Information Technology Investment Board
Finance and Audit Committee
July 2007

This Finance Report covers the following topics:

- Fiscal Year 2007 To Date VITA Financial Results (thru May 31, 2007)
  - Cash Flow – Internal Service Fund (thru June 30, 2007)
  - Accounts Receivable
- Revenue and Expense Projections (FY 2008 Budget)
- Enterprise Applications Project Office Financial Results (thru May 31, 2007)
- 2008 Legislative & Budget Issues
- Appendix – Combining Balance Sheets and Combining Statement of Revenues, Expenses and Changes in Net Assets

FY 2007 YTD Financial Results (thru May 31, 2007)

YTD Financial Results
All Funds

All Funds	*FY 2007 Budget*	*May 2007 YTD Actual*	*Actual as a % of Budget*
Revenues, including transfers in	**$317,134,283**	**$292,884,712**	**92.4%**
Expenses, including transfers out	**311,406,005**	**295,921,206**	**95.0%**
Net Change	**$5,728,278**	**(3,036,494)**	
Retained Earnings, July 1		**55,371,607**	
Ending Retained Earnings		**$52,335,113**	

Combined financial activity in all funds in fiscal year 2007 through the first eleven (11) months is running ahead of projected expenses and slightly behind budgeted revenue. Revenue and Expense details for various programs are described following the fund tables below.

YTD Financial Results
Internal Service Fund

ISF	FY 2007 Budget	May 2007 YTD Actual	Actual as a % of Budget
Revenues, including transfers in	$251,923,915	$238,533,332	94.7%
Expenses, including transfers out	$251,885,997	240,435,388	95.5%
Net Change	$37,918	(1,902,056)	
Retained Earnings, July 1		29,733,496	
Ending Retained Earnings		$27,831,440	

The Internal Service Fund program represents the core of VITA's business, and accounts for the majority of revenues and expenses, including telecommunications, computer services, and decentralized (agency based) services. ISF revenues and expenditures through May are running ahead of budget projections for several reasons. First, FY 07 was a transitional year for finances as well as service delivery, and budgetary forecasting proved a challenge. Changes in the method of billing agencies, from a Memorandum of Understanding approach to a single statewide rate for decentralized services, presented further unpredictability. About $4.0 million in new projects above the base budget account for part of the increases in both revenue and expenditures. The timing of Northrop-Grumman milestone and other payments year to date also distort the May 31 snapshot, and the June report for the full year should bring the picture more in line with plan.

YTD Financial Results
Enterprise Funds

Enterprise	*FY 2007 Budget*	*May 2007 YTD Actual*	*Actual as a % of Budget*
Revenues, including transfers in	$54,222,802	$43,526,559	80.3%
Expenses, including transfers out	48,532,442	44,776,016	92.3%
Net Change	$5,690,360	(1,249,457)	
Retained Earnings, July 1		21,736,063	
Ending Retained Earnings		$20,486,606	

VITA's Enterprise Fund is comprised of Wireless E-911 revenues. Year-to-date revenue collections for this program appear to be running behind budget.
Revenue remittance to VITA however runs about 30 days behind revenue collection by the carriers. When June remittances are received (after July 1), program expenditures should come into line with budget estimates.

YTD Financial Results
General Fund

	FY 2007 Budget	*May 2007 YTD Actual*	*Actual as a % of Budget*
GF			
Revenues, including transfers in	**$6,203,080**	**$6,286,148**	**0.0%**
Expenses, including transfers out	**$6,203,080**	**3,661,735**	**59.0%**
Net Change	**$0**	**2,624,413**	
Retained Earnings, July 1		**0**	
Ending Retained Earnings		**$2,624,413**	

The General Fund (GF) portion of VITA's budget this year is made up of two components:

- overhead costs not allowable for indirect cost charge-back, and
- costs for updating the Virginia Base Map (VGIN program).

The former amount ($2.5 million) was not available to VITA until late in the fiscal year based on amendments to the Budget Bill related to projected "VITA savings". These amendments corrected a reversion item in the previous Budget Bill. The shortfall in this general fund appropriation has, however, presented operational challenges for VITA year to date. Those expenditures that would otherwise have been charged to GF have been borne by the Internal Service Fund or other programs year to date. The fund balances above will be reconciled and final accounting adjustments made in June and July to bring this program in line with plan..

YTD Financial Results
Special Revenue Funds

	FY 2007 Budget	*May 2007 YTD Actual*	*Actual as a % of Budget*
Special			
Revenues, including transfers in	**$4,416,976**	**$4,538,673**	**102.8%**
Expenses, including transfers out	**4,416,976**	**6,636,518**	**150.3%**
Net Change	**$0**	**(2,097,845)**	
Retained Earnings, July 1		**3,438,339**	
Ending Retained Earnings		**$1,340,494**	

Special Revenue Funds are comprised of revenue collections and expenditures generally intended to support procurement and contractual services (IFA), public-private partnerships (PPEA), certain Virginia Geographic Information System (VGIN) services, and the Virginia Technology Infrastructure fund. These IFA revenues have been running well ahead of estimates fiscal year to date, in part because of improvements in recording and collection efforts. In addition we started the fiscal year with sizable fund balances in the program. This account funds acquisition and general government activities, including support to the Governor's Office that would not normally be included as overhead billed to state agencies and other customers. Considering the fund balances and strong revenue collections in this program, we increased expenditures of these funds compared to the original budget to help offset, in part, the impact of revenue shortfalls in the agency's major funding programs – Internal Service Funds – based on the impact of having to revise our Cost Allocation Plan during the fiscal year.

YTD Financial Results
Federal Funds

	FY 2007 Budget	*May 2007 YTD Actual*	*Actual as a % of Budget*
Federal			
Revenues, including transfers in	**$367,510**		**0.0%**
Expenses, including transfers out	**367,510**	**411,549**	**112.0%**
Net Change	**$0**	**(411,549)**	
Retained Earnings, July 1		**463,709**	
Ending Retained Earnings		**$52,160**	

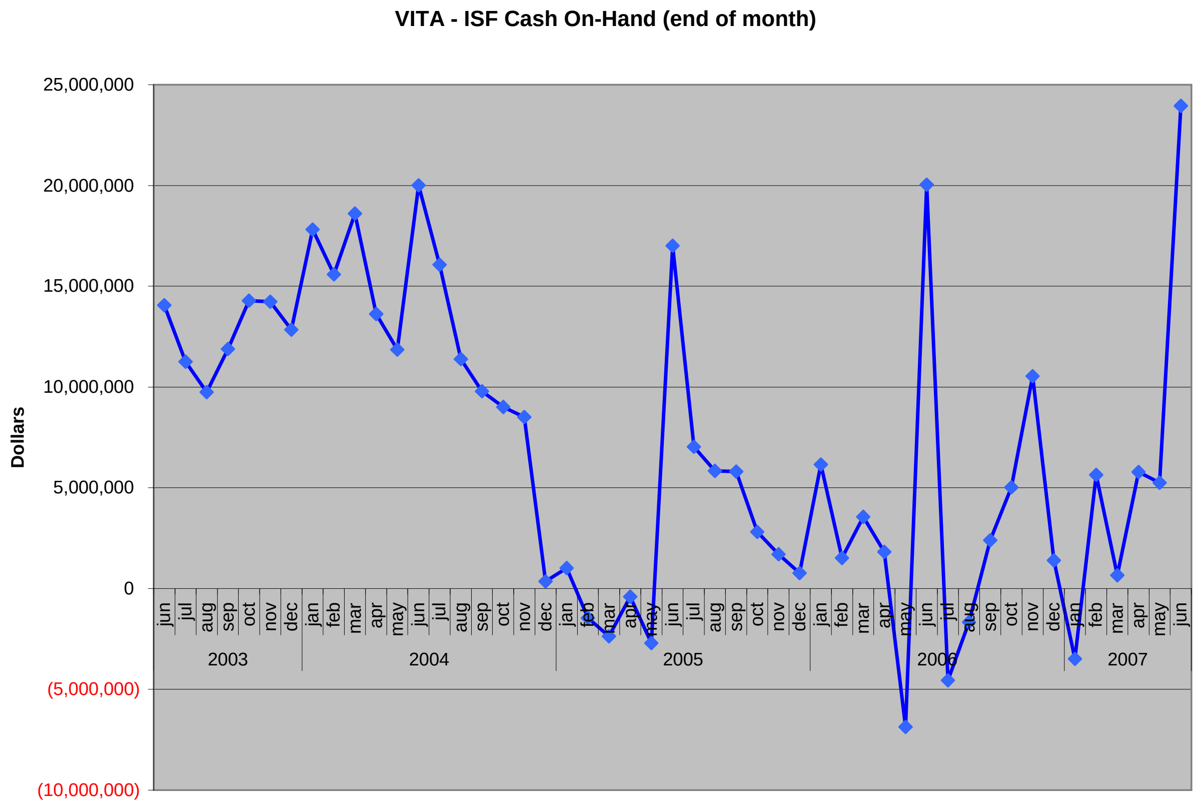
In FY 2006 VITA received $1.7 million in Homeland Security Grant funds, and expended about $1.3 million. The year-end balance carried-forward of about $0.5 million is obligated for the completion of the two federally supported projects involved and most of that balance has now been spent through May.

Cash Flow – Internal Service Fund (ISF)

ISF Cash with Treasurer of Virginia

Cash with Treasurer of Virginia			
June 2006	**$**	**20,037,684**	
June 2007	**$**	**23,949,148**	*

**unofficial estimate*



The chart above reflects revenue collections net of expenditures at the end of each month, and **DOES NOT include working capital cash advances/treasury loans** (which totaled $10.0 million for much of the first half of calendar 2007).

The chart indicates the impact periods of transformation have had on VITA cash flow, as well as the significant spikes at fiscal year end. Throughout the past fiscal year VITA struggled to manage cash flow, receivables and expenditures. The explanation for this is relatively simple. VITA was forced to revise its charge back (Cost Allocation Plan) for agency based services in mid year as a result of federal intervention (which accounts for about one-half of ISF revenues), and many of the state agencies were not paying, short paid, or were slow paying their VITA bills for a variety of reasons. By April the situation began to stabilize, and by fiscal year end VITA was able to operate without utilizing loans or line of credit advances. The June 30, 2007 balance is in line with year end balances we have seen in the past, and is the result of several factors -- agencies catching up on bills that were past due, prepayments, etc.

Accounts Receivable (as of June 30, 2007)

	Total	Current	1-30 Days	>30 Days
Comprehensive Services	**6,316,769.13**	1,761,096.75	820,896.30	3,734,776.08
Telecommunications	**9,880,266.81**	9,932,328.00	11,958.62	(64,019.81)
Computer Services	**4,155,635.44**	3,600,000.00	555,660.27	(24.83)
Time and Materials/PMD	**65,639.61**	41,601.83	2,952.23	21,085.55
Miscellaneous	**12,741.57**	0.00	0.00	12,741.57
	20,431,052.56	15,335,026.58	1,391,467.42	3,704,558.56

Accounts receivable at June 30 totaled about $20.4 million, down substantially from the peek earlier in the year which exceeded $50.0 million. About $5.1 million is past due, but most of that ($2.7 million) rests in two agencies – the Virginia Employment Commission had not paid a substantial portion of their decentralized services bill while they awaited federal approval for these payments, and the Department of Motor Vehicles has not paid a portion of billings for a major project involving replacement of customer service computers at a number of offices due to disputes about services and equipment received. Both of those situations are expected to be resolved in July.

Revenue and Expense Projections (FY 2008 Budget)

VITA anticipates receiving a similar amount of revenues in FY 2008 (beginning July 1, 2007) as that earned in FY 2007. Legacy (primarily mainframe and telco) services revenues are relatively stable, and predictable as well, because of the agency's long history in providing and billing for these services. They account for about half of VITA's predominate revenue source, the Internal Service Fund (ISF).

The other half of ISF revenue is derived from the provision of decentralized services – desktop, server, and network services. As VITA has been providing these services to executive agencies statewide for less than three years, our ability to project revenue collections is somewhat hindered by the dearth of historical data. Additionally, the transition from Direct Bill to Memoranda of Understanding (MOU) to the decentralized rates structure has occurred within less than 12 months. The rapid changes in charging methodologies, coinciding with serious concerns raised by the federal funding authorities and VITA's customers, caused greater-than-expected fluctuations in revenues from decentralized services during FY 2007.

Our cost allocation plan documenting the new rates and their methodology, at the time it was developed and submitted to the federal Department of Health and Human Services Division of Cost Allocation (DCA), was structured to collect adequate ISF revenue to fully resource the IT partnership at the planned second year level ($236 million). It assumed that most executive agencies would exercise the full service option, which provides labor, equipment refresh, and maintenance as well as many enterprise services (e.g. security, e-mail).

However – as has been shared with the committee in previous reports – the significant cost increases that would be experienced by some customers induced VITA and the Department of Planning and Budget to implement an interim approach to decentralized rates implementation. Another variable affecting the adoption of the interim approach was timing; agencies with a heavy reliance on federal funding didn't have the opportunity to address their needs for increased IT funding from their federal grantors during state FY 2007.

Consequently, a number of customers are being charged for labor, maintenance, and enterprise services only rather than the full service rate option which recovers additional revenue for equipment refresh. In FY 2007, this had a negative impact on decentralized rates projections of about ten million dollars. The effect on FY 2008 projections is less severe (being mitigated by increases in several other ISF revenues) but is still expected to prevent VITA from recovering the amount originally forecasted. Within the next two years we anticipate that most customers will be able to move to full service rates, thereby improving the future revenue picture.

The following table provides details on VITA's projected revenues and expenses for FY 2008, and their anticipated impact on funding for the IT Partnership. It should be noted that a number of issues are in play as this report is prepared: (1) changes to the scope and timing of NG's efforts are being reviewed, with funding requirements possibly decreased; (2) the impact of additional VITA payments to NG in FY 2007 must be considered; and (3) projected expenses of the retained organization are being carefully evaluated to continue streamlining operations.

Projected Revenue By Fund Type

FUND TYPE	**ISF**	**SF**	**EF**	**GF**	**ALL**
INTERNAL SERVICE FUND	$252,788,000				$252,788,000
Legacy Services:	$118,853,500				$118,853,500
Telco	$67,216,000				$67,216,000
Mainframe	$44,177,500				$44,177,500
Server Support	$4,560,000				$4,560,000
Miscellaneous	$1,700,000				$1,700,000
Misc ITIM and OOS T&M	$1,200,000				$1,200,000
Decentralized Services:	$133,934,500				$133,934,500
Dec svcs--rate based	$126,276,000				$126,276,000
Dec svcs--custom MOU amts	$2,300,000				$2,300,000
Dec Svcs--T&M mainframe, print ops	$2,658,500				$2,658,500
Dec Svcs--incremental RFS, P2P	$2,700,000				$2,700,000
SPECIAL FUND		$4,821,609			$4,821,609
IFA		$4,800,000			$4,800,000
Other		$21,609			$21,609
ENTERPRISE FUND			$52,061,701		$52,061,701
Wireless E-911			$52,061,701		$52,061,701
GENERAL FUND				$2,541,295	$2,541,295

Governance				$2,541,295	$2,541,295
GRAND TOTAL	**$252,788,000**	**$4,821,609**	**$52,061,701**	**$2,541,295**	**$312,212,605**

Retained Organization Projected Funding By Source

FUND TYPE	**ISF**	**SF**	**EF**	**GF**	**ALL**
CHIEF INFORMATION OFFICER	$814,745				$814,745
COMMUNICATIONS	$805,507	$41,702			$847,210
CUSTOMER ACCOUNT MGT	$1,062,842				$1,062,842
SERVICE MGT ORGANIZATION	$4,592,114				$4,592,114
IT INVEST & ENT SOLUTIONS	$8,491,474	$329,909	$49,202,442	$2,541,295	$60,565,121
INTERNAL AUDIT	$583,681				$583,681
FINANCE & ADMINISTRATION	$7,718,123	$3,773,932			$11,492,055
ENTERPRISE SECURITY	$2,443,007				$2,443,007
GRAND TOTAL	**$26,511,494**	**$4,145,544**	**$49,202,442**	**$2,541,295**	**$82,400,775**

Analysis of Funding Available for Obligations Under CIA

	ISF	**IFA**	**Totals**
Revenue Projection	$252,788,000	$4,800,000	$257,588,000
Less revenue N/A to NG CAP	*-$2,700,000*		*-$2,700,000*
Retained Org Expense Projection	$26,511,494	$4,123,935	$30,635,429
Difference (potential toward cap)	**$223,576,506**	**$676,065**	**$224,252,571**

Please note that retained organization projected expenses are preliminary; as this report is published additional adjustments are being made. This is not expected to significantly change the overall revenue vs. expense picture.

The impact of one other variable – the effect of reduced state level revenue collections on VITA's customers' ability to pay for IT services – cannot yet be determined. In the first quarter of FY 2008, state revenue forecasts will be updated. If shortfalls are identified, budget reductions could be triggered. The expected outcome of such a scenario would be continued difficulties in obtaining payments from some customers – with reduced state funding another reason for their not paying VITA bills.

Enterprise Applications Project Office

The Virginia Enterprise Applications Program (VEAP) project team completed seven (7) Future State Business Process / Best Practice Environment Definition documents. Future State Business Process (FSBP) Workshops were conducted in April and May with 43 agencies and over 120 subject matter experts who reviewed and provided updates to the future state business processes and functional requirements. The FSBP document for the Purchasing functional area is currently being updated based on the feedback from an independent study on procurement conducted by Forrester. The Purchasing FSBP is expected to be completed by the end of July.

The Request for Proposal (RFP) for Enterprise Resource Planning (ERP) software was released in March and responses were received in April. The RFP was ultimately canceled in May in order to modify the structure of the RFP and allow for better assessments of the marketplace. A new RFP is expected to be released by late summer.

	Phase I Planning Budget	**Actual (05/31/07)**	**Remaining Budget**
Personnel	**906,894**	**386,222**	**520,672**
EA Project Management Office	*256,894*	*181,894*	*75,000*
CoVA Project Team	*650,000*	*204,327*	*445,673*
Operational Costs	**15,000**	**6,665**	**8,335**
Other	**7,881**	**2,768**	**5,113**
Contracts	**5,830,949**	**3,112,861**	**2,718,088**
CGI Fixed Fee	*1,150,000*	*1,150,000*	*0*
CGI T&M	*4,360,000*	*1,796,198*	*2,563,802*
Planning Support	*55,949*	*46,561*	*9,388*
Executive Recruiter	*55,102*	*55,102*	*0*
Change Management	*27,419*	*0*	*27,419*
RFP Requirements Development	*65,000*	*65,000*	*0*
Procurement Assessment	*67,479*	*0*	*67,479*
Independent Verification & Validation	*50,000*	*0*	*50,000*
Office Supplies	**8,000**	**7,667**	**333**
Travel/Business Meals	**3,000**	**2,584**	**416**
Total:	**6,771,724**	**3,518,767**	**3,252,957**

2008 Legislative & Budget Issues

The state process to amend, for the last time, the 2006-2008 biennial budget ("caboose bill") and develop the new 2008-2010 Budget Bill will commence shortly. The issues of importance to VITA are summarized below:

- **General fund "savings" reduction** – The 2007 General Assembly reversed the Governor's recommendation in the introduced 2007 Budget Bill proposal to reinstate $3.3M in general fund appropriations by increasing the reduction in the second year. The net impact is that, while VITA was relieved of the "savings" budget cut for this past FY 2007 (following the Governor's intent), the legislature retained the reduction and simply deferred it to FY 2008. The combined reductions equal $4.9M, an amount that exceeds VITA's FY 2008 GF budget for statewide governance programs by $2.4 million. VITA plans to continue making the case for eliminating this untenable budget reduction, as the savings concept was rendered obsolete at commencement of the IT partnership.

- **Language directing DHRM review of VITA positions –** This language has been in VITA's budget since inception, when there were concerns about staffing the new agency. With the agency well established and compliant with state human resources policies, special reviews of VITA compensation actions are at the least unnecessary and disruptive to operations and at most, punitive, as this level of oversight and reporting is not required of other state agencies.

- **VITA's authorized position level –** Capped at 400 positions in the Budget Bill for FY 2008, VITA's authorized position level is 55 below what we requested in last fall's budget submission. In spite of significant attrition of managed employees during FY 2007, the agency begin the new fiscal year at virtually full strength (just below 400 filled positions). With a number of critical vacancies (including security, project management, audit, customer service, and contract management) now in recruitment, VITA will exceed the Maximum Employment Level and has sought permission to do so. A budget amendment seeking an increase in our position level is therefore also necessary.

- **Implementation of new GIS rates –** Implementation of these new rates was originally planned to begin partway through FY 2008, but has since been deferred until FY 2009 when the next round of statewide orthophotography begins. Language in the Budget Bill providing general fund assistance in FY 2008 needs to be deleted. For the next biennial budget, VITA will need to analyze and support additional funding for some executive agency customers that use our GIS services.

- **Virginia Relay Center Contract** -- In 2004, Budget Bill (Item 284) language was included that mandates that the call center be established in Norton, Virginia and that there be a staffing of level equivalent to 105 full time employees. Over the past few years, the volume of calls received by the center has dropped dramatically (AT&T, the contractor, states that this is a national trend, due to new, competing technologies), and this trend is expected to continue. Despite this trend, the need for the services provided by the contract continues in response to the associated federal mandate. The problem facing both AT&T and the Commonwealth is the economics of declining demand and a mandated, static labor force. AT&T believes that a more accurate labor force would consist of a minimum of 60 FTE's for the Virginia Center, with a maximum of 78 (for coverage of vacations, training, etc.). The extra labor force costs approximately $2M in additional expenses. AT&T has recommended that action be taken to remove or lower the requirement that 105 positions be required in Norton. Without changes in the labor cost, it would appear unlikely that a long-term solution in Norton is sustainable

As these state budget issues continue to be developed, this committee will be updated on progress. Additionally, VITA management will share with ITIB members where there may be opportunities to assist in resolution of the budget issues described above.

Appendix