 am to 5:00 pm) will be higher than rates for non-prime time (5:01 pm to 7:59 am).
- Equipment costing five thousand dollars or more will be included in rates in the form of depreciation expense. Equipment costing less than five thousand dollars will be considered part of the normal operating expenditures.
- Whenever possible ETS will provide agencies with usage information to aid in the management of budget resources. Agencies exceeding their charge-back budget authority will not be denied access or usage of services provisioned for by ETS, as this would not be in the state's overall best interest. ETS may, however, impose certain limitations upon the agency to minimize negative consequences.
- Personnel costs and other charges will be incorporated into the rates as available through budget instructions, including any OMB budget reduction targets. In the absence of budget instructions, information used for budgetary planning purposes will be used.
- New services developed and offered after rates have been calculated for a period will be assessed for that period of time based on ETS' best estimate of the cost to provide the service. This rate will remain in effect until the next rate review.

Rate Setting Process

ETS utilizes cost accounting practices to collect and project costs for services. In the State's accounting system (collocation codes (CC) primarily identify the Funding Source) and services are identified by ledger codes (LC). The combination of CC and LC provides ETS with the basis

for analysis of revenues and expenses by service. All transaction processing must identify both a CC and a LC. ETS prepares internal management reports to monitor actual revenue and expenditures as compared to budgeted amounts. ETS' managers periodically review these management reports to determine appropriate action to correct for any material differences from budgeted amounts.

Costs are grouped by readily identifiable services initially identified as telecommunications, computer service or administrative and support costs. Costs are then identified by services within each of these categories. Cost centers accumulate costs by account codes for personal services, travel, contractual, supplies, equipment (less than five thousand dollars), and depreciation (equipment greater than five thousand dollars).

The first step in projecting costs for future rate setting purposes is to review existing costs by service. The review is performed with respect to established strategic and/or budgetary goals and how these affect existing expenditures. Reports on ETS personnel time-keeping records are prepared and distributed to the appropriate manager for updating. Managers review and update the percentage allocation of staff's time by LC/CC for all PCN's in the Position Control Authorization System. Total costs for each PCN is projected for the rate-setting period, including benefits, employer taxes, anticipated cola and other known or anticipated factors.

The next step involves ETS' Accountant meeting with each manager and reviewing all relevant transactions, by service, by account to project costs. This includes but is not limited to a review of professional service contracts, hardware and software maintenance agreements, fixed costs, other contractual obligations and projecting depreciation on capital expenditures. ETS' Accountant will also take into consideration all cost center transfer types of transaction, to "true-up" the cost of provisioning services. For example, the base mainframe cost center also supports disk and tape services and is a true cost of provisioning these services. Additionally, base is the foundation on which all mainframe services are provisioned. As a result once indirect costs have been allocated to base, its costs are then allocated to the remaining mainframe cost centers.

Administrative and support costs are collected by nature of their occurrence. Costs that are not directly attributed to specific computer services yet provide administrative and support functions to it are charged to indirect computer services. Similarly, costs that are not directly attributed to specific telecommunication services yet provide administrative and support functions to it are charged to indirect telecommunication services. Finally, costs that are not directly attributed to either computer or telecommunication services, yet provide, administrative and support to ETS in general are charged to Indirect Management. Indirect management costs are then allocated to indirect computer and telecommunication services on the pro-rata basis. The last step is to then allocate indirect costs to direct services on a pro-rata basis.

As stated earlier, "rates will be set to prevent either an accumulation of resources or deficits over the longer term, this may include rate adjustments during a fiscal year and/or the roll forward of prior period net gains and/or losses in the Information Services Fund." The ETS Accountant maintains an income/(loss) roll forward analysis by; year net income/(loss) was incurred for both projected and CAFR amounts, the years net income/(loss) is allocated to, and a true-up between

projected amounts and CAFR amounts. This is tracked for all services and included in rates for the purposes of accounting for prior period over and/or under collections. The current roll forward methodology as approved by our Federal Negotiator requires two years to affect the rates, and is allocated 1/3 to each year for a total of three years.

The ETS Accountant documents the processes of identifying direct projected costs, making appropriate transfers to true-up costs, allocating indirect costs, factoring in roll forward amounts, and the resultant total cost to be collected through charge-back rates by cost center. These amounts provide the numerator to be divided by the appropriate denominator to compute rates.

COMPUTER SERVICES - SERVICE RATES

Usage history for mainframe computer services is provided by reports from the MICS software program job related billing data. MICS records each agency's usage at the project, division, region and department levels. Each mainframe cost center has its own service unit for measuring usage. For Batch, ADABAS, CICS, TSO and DB2 CPU seconds provides the basis for measurement for both prime time and non-prime time usage. Disk is based on megabytes used per day. Tape is based on a monthly charge per tape for all tapes listed in the tape management system. Print charges are based on the number of sheets.

Beginning July 1, 2003, ETS has utilized a predictive MICS usage value for each agency for rate calculation purposes. The goal in utilizing a linear trend for all mainframe services and taking into consideration other known usage variations, provided by customers or otherwise known by ETS, is to eliminate unfavorable usage variances. By alleviating mainframe rates from being based upon existing usage at the time rates are set, ETS builds into the rates setting process changes in mainframe service usage and thereby compensates for over and/or under collection for mainframe services.

Open systems rates for task orders, mid-tier rack servers, and Tivoli Storage Manager (TSM) each have unique characteristics.

- ❑ Task order rates are set based upon history of scaled contract amounts and the percentage of orders encountered for each range. Based upon the scale ETS charges a \$490 plus 1% of the task order amount.
- ❑ TSM rates are based upon the expected capacity of storage available and the cost to provision for it. The amount of total capacity utilized is estimated for purposes of rate development.
- ❑ Mid-Tier rack managed hosting services are provided under a dedicated-resource, fixed-fee rate model. The annual fee includes estimated personal service costs, direct software licensing and support costs, depreciation for the server and a proportion of the fixed infrastructure (rack, network, space, power and cooling). Categories of hosting services have been defined for Windows, Linux, and Terminal Servers. Personal service costs vary slightly by category because experience has shown that

some environments (especially Terminal Servers) are more amenable to "mass production" and therefore require less ETS staff resources. Contractual costs are higher for Linux servers because ETS' support contract with Red Hat is shared among fewer servers than our equivalent contract with Microsoft. Depreciation is highest for Terminal Servers, and lowest for Linux servers, due to differences in the cost of initial software licenses purchased with the machines. For each SLA, actual hardware purchase price is inserted in the formula in place of the averages published in the rates, so in some cases actual rates differ slightly from published rates. The individual cost items that go into this charge-back model are reviewed and adjusted annually.

Enterprise Productivity Rate

Beginning July 1, 2003, ETS has utilized the new computer services enterprise productivity rate (CS EPR). This rate represents an allocation of open system's common infrastructure costs to state agencies based on a modified authorized positions count. The CS EPR in effect recognizes the importance of technology in conducting State of Alaska business on a daily basis. The nature of basic infrastructure services eludes a typical usage based rate methodology. However, without such infrastructure the State of Alaska would not enjoy many of the efficiencies necessary for conducting daily business. Prior to the CS EPR, these types of costs were transferred to the mainframe service costs centers; thereby, increasing the usage mainframe rates.

The CS EPR methodology considers all state agencies benefactors, whether directly or indirectly, of such services. Further, the utilization of the CS EPR supports ETS management policy to move from specialized services to an enterprise solutions approach, taking advantage of centralization to meet a variety of statewide requirements. To qualify for inclusion in the CS - EPR, open systems services must meet one or more of the following criteria:

- The service is widely used by agencies. Direct usage-based rates would be prohibitively expensive to institute, and it is commonly part of the basic IT infrastructure for State Government.
- The service is more efficiently delivered on a centralized basis by capturing economies of scale and eliminating cost-incurring technology incompatibilities.
- Charging for the service on a per-PCN basis will encourage agencies to use the centralized service and discourage duplicating IT capabilities that could increase costs for state government overall.
- Provides a new strategic statewide service or software infrastructure, which will enable multiple agencies to deliver improved services to the public or capture internal efficiencies they might otherwise be unable to accomplish independently.

Beginning July 1, 2003 the following services have been determined to meet the CS EPR criteria and are included in the CS EPR:

- ❑ **DB2 Mid-Range** is a shared, non-mainframe windows server and software platform, primarily used by the OMB ABS budgeting system. Other users include APOC and Mobius Document Direct.
- ❑ **Workplace Alaska** services include the software utilized by the division of personnel to perform many of the human resource tasks required by the State of Alaska.
- ❑ **MyAlaska** is a project to create infrastructure for web commerce applications enabling electronic signature and identity "management" for residents of Alaska and current or former Alaska public employees. Although this project will result in a 'one stop shopping" portal for presenting the State's web presence to the general public, it's most important short term feature is to enable secure online business processes that require signature certification and verification of identity. Immediate usage will be application for permanent fund dividend and Retirement & Benefits. Numerous future applications are envisioned, including automation of the State's internal administrative procedures such as travel and timesheet preparation.
- ❑ **Enterprise Applications** is a "catch-all" category including; software development, planning studies, collaboration server, management and operation of enterprise internet services infrastructure including the state's class B IP address ranges, DNS, FTP, the primary state web presence, web use statistics, management of Domino Notes application, searching and content management, a state web portal, and online public notices.

The modified authorized position count used to allocate the Computer Services EPR is determined by adjusting the State's authorized position count for non standard positions. Positions in twenty-four hours institutions, Department of Transportation and Public Facilities maintenance positions, and part-time positions are counted as one-third of a position. Marine highways vessel crews are counted as one-eighth of a position.

TELECOMMUNICATION SERVICES - SERVICE RATES

The costs of telecommunication services are either directly billed to agencies based on usage or included in a telecommunications enterprise productivity rate (TC EPR) and allocated/billed to agencies based on a modified authorized position count. VOIP/PBX phone lines, Paging, and MICB teleconferencing services are billed directly to State agencies. The TC EPR includes the costs of the network, internet, video conferencing, SATs, and two-way radio. ETS' Telecommunication Services administrative and support costs are allocated based on total expenditures to each Cost Center.

Enterprise Productivity Rate

The TC EPR is allocated/billed on the number of modified authorized positions. The modified authorized position count used to allocate the Telecommunications Services EPR is determined by adjusting the State's authorized position count for non-standard positions. Positions in

twenty-four hours institutions, Department of Transportation and Public Facilities maintenance positions, and part-time positions are counted as one-third of a position. Marine highways vessel crews are counted as one-eighth of a position.

Network and video services included in the FY 2005 TC EPR will be "grand fathered" in as of July 1, 2004. New or expanded services not grand fathered in generally will be considered the direct responsibility of the agency requesting such service, subject to approval by ETS. Such services may become part of TC EPR chargeback in the subsequent fiscal year, provided the service is considered part of the core infrastructure. ETS will review all requests in context of the overall change in cost structure, to determine if such services can be funded by the existing TC EPR budget or must be passed through to the requesting agency. For example, if re-provisioning an existing circuit actually reduces costs while increasing bandwidth, the upgraded circuit will be considered budgeted in the TC EPR. However, if the upgraded or newly provisioned circuit(s) considerable increase chargeback costs, the requesting agency will be fiscally responsible until such time as the cost may become part of the TC EPR budget.

ETS will continue to work with state agencies in addressing network capacity issues. ETS has budgeted for certain network expansion costs and will continue to work with agencies on a case-by-case basis to determine which costs are considered budgeted in the existing TC EPR and those that are not.

- ❑ Currently, ETS has established 25 video sites that are considered enterprise and included in the TC EPR budget. These sites are considered accessible to all state agencies on a reservation basis. Video sites not available to all state agencies or limited to only one agency will be considered dedicated and billed directly to that agency. Newly provisioned enterprise video sites will be evaluated by ETS for inclusion in TC EPR budget for the following fiscal year.

Paging

ETS bills agencies for the purchase of pagers, an activation fee, and a monthly service charge that includes maintenance and repair costs. A fee is also charged for a new services or changes to an existing service. ETS only bills agencies for pagers that are verified as "in service". There is no fee for the deactivation of a pager.

PBX Device

The new recurring monthly fee for telephones applies to every device on the State owned PBX/VOIP network. A device is defined as the physical connection from the network to the telephone or the end user device or under the newly deployed VOIP, A MAC address. Given this definition of a device the new rate applies to telephones, fax machines, credit card machines, modems, etc. The most common example is a phone number associated with a telephone line.

The device charge applies only to the physical connection or initial MAC address from the end user device to the phone system. In general telephones with a second appearance of a line will

not be billed a separate device charge for this service. For example, if a multi-button telephone has the features to support multiple lines, whether that be in support of a rollover number, separate phone numbers, or multi-line hunt numbers, the rate applies only to the number of devices. Telephones with additional features such as voice mail, auto-call distribution or auto-call attendant will be included in the PBX rate. VOIP runs along the same circuits as the data network creating a more converged environment. A special rate may be created for agencies that want call recording depending on server space and length of time to hold the records.

- Two connections with the same Directory Number (typically the phone number associated with a telephone line) and different Terminal Numbers (physical connection to the PBX switch) is billable. (Fairbanks 451-5214).
- Phantom numbers on loop 95 TN 095 used for remote call forwarding will not be charged. For example Division of Public Health DN 18069.
- Line side T-1's connected to IVR servers, each 5 digit DN plus the primary DN is billable. The outbound circuit from the predictive dialer is not considered part of the core PBX infrastructure. Such circuit costs are the responsibility of the agency.
- Auto Call Distribution is billed at the agent id number only, not for the personal appearance phone numbers.
- Auto Attendant is currently not a billable service.

Consulting Services

ETS offers consulting and/or technical assistance for a variety of computing and communication services such as: Special Overtime Operator (4 hour minimum), bursting, de-collating and special handling, telecommunication design and consulting, application programming consulting, systems programming consulting, and facilities management. These services are priced at the level needed to recover expenses and are dependent upon the level of personnel expertise needed to perform the tasks.

This concludes the narrative description of the service rate setting methodology utilized by Enterprise Technology Services.

**Alaska Department of Administration
Enterprise Technology Services
Computer Services
FY 2009 Service Rates**

Enterprise Productivity Rate (EPR)

Per month per modified PCN \$39.96

Main Frame

Rates for mainframe computer services are structured to encourage non prime-time processing. Prime-time rates apply to processing from 8 a.m. – 5 p.m.

<u>Service</u>	<u>Prime-Time Rate/Second (8 am - 5:00 pm)</u>	<u>Non Prime-Time Rate/Second (5:01 pm - 7:59 am)</u>
Batch	0.0564	0.0378
ADABAS	0.0810	0.0543
CICS	0.0751	0.0503

Data Storage

Disk Storage - MVS - megabytes day \$0.0024
Tape Storage - per tape daily \$0.0210

Laser Printing - per foot \$0.0680

Cut Sheet Printing - per Image rate \$0.0652

Facilities Management -

Computer room floor space - per square foot \$15.48

Open Systems Environment Services

Tivoli Storage Manager \$3.15/gigabyte
Task Orders \$490 + 1% no cap

**Alaska Department of Administration
Enterprise Technology Services
Telecommunications
FY 2009 Service Rates**

Enterprise Productivity Rate (EPR)

Per month per modified PCN \$75.45

Paging

\$10.77 per month per pager, includes repairs.

\$150 for new pager, includes shipping.

\$60 activation fee.

\$25 service fee, per TSR, for new service or changes to existing service.

PBX Device Rate

For FY 2009 the PBX/VOIP device rate is \$33.52 per device, per month.

MICB Teleconference

\$35 per teleconference plus applicable long distance charges.

Consulting and Professional Services will be charged out at an hourly rate to recover costs.