

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 10/20)

Fiscal Year 2022-23	Business Unit 7502	Department California Department of Technology	Priority No. 1
Budget Request Name 7502-009-BCP-2022-GB		Program 5230	Subprogram N/A

Budget Request Description
 OTech Decrease in Services

Budget Request Summary

The California Department of Technology requests \$10.5 million in General Fund for three years beginning in FY 2022-23 through FY 2024-25 to supplement loss of revenue due to customers moving operations to cloud-based services.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed N/A	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO N/A	Date N

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. N/A **Project Approval Document:** N/A
Approval Date: N/A

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By John Armenta	Date 12/29/2021	Reviewed By Ron Cruz	Date 12/29/2021
Department Director Russ Nichols	Date 12/29/2021	Agency Secretary Yolanda Richardson	Date 12/29/2021

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

PPBA Danielle Brandon	Date submitted to the Legislature 1/10/2022
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A. Budget Request Summary

The California Department of Technology (CDT) requests \$10.5 million in General Fund for three years beginning in FY 2022-23 through FY 2024-25 to supplement loss of revenue due to customers moving operations to cloud-based services.

B. Background/History

The majority of the California Department of Technology's (CDT) expenditure authority resides within the Technology Services Revolving Fund (TSRF) and must be cost recovered from CDT's customers by charging for services. The TSRF is the mechanism by which CDT sustains operations, billing and recouping the cost of expenditures. Purchases are made only when the underlying customers need additional services; however, once software is loaded onto hardware and customers are paying for services being rendered, the departure of customer-departments from the platform does not alleviate CDT of the continued expenditures paying for the systems designed and installed specifically for that customer (systems to specifications, software licenses, hardware maintenance, financed payments, etc.).

Department of Child Support Services (DCSS) and Department of Motor Vehicles (DMV), two of CDT's largest customers, are moving from various CDT service offerings (Managed Services Environment, California Government Enterprise Network (CGEN), and CDT's Cloud Storage respectively).

C. State Level Consideration

This request also aligns with the prior statewide technology vision – Vision 2020:

Create one Digital Government (Goal 1)

It is imperative that the state creates a seamless experience for Californians accessing its public services that at a minimum begins to mirror the convenience and simplicity of the strides made in the private sector in the last decade. This includes accelerating the move towards common platforms and shared services, embracing user-centered design, and leveraging technology to transform government processes and operations.

This request would enable CDT to initiate major strides in building two critical elements of the state's digital infrastructure (CA.gov and digital identification), to support statewide efforts to better manage and use vital data and stabilize mission critical services. In addition, the request would enable CDT to address decades of policy debt by establishing more useful modern standards, and use spend analytics to drive better statewide decision-making in line with updated standards.

D. Justification

Although CDT's current TSRF chargeback funding model works reasonably well to distribute costs to customers that utilize CDT services, CDT expects several of its largest customers to move some of their major applications out of CDT's managed services environment and into the cloud in the next few years. Since the majority of CDT's cost structure is fixed in the short run (computer hardware, software, and staffing costs), CDT cannot reduce its cost of operations at the same pace as these customers reduce the services they consume from CDT. Consequently, in the next few years CDT will experience significant revenue reductions from its larger customer departments without a way to correspondingly reduce its expense structure. The actual shortfall is \$20.7 million, but CDT over collects in other areas, reducing the resources necessary to 10.5 million.

The specific impact of DCSS and DMV leaving are as follows:

- Department of Child Support Services: The Child Support Enforcement System (CSE), which is hosted in CDT's managed services environment, will be migrated to Microsoft's Azure Government Cloud. This application generates approximately \$15.7 million per year.

Analysis of Problem

- Department of Motor Vehicles: Although it is not known at this time which business applications DMV will migrate out of CDT's managed services environment, DMV has already started migrating out of CDT's (CGEN) services. In addition, DMV's appointment system is in the process moving to the cloud together with certain identity management components also hosted at CDT. The known annual impact to CDT is approximately \$5 million.

E. Outcomes and Accountability

CDT will be able to continue operations without a significant impact to service levels or an increase to the rate structure for current customers.

F. Analysis of All Feasible Alternatives

Alternative 1 – Approve CDT's request as submitted for \$10.5 million for three fiscal years beginning in 2022-23.

Pros:

- CDT will be able to continue operations without service interruption.
- There will not be a sizeable increase to the rate for existing customers.

Cons:

- Increase to General Fund Expenditures.

Alternative 2 – Increase the rates to remaining customers to fill the revenue gap.

Pros:

- Would not require an increase in General Fund Expenditures.

Cons:

- Would dramatically increase expenditure in customer departments, many of which may require funding augmentations and respective BCPs.
- Might push customer departments to migrate from CDT's services in order to save money, which would compound CDT's revenue problem.
- Does not equitably share the burden of CDT services.

Alternative 3 – Continue with the current model, capturing savings where possible.

Pros:

- No increase to the General Fund.

Cons:

- This is not sustainable. CDT cannot endure revenue shortfalls and continue operations.
- Current customers would be subject to service interruption and be forced to find another provider.

Analysis of Problem

G. Implementation Plan

N/A

H. Supplemental Information

N/A

I. Recommendation

Approve CDT requests \$10.5 million in General Fund for three years beginning in FY 2022-23 through FY 2024-25 to supplement loss of revenue due to customers moving operations to cloud-based services.

BCP Fiscal Detail Sheet

BCP Title: OTech Decrease in Services

BR Name: 7502-009-BCP-2022-GB

Budget Request Summary

Operating Expenses and Equipment

Operating Expenses and Equipment	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5346 - Information Technology	0	10,500	10,500	10,500	0	0
Total Operating Expenses and Equipment	\$0	\$10,500	\$10,500	\$10,500	\$0	\$0

Total Budget Request

Total Budget Request	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Total Budget Request	\$0	\$10,500	\$10,500	\$10,500	\$0	\$0

Fund Summary

Fund Source

Fund Source	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
State Operations - 0001 - General Fund	0	10,500	10,500	10,500	0	0
Total State Operations Expenditures	\$0	\$10,500	\$10,500	\$10,500	\$0	\$0
Total All Funds	\$0	\$10,500	\$10,500	\$10,500	\$0	\$0

Program Summary

Program Funding

Program Funding	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
6230 - Department of Technology	0	10,500	10,500	10,500	0	0
Total All Programs	\$0	\$10,500	\$10,500	\$10,500	\$0	\$0