Data Center Service Program Cost Assessment Report

September 12, 2008

Prepared for the State of Texas, Department of Information Resources

Table of Contents

Section 1: Executive Summary 1

Section 2: Introduction 4

2.1 Background 4
2.2 Objectives 5

Section 3: Key definitions 6

Section 4: DCS cost assessment methodology 9

4.1 Cost Assessment Methodology 9
4.2 Execution Plan 10
4.2.1 Step 1 – Assess and validate the DCS business case 11
4.2.2 Step 2 – Review IBM Master Services Agreement 11
4.2.3 Step 3 – Establish cost model and document findings 12

Section 5: DCS Program cost assessment 13

5.1 Stub Period Cost Assessment 13
5.1.1 Actual Costs Summary 13
5.1.2 Adjusted Costs Summary 14
5.1.3 Stub Period Summary 15
5.2 Q1 Year 1 Cost Assessment 15
5.2.1 Actual Costs Summary 15
5.2.2 Adjusted Costs Summary 17
5.2.3 Q1 Year 1 Summary 17
5.3 Q2 Year 1 Cost Assessment 18
5.3.1 Actual Costs Summary 18
5.3.2 Adjusted Costs Summary 19
5.3.3 Q2 Year 1 Summary 20
5.4 Overall Summary 20
5.5 Recommendations 21

Appendix A: Cost Model Sample A-1

Appendix B: DCS Program Resource Unit Rates B-1

Appendix C: DCS Scorecard (Stub Period) C-1

Appendix D: DCS Scorecard (Q1, Year 1) D-1

Appendix E: DCS Scorecard (Q2, Year 1) E-1

Section 1: Executive Summary

The objectives of this report are to describe the cost assessment methodology used to evaluate the State of Texas's Data Center Service (DCS) Program and summarize the program's cost performance from April 2007 through February 2008. The executive summary is broken into four sections: background, cost assessment methodology and execution plan, cost assessment and summary.

Background

The state of Texas established the Department of Information Resources (DIR) in 1989 as part of the Information Resources Management Act. Recently, DIR has focused efforts on three contracting initiatives: the Cooperative Contracting Program, Telecommunications Services and the DCS Program.

In 2005 the Texas Legislature directed DIR to establish State-wide technology centers and to require agencies to transfer their data center and disaster recovery services to consolidated data centers. DIR identified the 27 largest, non-exempt agencies to participate in the data center consolidation and began collecting data from those agencies to establish financial and resource baselines for comparison purposes. DIR determined that an enterprise-level consolidation of data centers would result in greater standardization and would provide a higher, more consistent level of service across the participating agencies.

In March 2006, DIR signed interagency contracts with the participating agencies and kicked off a competitive procurement process. As part of this procurement effort, DIR developed a business case including both IBM's base services costs and other costs associated with the DCS Program. The business case projected the total savings from data center consolidation would be $178 million over a 7-year period. On May 31, 2006, DIR received offers from two consortia of major technology service providers, one led by International Business Machines (IBM) and one led by Northrop Grumman. Based on the evaluation of these offers, DIR entered into final negotiations with IBM and awarded the contract for data center and disaster recovery services to IBM in November 2006. On March 31, 2007, IBM assumed responsibility for operating the servers, mainframes, print/mail and other in-scope equipment owned or leased by the State. The period of performance (PoP) for the IBM contract is April 2007 through August 2014.

Cost assessment methodology and execution plan

The simplest approach to assessing cost performance is to calculate the actual costs and compare them to a previously defined baseline. The actual costs should include both direct and indirect costs so that stakeholders have a comprehensive understanding of the total costs. The

baseline can be either the cost prior to outsourcing or a business case used to justify the outsourcing initiative. Grant Thornton implemented this approach to assess the cost performance of the DCS Program. Specifically, Grant Thornton calculated the following cost factors:

- Data center costs prior to outsourcing and consolidation
- Business case estimates detailing the future savings from outsourcing and consolidation of the data centers
- Total actual costs of the DCS Program – including direct and indirect costs

Grant Thornton calculated the pre-outsourcing costs as part of the base case. Additionally, the business case included both IBM's base services costs and other costs associated with the DCS Program. Once these factors were calculated, Grant Thornton conducted a comparison between the actual costs and the pre-outsourcing/business case costs to determine the suitability of this approach. Grant Thornton and DIR determined that though the actual costs would provide stakeholders with an understanding of the total dollars expended on the DCS Program, however, they did not truly capture the real costs of the initiative. Based on this determination, Grant Thornton recommended the assessment utilize two cost summaries of the DCS Program including:

- **Actual Cost Summary -** The actual cost summary calculates the total dollars expended by the State for the DCS Program. The actual cost summary includes both the direct and indirect costs of the DCS Program. This summary makes no adjustments to IBM's monthly invoices to calculate the actual costs.
- **Adjusted Cost Summary** – The adjusted costs are similar to the actual costs but account for new services (organic growth) that have occurred since implementation in April 2007. The adjusted costs separate the cost of organic growth from the cost of base services and analyze them separately. Additionally, the adjusted costs back out specific charges and credits which do not represent real costs or savings to the State.

Thus, the total cost of the DCS Program varies depending on whether the actual or adjusted cost assessment is used. Depending on the audience, both summaries provide an accurate cost assessment of the DCS Program. If the audience is interested in the total savings realized by the State regardless of service, the actual cost summary would suffice. However, if the audience is interested in the real cost of the DCS Program the adjusted costs provide a more accurate assessment.

DCS Program April 2007 through February 2008 cost assessment

Depending on which cost summary is used, the State was either ahead of its savings projections established by the business case or on target. The actual cost summary depicts a DCS Program saving the State considerably more than

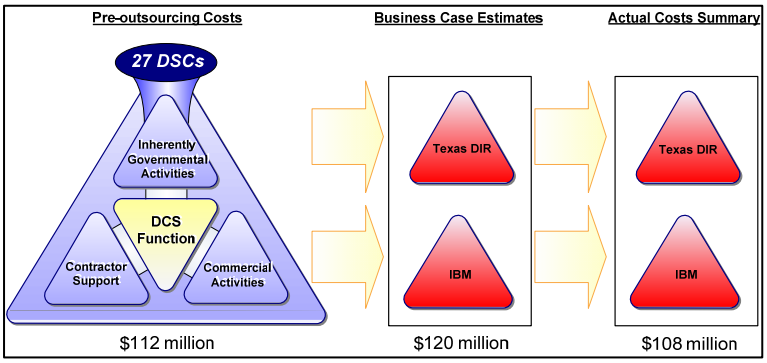

Figure 1-1: DCS Contract-to-Date Actual Costs

either the pre-outsourcing costs or business case estimates. Figure 1-1 depicts the total actual costs for the DCS Program from April 2007 through February 2008. Specifically, The Pre-outsourcing Costs of the 27 agency data centers was $112,690,806 from April 2007 through February 2008. DIR's business case projected $120,151,086 for the same period. The total actual cost of the DCS Program for that same period was $108,410,749 —a realized savings of $4,280,057 when compared to the pre-outsourcing costs.

However, the adjusted costs summary depicts a DCS Program meeting the savings projections established in the business case but currently more costly than the pre-outsourcing costs. Figure 1-2 depicts the adjusted cost summary for the DCS Program from April 2007 through February 2008. When adjusted to exclude credits – such as service-level credits or contingency credits – the DCS Program contract-to-date costs are $114,284,727 representing an increase in costs of $1,593,921. However, this increase was projected in the business case and was part of the initial cost increase associated with transition from 27 data center service providers to IBM.

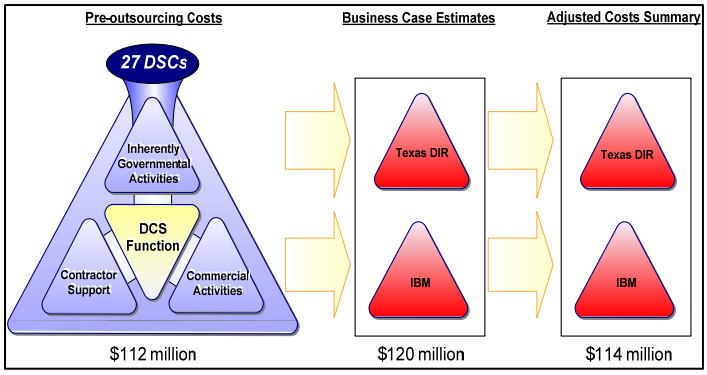

Figure 1-2: DCS Contract-to-Date Adjusted Costs

Finally, the State also is realizing significant savings on new data center services (organic growth). Since April 2007, the DCS Program has realized increased resource consumption of new data services. However, as a result of the blended rates charged by IBM, the State realizes significantly reduced unit costs as resource unit consumption increases. Specifically, the State realized $7,514,326 contract-to-date in organic growth. However, when compared to what these services would have cost pre-outsourcing ($8,041,076); the State has saved approximately $526,750 while providing new services to State agencies.

Summary

Overall, depending on which cost summary is used, the DCS Program is either exceeding or on track to meet the savings expectations established in the business case. Since the adjusted cost summary calculates the real cost of the DCS Program, the State should focus on these results to determine the real costs of the program. The adjusted cost summary results seem to confirm the following:

- As established in the business case, the DCS Program realized an increase in costs during the Stub Period as a result of transition from 27 services provider to IBM.
- During the first two quarters of Year 1, the DCS Program is less costly than the original 27 service providers and realized savings in line with the business case projections.
- As IBM implements the requirements of the contract, the DCS Program will provide expanded levels of data center and disaster recovery services at potentially lower overall costs to the State.

Section 2: Introduction

The purpose of this engagement is to establish a cost assessment methodology to evaluate the cost performance of the DCS Program. DIR will implement this cost assessment methodology on a quarterly basis to determine the overall savings realized from the DCS Program. This section addresses the background regarding the outsourcing and consolidation of the State's data centers and the objectives of the DIR cost assessment initiative.

2.1 Background

The State of Texas established the DIR in 1989 in response to the Information Resources Management Act. DIR's purpose is to coordinate and direct the use of information technology (IT) by Texas state agencies. Since 1989, DIR roles and responsibilities have evolved in response to changing mandates focused on five State-wide goals:

- Reduce government costs;
- Drive effective technology contracting;
- Leverage shared technology operations;
- Promote innovative use of technology that adds value; and
- Protect technology and information assets.

As part of the strategic plan to achieve these five goals, DIR focused efforts on three contracting initiatives: the Cooperative Contracting Program, Telecommunications Services and the DCS Program.

In 2005, the Texas Legislature directed DIR to establish State-wide technology centers and to require agencies to transfer their data center and disaster recovery services to consolidated data centers. To fulfill this mandate, DIR identified the 27 largest non-exempt agencies to participate in the data center consolidation and began collecting data from those agencies to establish financial and resource baselines for comparison purposes. DIR approached the consolidation of data centers from an enterprise perspective to enable the State to realize the most benefits and the greatest savings possible from the initiative. DIR determined that this approach would result in a greater level of standardization and would provide a higher, more consistent level of service across the participating agencies.

In March 2006, DIR signed interagency contracts with the participating agencies and kicked off a competitive procurement process with the issuance of a request for offer (RFO). As part of

that procurement process DIR established the pre-outsourcing baseline costs, or base case, that represented the actual costs of data centers at each of the 27 agencies for the current level of service. In response to the RFO, on May 31, 2006, DIR received offers from two consortia of major technology service providers, one led by IBM and one led by Northrop Grumman. Upon receipt of these offers, DIR initiated an evaluation and clarification process involving staff from all participating agencies. Based on the evaluation of these offers, DIR entered into final negotiations with IBM and awarded the contract for data center and disaster recovery services to IBM in November 2006.

As part of the procurement effort, DIR developed a business case to include both IBM's base services costs and other costs associated with the DCS Program. These other costs include start-up fees, cost-of-living adjustments, DIR cost recovery fees, network connectivity costs, etc. The business case projected a total savings from outsourcing of $178 million over a 7-year period. Figure 3-1 depicts the business case used to justify outsourcing the data centers to IBM.

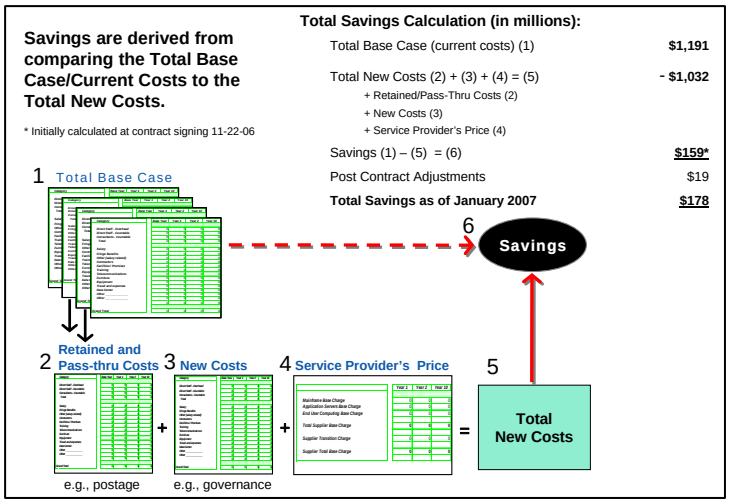

Figure 2-1: DCS Business Case

On March 31, 2007, IBM assumed responsibility for operating the servers, mainframes, print and mail and other in-scope equipment owned or leased by the State, with the exception of the equipment currently operated by Northrop Grumman. IBM was scheduled to take control of Northrop Grumman equipment beginning in fiscal year 2008. The PoP for the IBM contract is April 2007 through August 2014. Additionally, 3 option years could extend the PoP to August 2017.

2.2 Objectives

Given the importance of the DCS initiative and in recognition of the changing IT landscape, DIR must have a cost assessment methodology that can provide reliable answers regarding the success of the DCS Program. DIR had two objectives for this project: First, establish a cost assessment methodology to measure, calculate and track any savings resulting from the DCS initiative. Second, initially execute this cost assessment methodology for the stub period and for the first and second quarters of the DCS Program's PoP. This report provides a brief history of the data center outsourcing and consolidation, a walkthrough of the cost assessment methodology and an evaluation of the DCS Program's cost performance from April 2007 through February 2008.

Section 3: Key definitions

Section 2 defines terms specific to the DCS Program that are used in this report. These terms are important to understanding the intricacies of the DCS Program and the cost assessment methodology employed to assess its cost performance. Table 3-1 identifies and defines terms used in this report.

Term	Description
Actual Costs Summary	The actual costs summary calculates the total dollars expended by the State for the DCS Program. The actual costs do not take into account the existence of organic growth from the original baseline established in International Business Machine's (IBM's) contract. All IBM monthly credits and charges are included in this summary.
Adjusted Costs Summary	The adjusted costs represent the "real" DCS Program cost. This analysis separates organic growth cost from the base services cost and analyzes each separately. Additionally, this analysis backs out credits that are not true savings, such as service-level credits or deliverable credits.
Additional Resource Charge (ARC)	ARCs are incremental credits established for use of services above the monthly resource unit baselines established by the contract.
Base Case	Pre-outsourcing costs are the cost of data center services performed by the 27 agencies prior to outsourcing. These costs also are referred to as "pre-outsourcing costs".
Baseline Adjustment	Baseline adjustments represent one-time adjustments to the total resource units consumed by IBM. Baseline adjustments may be the result of scheduled "true-ups" by IBM or of unscheduled adjustments to the baselines established in the contract. Though they may result in increases in resource consumption, baseline adjustments are not organic growth. Since the original baselines provided by the agencies were estimates, changes in some

Term	Description
	of those baselines were inevitable.
Bid Rates	Bid rates are the unit rates calculated by dividing IBM's base services costs by the resource unit baselines in the contract.
Blended Rates	Blended rates are the unit rates calculated by dividing IBM's actual monthly charges, which include ARC and Reduced Resource Credit (RRC), by the actual resource unit consumption.
Business Case	The business case estimated the cost of outsourcing the data centers to IBM. DIR developed a business case to justify outsourcing and consolidation of the data centers to one service provider by calculating the potential savings that the State would realize. This estimate included both direct and indirect costs, but did not include organic growth. DIR completed an initial business case in November 2006 that estimated savings at $159 million and updated it in March 2007 with an estimate of $178 million over the contract life.
Contingency Resource Credit	Contingency resource credits are monthly credits from IBM to DIR when State employees perform services defined in the Master Services Agreement (MSA). IBM reimburses the State for these resources at 150 percent of the employees' hourly labor rates.
Cyclical Fluctuation	Cyclical fluctuations are typical ebbs and flows of resource unit consumption. Cyclical fluctuations should occur at somewhat regular intervals and are not organic growth.
Deliverable Credit	Deliverable credits are the monetary amounts that IBM is obligated to pay to DIR (or to apply against monthly charges) in the event of deliverable defaults.
DIR Cost Recovery Rate	DIR charges Texas agencies a cost recovery rate for services provided through DIR contracting initiatives. DIR's cost recovery rate for the DCS Program is 2.95 percent, applied to specified monthly fees charged by IBM.
Network Connectivity Charge	Network connectivity charges are the network costs associated with the data centers. DIR estimated the network connectivity charges when developing the business case. For the purposes of this cost assessment,

Term	Description
	the actual network connectivity charges were calculated and included in the total cost of the DCS Program.
Organic Growth	Organic growth represents a fundamental shift in demand for data center services. Organic growth in resource consumption is sustained over time, otherwise it would be a baseline adjustment or cyclical fluctuation. Organic growth can represent both new data services as well as long-term growth in current data services.
Pre-outsourcing Costs	Pre-outsourcing costs are the cost of data center services performed by the 27 agencies prior to outsourcing. These costs also are referred to as the "base case."
Pre-outsourcing Rates	Pre-outsourcing rates are the unit rates calculated by dividing the pre-outsourcing costs by the resource unit baselines established by each agency during outsourcing.
Resource Unit	A resource units is a measurable device, unit of consumption or other unit or resource utilization associated with the data center services that is used to calculate charges.
Reduced Resource Credit	RRCs are the incremental credits set forth for the use of services below the monthly resource unit baselines established by the contract.
Reimbursement Credits	Reimbursement credits are credits from IBM to DIR for use of material owned by third parties; provided under license or lease to IBM, DIR or any DIR customer; and used to provide or receive DCS Program services. These costs are part of the transition process to a new service provider and should not occur moving forward.
Request for Service Charge	Request-for-service charges are costs for increases in data center services. These charges are considered organic growth as they represent shifts in demand for services. These charges are add on services that are outside of the standard resource units.
Service-Level Credits	Service-level credits are the monetary amounts that IBM is obligated to pay to DIR (or to apply against monthly charges) in the event of service-level defaults.

Table 3-1: Key Definitions

Section 4: DCS cost assessment methodology

This section provides a walkthrough of the cost assessment methodology employed to evaluate the DCS Program as well as the steps Grant Thornton and DIR took to execute the methodology. Grant Thornton and DIR developed a methodology based on the actual and adjusted costs of the DCS Program and compared these costs to both the business case and the cost of the data centers prior to outsourcing.

4.1 Cost Assessment Methodology

One of the best practices in outsourcing is continually assessing the cost performance of a contracting initiative. The simplest approach to assessing cost performance is to calculate the actual costs and compare them to a previously defined baseline. The actual costs should include both direct and indirect costs so that stakeholders have a comprehensive understanding of the total costs. The baseline can be either the cost prior to outsourcing or a business case used to justify the outsourcing initiative. Grant Thornton implemented this approach to assess the cost performance of the DCS Program. Specifically, Grant Thornton calculated the following cost factors:

- Data center costs prior to outsourcing and consolidation
- Business case estimates detailing the future savings from outsourcing and consolidation of the data centers
- Total actual costs of the DCS Program – including direct and indirect costs

Grant Thornton calculated the pre-outsourcing costs as part of the base case described in sub-section 2.1. To calculate the pre-outsourcing costs, each agency provided DIR a detailed breakout of the costs of the assumed base services that would be in the contract including: general services, equipment and software, server and mainframe services and production, print and mail servers. Additionally, as described in sub-section 2.1, the business case included both IBM's base services costs and other costs associated with the DCS Program. These other costs include start-up fees, cost-of-living adjustments, DIR cost recovery fees, network connectivity costs, etc.

Once these factors were calculated, Grant Thornton conducted a comparison between the actual costs and the pre-outsourcing/business case costs to determine the suitability of this approach. Grant Thornton and DIR determined that though the actual costs would provide stakeholders with an understanding of the total dollars expended on the DCS Program, they did not truly capture the real costs of the initiative. Specifically, the actual costs do not account for

new data services (organic growth) provided by IBM. Additionally, the actual costs treat all credits issued by IBM to the State as cost savings, which may not be correct. Based on this determination, Grant Thornton recommended performing two assessments of the DCS Program using an actual and adjusted cost summary as compared to both the business case and the pre-outsourcing costs.

Actual Cost Summary - The actual cost summary calculates the total dollars expended by the State for the DCS Program. The actual cost summary includes both the direct and indirect costs of the DCS Program. This summary makes no adjustments to IBM's monthly invoices to calculate the actual costs.

Adjusted Cost Summary – The adjusted costs are similar to the actual costs but account for new services (organic growth) that have occurred since implementation in April 2007. The adjusted costs separate the cost of organic growth from the cost of base services and analyze them separately. Additionally, the adjusted costs back out specific charges and credits which do not represent real costs or savings to the State.

To calculate the total cost of organic growth, first, Grant Thornton established the pre-outsourcing unit rates associated with each resource unit. To calculate the pre-outsourcing unit rates, Grant Thornton used the total pre-outsourcing costs and divided them by the baseline resource units. Next Grant Thornton and DIR reviewed each of IBM's monthly invoices to identify those units which realized organic growth. To determine the total pre-outsourcing costs of the organic growth, Grant Thornton multiplied the total monthly organic growth by its respective pre-outsourcing unit rate. To determine the total adjusted costs of organic growth, Grant Thornton multiplied the total monthly organic growth by its respective blended unit rate.

Thus, the total cost of the DCS Program varies depending on whether the actual or adjusted cost assessment is used. Depending on the audience, both summaries provide an accurate cost assessment of the DCS Program. If the audience is interested in the total saving realized by the State regardless of service, the actual cost summary would suffice. However, if the audience is interested in the real cost of the DCS Program the adjusted costs provide a more accurate assessment.

4.2 Execution Plan

Once the cost assessment methodology was defined, Grant Thornton executed the following steps to calculate the actual and adjusted DCS Program costs:

- Step 1 - Assess and validate DCS business case
- Step 2 - Review IBM Master Services Agreement
- Step 3 - Establish a cost model and document findings

The result of these steps was a repeatable methodology for calculating the realized cost savings and the real costs of the DCS Program. Grant Thornton developed the findings in Section 4: DCS Program cost assessment for April 2007 through February 2008 based on these steps. Moving forward, DIR intends to implement this methodology on a quarterly basis.

Below is a description of Grant Thornton's findings from the steps listed above. These sub-sections provide more detail into the differences between the actual and adjusted costs and the limitations of this cost assessment methodology.

4.2.1 Step 1 – Assess and validate the DCS business case

The first step in evaluating the overall cost performance of the DCS Program was to assess and validate DIR's business case. As noted earlier, DIR developed a comprehensive business case as part of the outsourcing effort to estimate the savings that the State may realize from consolidating the data centers under one services provider. The business case estimated both IBM's base service costs (i.e., direct costs) and other indirect DCS Program costs. The indirect costs and credits include:

- DIR cost recovery rate
- State compensation payout
- Network connectivity charge
- Space reclamation and energy savings credit
- State tax revenue

DIR's business case provided a thorough estimate of the base services and indirect costs associated with DCS Program. After reviewing the business case, Grant Thornton and DIR identified adjustments based on the realities that occurred at implementation in April 2007. Specifically, some agencies delayed their implementation while other agencies were added, thus adjusting the overall estimate of the business case. Additionally, Grant Thornton updated the indirect cost estimates with actual costs for the following:

- DIR cost recovery rate
- State compensation payout
- Network connectivity charge
- Space reclamation and energy savings credit

However, DIR doe not currently have a process for calculating the tax revenue realized by the State from the IBM contract. Thus, the business case includes the estimates until DIR can develop to accurately calculate the tax revenue.

4.2.2 Step 2 – Review IBM Master Services Agreement

The second step was to review the IBM MSA and associated monthly invoices to develop an understanding the cost elements and principles within the IBM contract. It was determined that IBM invoices a monthly fee for data center services based on the cost of base services adjusted for changes in resource unit consumption, deviations from prescribed service and deliverable levels, additional requests for services and other one-time adjustments. Generally, adjustments to base services costs include:

- ARC and RRCs
- Service-level credits
- Deliverable credits
- Reimbursement credits
- Requests for service charges
- Contingency resource credits
- Hardware service charges

During this review, Grant Thornton and DIR identified certain credits and charges that should not be included in the adjusted costs as these costs do not represent true savings or costs to the State. For example credits service level and deliverable credits represent deviations from prescribed contract baselines. Although IBM credits their monthly invoices when these deviations occur, the State should not consider these credits as savings because they represent real costs in lost productivity and efficiency at each of the agencies. Grant Thornton removed all credits that fell into this category. Appendix A: Cost Model Sample provides a crosswalk between the actual and adjusted cost summaries detailing how specific credits and charges are applied to both summaries.

Additionally, Grant Thornton and DIR analyzed IBM resource unit consumption by month from April 2007 through February 2008 to identify and quantify organic growth. Once quantified, Grant Thornton calculated the current cost of the growth using the monthly IBM blended rates. Grant Thornton removed the cost of organic growth from the adjusted costs and compared it separately to the estimated pre-outsourcing cost of organic growth. Grant Thornton and DIR included the request for service charges as organic growth costs since they represent new data services. Appendix B: DCS Program Resource Unit Rates details the specific pre-outsourcing and blended rates by resource unit.

4.2.3 Step 3 – Establish cost model and document findings

After validating the business case and establishing an understanding of the direct and indirect costs of the DCA Program, the third step was to develop a cost model or DCS Program Scorecard that would implement the cost assessment methodology described earlier. The cost model replicates both the actual and adjusted cost summaries. Grant Thornton built the DCS Program Scorecard in Microsoft Excel and attached it as an addendum to this report.

Section 5: DCS Program cost assessment

This section describes the cost performance of the DCS Program for the stub period and for the first and second quarters of Year One. Each sub-section below describes the actual and adjusted cost summaries of the DCS Program. This section separates the cost summaries into three groups: Stub Period; Quarter 1 (Q1) Year 1; and Q2 Year 1. Finally, Appendices B, C and D present the entire DCS Program's scorecard by quarterly assessment.

5.1 Stub Period Cost Assessment

5.1.1 Actual Costs Summary

The stub period was the first period of performance of the IBM contract. The stub period encompassed April 2007 through August 2007. The business case estimate of DCS Program costs for the stub period was $45,114,898. The business case estimated that during the stub period the State would realize an increase of $3,286,067 as a result of outsourcing the data centers to IBM. The actual total cost of the stub period was $33,293,898, resulting in a decrease in costs of $11,821,001 or 26.20 percent over pre-outsourcing costs. Table 5-1 displays the actual costs by month for the stub period compared to the costs estimated in the business case.

Cost Type	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Business Case Estimated Cost	$9,022,980	$9,022,980	$9,022,980	$9,022,980	$9,022,980	$45,114,898
Actual DCS Program Costs	$5,151,172	$8,975,730	$7,188,729	$7,928,048	$4,050,219	$33,293,898
Actual (Cost)/Savings	*$3,871,808*	*$47,249*	*$1,834,251*	*$1,094,932*	*$4,972,761*	*$11,821,001*
Percent Savings	42.91%	0.52%	20.33%	12.13%	55.11%	26.20%

Table 5-1: Actual Cost vs. Estimated Business Case

The estimated pre-outsourcing cost of the data centers for the stub period was $39,916,171. The actual costs of the DCS Program were $33,293,898. When compared to the pre-outsourcing costs, the State realized actual total savings of $6,622,274 or 16.59 percent. Table 5-2 displays the actual costs by month for the stub period compared to the estimated pre-outsourcing costs for the same period.

Cost Type	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Total Cost of Pre-outsourcing	$7,983,234	$7,983,234	$7,983,234	$7,983,234	$7,983,234	$39,916,171
Total Actual Costs of the DCS Program	$5,151,172	$8,975,730	$7,188,729	$7,928,048	$4,050,219	$33,293,898
Total Actual (Cost)/Savings	*$2,832,062*	*($992,496)*	*$794,505*	*$55,187*	*$3,933,015*	*$6,622,274*
Percent Savings	35.48%	-12.43%	9.95%	0.69%	49.27%	16.59%

Table 5-2: Actual Cost vs. Pre-outsourcing Costs

The increase in actual savings over either the estimates in the business case or estimated pre-outsourcing costs stems mainly from four sources:

- ARC and RRC – $3,976,925
- Third-party reimbursements – $8,236,989
- Service-level credits – $1,787,501
- Contingency credits – $1,270,000

Although the business case accounted for some of these credits, changing realities at implementation resulted in lower resource consumption than the projected baseline in the IBM contract, in deviations from service levels (service-level credits) and delays in IBM hiring that required State employees to "back-fill" positions associated with the contract (contingency credits). Although the State realized these credits in the form of "cost savings," the credits represent real costs to the DCS Program and were removed from the adjusted costs.

5.1.2 Adjusted Costs Summary

As noted earlier, the adjusted costs summary separates the cost of data center base services from that of new services (organic growth) and compares the costs of both base and new services to the pre-outsourcing costs of similar services. To review, the adjusted costs represent just the cost of base services without the following:

- Service-level credits
- Deliverable credits
- Reimbursement credits
- Request-for-service charges
- Contingency resource credits
- Delayed start credits

The estimated pre-outsourcing costs for the stub period were $39,916,171. The adjusted cost of base services was $43,621,725. Based on the adjusted costs, the State incurred an increase in real costs of base services during the stub period of $3,705,553 or -9.28 percent, which is in line with what the business case projected. Table 4-3 displays the adjusted costs by month for DCS Program base services compared to the pre-outsourcing costs of base services.

Cost Type	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Total Pre-outsourcing Cost of Base Services	$7,983,234	$7,983,234	$7,983,234	$7,983,234	$7,983,234	$39,916,171
Total Adj. Costs of the DCS Program	$5,408,433	$10,598,593	$7,890,795	$8,453,389	$11,270,516	$43,621,725
Total Base Services (Cost)/Savings	*$2,574,802*	*($2,615,359)*	*$92,440*	*($470,154)*	*($3,287,282)*	*($3,705,553)*
Percent Savings	32.25%	-32.76%	1.16%	-5.89%	-41.18%	-9.28%

Table 5-3: Adjusted Base Services Cost Comparison

To calculate the pre-outsourcing organic growth costs, multiply the pre-outsourcing unit rates by the total monthly resource units defined as organic growth. The estimated pre-outsourcing costs for organic growth for the stub period were $1,030,495. To calculate the adjusted organic growth costs, multiply IBM's monthly blended rates by the total monthly resource units identified as organic growth. Additionally, the organic growth costs include the monthly request for services charges from IBM. The adjusted costs of organic growth were $1,029,748, which resulted in $747 in cost savings to the State.

Cost Type	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Total Pre-outsourcing Growth Cost	$47,275	$0	$549,905	$711	$432,605	$1,030,495
Total Adj. Growth Cost	$46,240	$0	$548,002	$627	$434,880	$1,029,748
Total Base Services (Cost)/Savings	*$1,035*	*$0*	*$1,903*	*$84*	*($2,275)*	*$747*
Percent Savings	2.19%	0.00%	0.35%	11.85%	-0.53%	0.07%

Table 5-4: Adjusted Organic Growth Cost Comparison

5.1.3 Stub Period Summary

The total savings realized by the State during the stub period were $6,622,274, when the actual costs of the DCS Program were compared to the cost of the data centers prior to outsourcing. However, certain monthly credits from IBM do not represent real costs to the State. Rather these credits represent cost avoidance resulting from deviations from prescribed service levels in the contract. Therefore, the costs were adjusted to calculate the real costs of the DCS Program. Based on these adjustments, the DCS Program incurred cost increases of $3,705,553 during the Stub Period which is in line with the business case projections.

5.2 Q1 Year 1 Cost Assessment

5.2.1 Actual Costs Summary

Year 1 – September 2007 through August 2008 – is the second performance period of the IBM MSA. Q1 encompasses September 2007 through November 2007. The business case estimated

DCS Program costs for Q1 Year 1 at $37,518,094. The business case estimated that during Year 1, the State would realize a decrease in costs of $4,512,569 as a result of outsourcing the data centers to IBM. Actual costs of Q1 Year 1 were $35,732,143, resulting in a decrease in costs of $1,794,951 or 4.78 percent. The business case estimated the costs from April 2007 through November 2007 (contract-to-date) at $82,632,992. The actual contract-to-date costs at the end of Q1 Year 1 were $69,017,041, reflecting a decrease in costs of $13,615,952 or 16.48 percent over the business case estimates. Table 5-5 displays the actual costs by month for Q1 Year 1 compared to the business case estimated costs.

Cost Type	Sep-07	Oct-07	Nov-07	Q1 Total	Year One Total	Contract-to-Date Total
Business Case Estimated Cost	$12,506,031	$12,506,031	$12,506,031	$37,518,094	$37,518,094	$82,632,992
Actual DCS Program Costs	$11,472,030	$11,765,362	$12,485,751	$35,723,143	$35,723,143	$69,017,041
Actual (Cost)/Savings	*$1,034,001*	*$740,669*	*$20,280*	*$1,794,951*	*$1,794,951*	*$13,615,952*
Percent Savings	8.27%	5.92%	0.16%	4.78%	4.78%	16.48%

Table 5-5: Actual Cost vs. Business Case Costs

The estimated pre-outsourcing cost of the data centers for Q1 Year 1 was $36,387,317. The actual costs of the DCS Program were $35,732,143. In comparison to the pre-outsourcing costs for this period, the State realized actual savings of $664,174 or 1.83 percent for Q1 Year 1. Contract-to-date, the State was saving $7,286,448, based on pre-outsourcing costs of $76,303,488 versus actual costs of $69,017,041. Table 5-6 displays the actual costs by month for Q1 Year 1 compared to the estimated pre-outsourcing costs.

Cost Type	Sep-07	Oct-07	Nov-07	Q1 Total	Year One Total	Contract-to-Date Total
Total Cost of Pre-outsourcing	$12,129,106	$12,129,106	$12,129,106	$36,387,317	$36,387,317	$76,303,488
Total Actual Costs of the DCS Program	$11,472,030	$11,765,362	$12,485,751	$35,723,143	$35,723,143	$69,017,041
Total Actual (Cost)/Savings	*$657,076*	*$363,744*	*($356,645)*	*$664,174*	*$664,174*	*$7,286,448*
Percent Savings	5.42%	3.00%	-2.94%	1.83%	1.83%	9.55%

Table 5-6: Actual Cost vs. Pre-outsourcing Costs

For Q1 Year 1, the increase in actual savings versus the estimated business case or pre-outsourcing costs stems mainly from four sources:

- ARC and RRC – $615,537
- Third-party reimbursements – $351,142
- Service-level credits – $1,176,965
- Contingency credits – $234,246

As with the stub period, although the State realized these credits in the form of "cost savings," these credits represent real costs to the DCS Program and were removed from the adjusted costs.

5.2.2 Adjusted Costs Summary

The estimated pre-outsourcing costs for Q1 Year 1 were $36,387,317. The adjusted costs of base services were $34,520,619. Based on the adjusted costs, the total real savings to the State on base services during Q1 Year 1 were $1,866,698 or 5.13 percent, which is more than what business case projected by quarter ($1,127,892). Table 5-7 displays the adjusted DCS Program base services costs by month compared to the estimated pre-outsourcing costs of base services.

Cost Type	Sep-07	Oct-07	Nov-07	Q1 Total	Year One Total	Contract-to-Date Total
Total Pre-outsourcing Cost of Base Services	$12,129,106	$12,129,106	$12,129,106	$36,387,317	$36,387,317	$76,303,488
Total Adj. Costs of the DCS Program	$11,500,867	$11,640,298	$11,379,453	$34,520,619	$34,520,619	$78,142,344
Total Base Services (Cost)/Savings	*$628,238*	*$488,807*	*$749,652*	*$1,866,698*	*$1,866,698*	*($1,838,855)*
Percent Savings	5.18%	4.03%	6.18%	5.13%	5.13%	-2.41%

Table 5-7: Adjusted Base Services Cost Comparison

The estimated pre-outsourcing costs of organic growth for Q1 Year 1 were $2,813,691. The adjusted costs of organic growth were $2,678,000, resulting in $135,691 in cost savings to the State. Table 4-8 displays the adjusted organic growth costs by month for the DCS Program base services compared to estimated pre-outsourcing organic growth costs.

Cost Type	Sep-07	Oct-07	Nov-07	Q1 Total	Year One Total	Contract-to-Date Total
Total Pre-outsourcing Growth Cost	$385,582	$877,715	$1,550,394	$2,813,691	$2,813,691	$3,844,186
Total Adj. Growth Cost	$377,350	$841,671	$1,458,979	$2,678,000	$2,678,000	$3,707,748
Total Base Services (Cost)/Savings	*$8,232*	*$36,045*	*$91,414*	*$135,691*	*$135,691*	*$136,438*
Percent Savings	2.13%	4.11%	5.90%	4.82%	4.82%	3.55%

Table 5-8: Adjusted Organic Growth Cost Comparison

5.2.3 Q1 Year 1 Summary

The total savings realized by the State during Q1 Year 1 were $664,174 when the actual costs of the DCS Program were compared to the cost of the data centers prior to outsourcing. From April 2007 through November 2007, the State has realized savings of $7,286,448 when the actual costs of the DCS Program were compared to the cost of the data centers prior to outsourcing. However, as with the stub period, certain monthly credits from IBM do not represent real costs to the State instead they represent cost avoidance. Rather these credits

represent cost avoidance resulting from deviations from prescribed service levels in the contract. Therefore, the costs were adjusted to calculate the real costs of the DCS Program. As projected in the business case, when the real costs are considered, the DCS Program is more cost effective than the data centers were prior to outsourcing.

5.3 Q2 Year 1 Cost Assessment

5.3.1 Actual Costs Summary

Q2 covers December 2007 through February 2008. The business case estimated the costs of the DCS Program for the Q2 Year 1 at $37,518,094. The business case estimated that the State would realize a decrease in costs of $4,512,569 as a result of outsourcing the data centers to IBM during Year 1. The actual total costs of Q2 Year 1 were $39,393,708 resulting in an increase in costs of $1,875,614 or -5.00 percent. The business case estimated the costs from April 2007 through February 2007 (contract-to-date) at $120,151,086. The actual contract-to-date costs at the end of Q2 Year 1 were $108,410,749, reflecting a decrease in costs of $11,740,338 or 9.77 percent over the business case estimates. Table 5-9 displays the actual costs by month for Q2 Year 1 as compared to the estimated costs in the business case.

Cost Type	Dec-07	Jan-08	Feb-08	Q2 Total	Year One-to-Date	Contract-to-Date Total
Business Case Estimated Cost	$12,506,031	$12,506,031	$12,506,031	$37,518,094	$75,036,188	$120,151,086
Actual DCS Program Costs	$11,966,047	$12,820,261	$14,607,400	$39,393,708	$75,116,851	$108,410,749
Actual (Cost)/Savings	*$539,984*	*($314,230)*	*($2,101,368)*	*($1,875,614)*	*($80,663)*	*$11,740,338*
Percent Savings	4.32%	-2.51%	-16.80%	-5.00%	-0.11%	9.77%

Table 5-9: Actual Costs vs. Business Case Costs Comparison

The estimated pre-outsourcing cost of the data centers for Q2 Year 1 was $36,387,317. The actual costs of the DCS Program were $39,393,708. In comparison to the pre-outsourcing costs for this period, the State incurred an increase in costs of $3,006,391 or 8.26 percent for Q2 Year 1. Contract-to-date, the State was saving $4,280,057, based on pre-outsourcing costs of $112,690,806 versus actual costs of $108,410,749. Table 5-10 displays the actual costs by month for Q2 Year 1 as compared to the Pre-outsourcing costs.

Cost Type	Dec-07	Jan-08	Feb-08	Q2 Total	Year One Total	Contract-to-Date Total
Total Cost of Pre-outsourcing	$12,129,106	$12,129,106	$12,129,106	$36,387,317	$72,774,634	$112,690,806
Total Actual Costs of the DCS Program	$11,966,047	$12,820,261	$14,607,400	$39,393,708	$75,116,851	$108,410,749
Total Actual (Cost)/Savings	*$163,059*	*($691,155)*	*($2,478,294)*	*($3,006,391)*	*($2,342,217)*	*$4,280,057*
Percent Savings	1.34%	-5.70%	-20.43%	-8.26%	-3.22%	3.80%

Table 5-10: Actual Costs vs. Pre-outsourcing Costs Comparison

For Q2 Year 1, the actual costs incurred by the State increased as compared to the business case but decreased slightly when compared to the pre-outsourcing costs of data center services. A review of the February 2008 invoice reveals that the increase costs stem from the following source:

- Purchase of Northrop Grumman (NG) Owned Equipment – $1,161,952 in total charges

February's charge was the largest charge in Year One with the average monthly charge for NG owned equipment at $221,089. However, the purchases of NG owned equipment were one time costs that should end in Year 1.

5.3.2 Adjusted Costs Summary

The estimated pre-outsourcing costs for Q2 Year 1 were $36,387,317. The adjusted costs of base services were $36,142,383. Based on the adjusted costs, the total real savings to the State on base services during Q2 Year 1 were $244,934 or 0.67 percent. For Year 1 to date, the DCS Program saw real costs decrease by $2,111,632 or 2.90%, which is slightly less than the business case projected through the first two quarters of Year 1 ($2,255,784). Table 4-11 displays the adjusted DCS Program base services costs by month compared to the estimated pre-outsourcing costs of base services.

Cost Type	Dec-07	Jan-08	Feb-08	Q2 Total	Year One Total	Contract-to-Date Total
Total Pre-outsourcing Cost of Base Services	$12,129,106	$12,129,106	$12,129,106	$36,387,317	$72,774,634	$112,690,806
Total Adj. Costs of the DCS Program	$11,602,448	$11,709,228	$12,830,707	$36,142,383	$70,663,002	$114,284,727
Total Base Services (Cost)/Savings	*$526,658*	*$419,878*	*($701,601)*	*$244,934*	*$2,111,632*	*($1,593,921)*
Percent Savings	4.34%	3.46%	-5.78%	0.67%	2.90%	-1.41%

Table 5-11: Adjusted Base Services Cost Comparison

The estimated pre-outsourcing costs of organic growth for Q2 Year 1 were $4,196,890. The adjusted costs of organic growth were $3,806,577, resulting in $390,312 in cost savings to the

State. Table 4-12 displays the adjusted organic growth costs by month for the DCS Program's base services as compared to the Pre-outsourcing costs of organic growth for Q2 Year 1.

Cost Type	Dec-07	Jan-08	Feb-08	Q2 Total	Year One Total	Contract-to-Date Total
Total Pre-outsourcing Growth Cost	$747,273	$1,401,007	$2,048,610	$4,196,890	$7,010,581	$8,041,076
Total Adj. Growth Cost	$643,020	$1,237,034	$1,926,523	$3,806,577	$6,484,578	$7,514,326
Total Base Services (Cost)/Savings	*$104,253*	*$163,973*	*$122,086*	*$390,312*	*$526,003*	*$526,750*
Percent Savings	13.95%	11.70%	5.96%	9.30%	7.50%	6.55%

Table 5-12: Adjusted Organic Growth Cost Comparison

5.3.3 Q2 Year 1 Summary

The DCS Program realized an increase in costs during Q2 Year 1 of $3,006,391 when the actual costs of the DCS Program were compared to the cost of the data centers prior to outsourcing. From April 2007 through February 2007, the State has realized savings of $4,280,057 when the actual costs of the DCS Program were compared to the cost of the data centers prior to outsourcing. However, as with the stub period and Q1 Year 1, certain monthly credits from IBM do not represent real costs to the State instead they represent cost avoidance. Rather these credits represent cost avoidance resulting from deviations from prescribed service levels in the contract. Therefore, the costs were adjusted to calculate the real costs of the DCS Program. As with the stub period and Q1 Year 1, when the real costs are considered, the DCS Program is more cost effective than the data centers were prior to outsourcing.

5.4 Overall Summary

Overall, the cost assessment methodology demonstrates that the State realized increased costs during the Stub Period as a result of transitioning from 27 data center service provider to IBM. However, during the first two quarters of Year 1, the DCS Program has proven less costly than the original 27 service providers and the State has realized savings in line with what the business case projected. To summarize, the business case projected $120,151,086 in total costs from April 2007 through February 2008. However, the DCS Program actual costs were only $108,410,749 for the same period —a realized savings of $11,740,338 versus the business case estimates. When DCS Program costs are adjusted to exclude certain credits, the costs from April 2007 through February 2008 were $114,284,727 – resulting in an increase in costs of $1,593,921 when compared to the pre-outsourcing costs ($112,690,806). However, a drill down on the first two quarters of Year 1 shows savings of $1,866,698 and $244,934 for Q1 and Q2 respectively.

The State also is realizing significant savings on new data center services (organic growth). As a result of the blended rates charged by IBM, the State realizes significantly reduced unit costs as resource unit consumption increases. According to the assessment above, the State realized increases in some data services since implementation in April 2007. Specifically, the State has realized organic growth in data center services resulting in costs of $7,514,326 from April 2007 through February 2008. When compared to what the organic growth would have cost pre-

outsourcing ($8,041,076), the State has saved approximately $526,750 while providing new services to State agencies.

Overall, depending on which cost summary is used, the DCS Program is either exceeding or on track to meet the savings expectations established in the business case. Since the adjusted cost summary calculates the real cost of the DCS Program, the State should focus on these results to determine the real costs of the program. The adjusted cost summary results seem to confirm the following:

- As established in the business case, the DCS Program realized an increase in costs during the Stub Period as a result of transition from 27 services provider to IBM.
- During the first two quarters of Year 1, the DCS Program is less costly than the original 27 service providers and realized savings in line with the business case projections.
- As IBM implements the requirements of the contract, the DCS Program will provide expanded levels of data center and disaster recovery services at potentially lower overall costs to the State.

5.5 Recommendations

As part of the quarterly process, DIR should review and as necessary update the cost methodology described in this report. DIR should consider the following to improve the overall value of the quarterly assessments of their outsourcing initiatives:

1. **Conduct an independent quarterly review of the DCS Program.** Internal quarterly reviews can take significant time away from other initiatives. An independent quarterly review may provide DIR with the flexibility to focus internal resources on other important initiatives while providing the required transparency into DCS Program performance that key stakeholders demand.
2. **Develop a system for calculating the tax revenue realized by the State as a result of the IBM contract.** The increase in tax revenue resulting from the IBM contract represents decreases in costs associated with the DCS Program. This assessment relied upon tax estimates in the business case but future assessments should include the totals of actual tax revenue paid by IBM.

Appendix A: Cost Model Sample

	Stub Period		Q1 Year 1		Q2 Year 1		Contract-to-Date	
Base Services	Actual Cost Summary	Adjusted Cost Summary	Actual Cost Summary	Adjusted Cost Summary	Actual Cost Summary	Adjusted Cost Summary	Actual Cost Summary	Adjusted Cost Summary
Base Services	$40,157,765	$40,157,765	$30,250,901	$30,250,901	$30,118,677	$30,118,677	$100,527,344	$100,527,344
ARC/RRC	($3,976,925)	($3,976,925)	($615,537)	($615,537)	($62,552)	($62,552)	($4,655,014)	($4,655,014)
Other Charges and Credits	$0	$0	$134,646	$134,646	$5,626	$5,626	$140,272	$140,272
Subtotal - Base Services	*$36,180,840*	*$36,180,840*	*$29,770,009*	*$29,770,009*	*$30,061,752*	*$30,061,752*	*$96,012,601*	*$96,012,601*
Other Costs								
3rd Party Reimbursement Credits - Attachment 4	($8,236,989)	$0	($351,142)	$0	$0	$0	($8,588,131)	$0
Delayed Start Employee Credits - Attachment 4	($9,999)	$0	($2,844)	$0	$0	$0	($12,843)	$0
Contingency Resources - Attachment 4	($1,270,020)	$0	($234,246)	$0	($52,264)	$0	($1,556,530)	$0
Agency Retained Software - Attachment 8	$59,658	$0	$0	$0	$0	$0	$59,658	$0
Consolidated Data Center Facility Fee	$0	$0	$2,404	$2,404	$2,404	$2,404	$4,809	$4,809
Purchase of Northrop Grumman Owned Equipment	$0	$0	$164,582	$164,582	$1,161,952	$1,161,952	$1,326,534	$1,326,534
Request for Service - Attachment 7	$47,275	$0	$289,721	$0	$238,035	$0	$575,031	$0
Service Level Credits - Attachment 6	($1,685,953)	$0	($1,096,355)	$0	($745,324)	$0	($3,527,632)	$0
Service Level Credits - Attachment 6A (Apr 07 Services)	$1,271	$0	($796)	$0	$2,218	$0	$2,693	$0
Service Level Credits - Attachment 6B (May 07 Services)	($107,891)	$0	($1,755)	$0	$0	$0	($109,646)	$0
Service Level Credits - Attachment 6C (June 07 Services)	$3,382	$0	($2,187)	$0	$0	$0	$1,195	$0
Service Level Credits - Attachment 6D (July 07 Services)	$1,691	$0	($1,041)	$0	$0	$0	$650	$0
Service Level Credits - Attachment 6E (Aug 07 Services)	$0	$0	($382)	$0	$0	$0	($382)	$0
Service Level Credits - Attachment 6F (Sep 07 Services)	$0	$0	($74,458)	$0	$2,061	$0	($72,397)	$0
Service Level Credits - Attachment 6G (Oct 07 Services)	$0	$0	$10	$0	$3,406	$0	$3,416	$0

	Stub Period		Q1 Year 1		Q2 Year 1		Contract-to-Date	
Base Services	Actual Cost Summary	Adjusted Cost Summary	Actual Cost Summary	Adjusted Cost Summary	Actual Cost Summary	Adjusted Cost Summary	Actual Cost Summary	Adjusted Cost Summary
Service Level Credits - Attachment 6H (Nov 07 Services)	$0	$0	$0	$0	($2,028)	$0	($2,028)	$0
Service Level Credits - Attachment 6I (Dec 07 Services)	$0	$0	$0	$0	$8,644	$0	$8,644	$0
Service Level Credits - Attachment 6J (Jan 08 Services)	$0	$0	$0	$0	($1)	$0	($1)	$0
Deliverable Credit	($160,000)	$0	$0	$0	($10,000)	$0	($170,000)	$0
Infrastructure Stack Software True Up Adjustment 1	$274,868	$274,868	$0	$0	$0	$0	$274,868	$274,868
Hardware Service Charge	$3,535,375	$3,535,375	$3,245,512	$3,245,512	$3,278,860	$3,278,860	$10,059,747	$10,059,747
One Time Charges - Amortized	$0	$1	$1,026,102	$1,026,102	$0	$0	$1,026,102	$1,026,103
Transition / Transformation Services - Attachment 8	$0	$0	$521,090	$521,090	$1,797,053	$1,797,053	$2,318,143	$2,318,143
HSMA	$2,315,295	$2,315,295	$601,469	$601,469	$1,654,292	$1,654,292	$4,571,056	$4,571,056
Other Costs Subtotal	*($5,232,038)*	*$6,125,539*	*$4,085,683*	*$5,561,160*	*$7,339,309*	*$7,894,561*	*$6,192,955*	*$19,581,260*
Total IBM Invoice	*$30,948,803*	*$42,306,379*	*$33,855,692*	*$35,331,169*	*$37,401,061*	*$37,956,313*	*$102,205,556*	*$115,593,861*
DIR Cost Recovery	$1,248,038	$1,215,929	$1,039,666	$953,334	$1,085,363	$965,579	$3,373,067	$3,134,842
Net Enterprise License Recovery Impact	$298,000	$298,000	$694,913	$694,913	$694,913	$694,913	$1,687,825	$1,687,825
State Compensation Payout	$1,431,310	$1,431,310	$0	$0	$0	$0	$1,431,310	$1,431,310
Reclass Estimated Costs	$370,040	$370,040	$211,057	$211,057	$211,057	$211,057	$792,153	$792,153
Network Connectivity to Provider	$52,000	$52,000	$113,000	$113,000	$192,500	$192,500	$357,500	$357,500
Space Reclamation and Energy Savings	$0	$0	($42,289)	($42,289)	($42,289)	($42,289)	($84,577)	($84,577)
Application remediation and desktop modifications	$250,000	$250,000	$625,000	$625,000	$625,000	$625,000	$1,500,000	$1,500,000
State of Texas tax revenue	($1,304,293)	($1,272,017)	($773,896)	($710,791)	($773,896)	($689,826)	($2,852,085)	($2,672,634)
Other Costs of Outsourcing	*$2,345,095*	*$2,345,262*	*$1,867,451*	*$1,844,223*	*$1,992,647*	*$1,956,933*	*$6,205,193*	*$6,146,418*
Organic Growth	*N/A*	*($1,029,915)*	*N/A*	*($2,654,773)*	*N/A*	*($3,770,863)*	*N/A*	*($7,455,552)*
Total Costs of the DCS Program	$33,293,898	$43,621,726	$35,723,143	$34,520,619	$39,393,708	$36,142,383	$108,410,749	$114,284,728

Appendix B: DCS Program Resource Unit Rates

Description	Base Units	Pre-Outsourcing Unit Rate	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
MVS Application CPU Hours - Class 1	CPU Hours	$370	$545	$518	$522	$510	$517	$374	$342	$393	$385	$372	$388
MVS Application CPU Hours - Class 2	CPU Hours	$870	$0	$0	$0	$0	$0	$631	$620	$602	$604	$592	$600
MVS Application CPU Hours - Class 3	CPU Hours	$1,848	$1,312	$1,238	$1,287	$1,238	$1,453	$796	$774	$797	$814	$770	$779
MVS Application CPU Hours - Class 4	CPU Hours	$772	$1,979	$1,984	$1,923	$1,961	$1,909	$942	$874	$935	$966	$875	$869
UNISYS MIPS	MIPS	$1,711	$0	$0	$0	$0	$0	$7	$8	$5	$4	$4	$4
Mainframe Allocated Application DASD	GB	$5	$4	$4	$4	$4	$4	$4	$4	$4	$4	$4	$4
UNISYS DASD	GB	$75	$0	0	0	0	0	$110	$111	$110	$110	$117	$116
Application Tapes in Storage	Reel/Cartridge	$1	$8	$7	$7	$7	$8	$1	$1	$1	$1	$1	$1
Application Tapes in Storage - Virtual Tape Storage	GB	$1	$5	$4	$4	$4	$4	$1	$1	$1	$1	$1	$0
Print Pages - Standard (000s)	pages	$38	$39	$41	$42	$41	$43	$35	$36	$37	$36	$36	$38
Print Pages - Custom (000s)	pages	$34	$34	$32	$32	$34	$33	$31	$31	$31	$31	$30	$30
Mailing Insertions - Standard (000s)	envelopes	$58	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Mailing Insertions - Custom (000s)	envelopes	$62	$64	$64	$64	$64	$64	$58	$58	$58	$58	$58	$58
Microfiche - Originals/Duplicates	fiche	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CD Production - Creates/Re-creates	CDs	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Description	Base Units	Pre-Outsourcing Unit Rate	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
Optical Storage	GB	$6	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Application Servers													
SITE TYPE: Data Center													
Intel (Wintel, Novell, Linux)													
High Complexity/Service Level	Instance	$882	$859	$858	$858	$869	$852	$814	$737	$735	$730	$730	$730
Medium Complexity/Service Level	Instance	$717	$693	$689	$689	$691	$691	$666	$694	$707	$706	$693	$694
Low Complexity/Service Level	Instance	$538	$513	$515	$513	$513	$518	$490	$500	$507	$509	$509	$511
UNIX													
High Complexity/Service Level	Instance	$1,263	$1,294	$1,300	$1,300	$1,300	$1,289	$1,208	$1,221	$1,189	$1,199	$1,180	$1,178
Medium Complexity/Service Level	Instance	$1,095	$1,083	$1,080	$1,080	$1,080	$1,080	$970	$1,082	$1,028	$1,030	$1,027	$1,026
Low Complexity/Service Level	Instance	$1,039	$1,044	$1,044	$1,044	$1,081	$1,053	$976	$1,062	$1,050	$1,050	$1,054	$1,054
SITE TYPE: REMOTE LOCATIONS													
Urban Locations													
Intel (Wintel, Novell, Linux)													
High Complexity/Service Level	Instance	$668	$847	$825	$836	$836	$836	$606	$912	$742	$753	$746	$748
Medium Complexity/Service	Instance	$610	$705	$707	$706	$706	$706	$570	$744	$659	$658	$658	$658

Description	Base Units	Pre-Outsourcing Unit Rate	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
Level													
Low Complexity/Service Level	Instance	$422	$502	$502	$502	$502	$502	$384	$495	$429	$432	$432	$434
UNIX													
High Complexity/Service Level	Instance	$995	$1,391	$1,391	$1,391	$1,391	$1,391	$870	$2,113	$1,634	$799	$1,409	$1,409
Medium Complexity/Service Level	Instance	$1,197	$2,477	$2,477	$2,477	$2,477	$2,477	$2,386	$1,244	$1,244	$1,339	$1,339	$1,339
Low Complexity/Service Level	Instance	$1,010	$1,124	$1,124	$1,124	$1,124	$1,124	$984	$1,459	$1,459	$1,459	$1,459	$1,459
Rural Location													
Intel (Wintel, Novell, Linux)													
High Complexity/Service Level	Instance	$766	$868	$868	$868	$868	$868	$692	$803	$803	$803	$803	$803
Medium Complexity/Service Level	Instance	$589	$698	$698	$698	$698	$698	$536	$671	$591	$589	$584	$584
Low Complexity/Service Level	Instance	$428	$450	$450	$450	$450	$450	$378	$419	$419	$467	$467	$467
UNIX													
High Complexity/Service Level	Instance	$882	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Medium Complexity/Service Level	Instance	$717	$0	$0	$0	$0	$0	$0	$0	0	$0	$0	$0
Low Complexity/Service	Instance	$538	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Description	Base Units	Pre-Outsourcing Unit Rate	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
Level													
Other Application Servers													
MSDOS Legacy Server Replace - DC Campus	Instance	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
MSDOS Legacy Server Replace - Remote	Instance	$0	$0	$0	$0	$0	$0	$208	$208	$0	$0	$0	$0
Utility Servers													
SITE TYPE: Data Center													
E-mail Accounts	account	$2	$3	$3	$3	$3	$3	$2	$2	$2	$2	$2	$2
LAN Attached Devices	devices	$8	$10	$11	$11	$11	$11	$10	$10	$10	$10	$10	$10
Server Storage													
Allocated Disk Storage Dedicated - GB	GB	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2
Allocated Disk Storage Shared - GB	GB	$3	$2	$2	$2	$1	$1	$2	$2	$2	$2	$2	$2
Direct Attached Tape - GB	GB	$1	$1	$1	$1	$1	$1	$1	$0	$0	$0	$0	$0
Centralized Tape - GB	GB	$1	$1	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Offsite Tape by number of Tapes Stored	Reel/Cart.	$1	$0	$0	$0	$0	$0	$1	$1	$1	$1	$1	$1

Appendix C: DCS Scorecard (Stub Period)

Cost Summary

	Business Case Cost Comparison					
Cost Type	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Business Case Estimated Cost	$9,022,980	$9,022,980	$9,022,980	$9,022,980	$9,022,980	$45,114,898
Actual DCS Program Costs	$5,151,172	$8,975,730	$7,188,729	$7,928,048	$4,050,219	$33,293,898
Actual (Cost)/Savings	*$3,871,808*	*$47,249*	*$1,834,251*	*$1,094,932*	*$4,972,761*	*$11,821,001*
Percent Savings	42.91%	0.52%	20.33%	12.13%	55.11%	26.20%

	Pre-outsourcing Cost Comparison					
Cost Type	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Total Cost of Pre-outsourcing	$7,983,234	$7,983,234	$7,983,234	$7,983,234	$7,983,234	$39,916,171
Total Actual Costs of the DCS Program	$5,151,172	$8,975,730	$7,188,729	$7,928,048	$4,050,219	$33,293,898
Total Actual (Cost)/Savings	*$2,832,062*	*($992,496)*	*$794,505*	*$55,187*	*$3,933,015*	*$6,622,274*
Percent Savings	35.48%	-12.43%	9.95%	0.69%	49.27%	16.59%

Adjusted Costs Summary

	Base Services Costs					
Cost Type	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Total Pre-outsourcing Cost of Base Services	$7,983,234	$7,983,234	$7,983,234	$7,983,234	$7,983,234	$39,916,171
Total Adj. Costs of the DCS Program	$5,408,433	$10,598,593	$7,890,795	$8,453,389	$11,270,516	$43,621,725
Total Base Services (Cost)/Savings	*$2,574,802*	*($2,615,359)*	*$92,440*	*($470,154)*	*($3,287,282)*	*($3,705,553)*
Percent Savings	32.25%	-32.76%	1.16%	-5.89%	-41.18%	-9.28%

	Organic Growth Costs					
Cost Type	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Total
Total Pre-outsourcing Growth Cost	$47,275	$0	$549,905	$711	$432,605	$1,030,495
Total Adj. Growth Cost	$46,240	$0	$548,002	$627	$434,880	$1,029,748
Total Base Services (Cost)/Savings	*$1,035*	*$0*	*$1,903*	*$84*	*($2,275)*	*$747*
Percent Savings	2.19%	0.00%	0.35%	11.85%	-0.53%	0.07%

Appendix D: DCS Scorecard (Q1, Year 1)

Cost Summary

	Business Case Cost Comparison					
Cost Type	Sep-07	Oct-07	Nov-07	Q1 Total	Year One Total	Contract-to-Date Total
Business Case Estimated Cost	$12,506,031	$12,506,031	$12,506,031	$37,518,094	$37,518,094	$82,632,992
Actual DCS Program Costs	$11,472,030	$11,765,362	$12,485,751	$35,723,143	$35,723,143	$69,017,041
Actual (Cost)/Savings	*$1,034,001*	*$740,669*	*$20,280*	*$1,794,951*	*$1,794,951*	*$13,615,952*
Percent Savings	8.27%	5.92%	0.16%	4.78%	4.78%	16.48%

	Pre-outsourcing Cost Comparison					
Cost Type	Sep-07	Oct-07	Nov-07	Q1 Total	Year One Total	Contract-to-Date Total
Total Cost of Pre-outsourcing	$12,129,106	$12,129,106	$12,129,106	$36,387,317	$36,387,317	$76,303,488
Total Actual Costs of the DCS Program	$11,472,030	$11,765,362	$12,485,751	$35,723,143	$35,723,143	$69,017,041
Total Actual (Cost)/Savings	*$657,076*	*$363,744*	*($356,645)*	*$664,174*	*$664,174*	*$7,286,448*
Percent Savings	5.42%	3.00%	-2.94%	1.83%	1.83%	9.55%

Adjusted Costs Summary						
	Base Services Costs					
Cost Type	Sep-07	Oct-07	Nov-07	Q1 Total	Year One Total	Contract-to-Date Total
Total Pre-outsourcing Cost of Base Services	$12,129,106	$12,129,106	$12,129,106	$36,387,317	$36,387,317	$76,303,488
Total Adj. Costs of the DCS Program	$11,500,867	$11,640,298	$11,379,453	$34,520,619	$34,520,619	$78,142,344
Total Base Services (Cost)/Savings	*$628,238*	*$488,807*	*$749,652*	*$1,866,698*	*$1,866,698*	*($1,838,855)*
Percent Savings	5.18%	4.03%	6.18%	5.13%	5.13%	-2.41%
	Organic Growth Costs					
Cost Type	Sep-07	Oct-07	Nov-07	Q1 Total	Year One Total	Contract-to-Date Total
Total Pre-outsourcing Growth Cost	$385,582	$877,715	$1,550,394	$2,813,691	$2,813,691	$3,844,186
Total Adj. Growth Cost	$377,350	$841,671	$1,458,979	$2,678,000	$2,678,000	$3,707,748
Total Base Services (Cost)/Savings	*$8,232*	*$36,045*	*$91,414*	*$135,691*	*$135,691*	*$136,438*
Percent Savings	2.13%	4.11%	5.90%	4.82%	4.82%	3.55%

Appendix E: DCS Scorecard (Q2, Year 1)

Cost Summary

	Business Case Cost Comparison					
Cost Type	Dec-07	Jan-08	Feb-08	Q2 Total	Year One-to-Date	Contract-to-Date Total
Business Case Estimated Cost	$12,506,031	$12,506,031	$12,506,031	$37,518,094	$75,036,188	$120,151,086
Actual DCS Program Costs	$11,966,047	$12,820,261	$14,607,400	$39,393,708	$75,116,851	$108,410,749
Actual (Cost)/Savings	*$539,984*	*($314,230)*	*($2,101,368)*	*($1,875,614)*	*($80,663)*	*$11,740,338*
Percent Savings	4.32%	-2.51%	-16.80%	-5.00%	-0.11%	9.77%

	Base Case Cost Comparison					
Cost Type	Dec-07	Jan-08	Feb-08	Q2 Total	Year One Total	Contract-to-Date Total
Total Cost of Pre-outsourcing	$12,129,106	$12,129,106	$12,129,106	$36,387,317	$72,774,634	$112,690,806
Total Actual Costs of the DCS Program	$11,966,047	$12,820,261	$14,607,400	$39,393,708	$75,116,851	$108,410,749
Total Actual (Cost)/Savings	*$163,059*	*($691,155)*	*($2,478,294)*	*($3,006,391)*	*($2,342,217)*	*$4,280,057*
Percent Savings	1.34%	-5.70%	-20.43%	-8.26%	-3.22%	3.80%

Adjusted Costs Summary

	Base Services Costs					
Cost Type	Dec-07	Jan-08	Feb-08	Q2 Total	Year One Total	Contract-to-Date Total
Total Pre-outsourcing Cost of Base Services	$12,129,106	$12,129,106	$12,129,106	$36,387,317	$72,774,634	$112,690,806
Total Adj. Costs of the DCS Program	$11,602,448	$11,709,228	$12,830,707	$36,142,383	$70,663,002	$114,284,727
Total Base Services (Cost)/Savings	*$526,658*	*$419,878*	*($701,601)*	*$244,934*	*$2,111,632*	*($1,593,921)*
Percent Savings	4.34%	3.46%	-5.78%	0.67%	2.90%	-1.41%

	Organic Growth Costs					
Cost Type	Dec-07	Jan-08	Feb-08	Q2 Total	Year One Total	Contract-to-Date Total
Total Pre-outsourcing Growth Cost	$747,273	$1,401,007	$2,048,610	$4,196,890	$7,010,581	$8,041,076
Total Adj. Growth Cost	$643,020	$1,237,034	$1,926,523	$3,806,577	$6,484,578	$7,514,326
Total Base Services (Cost)/Savings	*$104,253*	*$163,973*	*$122,086*	*$390,312*	*$526,003*	*$526,750*
Percent Savings	13.95%	11.70%	5.96%	9.30%	7.50%	6.55%