

## CONSOLIDATED TECHNOLOGY SERVICES (WaTech) RATE PLAN

March 31, 2016

### Background

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This Rate Plan is being submitted to the Office of Financial Management as a result of direction from two sources:

1. Legislation passed in the 2015 Legislative Session, and
2. OFM direction in a letter dated October 1, 2015 (Appendix A)

#### *Legislation*

Recent legislation passed in 2015, E2SSB 5315, Sec. 104(3), outlined the requirement for a billing rate plan, which reads:

“Develop a billing rate plan for a two-year period to coincide with the budgeting process. The rate plan must be subject to review at least annually by the office of financial management. The rate plan must show the proposed rates by each cost center and show the components of the rate structure as mutually determined by the agency and the office of financial management. The rate plan and any adjustments to rates must be approved by the office of financial management.”

This same legislation also reorganized the state’s central information technology management by combining Consolidated Technology Services (CTS) with the Office of the Chief Information Office (OCIO) and elements of the Department of Enterprise Services (DES). By aligning the functions of these three agencies under the new agency (WaTech) the state should be able to take a more strategic approach to IT standards and services, and accordingly, the cost of and rates for those services.

#### *OFM Direction*

In a letter dated October 1, 2015 from The Office of Financial Management (OFM) to Consolidated Technology Services (WaTech), WaTech is directed to develop a strategy in coordination with OFM to ensure the future solvency of the CTS Revolving Account (458). WaTech is also required to submit to OFM by March 31, 2016 a plan to resolve the ongoing negative cash position.

#### *Agency Response*

To respond to these requirements, WaTech is submitting this Rate Plan that lays out the principles for establishing new rates and revised revenue structures as described in subsequent sections of this plan, and to target particular services for rate changes based on priorities described below. The goal of the plan is to reduce or eliminate the agency’s current operating loss through enhanced financial management and cost control as well as increases in revenues to specific lines of business. This will affect the cash position of the fund but, the agency cannot completely resolve the negative cash position without significant participation of OFM and the Legislature.

WaTech offers a wide variety of IT services, each with its own rate. Current published rates can be found on the WaTech IT Services site:

<http://watech.wa.gov/solutions/it-services>

## Agency Financial Management Principles

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### *Spending Discipline*

WaTech has implemented a more rigorous process of monthly fiscal reviews, with more resources for fiscal and business analytics that will improve the ability of the agency to analyze and control its expenditures. The agency's chart of accounts now provides a finer level of detail about expenditures within central service model allocated programs regarding what is being spent within the Enterprise Security Allocation and the Enterprise Systems Fee in particular. This should have the resultant benefit of helping to set rates that minimize incorporating unnecessary costs, reducing the impact to state agency partners and other customers who use WaTech services. At the same time these changes will provide more discipline and transparency in the development of fee-for-service rates for non-allocated services such as, which services are self-sustaining; where overhead costs are a problem; when a service should be retired and; how that impacts the agency and its customers.

Specific steps taken to improve WaTech financial architecture:

- Fully utilize and populate AFRS - no more parallel budget/allotment systems
- Consolidate 27 businesses from three different agencies
- New Chart of Accounts - eases review for OFM and legislative staff
- Invoice re-design - improved customer information
- Tracking three separate funds - manage the complexities of reporting and assessment of fiscal condition by fund source
- Overhead Distribution - straightforward and federally acceptable

Improvements resulting in transparency of agency revenue and expenditures:

- Monthly Fiscal Status Reports (MFSR) — discipline of internal monthly review and course corrections
- Use of SharePoint to provide internal access to information – and could also make some fiscal reporting accessible to external customers
- PowerPoint presentations on fiscal status that can be shared monthly

Additionally, the agency is implementing a formal process, called the Service Catalog Process, to review services on a periodic basis for sustainability and solvency (Appendix B). As part of this process considerations will be given to:

- Costs of standing up a new service
- Costs of operating a sustainable service
- Costs associated with retiring a service (what are the thresholds and criteria for retiring a service)

In taking these steps the agency's intent is to meet the requirements of current statute, RCW 43.105.052 (requirement for a rate plan and OFM approval of rates), as well as responding to State Auditor findings in a recent audit similarly recommending compliance with the same statute.

As WaTech develops new strategies to streamline rate structures it will need to consider issues of compliance with the state's Statewide Cost Allocation Plan (SWCAP). OFM is responsible for the development and submission of the SWCAP as required under the provisions of the U.S. Office of Management and Budget (OMB) Circular A-87. The SWCAP is the mechanism by which the state identifies and allocates statewide indirect costs, and also includes financial and billing information for

central services directly charged to agencies. The concern being that as WaTech takes steps to address the requirements of the October 1, 2015 letter to achieve solvency at the fund level, the agency will need to take care to avoid excess earnings in any single service that could be subject to repayment to the federal government or rebate to customer agencies.

### **Principles for Future Rate Setting and a Sustainable Revenue Structure**

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As WaTech embarks on a long term revenue strategy, it will make decisions based on several principles to guide its direction: transparency and communication; cost control and cost recovery and; strategically defining services to be responsive to technological and market changes. The ultimate aim is to establish rates that provide the incentive for state agencies and other customers to use WaTech services.

The agency currently has its own policy (Appendix C) related to cost recovery, rates, and earnings that states (in part):

1. Margin targets will be set each year during the budget process.
2. Earning margins will facilitate the acquisition of fixed assets to meet customer needs for increased capacity, investment in new services, assurance of stable rates, and maintenance of a cash minimum of 45 days operating expenses.
3. When earnings exceed WaTech/CTS requirements the difference will be returned to customers, normally through rate reductions or rebates.
4. WaTech/CTS may invest in activities that benefit a major segment of the state, such as: small agency assistance, pilot and demonstration projects to benefit customer agencies.

However, given the scope of the challenges WaTech faces in addressing future revenues that are sufficient to sustain the agency's ongoing operations, it needs to consider additional principles for establishing rates and generating revenue that go beyond marginal rate adjustments, which alone will be insufficient to address the scale of many of WaTech services' revenue shortfalls.

#### *Sustainable Operations*

WaTech started the 2015-17 biennium with a negative \$18 million operating balance, which needs to be addressed in the current and subsequent biennia. Although seemingly obvious, it needs to be said that the first step is stop this negative cash flow through a combination of revenue steps and expenditure controls. Then over the course of the next three years increase revenues to make progress towards reducing negative balances until WaTech can reach a point of self-sustainability as an enterprise agency.

Sustainability means having the agency spend what is earned, with the caveat that rates are built on realistic costs; for example, the need to consider vendor costs, inflation, PEBB and employee pay raises, among other costs that affect the cost of doing business. On the other hand it is incumbent on the agency to minimize overhead while still maintaining adequate support for sustainable operations.

Current rates have not kept up with the costs of delivering many WaTech services, and many rates have not been reviewed or adjusted in years. That is a reason WaTech has set up a process to review and validate services and to assure that rates are sustainable. The Service Catalog Process mentioned above is an example of this.

Other measures to support sustained operations being considered:

- Have a cash reserve to manage unanticipated costs, and to allow for new service investments.
- Review the practicality of ending the practice of internal sales. The impact of sales between cost centers has an effect on external rates while still not addressing the challenges of controlling total agency costs and solvency. Internal sales also create disincentives to internal cooperation and cross-service innovation.

#### *Allocations and Core Services*

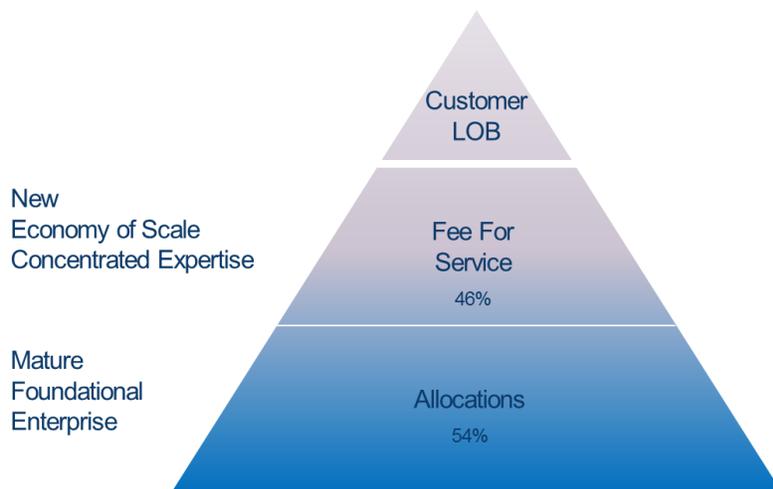
OFM and WaTech must define which services should be considered “core”, and ensure that there is a stable source of revenue that covers their costs. We define core services as those that are mature; used by most state agencies; and are foundational to the enterprise of the state’s business. There are a number of core services, Mainframe and the State Data Center being salient examples that are in financial trouble, but can’t be shut down because they support key statewide operations. WaTech proposes that core services, especially those most used by state agencies, would be best supported within the central services billing model. Core services provided by WaTech include:

- Network
- Phones and e-mail
- Applications
- Security
- Disaster recovery
- Mainframe
- Data center

Central Service Model allocations have the advantage of ensuring predictable, stable revenue to cover central providers’ operational costs. Allocations are advantageous to customer agencies because of the cost control and financial support provided through the state’s budget process. However, planning and accurate cost estimates become more critical as central service allocations can only be adjusted as part of the state budget cycle, without the flexibility to make mid-year adjustments that are possible under a fee-for-service model.

Allocation assumptions must account for vendor costs that WaTech does not always have control of (e.g. software licenses, telephone vendor rates). Allocation methodology must ensure that customer agencies’ costs generally reflect their service utilization and are sufficiently funded for the information technology services they require. This is especially crucial for small agencies and boards and commissions that may not have the flexibility in their budgets to absorb unplanned rate increases.

Fee for service financing has advantages as well. It is especially suited for starting up new or experimental services. WaTech can scale up the level of service to meet customer interest and demand, and has more flexibility to change rates as needed to meet changing circumstances. Conversely, customer agencies can decide how much they want to buy of a new service without being committed to a biennial allocation. As a service matures and becomes more foundational (enterprise), then moving into the Central Service Model allocation might be more appropriate.



*Rate Methodologies Must Be Responsive to Change*

WaTech (and formerly CTS and DIS) has had a practice of selling specific services and technologies with the requirement that individual cost centers were to be self-supporting. This tended to keep rate-setting in silos, without consideration for how different services of the agency were interconnected. The idea of rates (both fee-for-service and allocations) being offered at an aggregated business level higher than the cost center is advantageous for future planning. An example of this is the Messaging business which encompasses the cost centers for Email Services, Enterprise Active Directory, and Live Communication Server (Lync/Skype). Providing services within a “bundle” or business allows for flexibility in managing costs as well as efficiency in deploying resources that can support more than one single cost center.

Certain cost centers that provide related services could be consolidated to support a particular business that includes all those services. As long as the business line remains solvent, revenues and costs can balance out the individual cost centers. This principle could also apply between business lines as they relate to the bottom line of the entire agency. This enables flexibility to respond to changes in the customer base for one or another set of services, as well as the opportunity to build some financial cushion to invest in new strategies and technologies and replacement equipment. This would require changes to the statewide cost allocation plan. WaTech would work with OFM and the federal Division of Cost Allocation to make the needed amendments.

*Customer Outreach*

WaTech must develop strategies to engage customers and garner their support for the rates they pay and the quality of services they receive. Transparency and predictability are important as customer agencies must understand what they are paying for; be able to plan ahead and; have ability to make internal decisions to control their costs. Customers should understand how a given service rate came about and what they are paying for, including administration and overhead costs. This enables agencies to make more informed business decisions about what services to buy or how they can control their own costs. Even for services agencies are required to buy from WaTech, perhaps through a statewide allocation, they need to know how WaTech can assure the best value and price for those services.

Generally, increasing the number of customers reduces the rate charged for a particular service. The cost of infrastructure or staff investments is shared across a larger base of paying customers. Therefore, the agency will look at how aggressively it can pursue new customers. Not all agencies buy WaTech services, even those that are part of the Central Services Model. Potential new customers do not have to be limited to state agencies; they could include other public entities such as universities or county/local governments.

As part of the governance process to develop new rates and services within WaTech, customer agency input and feedback will be solicited. A regular process to ensure OFM involvement, with legislative input, will be implemented.

The agency has implemented or retained several ways to reach out to customers and promote customer engagement:

- Customer Advisory Council - 15 Chief Information Officers (CIOs) who meet quarterly to review WaTech plans and customer needs
- Executive Board - collection of agency directors, OFM, CIOs who meet to discuss policy and strategic direction
- Quarterly Customer Review – provides a forum for customers to discuss particular services each quarter
- Customer Account Managers - WaTech single point of contact and advocate for customers
- Service Announcements – sent as needed to inform customers of any service or rate changes

## 2017-19 Priorities for Rate and Allocation Changes

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The agency will not be able to address all rate/revenue issues within a single biennium. This plan focuses on those services that have the highest cost impact or are a source of major customer concern. Those services and the direction WaTech is taking to address their respective revenue shortfalls are detailed in this section. It is possible that after more thorough analysis some of the services listed below will end up without a rate adjustment in the 2017-19 Biennium. On the other hand, this list does not preclude the agency looking into other services and revenue alternatives. Service priorities will also be influenced by major decisions about technologies or strategic direction, such as whether the state adopts Office 365 or how quickly it moves to a cloud environment and under what circumstances. The agency's Strategic Roadmap (Appendix D) is a coordinated and comprehensive strategy, with key objectives, options, and decision points identified, that provides a long-term direction for agency focus and a foundation for priorities and investments.

Changes in rates and allocations will for the most part adhere to the state's biennial budget process. Likely these could be reviewed and possibly revised in line with supplemental budgets, but the intent would be to avoid mid-year or unplanned rate increases. This could result in the agency experiencing cash issues or operating losses within and given fiscal year. However, maintaining cost recoverability within the biennium is the agency's goal.

The timeline to complete analysis and to provide more definitive recommendations for rates and allocations would align with:

- Rate Day, scheduled June 22, 2016 for fee-for-service rate changes.
  - Allows customer agencies to plan for future cost impacts and business decisions in response to rate changes, including submission of decision packages for the 2017-19 biennial budget.
  - Timing allows for alignment with changes made by other central service agencies.
- 2017-19 budget development schedule determined by OFM (summer 2016) for central services allocations.

This process of review and prioritization will be an ongoing one, with regular updates to this rate plan that will align with the state's budget process and allow for review and approval of rates by OFM, in accordance with statute.

The following services were determined to have the highest priority for analysis and possible revenue adjustments for 2017-19:

### *1. Telephone Services Rates*

WaTech will review the current rate structure with the aim of more uniform rates for services, and fewer individually tailored agreements with agencies. While the revenue shortfall projected this year (2016) for telephone services is relatively small compared to other services being considered for rate changes, in the long term the prospects for increasing maintenance and operating costs against static revenues will present a growing challenge for what was once a sustainable service. There are also a large number of tailored rates for individual agencies that result in a level of complexity that makes tracking costs and service options difficult for customers. Streamlining this to a more manageable number of rate options is advantageous to WaTech as well as its customers due to the reduction in the administrative burden of accounting for service at the current, extraordinary, level of detail.

- Annual Revenue: \$19.4 million (all services)
- Projected FY 2016 Shortfall: \$400,000

## 2. *State Network Allocation*

The state network has recently been included in the Central Services Model allocation. Distribution for 2015-17 was based on FY 2014 costs, which is probably not the most accurate or fair method to distribute costs in future biennia. WaTech will propose a new methodology to distribute costs to customer agencies that is fair and simple, and reflects more closely what every customer is utilizing.

Transport and Connectivity makes up approximately 75 percent of network costs, and the costs of this service have a direct relationship to the number of locations each agency operates and the bandwidth they require. A proposed methodology could be based upon the number of circuits each agency has by type of capacity (utilizing statewide cost averages for type of capacity). This methodology distributes the cost of the service based upon the type of capacity needed to the agencies that are utilizing the services.

Network Core makes up the remaining 25 percent of network costs, and may be allocated to agencies based upon a fixed monthly base rate for each agency in combination with a monthly FTE rate. This simple methodology more fairly distributes the cost of the Network Core to all customer agencies than the FY 2014 expenditure method currently used.

- Annual Revenue: \$22 million
- No projected shortfall

## 3. *Server Hosting and Storage*

Revenues for these services are not supporting the costs of maintaining them. A number of agencies do not use WaTech-provided server hosting and storage. One strategy being explored is a rate reduction for server hosting and/or storage to test whether that will encourage more agencies to purchase this service. Because hosting and storage are so interrelated the agency will pursue analysis of different options as to where the rate reduction might take place that will encourage customer interest. WaTech will try to define these services in a manner that that allows for an accurate comparison of cost to industry standards, and if applicable, where WaTech adds value for any additional cost above advertised private market rates. For example, WaTech storage services accommodate requirements such as record retention management and document recoverability that are not supported in private industry.

If a lower rate does not generate an increased number of customers after sufficient time (to be determined), WaTech may have to consider the question of whether to continue providing these services. However, WaTech itself is the largest consumer of its own server hosting and storage, and consequently needs to do a careful internal review of the impact of moving this direction - for example how it would affect related services such as Network and Security, among others. Server hosting and storage services will also be substantially affected by any decision to maximize the Cloud. For this, or any other service that may be considered for shutting down or retiring, there is an impact to customers. WaTech should be prepared to assist them with a glide path to an alternative or replacement service. Internally WaTech will have to account for how a retired service will affect its internal use of that service, and other related impacts, such as overhead that may have supported and, been supported by, the service.

- Annual Revenue: \$7.7 million (combined)

- Projected FY 2016 Shortfall: \$2.8 million

#### 4. *E-mail Bundling*

WaTech is considering revisiting a CTS 2015-17 decision package that proposed providing email as part of a bundled package of communication services that included Shared Services Email, Secure Email, and Lync (now Skype). The proposal was to have a single rate per email mailbox for this bundled package that would spread costs across all 68,000 users.

Currently, customers who purchase Shared Services Email are charged \$4.90 per mailbox per month, an additional \$0.56 per mailbox for Secure Email and, and \$3.50 per mailbox if they purchase Skype. In the agency request the proposed rate for this bundled package was \$5.80 per email mailbox per month. Bundling these services, and possibly other related services, and providing them consistently across all email mailboxes is less expensive to customers than if they purchase the three services separately. WaTech will review if this option would still be feasible in 2017-19, particularly how much increased adoption of Skype factors into this calculation. Alternatively the agency will also look into a bundled rate only for email and secure email, and continue to offer Skype as a separate service with its own rate adjustment if appropriate. WaTech also offers WebEx, a similar service, and can also look into it continuing as a service option, and how that might affect a rate decision around Email and Skype.

Customer agencies that currently buy only email would experience an increase to their mailbox rates but also would have access to a service that more agencies are making use of; however agencies that purchase Skype and secure email along with Shared Services Email will experience a decrease in their costs per mailbox. Eventually, if these bundled services become the norm, this business might be worth considering as an enterprise service to be allocated.

- Annual Revenue: \$5.9 million
- Projected FY 2016 Shortfall: \$1.1 million

#### 5. *Mainframe*

Move Mainframe services either wholly or partially into a central services model allocation instead of relying on fee for service. Mainframe is a core service, supporting statewide systems such as AFRS, HRMS, and PEBB. The top four customers of this service – DSHS, Labor and Industries, Employment Security, and Department of Retirement Systems – alone make up nearly 90 percent of mainframe sales. It would be very difficult to completely shut this service down without some key decisions and funding for alternative platforms for the statewide applications it supports.

It appears likely that Labor and Industries (LNI) will reduce its workload on the mainframe by October 2016. The current tailored agreement will have to be reviewed, and consideration given to charging LNI based on metered CPU use as with other agencies. This, however, could result in LNI looking into options other than using the WaTech mainframe, and would be a huge reduction in revenues for this cost center without a proportionate reduction in mainframe costs.

The mainframe is due for some major license and equipment upgrades, which is an additional pressure on this cost center. There will need to be an analysis of the replacement schedule over the course of the next biennium (and beyond) to estimate the impact this will have on future rates.

The current set of rates have different methodologies particular to different agencies, and are difficult to maintain. The agency is looking at changing the way we charge for this service, driven by a closer tie

to utilization, but also to be more transparent to potential customers. To look into the option of moving to an allocation, analysis will have to be centered on what it costs to maintain the mainframe only for core applications (which must be defined), with the possibility of subscription-based tiered rates for agencies that choose to use mainframe for purposes other than those core applications.

- Annual Revenue: \$17 million
- Projected FY 2016 Shortfall: \$1.0 million

#### 6. *State Data Center*

The State Data Center (SDC) revenues are not sustaining the costs of this facility. This is a core service and a significant asset to the state as set forth in RCW 43.105.375 which requires all state agency servers to be located in the SDC. Migration of state agency servers into the data center has been slow and not at a rate that supports the cost of the SDC. However, a rate increase sufficient to cover costs would have a significant impact on the current customer base. Increasing the number of customers in the data center is the only solution to the problem of cost recoverability. As per RCW 43.105.385 all state agencies are to be moving toward WaTech as their service provider for IT infrastructure, among other services. This would solve the cost recoverability problem of the SDC.

Planned actions:

- Review previous rate work and provide a revised estimate for what it will take to make SDC self-sustaining. Because preliminary estimates already indicate that a rate increase required to make the SDC whole would be substantially large, and likely to discourage potential customers from using the center, a decision will have to be made about the possibility of a rate adjustment that doesn't fully recover SDC costs, but at least makes some progress towards reducing losses.
  - Review the feasibility of filling Halls 1 and 2. The current rate assumed that halls 1 and 2 would be full because of the requirement in RCW 43.105.375.
  - As evidence of the evolution of network technology, WaTech completed the decommissioning of the Lacey Node site in late 2013 and the Vancouver site in May 2015. The Yakima Node site is scheduled to be closed June 2016 and the Spokane site will be closed August 2016. These closures reduce the agency's facilities costs.
  - Explore alternative uses for Shells 3 and 4.
  - Explore the potential for allocating all or part of the SDC and Quincy as a core service, and essential to disaster recovery and continued operations of state agencies. If rent, which is currently not part of the SDC rate, can be worked into a service allocation, there could be some reduction to the burden on the General Fund from customer agencies that earn federal funds.
  - Develop criteria for determining which services belong on the premises of the SDC and those that are appropriate for the Cloud. Note that moving more agency services to the Cloud will have a negative revenue impact to the SDC.
- Annual Revenue: \$4.5 million
  - Projected FY 2016 Shortfall: \$1.9 million

#### 7. *Statewide Allocations*

WaTech will review all central service statewide allocations for factors that would have an "inflationary" impact on agency costs, such as scheduled salary increases, health benefits changes, licensing contract terms with built-in increases, changes in technology, or any other external factors the agency does not have control over. This activity will occur within the regular biennial budget process. The agency will also examine selected allocations and assess the fairness and the comprehensiveness of the allocation

methodology. Outcomes of this assessment might be a proposal to increase the number of agencies included a particular allocation as well adjusting the amounts that participating agencies pay for the allocated service.

#### *Follow-up*

As mentioned previously, future steps subsequent to this plan will follow the regular discipline of budget development, fiscal year close and balancing, and regular expenditure review required of state agencies. WaTech will work closely with OFM to provide detailed analyses, with extensive backup explaining any rate change assumptions, in the period leading up to Rate Day, and for 2017-19 biennial budget development. This will include different options for each service, as well as impact to other agencies.

Fee for Service (FFS) key steps and milestones:

- Rate Day June 22, 2016
- Present FFS Rates for customers to use in their budget planning
- Prepare for 2017-19 Biennium

Allocations key steps and milestones:

- Governor's budget process
- Decision Packages
- Agency Biennial Budget Request to OFM September 2016

#### **Appendices**

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Appendix A - OFM letter dated October 1, 2015

Appendix B - Service Catalog Process

Appendix C - WaTech Policy 4.1.2 Cost Recovery, Rates and Earnings

Appendix D - Strategic Roadmap (Infrastructure)

Appendix E - Relevant Statutes



STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

October 1, 2015

**TO:** Michael Cockrill, Director  
Consolidated Technology Services (WaTech)

**FROM:** David Schumacher   
Director

**SUBJECT: AUTHORIZATION FOR TEMPORARY CASH DEFICIENCY IN  
CONSOLIDATED TECHNOLOGY SERVICES REVOLVING ACCOUNT  
(458)**

In response to your August 26, 2015, request and pursuant to RCW 43.88.260(2)(b), the Office of Financial Management (OFM) grants authorization for the Consolidated Technology Services (CTS) Revolving Account (458) to be in a temporary cash deficiency of up to \$20 million during the 2015-17 biennium.

It is our understanding that several factors are contributing to the cash deficiency in this new account created by Second Substitute Senate Bill 5315, the IT realignment bill. The factors include:

- implementation of a billing system that delayed invoicing July services until September 1;
- changes in services resulting from the IT alignment; and
- distribution of Account 419 negative cash associated with services is now operating out of Account 458.

The agency will need to work with OFM to develop a strategy to ensure the future solvency of the account. A plan to resolve the ongoing negative cash position should be submitted to OFM by March 31, 2016.

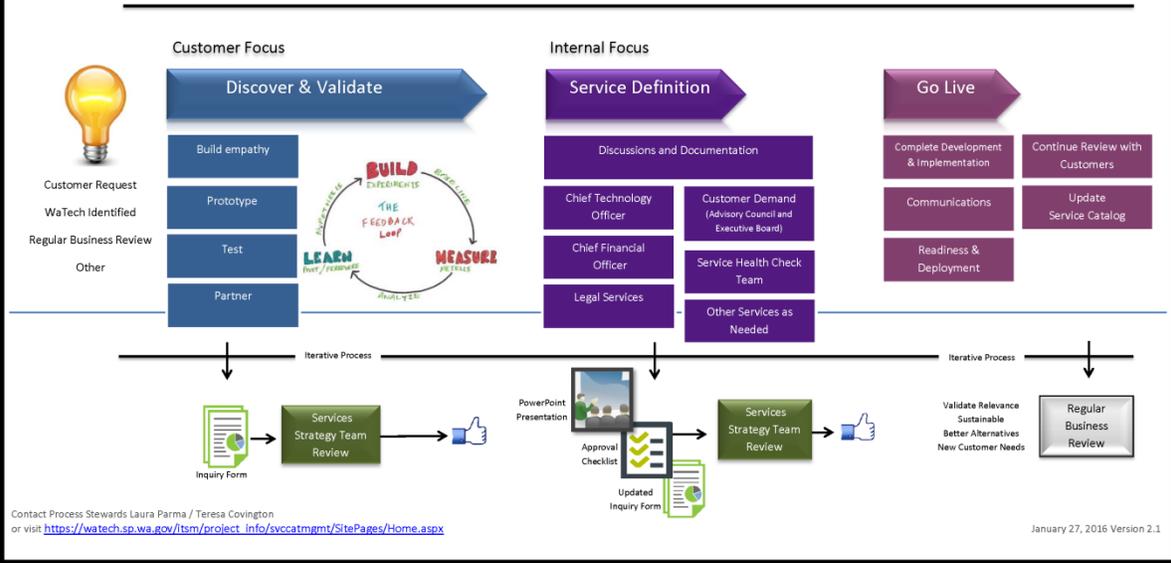
If Account 458 does not return to a positive cash balance by June 30, 2017, or if after that date CTS anticipates that the account could return to a deficit cash position, you will need to submit another request to OFM. Please contact Mike Schaub, Senior Financial Consultant, at (360) 725-0225 or [michael.schaub@ofm.wa.gov](mailto:michael.schaub@ofm.wa.gov), should you have any questions.

cc: Bryon Moore, Senate Ways and Means Committee  
Charlie Gavigan, House Appropriations Committee  
Keenan Konopaski, Joint Legislative Audit and Review Committee  
Megan Dietz, Office of the State Treasurer  
Cara Hsieh, Consolidated Technology Services (WaTech)  
Annette Meyer, Department of Enterprise Services  
Michael Schaub, Office of Financial Management



# Service Catalog Process

When changes to the Service Catalog are needed this model outlines the steps and process to follow for adding new, significantly changing or sunsetting a service. To be used in conjunction with the *Inquiry Form*, *Approval Checklist* and other templates.



## Policy 4.1.2

# Cost Recovery, Rates and Earnings

Contact: Chief Financial Officer

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### 4.1.2.1 Purpose

The purpose of this policy is to provide overall guidelines for administration of the agency's service rates and revenues.

Washington Technology Solutions (WaTech) refers to the "consolidated technology services (CTS) agency" identified in RCW 43.105.

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### 4.1.2.2 General Operations

1. WaTech/CTS services are generally self-sustaining and achieve targeted margins.
  2. Investment in fixed assets may be financed partly through cash and partly through borrowing. The debt-to-equity ratio will not exceed 1 to 1.
  3. Delinquent accounts in excess of 90 days may be subject to a 1% late payment charge per month.
  4. Accounts that remain delinquent after continued collection efforts are subject to termination of service; advance deposits may be required to reinstate service.
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### 4.1.2.3 Rates

WaTech/CTS rates will be competitive with those in the private sector; reflective of the service level offered to customers; and equitable among all customers (that is, like rates for like quantities and services, not necessarily identical rates for all quantities and services). WaTech/CTS may establish product and service rates which provide incentives for customers to optimize their use of state information technology resources.

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### 4.1.2.4 Earnings

1. Margin targets will be set each year during the budget process.
  2. Earning margins will facilitate the acquisition of fixed assets to meet customer needs for increased capacity, investment in new services, assurance of stable rates, and maintenance of a cash minimum of 45 days operating expenses.
  3. When earnings exceed WaTech/CTS requirements the difference will be returned to customers, normally through rate reductions or rebates.
  4. WaTech/CTS may invest in activities that benefit a major segment of the state, such as: small agency assistance, pilot and demonstration projects to benefit customer agencies (these may be funded in part by the agencies), development and administration of master contracts (costs may be recovered through a customer service surcharge).
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# Strategic Roadmap (Infrastructure)

\* = Policy or Business Decision Required

Where We Are Now		FY2015	FY2016 - FY2017	FY2018 - FY2019	FY2020	Where We Are Going	
Business Strategies	<b>Business</b> WaTech business model, capabilities and culture are evolving. Much focus on areas that will earn our customers trust and confidence.	<b>Focus WaTech Core Competencies</b> Align business model with Civil central provider of utility IT services Improve operations, improve efficiency and quality, foster innovation Foster government - Disruptive process for planning and prioritizing Establish and manage project governance well Maximize WaTech Financial Management - get financial infrastructure out of the way of the services, allow state to spend as expected	<b>Increase Customer Satisfaction</b> Know our customers and what they value Build relationships, address for customers Collaborate by transparency performance and financial measures Improve confidence by delivering reliable, responsive and competitive services - simplify and enhance service delivery	<b>Optimize Processes</b> End-to-end network performance monitoring and diagnostics - advanced toolset for on-premise failure management Capacity planning and mgmt. Clearly separate to meet demand of high bandwidth access of convergence (e.g. Big Data)	<b>Expand Customer Base</b> Experiment with self-healing networks, automated recovery and Software Defined Networking Experiment with Fixed Mobile Convergence (FMC/Wi-Fi), VoIP and 4G/LTE as a multi-tier network Market SD-WAN and services to more Public Agencies authorized by ROW (e.g. Federal, other states, public non-profit) Focus on value, performance, security, resilience and ecosystem	<b>WA, State Approved IT Partner of Choice</b> WaTech is uniquely qualified to deliver utility IT services to state and other public agencies Strategic and innovative technology leadership Reliable, reliable, secure, cost-effective services Accountable to customers - transparency	
	<b>Telecommunications</b> State wide networks are managed consistently, result is increased cost and risk. Networks must be managed as a critical state asset.	<b>Network Operational Improvement</b> Improve network operations & management processes Develop network consolidation plan, DR planning Assess requirements for unified, available, PaaS Integrate to future defined architectures for Big Data	<b>Network Convergence and Optimize</b> Centralize procured devices and equipment, consolidated costs Customer network begin to consolidate to WaTech Wi-Fi Networks optimized for VoIP, VoLTE, mobile convergence, PaaS WAN extensions to remote sites for SD-WAN	<b>Consolidated Network Management and Proactive Planning</b> Unified Communications - Push to enhance multi-media conferencing and other unified communication services, PaaS and key systems transition to Internet protocols.	<b>Emerging Network Technology and Innovation</b> Experiment with self-healing networks, automated recovery and Software Defined Networking Experiment with Fixed Mobile Convergence (FMC/Wi-Fi), VoIP and 4G/LTE as a multi-tier network Market SD-WAN and services to more Public Agencies authorized by ROW (e.g. Federal, other states, public non-profit) Focus on value, performance, security, resilience and ecosystem	<b>Networks Managed as Critical State Asset</b> All state wide networks managed consistently end-to-end consolidated assets Optimized cost model, high reliability and security, efficient network planning Strategic capacity and performance planning PaaS key telephony services transitioning to Internet protocols	
IT Infrastructure Strategies	<b>Storage</b> Storage rates continue to be projected as market rates that must maintain low rates and adapt to new mobile, cloud and cloud offerings.	<b>Assess Demand and Strategies</b> Assess demand for Tier storage Review service rates Assess requirements and demand for Big Data services Develop strategy for content management architecture	<b>Resilience and Recoverability</b> Eliminate physical tape Incorporate backup recovery equipment to new mobile site Enable backup and restore for SaaS and PaaS Enable content archiving service Enable multi-site	<b>Enhanced Performance and Enabling Technologies</b> Expanded use of enterprise cloud storage to enable VoIP and hosted VoIP services Internal general cloud storage Big Data storage infrastructure Software Defined Storage Optimize infrastructure to improve reliability and agility	<b>Emerging Technology and Innovation</b> Public cloud storage integration SaaS data mobility from WaTech platforms and cloud partners Fast-track migration of storage to cloud and increase capacity, speed, security and agility	<b>Storage Optimized for Agility and Value</b> Cheap commodity components orchestrated by robust, policy-managed software Multi-tiered data mobility among servers, storage platforms and external cloud providers Storage rates remain market competitive	
	<b>Hosting</b> Customers need robust, self-service cloud services that provide a safe, agile, integrated platform at low cost. WaTech must evolve hosting services to meet demand.	<b>Private Government Cloud (IaaS)</b> Highly secure, on-premise infrastructure Increased agility and speed of provisioning Automated provisioning, lifecycle management, improve quality and reliability Trend service levels and predictable pricing	<b>Enhanced IaaS Features and Options</b> Disaster Recovery, Automated backup/restore Advanced security and compliance Enable hybrid cloud mgmt Enable SaaS (SaaS, PaaS)	<b>Cloud Enabler &amp; Hybrid IT</b> Public clouds are aggregated and integrated with WaTech govt. cloud - core cloud management platform Customer agencies seamlessly workloads between WaTech and public cloud WaTech transparency sources and manages contracts with cloud provider	<b>Expand and Enhance Services</b> Additional cloud services Continue to improve efficiency - automate more workflows Regular updates to integrate innovative new features and technologies	<b>Trusted Services Broker in Hybrid IT Model</b> WaTech cloud customers seamlessly manage core workloads running in the private or public cloud environments from a single management console Customers have flexibility to host most types of virtual workloads including hosted virtual desktops Hosted virtual workspaces services is cost-effective and secure majority of users, including high end graphics Multiple high-availability and disaster recovery options available for self-provisioning Rapid innovation and addition of new features	
Data Processing	<b>Legacy costs continue to grow</b> in response to commodity platform. SaaS services must adapt as customers embrace PaaS and SaaS.	<b>IBM Mainframe Decline</b> Legacy applications migrated to commodity platform IBM mainframe processing is decreased in response to decreased demand for enterprise resilience	<b>Unified Mainframe Service PaaS Offer</b> WaTech partners with the state - Unify customers real-time access to the WaTech hosted service	<b>Platforms as a Service (PaaS)</b> Cloud based application (PaaS) and database Cloud based application (PaaS) and database Enhanced WaTech IaaS cloud, SaaS Cloud based application (PaaS) and database Enhanced WaTech IaaS cloud, SaaS Platform support for Big Data services	<b>Emerging Technology and Innovation</b> Evaluate demand and TCO for fully managed PaaS environment Investigate demand for CD for Cloud Transport Function (CloudTF) Evaluate multi-tenant extensions Develop new services for performance systems	<b>Hybrid Data Processing Environment</b> Software as a Service applications enabled through the integration of Cloud Transformation for legacy, hybrid PaaS Mainframe cloud based cost table	<b>Legacy Migrations Enabled by Cloud</b> Legacy applications continue migrating off the mainframe platform WaTech offers cloud application and cloud platforms (PaaS), strategic support for best value PaaS stability, scalability, safety, resilience, value
	<b>Mobile</b> The state's workforce is increasingly mobile. WaTech must adapt strategy, services and infrastructure to address "consumerization".	<b>Establish Mobility Leadership</b> Team composed of architecture, device mgmt., network, security, policy Provides leadership to move mobility strategy from only phone management to bring any where, any device computing Works with OIG to establish state mobility and BYOD policies	<b>Ubiquitous Mobility - Consumer Devices</b> Request and user identity is validated Enhance MDM processes and policies to support consumer-grade devices BYOD State employees use WaTech secure Wi-Fi from consuming number of buildings and campuses	<b>Mobile Remote Worker Workspaces</b> Virtual Mobile Workspaces Enhance Mobile Mgmt. - BYOD fully supported Enterprise BYOD lifecycle and Shifting, Personal Cloud synchronization Secure workspaces from personal devices	<b>Mobility is Fully Integrated into Support Strategy</b> Mobile is an acknowledged part of client and network support Services expert to support diverse clients and networks WaTech leads the evolution of policies and standards for rugged security Universal, common-sense computing experience. State employees can seamlessly move between any client type and network	<b>Mobile Computing is Mainstream</b> State employees have secure access to authorized IT resources from any state or consumer cell network State applications and data are available to authorized employees anytime, from anywhere, on any device, including personally owned devices	
Endpoint Computing Strategies	<b>E-mail &amp; Collaboration</b> Some WaTech services are aging and customers want newer technologies at lower risk. WaTech must adapt to rapid innovation in market.	<b>Maintain a Secure and Protected Environment</b> Major updates to email, messaging, self-provisioned collaboration platforms Mail infrastructure partner Secure collaboration environment Collaboration extended to external partners	<b>Deliver State of the Art Services</b> Desktop conferencing, integrated with office productivity suite, voice integration platform, secure internal network capabilities	<b>Expand Service Offerings</b> Develop services to offer new cloud services WaTech partners to other Public Agencies authorized by ROW and contracts	<b>Services Keep Pace with Rapid Change</b> Message and conferencing integrated with cloud services to deliver greater agility and value Service status remain market competitive	<b>WA, State's Data and IT Assets are Secure</b> WaTech is the trusted leader for state IT security Sophisticated intrusion prevention, detection and forensic capabilities at multiple levels Seamless identity management between internal networks and selected cloud solutions	
	<b>Security &amp; Identity</b> Cyber attacks are increasing in sophistication. WaTech must match with advanced capabilities and adapt to new cloud as disruptive risk profile.	<b>Security Improvement</b> Identify management and addressing strategy for accessing both internal and external systems Single Sign-On to critical cloud-based services (SaaS) Performance and managed Firewall, Spamware Web Proxy Vulnerability Management, Network Logging and Monitoring	<b>New and Enhanced Security Capabilities</b> Network Mobility Support Work Application Firewall Network Discovery Tool Service Network Anti-Virus Service Network Data Loss Prevention	<b>Enhanced Identity &amp; Access Management</b> Expanded identity sign-on Identity user authentication Automated user provisioning Credential Management BYOD fully supported	<b>Integrated Cloud Based Identity Services</b> Cloud identity management services is used to enable single sign-on where it's cost effective and provides the necessary level of security, integration and manageability	<b>State's Critical IT Operations are Protected</b> Secure, efficient, resilient data center facilities No longer paying for obsolete data centers Compliance, high-value services provided The State Data Center is the best option for state agencies to maintain their own IT assets	
Data and IT Asset Protection Strategies	<b>Data Centers</b> Old data center is obsolete, risky and costly. WaTech must enable state's consolidation plan and optimize new State Data Center's ODC value.	<b>Optimize and Integrate Data Center Facilities</b> Old data center closed and shutdown by July 2015 SDC open but no emergency consolidation continue SDC offers competitive colocation and services Remove DR and fully integrated with SDC Assess moving SaaS and legacy to remove DR site	<b>Establish WaTech BCDR Program</b> Comprehensive DR plan, assess inventory BCDR program, guidelines at WaTech BCDR activities, risk-based risk controls for emergency Partner WaTech customers with DR activities	<b>Consolidate DR and High Availability to Protect Site</b> Implementation requires DR high availability for critical services not previously covered, Mainframe DR adopted, PaaS Reliable SaaS and PaaS, PaaS Remote site supports multiple levels of DR and high-availability, from cloud based to full hosted back located and on-premise workloads	<b>Automated / Practiced Recovery</b> End-to-end monitoring and automated recovery for critical infrastructure Fully integrated BCDR plan distributed to end users Relationship with emergency mgmt. agencies DR integrated into critical WaTech services WaTech collaborates with customers to develop, implement and exercise DR environments	<b>Continuity of Government IT is Assured</b> WaTech provides leadership for state IT DR WaTech services share an integrated BCDR plan Long term presence in remote site, along with SDC, resilient infrastructure and services for DR and high-availability	

## Appendix E - Relevant Statutes

RCW 43.105.052 requires the rate plan

RCW 43.105.375 requires all servers to be in the State Data Center

RCW 43.105.385 requires agencies to use WaTech as their central service provider

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### RCW 43.105.052

#### Powers and duties of agency.

The agency shall:

(1) Make available information services to public agencies and public benefit nonprofit corporations;

(2) Establish rates and fees for services provided by the agency;

(3) Develop a billing rate plan for a two-year period to coincide with the budgeting process. The rate plan must be subject to review at least annually by the office of financial management. The rate plan must show the proposed rates by each cost center and show the components of the rate structure as mutually determined by the agency and the office of financial management. The rate plan and any adjustments to rates must be approved by the office of financial management;

(4) Develop a detailed business plan for any service or activity to be contracted under RCW [41.06.142\(7\)\(b\)](#);

(5) Develop plans for the agency's achievement of statewide goals and objectives set forth in the state strategic information technology plan required under RCW [43.105.220](#);

(6) Enable the standardization and consolidation of information technology infrastructure across all state agencies to support enterprise-based system development and improve and maintain service delivery; and

(7) Perform all other matters and things necessary to carry out the purposes and provisions of this chapter.

[2015 3rd sp.s. c 1 § 104; 2011 1st sp.s. c 43 § 804; 2010 1st sp.s. c 7 § 16; 2000 c 180 § 1; 1999 c 80 § 6; 1993 c 281 § 53; 1992 c 20 § 10; 1990 c 208 § 7; 1987 c 504 § 8.]

### RCW 43.105.375

#### Use of state data center—Business plan and migration schedule for state agencies—Exceptions.

(1) Except as provided by subsection (2) of this section, state agencies shall locate all existing and new servers in the state data center.

(2) State agencies with a service requirement that requires servers to be located outside the state data center must receive a waiver from the office. Waivers must be based upon written justification from the requesting state agency citing specific service or performance requirements for locating servers outside the state's common platform.

(3) The office, in consultation with the office of financial management, shall continue to develop the business plan and migration schedule for moving all state agencies into the state data center.

(4) The legislature and the judiciary, which are constitutionally recognized as separate branches of government, may enter into an interagency agreement with the office to migrate its servers into the state data center.

(5) This section does not apply to institutions of higher education.

[2015 3rd sp.s. c 1 § 219; 2011 1st sp.s. c 43 § 735. Formerly RCW [43.41A.150](#).]

### RCW 43.105.385

#### Agency as central service provider for state agencies.

(1) The office shall conduct a needs assessment and develop a migration strategy to ensure that, over time, all state agencies are moving towards using the agency as their central service provider for all utility-based infrastructure services, including centralized PC and infrastructure support. State agency-specific application services shall remain managed within individual agencies.

(2) The office shall develop short-term and long-term objectives as part of the migration strategy.

(3) This section does not apply to institutions of higher education.

[2015 3rd sp.s. c 1 § 220; 2011 1st sp.s. c 43 § 736. Formerly RCW [43.41A.152](#).]