DII Budget Notes

First, some terms need to be defined:

Internal Service Fund: The State has several internal service funds, each of which is used to provide and bill for a service to state departments. The Agency of Administration CFO, Paul Rousseau, wrote the following:

> Back in the late 1990's, the General Assembly required the Administration to "budget" a portion of all the state's internal service funds. Prior to this requirement, no internal service funds were appropriated. They referred to this appropriated piece as the "non-demand" portion of the program. So all programs were now partially budgeted such as the postal center, copy center, supply center, workers' comp, etc., etc. From a budget perspective, this is a problem as spending in the internal service fund programs is already appropriated in the departments receiving the services. This is, in fact, double counting, which is eliminated from the total state budget when getting to the bottom line.
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> In addition, the portion that is appropriated is only a part of the total activity for the fund/program. For example, we appropriated $1.7 million for Workers' Comp in FY 2014. The program spent $13.8 million. You cannot see this in the Big Bill. You would have to add up the Workers' Comp line items in everyone's budget to come close to this number. This can be found in the annual CAFR.
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> What is important for the General Assembly, when it comes to the internal service funds, is to look at the annual CAFR statements which reports ALL spending in the specific internal service fund. For the most part, each program is associated with a unique internal service fund (there are a couple of exceptions). For example, the Postal Fund only funds the BGS Postal program.
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> For DII, spending vs. appropriated demonstrates this split, historically.
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> For FY 2016, DII decided to appropriate the entire program rather than part of the program. Fee for Space and the AOT Highway Garage Fund are also 100% appropriated. This does NOT increase spending. It only reflects what is already embedded in department/agency/offices/program budgets.

Demand: If a department can choose how much of a service to buy from another state department that has an internal service fund, that is considered "demand." An example is telephone: a department determines how much to spend on telephone by controlling how many lines they have, how many cell phones, and how much they use them. A department's needs also drive how much they need to spend on mainframe, desktop support, project management services, centrally managed servers, etc. Since a department can choose where to buy these services from, there is a flow back and forth from expenditures in departments' budgets only and expenditures made through DII. The overall trend has been for more of departments' IT expenditures to be made through DII since DII is frequently the low-cost provider. This factor is an increase in DII's budget over time, but not an increase in the total state IT budget. Decisions departments make to buy more IT services, on the other hand, are an increase in the total budget

(Example: Healthcare.) In some cases, when a service is moved from a department to DII, the department gains efficiency but not savings. Example: If a department had one employee maintain their servers, using half the employee's time, the department would more likely have the employee do other tasks than eliminate the position.

Significant changes to Demand over time were:

FY 2009: Demand was only for Mainframe and Telecom.

FY 2010: Low amount was probably due to a Fairpoint billing issue. Demand now includes VISION expenditures made through DII.

FY 2011: Increase probably due to corrected Fairpoint billing issue.

FY 2012: Increase largely due to rise in other Demand services.

FY 2013 and FY 2014: Increase largely due to Healthcare, also server consolidation.

DII Allocation: DII bills departments for statewide IT services. Certain services and infrastructure have been centralized over time, with the expenses moving from departments' budgets into DII's, with an overall savings at the State level. The services covered by the allocation include:

- Microsoft Office Licensing for the standard edition with software assurance for all state employees. Taking advantage of enterprise licensing reduces the overall cost to the state and ensures legal compliance with the software manufacturer.
- DII also buys desktop and laptop Windows operating system licensing with software assurance for state, with the same advantages.
- Microsoft Office Standard Edition
- Enterprise Email including Archiving
- Enterprise Email Storage
- Enterprise SharePoint Server sites
- Windows Server CALs
- Enterprise Digital Signature Solution (Silanis eSign)
- Network intrusion notification (FireEye)
- Windows Desktop Operating Systems
- Wide area networks, local area networks and data circuits

Not covered by DII Allocation:

- Microsoft Office Professional (departments pay the difference if needed)
- Non-Enterprise Email Systems
- Non-Enterprise Email Storage
- Non-Enterprise SharePoint sites
- Other operating system CALs
- Non-Enterprise Digital Signature Solutions
- Other network infection protection

Significant changes to the allocation over time were:

FY 2013: Decrease largely due to desktop support moving to Demand.
FY 2014: Increase largely due to centralization of desktop licensing and WAN. (Moved from dept. budgets.)
FY 2015: Increase largely due to adding IT contracting and document management expertise.
FY 2016: Decrease due to cost savings from centralization.

DII Budget: Starting with FY 2016, the DII budgeted amount includes both Allocated Services and Demand. Prior to FY 2016 the amount budgeted and appropriated for DII included the allocated services, grants, and all staff (including an overhead amount associated with the staff), whether working on allocated services or demand services. (The theory behind that was departments could change their requested level of demand services, but the staffing level to support the anticipated level of demand was not flexible in the short term and should be fully budgeted. I think it is safe to say that budgeting everything is less confusing.) Both allocated charges and demand charges are included by departments in their budgets as well, and need to be removed when totaling the overall state budget to avoid double counting.

Both Demand and Allocated charges have to meet federal audit requirements if departments pay for them using federal funds. Beginning with FY 2012, we were asked to monitor expenditures by category. That is why the data begins that breakout for FY 2012.

The State's annual report, the CAFR, is available on line and shows the Communications & Information Technology Fund (CIT) financial statements. These are on an accrual basis. The data supplied shows actuals on a cash basis, which is more relevant when comparing budget to actuals. Also, the expenditures made by DII on the State's financial systems go through an additional internal service fund, the Financial & HR Information Fund (VISION). These expenditures do not appear in the CIT Fund CAFR; they are in the VISION Fund CAFR. VISION charges are billed to departments via an allocation. However, when Financial Systems buys services from DII to support VISION, from DII's perspective, that is a demand service.

DII also received one-time General Fund of $3M to kick-start server consolidation, spent in FY2012 (about $2M) and FY 2013 (about $1M) – not included in the actuals spreadsheets. This funding was originally planned to be from the Capital Bill, but when plans for the State Hospital fell through, this was one of the alternative uses for the general fund set aside for the Hospital.

DII used to have a pass-through grant for the Vermont Telecom Authority and broadband, which is included in the actuals spreadsheets, of $400K in 09, $400K in FY10, $300K in FY11, $700K in FY12, $900K in FY13, $935K in FY14, and $635K in FY15.