

Virginia Information Technologies Agency



# VITA Business Plan

April 2004



*expect the best*

In keeping with our commitment to cost savings, this plan was produced in limited quantities, in-house, utilizing an existing color printer and binding equipment.

Prepared and Published by:  
**Virginia Information Technologies Agency**

Comments and recommendations on this draft document from all interested parties are welcomed and encouraged. Suggestions may be conveyed electronically to [ContactUs@vita.virginia.gov](mailto:ContactUs@vita.virginia.gov).

Please submit written correspondence to:

Lemuel C. Stewart, Jr.  
Chief Information Officer of the Commonwealth  
Virginia Information Technologies Agency  
411 East Franklin Street, Suite 500  
Richmond, VA 23219

This report is available online at:  
[www.vita.virginia.gov](http://www.vita.virginia.gov)

### About the Cover:

VITA equals people first, customer-driven and customer-focused, and is committed to growing its people through ongoing training/re-training throughout their professional careers. In our logo, we highlight individuals of our agency that make VITA a success seven days a week, 365 days a year. We are currently featuring the following outstanding VITA employees in our logo (from left to right): Arthur Isley, VITA Small Agency Transition Project Manager (on loan from Department of Transportation); Pamela Yvette Bradby, Customer Support Services; Dana Smith, Finance and Accounting Division; and Robert H. Davidson, Director of Telecommunications and Network Services. Their service years combined total more than 78 years of contributions to the Commonwealth.



# Table of Contents

<b>Section 1: Plan Summary</b> .....	<b>1</b>
Business Description.....	1
Governance.....	1
VITA Services.....	2
Agency Mission.....	2
VITA's Vision.....	3
Objectives.....	3
<b>Section 2: Market Analysis</b> .....	<b>7</b>
Market Boundaries.....	7
VITA in the Marketplace.....	7
Market Segments.....	7
Executive Branch Agencies.....	8
Other State Agencies.....	8
Local Governments.....	8
Market Infrastructure.....	9
Excluded Infrastructure.....	9
Major Projects.....	10
Enterprise Opportunities.....	10
Service Business Analysis.....	11
Risks.....	13
<b>Section 3: Strategy</b> .....	<b>14</b>
Integration.....	14
Transformation.....	15
Partnerships.....	15
VITA's Value Proposition—Operational Excellence.....	16
Foundational Pillars.....	17
Pricing Strategy & Rates.....	17
Interim Rates.....	17
Transitioning from Interim Rates.....	18

<b>Section 4: Organization .....</b>	<b>21</b>
Organizational Approach .....	21
Organizational Structure .....	21
Accountability.....	21
Business Systems .....	21
Customer Services .....	21
Financial.....	22
Governance.....	22
Human Resource Management.....	22
Integration Staffing .....	24
Transformation Staffing .....	24
 <b>Section 5: Finances .....</b>	 <b>25</b>
Funding Sources.....	25
General Funds .....	25
Enterprise Funds .....	25
Internal Service Funds .....	26
Special Funds .....	26
Financial Statements .....	27
Combined Balance Sheet for Internal Service Funds .....	28
Combined Statement of Revenues, Expenses, and Changes in Net Assets for Internal Service Funds .....	29
Combined Statement of Cash Flows for Internal Service Funds .....	30
Combined Statement of Revenues, Expenses, and Changes in Net Assets for Enterprise Funds .....	31
Combined Statement of Revenues, Expenses, and Changes in Net Assets for General and Special Funds through January 1, 2004 .....	32
Assumptions Used.....	32
Internal Service Funds .....	32
Other Funds .....	33
Cash Flow Projections .....	33



## Section 1: Plan Summary

### Business Description

The Virginia Information Technologies Agency (VITA) is the Commonwealth's new consolidated, centralized information technology organization. Established by the 2003 General Assembly, VITA's responsibilities fall into three primary categories:

- *Operation of the IT infrastructure*, including all related personnel, for the executive branch agencies declared by the legislature to be "in-scope" to VITA;
- *Governance of IT investments*, in support of the duties and responsibilities of the Information Technology Investment Board and the Chief Information Officer of the Commonwealth;
- *Procurement of technology* for VITA and on behalf of other state agencies and institutions of higher education.

Also included within VITA's purview are enterprise applications, such as the statewide budgeting, accounting, payroll, and personnel systems. Ultimately, then, it is the General Assembly's intent that line agencies' IT responsibilities be focused on agency-specific business applications.

The *Code of Virginia* establishes VITA as an internal service fund agency, meaning that the agency is largely funded via user fees charged to pay for services<sup>1</sup>. The General Assembly's Joint Legislative Audit and Review Commission (JLARC) approves rates for VITA services. VITA's practices are further bounded by federal regulation, including the requirement that all customers must be charged the same fees for the same services. In business terms, therefore, VITA can appropriately be described as a *regulated utility*.

At the end of the legislatively mandated 18-month period for agencies to transfer their IT infrastructure and associated personnel to VITA, the agency will have a total of some 1,250 positions supporting 59,000 PCs, 3,000 servers, 1,700 business applications, and over 1,500 customer locations throughout the Commonwealth.

### Governance

VITA's business planning is substantially influenced by its governance structure, which is unique within state government. The *Code of Virginia* establishes an Information Technology Investment Board (ITIB), comprised of ten members appointed by a combination of the Governor and General Assembly, as the supervisory body for VITA,

---

<sup>1</sup> About one-third of VITA's current budget is general and special funds for specific programs inherited from its predecessor agencies. The vast majority of these funds are E-911 pass-through grants to localities and wireless service providers and VIPNet resources.

functioning in effect as the collective agency head. The ITIB carries out ten specific *Code*-defined duties that cover the operations of VITA as well as oversight of executive branch agencies' IT investments.

One of the Board's responsibilities is appointing the Chief Information Officer (CIO) of the Commonwealth, hired under a five-year contract, to serve as the chief administrative officer of the Board to oversee the operations of VITA. The *Code* in turn assigns specific responsibilities to the CIO, under the direction and control of the ITIB, also divided between VITA operations and oversight of executive branch IT investments.

The net result of this tiered structure is the creation of a cohesive governing mechanism that (1) oversees the entire life cycle of IT investment selection, control, and evaluation for the executive branch (2) operates the IT infrastructure for its customers, gaining substantial efficiencies and service improvements from economies of scale, and (3) advises the Governor and General Assembly on reinvestments of resulting cost-savings in further IT service improvements. For *Code* references on all ITIB, CIO and VITA responsibilities, see <http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+2.2-2005>.

## VITA Services

In its *IT infrastructure operations* role, VITA currently operates the state data center (housing mainframes and servers) and offers a variety of statewide telecommunications services, including the state's data network (COVANET). It also provides various systems development and support services on a contract basis and oversees executive branch IT purchases, including statewide IT procurements.

In conjunction with its new IT infrastructure responsibilities, VITA will also assume responsibility for the acquisition, operations, and maintenance of in-scope agencies' computer rooms, servers, voice/data communications (including equipment, services, and networks), desktops, laptops, portable devices, and peripherals.

In its *governance* support role, as the designated agent for the ITIB and CIO in IT investment management and project management, VITA is responsible for technology planning; development and adoption of policies, standards, and guidelines; and oversight of major IT projects.

In its *procurement of technology* role, VITA defines statewide IT procurement policies, guidelines and procedures; leads supplier selection and contracting; and develops innovative, strategic partner relationships.

## Agency Mission

VITA's Mission Statement embodies the basic charge set out in its 2003 enabling legislation as well as the intent of the Governor and General Assembly that the agency set an example for effective government transformation:

***To be a model of operational excellence through delivery of enterprise IT services and solutions that represent best value at lowest cost.***

## VITA's Vision

The vision of what VITA intends to achieve expands upon the concepts of quality, economy, value, and service inherent in its Mission Statement:

***Create value***—Provide enterprise IT services supporting the business of state government at the best return on investment, for our customers, stakeholders, and Virginia's taxpayers.

***Improve the Commonwealth's competitive position in the national and world marketplace***—Harness opportunities to utilize technology to improve the availability, quality, and responsiveness of state services—seamless, friendly, anywhere, anytime—for our citizens and customers.

***Create accountability for how public funds are spent on technology***—For VITA as well as for the entire executive branch.

***Grow our employees***—Imbed opportunities for professional growth and development into the agency's organization and operations. Recognize and reward accomplishments.

***Serve as the model for transforming state government***—Pursue streamlined business processes and innovative partnerships that revolutionize service delivery at significantly lower costs.

## Objectives

Accomplishing the mission and achieving the vision set out above is an extensive, long-term undertaking. Foundational efforts must start with creating a cohesive enterprise IT infrastructure from the current disparate systems, networks, and resources that VITA inherits. That cohesive infrastructure, in turn, provides the launching pad for expanded enterprise systems and other collaborative efforts that deliver ongoing business service improvements to citizens and customers. By creating increased value at lower costs, those ongoing improvements will continue the cycle of creating capital for future investment.

***In order to build that cohesive enterprise IT infrastructure over the next five years, by December 2008 VITA will:***

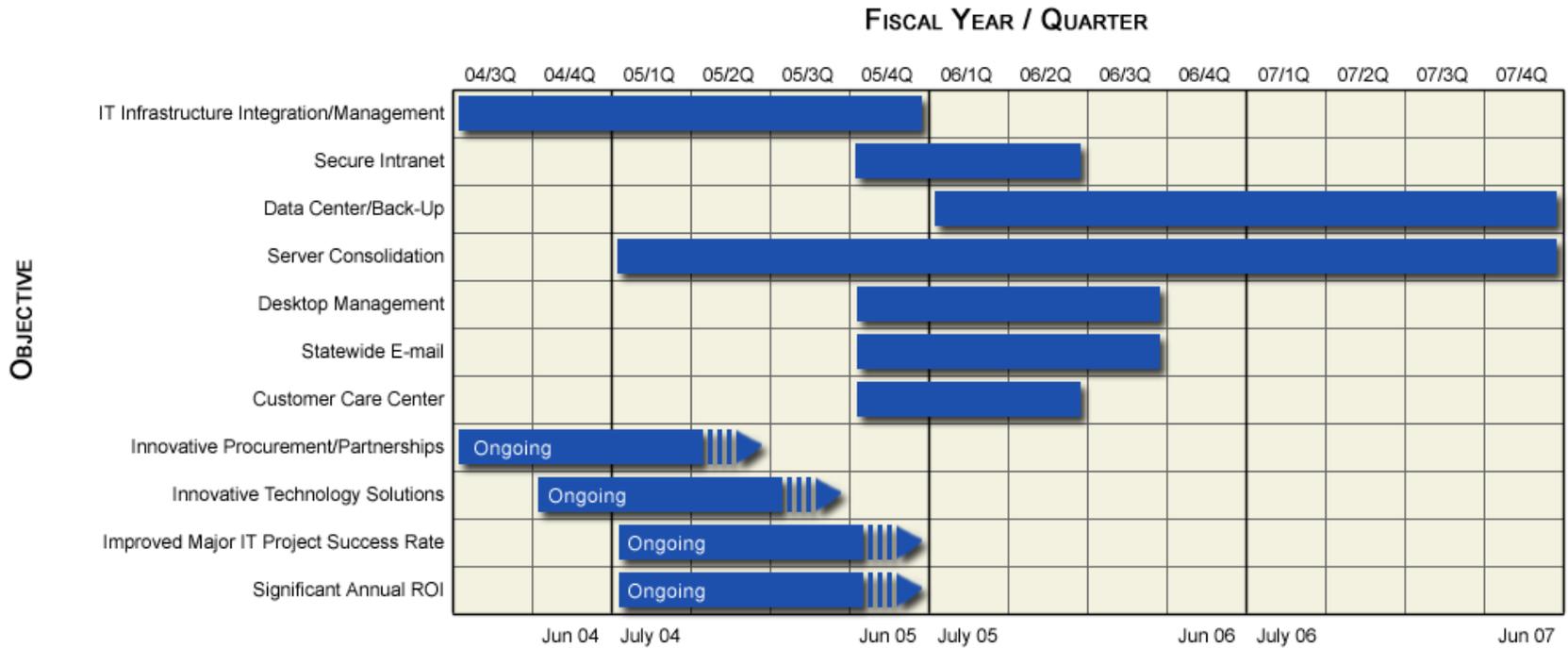
- ***Integrate and manage the IT infrastructure of all executive branch agencies.*** Assuming effective control of the current infrastructure and establishing an effective management organization to oversee its operations sets the stage for further improvements, including the near-term capture of “quick wins” in enhanced services and cost savings.
- ***Implement a secure Intranet encompassing in-scope agencies.*** A single, secure business network for state government provides a foundation for enterprise systems and facilitates the cross-agency collaborations necessary to create a true “single face of government” for the Commonwealth’s citizens and customers.
- ***Establish a state-of-the-art data center and back-up facility.*** In the post-9/11 environment, a physically secure data center with appropriate emergency power is a base requirement for the enterprise of state government. The accompanying back-up facility will improve the state’s disaster recovery abilities from a matter of days or weeks to a matter of minutes or hours.
- ***Consolidate agency servers into their most cost-effective locations.*** With a secure network and modern data center facilities as a foundation, the state can capitalize on the significant economies of scale opportunities VITA provides in the server arena.
- ***Implement a desktop management program for all in-scope agencies.*** A well-planned and -managed program for maintenance, support, and replacement of the state’s personal computers ensures that every aspect of the state’s business receives a basic, acceptable level of desktop service, while at the same time leveraging the volume buying power of 59,000 units.
- ***Establish a unified statewide electronic mail service.*** E-mail is the basic nervous system of any business. Improvements in this arena will echo through all levels of the state’s daily operations.
- ***Provide a statewide Customer Care Center.*** A state-of-the-art facility provides improved economies and services for IT support as well as call center functions for many other business functions.
- ***Employ innovative procurements, supplier partnerships, and financing arrangements to fund, expedite, and ensure the performance of future initiatives.*** The aggregation of IT infrastructure within VITA provides the critical mass, and innovative supplier relationships such as the Public-Private Educational Facilities and Infrastructure Act of 2002 (PPEA) supply the vehicle, for combining the best of the public and private sectors to achieve best value in service provision.
- ***Introduce innovative technology solutions supporting redefined, improved agency mission-critical citizen service programs.*** Implementing a cohesive set of Web-based common services and architectural standards can provide sufficient flexibility to meet agencies’ varied business needs—while at the same time creating the common environment needed to support true enterprise-wide applications and seamless, customer-friendly services.

- **Improve major IT project success rates to best-in-class levels.** Based on past studies by JLARC and the APA, Virginia can attain a much-improved return on investment by effective execution of the IT investment management/project management initiatives in the VITA legislation.
- **Achieve a significant annual return on investments.** Producing significant verifiable savings for reinvestment in additional service improvements and other Commonwealth priorities realizes the promise embedded in the VITA legislation as supported by both the executive and legislative branches.

Within the five-year plan window, the schedule for achieving each objective will depend on the specific implementation strategies and funding mechanisms chosen, particularly with regard to public/private partnership opportunities. Exhibit 1-1 on the following page illustrates an initial potential schedule, based on preliminary estimates of project scopes and lead times, and logical engineering sequences. Future Business Plan updates will provide more specific schedules as detailed proposals and plans for each objective are developed and evaluated.

**Exhibit 1-1  
Potential Schedule for Five Year Objectives**

**Objectives Timeline**





## Section 2: Market Analysis

### Market Boundaries

VITA's enabling legislation and regulations regarding the use of federal funds contribute to determining the following boundaries for the market in which VITA operates:

- VITA may provide IT goods and services to state agencies and other political subdivisions of the Commonwealth;
- The largest component of VITA's customer base, the in-scope executive branch agencies, will use VITA for their IT infrastructure and telecommunications;
- VITA's rates for services must be approved by the IT Investment Board, the Joint Legislative Audit and Review Commission, and the federal government.

Public institutions of higher education are not impacted by the infrastructure consolidation in the VITA legislation, and the legislative and judicial branches remain outside the purview of both VITA and the IT Investment Board.

### VITA in the Marketplace

Based on the above boundaries, VITA can appropriately be described as a *regulated utility*. Like a traditional utility, such as an electric power company, VITA is the sole provider available within its franchised operating territory (i.e., the in-scope agencies). And just as the State Corporation Commission regulates electric power rates, VITA's rates are directly regulated by JLARC and indirectly regulated (via periodic audits) by the federal government.

Therefore, VITA's Business Plan is of necessity distinct from that of an IT service organization operating in an unregulated, private sector environment. It must, for example, accommodate serving customers that might be considered "unprofitable" in other environments, and at equal rates for the same services. VITA should also expect, as other regulated entities do, to be subject to periodic benchmarking by its regulatory body, to determine how efficient and effective it is relative to other similar organizations.

### Market Segments

VITA's market includes the following principal segments:

- The "in-scope" executive branch agencies, which are required to use VITA for technology infrastructure and telecommunications services;
- Other state agencies, which may use VITA services but are not required to do so;

- Local governments and other political subdivisions of the Commonwealth, which also may use VITA services at their option.

## Executive Branch Agencies

When the legislatively mandated three-phase transition of agencies to VITA support is complete, VITA will be servicing 90 executive branch agencies (49 small<sup>2</sup>, 23 medium, and 18 large), encompassing more than 50,000 state employees at 1,497 sites statewide.

All of these agencies are no strangers to centralized technology services. VITA's predecessor agency for data center and telecommunications services, the Department of Information Technology (DIT), was the long-time established provider of those services for state government. DIT also provided systems development and software maintenance personnel on a contract basis to requesting agencies, a practice that VITA continues. Due to prior requirements for executive branch agencies to utilize DIT for telecommunications services, the creation of VITA will not likely result in substantial changes in uses of most of those services within this customer segment.

Infrastructure services, from the desktop through local and wide area networks and associated servers, is the area in which the most substantial changes for executive branch agencies will take place. Given the significant opportunities for cost savings and service improvements, most of VITA's new initiatives for the next two to three years will likely be focused in this area.

VITA currently supplies systems development, software maintenance, and Web site support services to a number of state agencies. Early indications are that, as VITA assumes infrastructure responsibilities for all executive branch agencies, a few agencies may voluntarily decide to turn over their applications support to VITA as well.

## Other State Agencies

VITA currently provides data center and telecommunications services to select legislative, judicial, and the independent agencies, which use these services on a voluntary basis. As VITA undertakes further cost savings and service initiatives, additional service requests may be made by these other agencies. It is estimated that these agencies account for less than 10 percent of all IT spending at the state level.

## Local Governments

Virginia's local governments include 95 counties, 39 cities, 190 towns, and numerous authorities and special districts. VITA's telecommunications contracts have proven very attractive to local governments, as localities provide more than half of the revenues generated by these services. A number of localities have also taken advantage of Web

---

<sup>2</sup> The count for small agencies includes the Governor's Office and Cabinet Secretary Offices and small agencies that currently receive their IT support from a medium or large agency. The latter group will transition at the time of their supporting agency.

portal, hosting, and development services from the Virginia Information Providers Network (VIPNet), VITA's managed services provider in that arena.

Local government IT operations vary widely in size and scope, in a similar pattern to the variation among executive branch agencies. A study several years ago estimated the overall local government IT spending total in Virginia was about half the total of state agency IT expenditures, with the lion's share of local spending in the largest 12 to 15 localities. VITA's potential to create significant economies of scale in acquiring and providing infrastructure and services may be of interest to local governments beyond their current extensive use of state telecommunications contracts. Several locality IT directors have expressed interest in exploring how VITA might be a useful vehicle for providing more cost-effective, collaborative service provision at the local level.

## Market Infrastructure

As noted above, the primary impetus for the formation of VITA, as well as the most substantial opportunities for cost savings and service improvements, lies in the IT infrastructure of executive branch agencies. The Due Diligence exercise completed by the in-scope agencies in the fall of 2003 (which has been subsequently updated) provides the most comprehensive picture of the current infrastructure.

**Exhibit 2-1  
In-Scope Agencies Infrastructure Statistics**

Secretariat	PCs	Servers	Computer Rooms	Business Applications
Administration	1,098	106	2	65
Commerce & Trade	4,408	215	9	229
Education	2,335	119	7	68
Finance	1,858	145	4	127
Health & Human Resources	21,100	618	23	708
Natural Resources	2826	144	7	67
Public Safety	13,758	571	23	131
Technology	845	163	3	24
Transportation	10,415	905	28	226
<b>TOTALS</b>	<b>58,643</b>	<b>2,997</b>	<b>110</b>	<b>1,666</b>

Exhibit 2-1 summarizes the statistical profile provided by the Due Diligence data. These statistics paint a clear picture of the opportunities available for infrastructure consolidation and transformation in the Commonwealth.

### Excluded Infrastructure

VITA's value proposition (see Section 3) is based on leveraging common infrastructure components to achieve significant economies of scale. Where agencies currently operate

highly specialized hardware that is unique to their business, or where hardware requires business-specific support skills or licensures, those economies cannot be created, and VITA therefore will not be able to add value.

When VITA and a customer agency concur that such unique infrastructure situations exist, VITA will not assume responsibility for operation and support of those specialized components. Examples include HVAC control systems, the Department of Criminal Justice Services Forensic Lab System, and VDOT's Traffic Management Systems.

## Major Projects

As it initiates such infrastructure transformation, VITA must also consider the future business needs of its customer agencies. As part of the biennial cycle of state business and IT planning and budgeting, executive branch agencies also filed their IT Strategic Plans with the CIO in phases during the spring and summer of 2003. Plan submissions included listings of major and non-major IT projects and procurements projected over the coming biennium. So that VITA would have the most complete picture of individual agency IT needs, agencies were asked to develop these plans as if VITA did not exist.

**Exhibit 2-2**  
**FY 05 & 06 Major Projects**

Secretariat	Number of Projects	Project Cost (Estimate At Completion)
Administration	5	\$17,741,800
Commerce & Trade	3	\$9,840,055
Education	51	\$313,762,434
Finance	6	\$32,376,370
Health & Human Resources	13	\$72,208,789
Natural Resources	2	\$3,700,000
Public Safety	24	\$424,550,231
Technology	12	\$61,287,966
Transportation	20	\$126,988,569

Exhibit 2-2 summarizes the major projects for the coming biennium culled from those plans. In total, these 138 projects represent almost \$1.1 billion in projected costs. It should be emphasized that, while some of these projects are already underway, many others will not come to fruition, due to lack of funding and other considerations. The conclusion of the 2004 General Assembly and passage of an Appropriation Act for FYs 05 and 06 will therefore be an important milestone for projects dependent on future funding commitments.

## Enterprise Opportunities

In carrying out their responsibilities, VITA and the IT Investment Board will play a significant role in promoting cross-agency collaboration and the development of enterprise-wide initiatives. To assist in that effort, VITA staff evaluated agencies' proposed FY 05/06 major IT projects for such enterprise opportunities. In all, fourteen collaboration categories were identified from this exercise. Examples of collaboration opportunities where multiple agencies submitted similar projects include:

- **Voice Over IP (Internet Protocol)**—replacing existing telephone and data lines with VoIP technology;
- **Web-enablement**—for customer-facing components of applications systems using an enterprise standard for Web applications;
- **Infrastructure**—acquiring or upgrading technology infrastructure components employing enterprise architecture standards, and collective procurements;
- **Application system upgrade, acquisition, or development**—for similar functions such as financial management, grants management, human resource management, etc.

In addition to this initial analysis, VITA staff continues to evaluate every project or procurement, as they are submitted, for any Code-mandated milestone review, for collaboration opportunities.

## Service Business Analysis

While VITA is a new agency, its immediate service offerings are those of its three predecessor central agencies, as follows:

- Department of Information Technology—state data center, voice/data telecommunications, systems development and support services; executive branch IT procurement policies and processes, including statewide contracts.
- Virginia Information Providers Network (VIPNet) Authority—state Web portal, Web front-ends for business applications, Web-enabled business applications;
- Department of Technology Planning—promulgation of statewide IT plans, policies, guidelines, and standards; oversight of major IT projects; statewide E-911 program; statewide geographic information systems (GIS) coordination and services.

### Exhibit 2-3 VITA Data Center Services

Host Options at VITA Data Center	Major Customer Agencies	
<b>Unisys Model CS7802</b> 3 million = avg. daily transaction volume 1,275 Installed MIPS 16 GB Installed Memory 593.8 GB Disk Storage Capacity	Social Services Elections Board Human Resource Management	
<b>IBM Models 9672-Y56 &amp; 9672-Y58</b> 3.1-3.6 million = avg. daily transaction vol. 1,170 Installed MIPS 13 GB Installed Memory 3.694 TB Disk Storage increasing to 3.903	Accounts Motor Vehicles Social Services Taxation	Va. Employment Commission Va. Retirement System State Corporation Commission Transportation
<b>Windows Servers</b> Web Servers & App Servers 123 Servers, 95 websites	Emergency Management Taxation VITA Web	Va. Employment Commission Va. Retirement System Others
<b>Unix Servers</b> Prime Power, Sun & HP Servers 48 hosts, 110 Oracle Databases	Social Services VITA Internal Others	Taxation Va. Geographic Information Network

As illustrated in Exhibit 2-3, VITA's 162,000 square foot data center and associated offices in the VITA Operations Center offer a wide range of well-supported platform and hosting options. While "in-scope" agencies are the primary users of the center, other agencies outside of the executive branch, such as the Virginia Retirement System and the State Corporation Commission, are also long-time customers.

VITA's wide range of telecommunications services also attracts customers both within and outside of the executive branch. Local governments in the Commonwealth, in fact, provide the majority of VITA's telecommunications revenues. Exhibit 2-4 illustrates the telecommunications offerings available from VITA.

Current data center, telecommunications, and systems development and support services carry established rates previously approved by JLARC.

#### **Exhibit 2-4 VITA Telecommunications Services**

Major Contracts	Volume of Services in Use
Verizon	77,000 Centrex lines
MCI "COVANET"	2500 data circuits
MCI Long Distance Voice Traffic	20 million minutes a month
AllTel	10,328 cellular phones
Nextel	2,500 phones
Metro Call	13,598 pagers

In conjunction with its new IT infrastructure responsibilities, VITA will also assume responsibility and establish scheduled rates for the following services:

- LAN servers and server-based software;
- Desktops and laptops, including standard office automation software;
- Voice and data network equipment;
- Other hardware (generally high-end enterprise servers and data center equipment—disk arrays, tape drives, etc.);
- Additional PC peripherals (printers, scanners, etc.) and software (Attachmate, MS Project, etc.); and
- Wireless handheld devices.

As the designated agent for the ITIB and CIO, VITA also has additional IT investment management and project management/oversight assignments, as delineated in the VITA enabling legislation.

## Risks

The creation of VITA and the successful accomplishment of its mission and vision involve risks similar to those of an extensive corporate merger and acquisition initiative, as well as influences that are more typical of state government.

- **Impact of the state's fiscal crisis**—Given the state's financial condition, state agencies are unable to pay for service improvements in advance of off-setting savings. VITA also cannot expect that needed upfront investment capital will be appropriated from general funds. VITA will mitigate these risks by (a) applying the interim rate methodology outlined in Section 3 to minimize financial impacts upon its customer agencies, and (b) aggressively pursuing public/private partnerships to acquire necessary capital.
- **Customer service interruptions**—Ensuring uninterrupted service provision during the initial transition to VITA and subsequent transformation efforts is an absolute requirement. VITA will minimize the risk of business interruptions by (a) maintaining infrastructure and support personnel in place until the initial Integration stage of transition is complete, and (b) phased incremental changes during the subsequent Transformation stage, planned and executed in conjunction with affected customer agencies.
- **Resistance to change**—State government is a highly decentralized entity not conditioned to rapid or substantial change. The creation of VITA crosses all of those former boundaries at the same time. VITA will acknowledge and address that resistance by (a) continuing to promote and utilize high-level sponsorship from both the executive and legislative branches, (b) a consistent program of informational communications, and (c) holding periodic group dialogue sessions as well as individual meetings with agency heads and other key stakeholders.
- **Culture shock**—Agency personnel transitioning to VITA are coming to an entity that is not only new to them but also unique in state government. VITA will assist their transition by (a) providing a comprehensive orientation and onboarding process, and (b) maintaining current responsibilities and locations during the Integration stage.
- **Loss of institutional knowledge**—A significant percentage of personnel designated to come to VITA are long-term state employees eligible for retirement and may elect to do so rather than make the change to a new agency. VITA will mitigate the potential impacts of losing institutional knowledge by identifying key personnel up front and ensuring appropriately trained back-ups are positioned.
- **Failure to execute**—Merger/acquisition tasks and subsequent infrastructure transformations involve dozens of projects of varying sizes and complexities. All must be carried out to effective completion. To minimize project execution risks, VITA will follow the Commonwealth's best practice-based standards in project management and will require all contracted efforts to also be conducted according to those standards.
- **Failure to achieve desired results**—Projects can be technical successes but business failures. Achieving the customer service levels and value to stakeholders embedded in the VITA Mission and Vision statements requires that defined performance metrics be built into projects up front. VITA will follow the IT Investment Management best practices in the Commonwealth's Technology Management policy, standards, and guidelines to ensure desired results and returns on investments are indeed attained.



## Section 3: Strategy

VITA's Business Plan implementation strategy includes the following key components:

- An effective *Integration* stage for transitioning the IT infrastructure and associated personnel from the 90 "in-scope" agencies, establishing a clear understanding of acquired resources and capabilities as a sound foundation for planning, then executing, further initiatives;
- A targeted *Transformation* stage, where strategies for cost-savings and service improvements are pursued through specific initiatives planned and approved by the IT Investment Board;
- Aggressive pursuit of *partnership arrangements*, leveraging the Commonwealth's economies of scale potentials to acquire both capital and expertise;
- Definition of and adherence to a business-oriented *value proposition*; and
- An equitable and effective *pricing strategy*.

Each of these strategy components is further outlined below.

### Integration

The creation of VITA from all or parts of 90 different organizations is essentially a mergers and acquisitions (M&A) exercise. Business best practices recognize that there are two distinct stages to creating a successful M&A initiative:

- **Integration**—doing what it takes to assume the management of staff and IT assets of small, medium, and large agencies with minimal disruption of services; and
- **Transformation**—the consolidation of facilities, hardware, and software; the realignment and possible relocation of IT staff; the deployment of innovative technology solutions; and the implementation of significant cost-savings initiatives.

Trying to accomplish both of these critical stages at the same time is a recipe for failure.

During Integration, the stage in which VITA is currently operating, VITA will work with agencies to ensure legal compliance with software licensing, minimal security standards are in place, and implementation of a disciplined process for managing IT investments. As previously planned, transition activities for medium and large agencies will be mainly handled by their own staffs. Opportunities for immediate cost savings or efficiencies will not be ignored during this stage. Examples include consolidation of multiple servers in a single building, additional reverse auctions for commodity procurements, and expansion of central monitoring capabilities to requesting medium and large agencies on a fee basis.

## Transformation

Transformation involves extensive planning and requires substantial investments of time and resources. Transformation will be driven by the IT Investment Board's vision and guidance. Specific Transformation activities will be developed and approved by the IT Investment Board in consultation with the CIO.

Planning for Transformation begins during the Integration Stage. An essential component of such planning is determining the acquisition strategies to be pursued, with emphasis on the up-front capital need to fund an effective suite of Transformation projects. By some estimates, a new state-of-the-art data center and back-up facility will alone require an investment in the range of \$50 to \$75 million.

## Partnerships

VITA inherits an extensive legacy of utilizing private sector expertise to provide technology services, with many positive results. The current statewide telecommunications network (COVANET) and the state's Web portal are two examples of current, successfully managed services contracts. With the scope of IT infrastructure consolidation that lies ahead, acquiring appropriate outside expertise will be a key component of planning and executing successful Transformation initiatives.

The capital-intensive nature of prospective cost-savings and service improvement initiatives also provides incentive to look at the potential gain-sharing aspects of public/private partnerships. In the past several years, a number of such "share the risk / share the reward" projects have been instituted across the country at all levels of government, including examples in Virginia. The Commonwealth's current fiscal situation creates strong additional impetus to seek alternative capital funding opportunities.

In this context, the Public/Private Educational Facilities and Infrastructure Act of 2002 (referred to as PPEA) is one promising vehicle for approaching future Transformation initiatives. This act allows the Commonwealth's public bodies to consider both unsolicited and solicited proposals for innovative approaches to a wide variety of projects, including technology initiatives. Receiving and evaluating PPEA-based proposals and negotiating any resulting agreements is in itself a resource-intensive process. VITA staff will therefore recommend to the IT Investment Board that the agency accept for consideration only those proposals that address the five-year objectives outlined in Section 1.

Given the complexities of any public/private relationship, VITA staff will also recommend to the ITIB that a knowledgeable, experienced professional partnership advisor be retained. The history of similar projects across the country has shown that retaining such an advisor substantially increases the likelihood of success.

## VITA's Value Proposition—*Operational Excellence*

Value propositions, while common in the private sector, are not as uniformly used within government. Early in the process of establishing VITA, it became apparent that the value-add VITA would offer its customers would need to be well defined and equally well understood, in the marketplace context of operating as a regulated utility. If VITA is to succeed as a service organization, it must ingrain in its staff the benefits expressed in its value proposition.

VITA's customers are the agencies for which it provides IT services and the citizens of the Commonwealth who rely on the agency to spend their dollars wisely. They want services and solutions that work, are on time, are reliable, and are framed within a first-class network of customer support. By being the best and most efficient in cost and process, VITA will be a model for *operational excellence*.

Achieving operational excellence requires a clear definition of what VITA is and also what it is not:

- *VITA focuses on the solutions that can be developed once and utilized by many.* VITA does not promote highly customized, single solutions.
- *VITA adopts new technologies when they provide a means to address specific customer needs.* VITA does not embrace each and every cutting edge technology as it emerges.

The benefits of VITA's value proposition extend to a broad range of its stakeholders:

**State government agencies benefit from consistent, reliable services from a consolidated, centralized IT "factory"** where core technologies are delivered seamlessly as utilities (much like electricity and running water). Through an innovative funding model, agencies also benefit from continued investment in technologies and in the people who support them. Small- and medium-sized agencies that typically lack resources and depth of expertise will have access to skill sets and technologies not currently available to them.

**Taxpayers and customers benefit from seamless, integrated systems and services,** particularly Web-enabled solutions providing convenience and ease of use. In so doing, Virginia is fulfilling the vision of a digital government, available twenty-four hours a day, seven days a week, 365 days a year. Taxpayers will reap the benefits of considerable cost-savings over the long-term—savings that can be used to fund initiatives to improve citizens' lives in the areas of education, social services, health, public safety, and transportation.

**State IT employees will receive ongoing training and re-training,** with unparalleled career opportunities for advancement, education, and relocation throughout the Commonwealth. Employees will also have a hand in developing VITA's organization and structure, and in influencing services and service delivery.

**The Commonwealth will benefit from the improvements to the functioning of state government, the efficiencies and convenience of strategic technology investments, and significant cost-savings.** Virginia will also benefit from the lessons learned during the planning and implementation of VITA, and can apply them to other potential consolidation and centralization reform efforts in areas such as procurement, real estate, administration, and mail services.

## Foundational Pillars

To imbue desirable attributes of Operational Excellence into VITA's everyday activities and within the staffs performing them, VITA has developed a concise set of operating principles—characterized as “foundational pillars”—as follows:

- **Excellence in service delivery.** VITA customers can expect and have a right to demand the best in consistent and reliable delivery of solutions—what we promised, when we promised it.
- **People = Assets.** VITA's most important asset is people—talented, skilled state IT professionals who can deliver. They will be enabled through ongoing training, skilling, and re-training throughout their professional careers.
- **Success through partnerships.** Our success will be celebrated as the product of a partnership between VITA, our customers, and our suppliers—working together to find new ways of getting things done.
- **Technology solutions.** VITA understands our customers' businesses and follows the rapid development and changes in technology. VITA applies new technologies to solve real business problems for our customers. We will deliver solutions, not just services.
- **Transparency.** There are two concepts to 'transparency.' One is that VITA's customers expect technology services to be like a utility (“the light switch”)—something that is just there, yet is evolving and transforming over time. The other is that VITA operates according to open, consistent practices and principles so that the process of planning, provisioning, and delivering IT services is a 'glass house.'

Each pillar is a guiding principle for how VITA will approach its work and the development of the agency and how it goes about conducting its business in support of its customers and their respective missions.

## Pricing Strategy & Rates

### Interim Rates

VITA's strategy for determining rates is derived from the distinct stages of the transition process—Integration and Transformation—defined above. Consistent with the Integration strategy, proposed interim rates for new services will be developed according to the following guiding principles:

- Rates must be equitable;
- Rates must be reasonable and competitive;
- Compliance requirements related to Commonwealth IT practices, such as legal licenses for all software, must be met; and
- Total costs of in-scope IT services must be within the scope of agencies' ability to pay.

Based upon these principles, VITA is proposing a “direct bill” approach to IT services during the Integration stage. Agencies will pay the actual costs for current services, plus any additional services they request and approve. Agencies will also be responsible for the costs of meeting minimal compliance requirements. VITA will then add a minimal administrative fee, expressed as a percentage of direct costs, based on the necessary essential overhead to make Integration happen (primarily additional staff for finance, contract/procurement, human resources, enterprise service directors, and cost-takeout planning).

This approach also avoids the issue of dealing with credits for IT equipment transferred to VITA. As the proposed interim rates will not include any replacement costs, such credits are unnecessary.

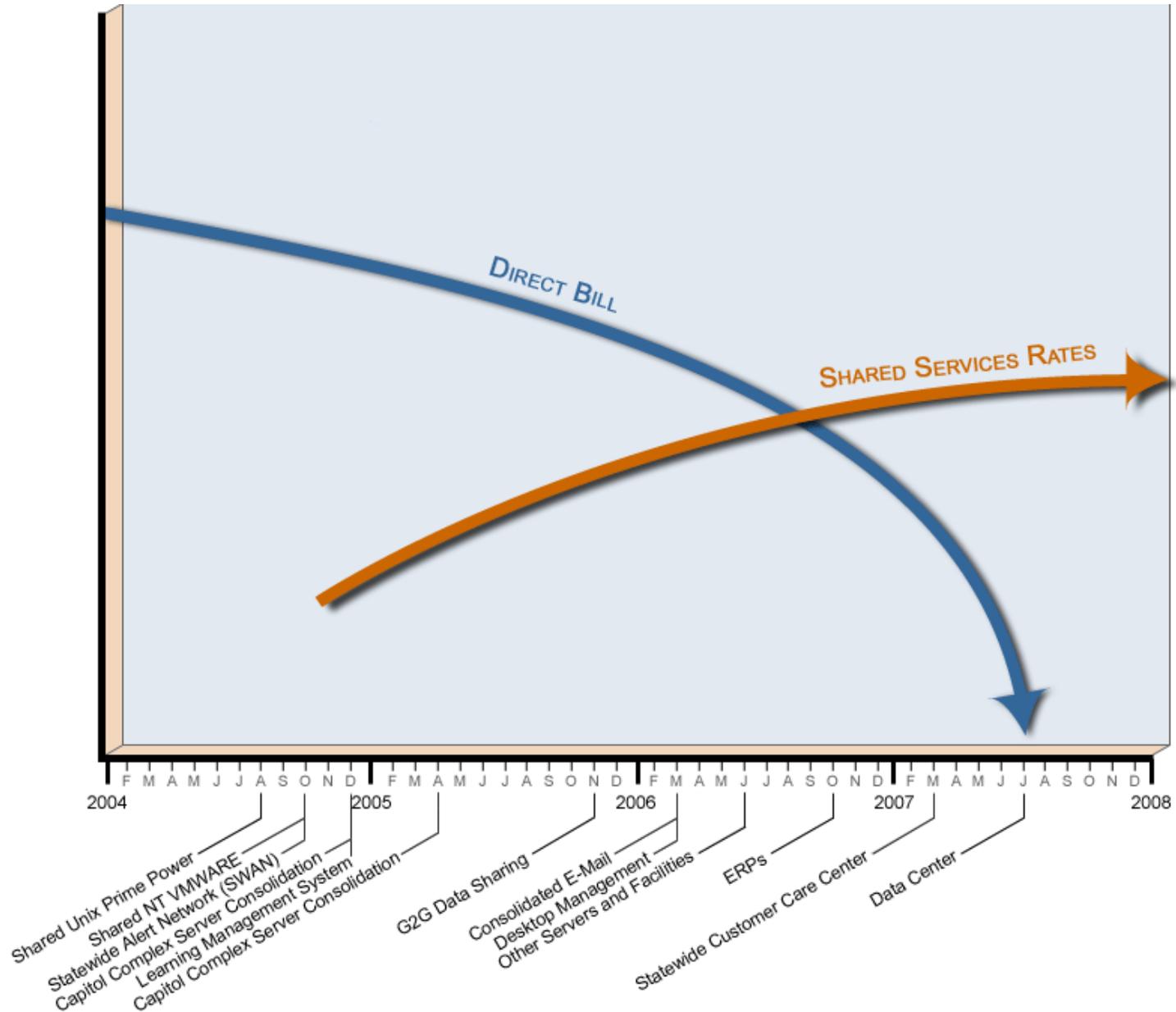
While the intent of the Integration stage is to manage all current IT infrastructure in place, immediately available cost savings opportunities (such as consolidation of all servers in a building into one location) will be pursued. VITA’s goal is to identify and capture such early cost savings—“quick wins”—sufficient to at least offset for agencies the minimal administrative fees in the direct bill approach.

Proceeding with this approach will require IT Investment Board approval and then submission to JLARC, for consideration at its May 2004 meeting. To address concerns about any fiscal year (FY) 2004 impact, the onboarding of medium agencies and prospective early onboarding of VDOT has been moved to July 1, 2004, the first day of FY 2005.

## Transitioning from Interim Rates

The proposed interim direct bill approach will likely apply through the end of FY 2005, but could be sustained as a viable charging mechanism for an indefinite period of time as VITA migrates towards a transformed organization. As Transformation occurs, the pool of expenses charged under the direct bill approach will gradually give way to rates for specific shared services. Exhibit 3-1 illustrates how this transition in rate methodologies can potentially play out over time.

**Exhibit 3-1  
Projected Timeline of Two Rate Methodologies\***



**\*Listed projects are examples for illustrative purposes.**

As cost savings are identified, the costs to agencies will likely decrease on a case-by-case basis. For example, if servers in a building were consolidated in one location, the lowered direct costs of so doing would be proportionally shared among the users of those servers. In another example, if VITA negotiates a lower rate for anti-virus software, then all agencies will benefit.

Under such an incremental change scenario, as further cost savings and service improvements are attained impacting more agencies, service levels will tend to become more consistent across all agencies. Such a trend will make a future change to standard statewide rates much less jarring than what could be achieved today, given the current state of widely disparate IT environments and service levels.

Parallel to the direct bill methodology using the interim rate, VITA's cost allocation methodologies will be invoked to support the phased transition to services and related systems shared among multiple agencies. The methodology will be applied individually to each prospective service, with both direct and indirect costs identified, and each service evaluated on its own merits in terms of return on investment.

Potential candidates for employing this methodology include server consolidation, desktop management, hosted application services, and facility consolidation. For example, a shared rate methodology will be implemented with the beginning of server and facility consolidation for small agencies in the Capitol Square area, beginning in Fall 2004. It is also anticipated that a new shared rate methodology will be implemented for statewide desktop services before end of FY 2005.



## Section 4: Organization

### Organizational Approach

VITA's organizational structure emphasizes customer service and promotes consistent technological competence and opportunities for professional advancement. After reviewing best practice models in both the public and private sector, VITA has constructed a *hybrid* model.

- From the customer's perspective, the view is of a single point of contact, whether the need is to solve an immediate problem or order a new service, and regardless of the technology involved (PCs, phone service, etc.). VITA's Customer Support Services Directorate provides this direct, customer-facing support.
- From the inside, the "utility" components of VITA are organized by technology and professional competency, while at the same time supporting the customer-facing organization.

### Organizational Structure

Underneath the Chief Information Officer of the Commonwealth, VITA is organized into eleven directorates, with six functional leads for reporting and planning purposes, as follows:

#### Accountability

**Audit & Management Services Directorate**—provides the internal compliance audit functions within VITA. In order to maintain a measure of independence, this unit reports directly to the ITIB.

#### Business Systems

**Business Systems Services Directorate**—responsible for enterprise-wide applications as well as providing application support to agencies as needed.

#### Customer Services

**Customer Support Services Directorate**—Serves as the primary interface with VITA's customers, including immediate tactical requirements as well as longer-term strategic needs.

**Computer Services Directorate**—provides those services traditionally considered part of data center operations, including mainframes, midrange systems, and servers.

**Telecommunications & Networking Directorate**—provides telecommunications services throughout the Commonwealth. These services include voice, data, and voice/data integration.

## Financial

**Financial Services Directorate**—handles all financial aspects of VITA, including accounting and financial planning.

**Supply Chain Management Directorate**—provides the core functions associated with the acquisition of all goods and services related to IT for the in-scope agencies. Leverages the Commonwealth's buying power in obtaining value for goods and services.

## Governance

**Strategic Management Services Directorate**—serves as staff support for the ITIB and CIO in technology planning; IT investment management; development and adoption of policies, standards, and guidelines; enterprise architecture; project management; oversight of major IT projects; and fostering innovative and strategic partnerships with the private sector to further the IT consolidation effort and bring resources to bear on Transformation activities.

**Security Services Directorate**—provides information technology security support to the enterprise. It interfaces with internal and external entities in the pursuit of that mission.

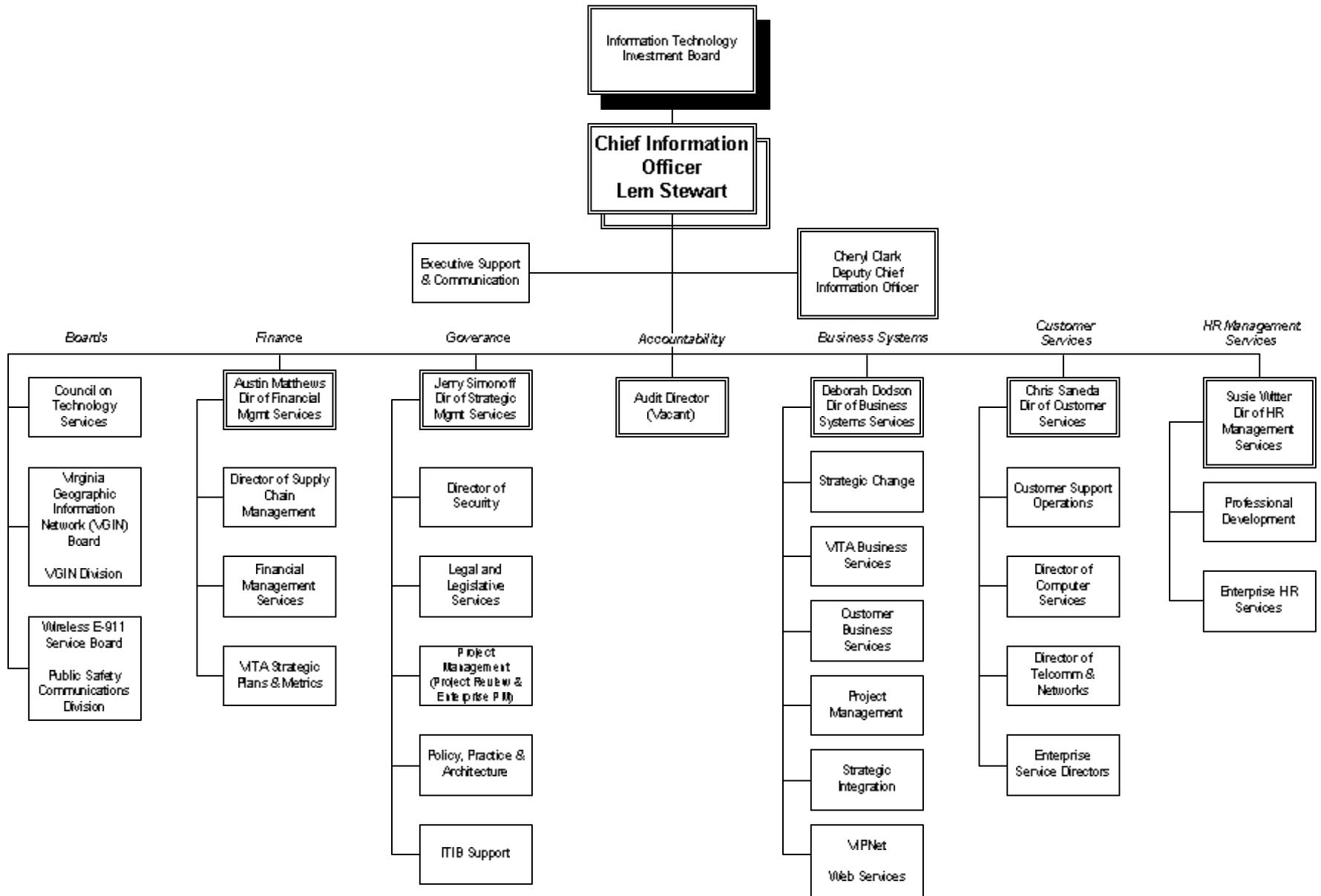
## Human Resource Management

**Human Resource Management Directorate**—provides comprehensive, practical solutions encompassing human resources management, professional development, and communications.

In addition to these areas, the CIO of the Commonwealth chairs or is a member of three technology-related Boards and Councils, including the Council on Technology Services (see <http://www.cots.state.va.us>), the Virginia Geographic Information Network Board (see [http://www.vgin.virginia.gov/about\\_organization.html](http://www.vgin.virginia.gov/about_organization.html)) and the E-911 Wireless Services Board (see [http://www.911.virginia.gov/wireless\\_services\\_board.htm](http://www.911.virginia.gov/wireless_services_board.htm)).

Exhibit 4-1 on the following page illustrates the organization chart for the VITA leadership team. For additional detail on each directorate, see <http://www.vita.virginia.gov/about/organization.cfm>

**Exhibit 4-1  
VITA Leadership Team Organizational Chart**



## Integration Staffing

Over the 18-month transition period for bringing agencies under the VITA umbrella, VITA will bring in from its customer agencies a projected 886 staff positions previously identified to come to VITA. These “mapped” positions represent the IT personnel who support their respective agencies’ IT infrastructure, as well as positions providing direct administrative or logistical support (e.g., procurement, security) to such personnel.

VITA’s staffing plan for the Integration stage emphasizes maintaining stability in operations and assignments, with minimal changes in current day-to-day environments—often characterized as a “same faces, same places” approach. As part of the transition process for each customer agency, VITA is using an eight-step confirmation procedure conducted jointly with the agency’s management. These procedures are consistent with commitments to JLARC to ensure that mapping results neither harm agencies’ ongoing application support nor burden VITA with staff not appropriate to its mission.

## Transformation Staffing

The Transformation Stage Staffing Plan will be developed in phases based on the selection and prioritization of Transformation initiatives, such as server and facility consolidation, desktop management, and so on.



## Section 5: Finances

### Funding Sources

VITA has three basic fund types—general funds, special funds, and internal service funds—each of which is described in further detail below.

#### General Funds

General funds are appropriated by the General Assembly and provide funding for:

- Project management and enterprise-wide strategic planning and policy programs (Strategic Management Services Directorate);
- Statewide coordination for geographic information systems and related applications (VGIN Division); and
- VITA start-up initiatives.

General funds must be used in the year appropriated and expenditures may not exceed appropriations. For FY 2004 it is projected that general funds will be used for about \$7.5 million of VITA's total projected expenditures.

#### Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. These funds provide funding for specific purposes and are recovered through external fee-based services purchased by businesses and individuals. Grants to Virginia localities for deployment of enhanced emergency telecommunications systems, for example, are funded by surcharges that appear on cellular telephone bills. Enterprise funds provide funding for the following specific purposes:

- Web portal and Web services (VIPNet);
- Grants to Virginia localities for deployment of enhanced emergency telecommunications systems (E-911 localities fund);
- Grants to wireless system providers for deployment of enhanced emergency telecommunications systems (E-911 providers fund); and
- Operating support to the E-911 program (Public Safety Communications Division).

For FY 2004, VITA is projecting Enterprise Funds spending to account for \$66.1 million of its total projected expenses.

## Internal Service Funds

Internal service funds are used by VITA to recover the costs of the services it provides to its customers. VITA charges for the services it provides through rates that are approved by the IT Investment Board and JLARC. For FY 2004, VITA expects to spend \$111.4 million related to its internal service fund activities.

## Special Funds

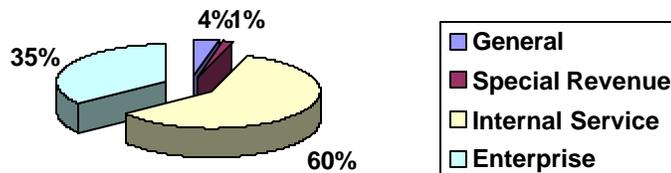
Special funds account for specific revenue sources that are restricted to finance particular functions and activities of the Commonwealth. They provide funding for the following specific purposes:

- Supplemental funds for geographic information systems and related applications (VGIN Division);
- Federal funds provided in late 2003 for the portable generator wiring project that is scheduled for completion in September 2004.

For FY 2004, VITA expects to spend \$2.5 million related to its special fund activities.

Exhibit 5-1 illustrates how VITA's projected \$187.5 million in FY 2004 expenditures are divided among the four fund sources

**Exhibit 5-1**  
**FY 2004 Expenditure Estimates by Fund**



## Financial Statements

Financial statements as of January 31, 2004, and projections (with the exception of general and special funds) through June 30, 2004, are provided on the following pages:

- Exhibit 5-2: Combined Balance Sheet for Internal Service Funds (FY 2004);
- Exhibit 5-3: Combined Statement of Revenues, Expenses, and Changes in Net Assets for Internal Service Funds (FY 2004);
- Exhibit 5-4: Combined Statement of Cash Flows for Internal Service Funds (FY 2004);
- Exhibit 5-5: Combined Statement of Revenues, Expenses, and Changes in Net Assets for Enterprise Funds (FY 2004); and
- Exhibit 5-5: Combined Statement of Revenues, Expenses, and Changes in Net Assets for General and Special Funds—through January 31, 2004.

For Internal Service Funds, financial projections indicate improvement over our previously reported budget for the year due to lower than anticipated spending. Additionally, the impact of decisions made to propose a new rate methodology to JLARC and to transition medium agencies in FY 2005 combined to reduce revenue and expense projections for FY 2004. For all other funds, revenues, and expenses are as anticipated.

**Exhibit 5-2**  
**Virginia Information Technologies Agency**  
**Combined Balance Sheet**  
**Internal Service Funds**

	<b>January 31, 2004</b>	<b>Pro Forma June 30, 2004</b>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash with Treasurer of Virginia	\$ 17,809,754	\$ 18,397,000
Petty Cash and Travel Advances	8,000	8,000
Accounts Receivable	18,705,956	17,250,000
Due From Other Funds	-	-
Due from Commonwealth of Virginia	-	-
Prepaid Expenses	3,188,049	3,188,000
<b>Total Current Assets</b>	<b>39,711,759</b>	<b>38,843,000</b>
<b>Noncurrent Assets</b>		
Depreciable Capital Assets, Net	19,011,683	17,221,000
<b>Total Assets</b>	<b>\$ 58,723,442</b>	<b>\$ 56,064,000</b>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 8,470,421	\$ 8,470,000
Notes Payable	5,514,072	5,731,000
Advances from Treasurer of Virginia	-	-
Accrued Compensated Absences	1,601,491	1,602,000
Other Deferred Revenue	10,438	10,000
Due to Federal Government	679,200	1,011,000
Other Liabilities	126,540	127,000
<b>Total Current Liabilities</b>	<b>16,402,162</b>	<b>16,951,000</b>
<b>Noncurrent Liabilities:</b>		
Notes Payable	10,411,143	8,308,000
Accrued Compensated Absences	1,474,163	1,474,000
<b>Total Noncurrent Liabilities</b>	<b>11,885,306</b>	<b>9,782,000</b>
<b>Total Liabilities</b>	<b>28,287,468</b>	<b>26,733,000</b>
<b>Net Assets</b>		
Investment in Capital Assets, Net of Related Debt	7,192,435	6,250,000
Unrestricted	23,243,539	23,081,000
<b>Total Net Assets</b>	<b>30,435,974</b>	<b>29,331,000</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 58,723,442</b>	<b>\$ 56,064,000</b>

**Exhibit 5-3**  
**Virginia Information Technologies Agency**  
**Combined Statement of Revenues, Expenses, & Changes in Net Assets**  
**Internal Service Funds**

	<u>January 31,</u> <u>2004</u>	<u>June 30,</u> <u>2004</u>
<b>Operating Revenues</b>		
Charges for Services	\$ 66,655,212	\$ 114,266,000
Total Operating Revenues	<u>66,655,212</u>	<u>114,266,000</u>
<b>Operating Expenses</b>		
Personal Expenses	16,568,027	28,856,000
Contractual Services	35,385,010	63,250,000
Supplies and Materials	179,610	308,000
Educational Assistance and Transfer Payments	-	-
Rent, Insurance & Other Related Charges	5,222,079	9,024,000
Depreciation	4,467,784	7,759,000
Expendable Equipment/Improvements	<u>543,909</u>	<u>932,000</u>
Total Operating Expenses	<u>62,366,419</u>	<u>110,129,000</u>
<b>Operating Income (Loss)</b>	<u>4,288,793</u>	<u>4,137,000</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest	(297,972)	(511,000)
Reimbursement to Federal Government	-	(331,000)
Revenue from the Sale of Recyclable Materials	910	2,000
Proceed from Insurance Recoveries	9,277	16,000
Sale of Surplus Property	-	-
Loss on Fixed Asset Disposal	<u>-</u>	<u>-</u>
Total Nonoperating Expenses	<u>(287,785)</u>	<u>(824,000)</u>
<b>Income (Loss) Before Transfers</b>	<u>4,001,008</u>	<u>3,313,000</u>
<b>Transfers</b>		
Transfers from Other Funds	-	-
Transfers to the General Fund of the Commonwealth	(25,220)	(442,000)
Transfers from the General Fund of the Commonwealth	<u>-</u>	<u>-</u>
Total Transfers	<u>(25,220)</u>	<u>(442,000)</u>
<b>Increase (Decrease) in Net Assets</b>	3,975,788	2,871,000
<b>Total Net Assets, July 1</b>	<u>26,460,186</u>	<u>26,460,000</u>
<b>Ending Total Net Assets</b>	<u><u>30,435,974</u></u>	<u><u>29,331,000</u></u>

**Exhibit 5-4**  
**Virginia Information Technologies Agency**  
**Combined Statement of Cash Flows**  
**Internal Service Funds**

	<b>January 31, 2004</b>	<b>Pro Forma June 30, 2004</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 63,894,703	\$ 112,961,469
Cash Payments to Suppliers for Goods & Services	(5,640,659)	(9,959,012)
Cash Payments for Contractual Services	(34,727,802)	(62,593,213)
Cash Payments to Employees for Services	(16,571,708)	(28,859,335)
Other	10,187	18,614
Net Cash Provided by Operating Activities	6,964,721	11,568,523
<b>Cash Flows from Noncapital Financing Activities</b>		
Cash Transferred to General Fund of the Commonwealth	(25,220)	(442,000)
Cash Payment to the Federal Government	-	-
(Repayment of) Advances from the Treasurer of Virginia	-	-
Net Cash Used in Noncapital Financing Activities	(25,220)	(442,000)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from Sale of Equipment	-	-
Acquisition of Capital Assets	(551,892)	(1,443,153)
Principal Paid on Notes Payable	(2,340,854)	(4,836,341)
Interest Paid on Notes Payable	(297,972)	(511,000)
Net Cash Used in Capital and Related Financing Activities	(3,190,718)	(6,790,494)
Net Increase in Cash	3,748,783	4,336,029
Cash, July 1	14,068,971	14,068,971
Ending Cash	\$ 17,817,754	\$ 18,405,000

**Exhibit 5-5**  
**Virginia Information Technologies Agency**  
**Combined Statement of Revenues, Expenses, & Changes in Net Assets**  
**Enterprise Funds**

Operating Revenues	\$38,462,378
Operating Expenses	<u>39,938,912</u>
Operating Income (Loss)	(1,476,534)
Nonoperating Revenues/Expenses	<u>-</u>
Income (Loss) Before Transfers	(1,476,534)
Transfers to the General Fund of the Commonwealth	<u>(10,295,098)</u>
Increase (Decrease) in Net Assets	(11,771,632)
Total Net Assets, July 1	<u>26,837,223</u>
Ending Total Net Assets	<u><u>\$15,065,591</u></u>

NOTE: The Enterprise Funds are E-911 and VIPNet.

# - E-911 transferred \$9,843,000 and VIPNet transferred \$452,000 to the General Fund of the Commonwealth per the Appropriation Act. The remaining \$1.5 million loss relates to the timing of expenses as compared to revenues, and is expected.

**Exhibit 5-6**  
**Virginia Information Technologies Agency**  
**Combined Statement of Revenues, Expenses, & Changes in Net Assets**  
**General and Special Funds**  
**Through January 31, 2004**

	<b>General Funds</b>	<b>Special Revenue Funds</b>
Operating Revenues	\$7,519,795	\$1,182,140
Operating Expenses	3,870,929	1,134,863
Operating Income (Loss)	3,648,866	47,277
Nonoperating Revenues/Expenses	-	-
Income (Loss) Before Transfers	3,648,866	47,277
Transfers	-	280,000
Increase (Decrease) in Net Assets	3,648,866	327,277
Total Net Assets, July 1	-	527,575
Ending Total Net Assets	<u>\$3,648,866</u>	<u>\$854,852</u>

NOTE: The General funds are for start-up costs and Strategic Management Services. Special Revenue funds are comprised of VGIN, IFA, E-Gov, GIS, Virginia Technology Infrastructure and Federal funds for the generator wiring project.

## Assumptions Used

Revenue and expense projections are based on a variety of assumptions, as detailed below. Projected FY 2005 and FY 2006 data has not been developed, pending spending estimate information from transitioning agencies and JLARC approval of VITA's revised rate methodology.

## Internal Service Funds

Revenue estimates are based on actual revenues through January 2004 and projected for the remainder of FY 2004. Expense estimates are based upon actual expenses through January 2004 with projections for the remainder of the fiscal year. The most recent monthly data was used to project certain expenses, such as payroll and depreciation. The impact of integration activities on FY 2004 estimates is considered to be less than one

percent of revenues or expenses, based upon the proposed interim rate model described in Section 3. These activities have not been included in the projections.

## Other Funds

A legislatively mandated transfer of \$9.8 million out of the E-911 account in Enterprise Funds combined with planned expenditures from fund balances results in an expected net loss.

For general funds, revenues are based upon appropriations. Because the funds must be used in the year appropriated, expenditures will not exceed appropriations at the end of the fiscal year.

At June 30, revenues and expenditures will be close to even for Special Revenue Funds, similar to the results shown for January.

## Cash Flow Projections

Cash flow projections are based upon January 2004 data. VITA is projecting to maintain its positive cash position from FY 2003 through FY 2004.