

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

<b>Fiscal Year</b> 2022-23	<b>Business Unit</b> 7502	<b>Department</b> California Department of Technology	<b>Priority No.</b> 3
<b>Budget Request Name</b> 7502-011-BCP-2022-GB		<b>Program</b> 6230	<b>Subprogram</b> N/A

**Budget Request Description**  
 Statewide Centralized Services General Fund Request

**Budget Request Summary**

The California Department of Technology (CDT) requests a conversion of \$41.1 million from Technology Services Revolving Fund (TSRF) to the General Fund (GF) from Fiscal Year (FY) 2022-23 through 2024-25 to support critical Statewide Services, Mandatory/Oversight Services, and CDT Internal Indirect and Administrative costs. Additionally, CDT requests a three-year augmentation of \$3 million for the Statewide Strategic Initiatives positions. This proposal, which includes transitioning 204.6 positions to the General Fund, will allow CDT to significantly reduce its rates and thus be more competitive with private cloud providers to stem the flow of customers migrating off the state's IT infrastructure to cut costs. Funding will revert to TSRF in FY 2025-26.

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Code Section(s) to be Added/Amended/Repealed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

**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.*

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

**Department of Finance Use Only**

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

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

The California Department of Technology (CDT) requests a conversion of \$41.1 million from Technology Services Revolving Fund (TSRF) to the General Fund (GF) from Fiscal Year (FY) 2022-23 through 2024-25 to support critical Statewide Services, Mandatory/Oversight Services, and CDT Internal Indirect and Administrative costs. Additionally, CDT requests a three-year augmentation of \$3 million for the Statewide Strategic Initiatives positions. This proposal, which includes transitioning 204.6 positions to the General Fund, will allow CDT to significantly reduce its rates and thus be more competitive with private cloud providers to stem the flow of customers migrating off the state's IT infrastructure to cut costs. Funding will revert to TSRF in FY 2025-26.

## B. Background/History

CDT provides centralized IT services to state and local entities. It recovers its costs by charging customers specified rates for its services and depositing that revenue in the TSRF from which nearly all CDT operations are funded.

This rate setting process requires a difficult balance of objective cost analysis and forecasting customer demand. As the primary source of funding for CDT, service rates are a critical component of CDT's financial management. The process for rate setting must be transparent and documented so stakeholders have a clear understanding of their IT costs. The Department of Finance approves CDT's rate proposals based on the reasonableness of the rates and any significant impact to departmental budgets.

Outside of a small amount of GF used to cover the cost of statewide leadership and policy functions, CDT utilizes the rate structure to recover the cost of the rest of its budgeted expenditures, which includes the cost of providing centralized services to other government entities through statewide services and mandated and/or oversight services.

Although CDT's current TSRF chargeback funding model works reasonably well to distribute costs to customers that utilize CDT services, it works less effectively for recovering these other types of costs:

- Statewide Services: Funding of innovation and research benefiting the state is difficult to cost recover with a chargeback model. Emerging services are costly, and, in most cases, there are no defined customers from which to recover costs; therefore, CDT must distribute the costs to all state entities who in turn often dispute the charges because of the lack of a fair and equitable metric to distribute the costs. In addition, these same entities often lack the funding to absorb these costs since these are services they never requested and thus were not anticipating. There is the expectation that these services should be provided statewide but not for a fee. Statewide services include:
  - Enterprise Architecture
  - Statewide Strategic Initiatives
- Indirect costs and Overhead: Expenses related to internal operational CDT support services and internal business applications must be incorporated into CDT's service rates and recovered through customer service charges. These additional expenses make it difficult for CDT to provide services at rates that are competitive. For CDT to offer fair and competitive rates, CDT needs another funding alternative. Moving these costs out of CDT's rate structure will allow CDT to significantly reduce its rates, which will make them much more competitive with private cloud providers. The current rates are driving customer departments to seek alternate solutions that are more competitive, which in turn causes CDT to under collect and thus have to increase rates even higher. Indirect and overhead costs include the following:

## Analysis of Problem

- CDT Executive and Administrative Support Services
- Strategic Initiatives
- Office of Legal Services
- Office of Administrative Services
  - Facility and Administrative Services
  - Acquisitions & IT Program Management
  - Financial Management
  - Rates & Cost Recovery
  - Human Resources
  - Internal IT Services
- Marketing & Event Management

### C. State Level Consideration

The requested investments are directly guided by and to support CDT's statewide technology vision and the Governor's digital transformation strategy articulated in this budget.

This proposal supports CDT's California Technology Strategic Plan, Vision 2023 goal number three: Make common technology easy to access, use, share and reuse across government.

To deliver value to users more quickly, we must pool our investments and efforts into a shared digital infrastructure. We can do this by using common technology that can be adapted, shared, and reused across the state. For most common problems, this will mean developing a suite of demonstrated approaches to be used by default, unless exceptions are met.

To build this shared infrastructure, we will need to practice and develop expertise in working at scale. We will need to make it easier and faster for teams to apply shared experience and patterns to solve problems. And we will need to make it easier and faster for teams to acquire modern, common technology for common needs like document management, helpdesk and support services, and identity authentication and verification.

### D. Justification

CDT is requesting a GF resource so that it no longer charges for internal operational services that are currently charged back to state entities as part of other service rates. The current chargeback model results in inflating other service rates. CDT is therefore requesting GF resources to convert these services from existing TSRF funding. Moving these costs out of CDT's rate structure will allow CDT to reduce its rates, which will make them much more competitive with private cloud providers. In addition to the conversion of funds, totaling \$41.1 million, CDT is requesting \$3 million of new GF authority for positions, Operating Expenses & Equipment (OE&E), and consultant contracts to support Statewide Strategic Initiatives, for a total GF request of \$44.1 million for three years. Funding will revert to TSRF in FY 2025-26. CDT will reevaluate the current rate structure, looking for possible adjustments to stabilize the cost recovery model, making the funding of these services through TSRF possible.

**Enterprise Architecture (EA) (7 positions/\$1.5 million):** The Office of the Enterprise Architect (OEA) consults with State of California's business and IT programs to foster a collaborative environment that facilitates effective use of "best-of-breed" information technology in the development of smart government solutions. Its goal is "Best-for-Citizen" design that achieves benefits for all involved and delivers integrated solutions that exceed business needs. OEA is a strategic business

## Analysis of Problem

planner and a leader in both formulating and advancing an effective statewide business and technology architecture program of practices.

OEA functions include:

- Analysis – entity vision, mission, strategy, goals, and motivation; existing and future business capabilities, value components, and business processes.
- Design – alternatives, prototypes, testing and iterations; project/human-centricity, speed, flexibility, and sustainability.
- Delivery – architecture program framework; statewide and cross-agency enterprise architecture practices; business service delivery instead of system focus: production and user-centric value(s) versus deliverables, value along the way versus at the end, clear expectations versus vague promises, support, and enablement versus compliance.
- Statewide Enterprise Architecture Program – design and deliver statewide enterprise architecture practices; provide regular opportunities for the EA community to collaborate via workshops, educational and training sessions, and individual mentoring engagements.

There are three areas of focus within the OEA: business transformation consultation, modernization consultation, and architecture oversight. Business transformation consultation and strategic planning and analysis of an organization's purpose, goals, objectives, current, and future business value(s). This consultation helps guide state entities decisions making to achieve expected business-driven, measurable results. Modernization consultation to guide analysis, prototype, and evaluation of sustainable applications, and services that enable state entities to effectively support user-centric business strategies. Architecture Oversight oversees statewide program alignment and cross-program architectural principles, guidelines, and design patterns. The Offices oversight, guided by the CEAF, helps ease delivery of fit for purpose business systems. This helps deliver social, business, and financial value throughout the state.

Through these areas of focus, OEA has provided services in establishing functional enterprise foundations across all state departments necessary to ensure consistency and efficacy. As state department's enterprise architecture foundations are established, the need for the same level of guidance and consultation has decreased, thus providing less revenue for CDT. There is still a need for ongoing consultation and oversight provided by OEA that benefits statewide business strategy, which cannot be recovered in the current CDT funding model. Because of the continued need for services and inability to recover costs through rates, CDT request General Fund authority of 7 positions and \$1.5 million.

**Statewide Strategic Initiatives (3 positions/\$1 million plus \$2 million consultant contracts):** CDT's Strategic Initiatives Office supports CDT's Executive Office in the development of the statewide IT Strategic Plan and other statewide strategic initiatives. They concentrate on Digital Innovations benefiting state entities and stakeholders. They assist in fulfilling the Governor's Vision for enhancing IT for California's residents.

Since these positions were absorbed into CDT vacancies and shifted into the Statewide Strategic Initiatives office, the authority within this portion is an augmentation of funds, not a change of funding source. The positions and OE&E are \$1 million while the \$2 million dollars in consulting is for contracts necessary to complete work within the Statewide Strategic Initiatives areas.

## CDT Indirect/Overhead Services

These internal services largely provide inward facing services facilitating the administration of programs and project areas. CDT's Indirect/Overhead costs are either recovered through an internally distributed administration structure or indirect/overhead costs percentage respectively assessed to each reporting unit and built into rates. This negatively impacts the rate structure with

## Analysis of Problem

increased pressures from obligations not directly associated with providing services, purchasing infrastructure, or other costs rate payers would associate with procuring services. Temporarily funding these services with GF will lower CDT's cost of doing business and alleviate some of the burden absorbed by all of CDT's program rate payers, while CDT reevaluates the rate structure. The departments, services, and costs for this area are broken down below.

**CDT Executive and Administrative Services (3 positions/\$358,000):** This staff provides direct administrative support to executive/directive staff. While the services provided are important, there is no direct customer to bill and the cost for these positions is distributed as an Indirect/Overhead services cost.

**Office of Legal Services (7 positions/\$1.7 million):** CDT plays a vital role in advising the governor on the legislative and regulatory aspects of the strategic management and direction of the state's IT resources. Legislative analyses include advising on existing technology topics (such as procurement), information security, cyber security, project oversight, project delivery, emerging technology (such as block chain record keeping), geographic information system (GIS) efforts, broadband access, digital literacy, artificial intelligence (AI), open data, IT workforce, data access, and privacy in relation to public agency personally identifiable information. CDT plays an instrumental role in providing legislative and regulatory analyses, and related subject matter expertise, to the Governor's Office, the Department of Finance, the Legislature, and other entities (state, local governments, and non-governmental entities).

**Office of Administrative Services (OAS) Internal Overhead Services (180.6 positions/\$36.9 million):** Internal overhead services are areas providing infrastructure necessary for daily functioning. These services are either funded through charges distributed throughout the departments or added to service rates and billed via those services. All areas within OAS are vital to CDT's day-to-day business continuity, allowing the outward facing areas of the department to function seamlessly.

These services include:

- Facility and Administrative Services
- Acquisitions & IT Program Management
- Financial Management
- Rates & Cost Recovery
- Human Resources
- Internal IT Services
  - Internal Business Applications
  - Desktop and Voice Services
  - Departmental Security Assurance
  - Departmental Project & Portfolio

While OAS services are important, the support for these services impacts the rates across the programs, forcing customers to pay costs not directly associated with the services being rendered. This increases budgetary pressures not only on CDT, but also on any subscriber of CDT's services. The costs associated with administrative costs should be supported by the State. Changing the funding source would reduce CDT's cost structure and result in a substantial reduction in the rates charge for services.

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**Marketing & Event Management (4 positions/\$664,000):** Marketing and events plans, composes, posts, and monitors all social media content and blog content. The unit plans events and runs meetings for multiple large internal and external meetings and events, coordinates submissions for state and national award programs, provides editing and writing services to other offices throughout the department, including for publications, policy review, web content, award content, internal messages and more. Marketing and events provide design services for other offices and our own outreach, conducts the Digital States Survey, and designs the Annual Report and other high-level reports and documents. The stakeholders include the media, Legislature, vendor community, government technology community, and the general public.

### E. Outcomes and Accountability

Shifting the funding source for these positions and adding the resources necessary for the Statewide Strategic Initiative Office, will decrease pressures on the current rates structure and lead to reduced rates.

### F. Analysis of All Feasible Alternatives

Alternative 1: Approve the three-year \$41.1 million TSRF conversion to GF and a \$3 million GF budget augmentation to cover all areas requested.

Pros

- CDT will be able to lower rates to customers.
- CDT will remain competitive in the market for its service offerings

Cons

- Increase in State GF spending

Alternative 2: Approve portions of the proposals.

Pros

- CDT will be able to lower rates to some degree

Cons

- Increases State GF spending
- CDT may not be able to adjust rates to match the competitive market for services offered

Alternative 3: Do not approve request

Pros

- Will save State GF spending

Cons

- CDT's rates will increase and price the department out of the competitive market for services offered
- A revenue shortfall could increase in out years if rates are not raised

## Analysis of Problem

### **G. Implementation Plan**

Becomes effective July 1, 2022.

### **H. Recommendation**

Approve the \$41.1 million TSRF conversion to GF, and a \$3 million GF budget augmentation for Statewide Strategic Initiative positions for FY 2022-23 through 2024-25. Funding will revert to TSRF in FY 2025-26.

# BCP Fiscal Detail Sheet

BCP Title: Statewide Centralized Services General Fund Request

BR Name: 7502-011-BCP-2022-GB

Budget Request Summary

## Personal Services

Personal Services	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Salaries and Wages Earnings - Permanent	0	454	454	454	0	0
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$454</b>	<b>\$454</b>	<b>\$454</b>	<b>\$0</b>	<b>\$0</b>
Total Staff Benefits	0	237	237	237	0	0
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$691</b>	<b>\$691</b>	<b>\$691</b>	<b>\$0</b>	<b>\$0</b>

## 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
5301 - General Expense	0	6	6	6	0	0
5304 - Communications	0	3	3	3	0	0
5320 - Travel: In-State	0	3	3	3	0	0
5322 - Training	0	9	9	9	0	0
5340 - Consulting and Professional Services - External	0	2,000	2,000	2,000	0	0
5342 - Departmental Services	0	4,595	4,595	4,595	0	0
5346 - Information Technology	0	-4,253	-4,253	-4,253	0	0
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$2,363</b>	<b>\$2,363</b>	<b>\$2,363</b>	<b>\$0</b>	<b>\$0</b>

## Total Budget Request

Total Budget Request	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$3,054</b>	<b>\$3,054</b>	<b>\$3,054</b>	<b>\$0</b>	<b>\$0</b>



## Analysis of Problem

### 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	44,122	44,122	44,122	0	0
State Operations - 9730 - Technology Services Revolving Fund	0	-41,068	-41,068	-41,068	0	0
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$3,054</b>	<b>\$3,054</b>	<b>\$3,054</b>	<b>\$0</b>	<b>\$0</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$3,054</b>	<b>\$3,054</b>	<b>\$3,054</b>	<b>\$0</b>	<b>\$0</b>

### 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	3,054	3,054	3,054	0	0
9900100 - Administration	0	-22,908	-22,908	-22,908	0	0
9900200 - Administration - Distributed	0	22,908	22,908	22,908	0	0
<b>Total All Programs</b>	<b>\$0</b>	<b>\$3,054</b>	<b>\$3,054</b>	<b>\$3,054</b>	<b>\$0</b>	<b>\$0</b>

## Analysis of Problem

### Personal Services Details

#### Salaries and Wages

Salaries and Wages	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
VR00 - Various (Eff. 07-01-2022)	0	454	454	454	454	454
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$454</b>	<b>\$454</b>	<b>\$454</b>	<b>\$454</b>	<b>\$454</b>

#### Staff Benefits

Staff Benefits	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5150350 - Health Insurance	0	69	69	69	0	0
5150450 - Medicare Taxation	0	7	7	7	0	0
5150500 - OASDI	0	28	28	28	0	0
5150600 - Retirement - General	0	133	133	133	0	0
<b>Total Staff Benefits</b>	<b>\$0</b>	<b>\$237</b>	<b>\$237</b>	<b>\$237</b>	<b>\$0</b>	<b>\$0</b>

#### Total Personal Services

Total Personal Services	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$691</b>	<b>\$691</b>	<b>\$691</b>	<b>\$454</b>	<b>\$454</b>