

State of Texas Data Center Services (DCS) Project

EXECUTIVE SUMMARY

In 2005, the 79th Texas Legislature gave state government agencies clear direction to consolidate operations and lower cost by issuing a competitive procurement to select a private sector technology provider to deliver the state's data center services. With a focus on building a stronger enterprise technology infrastructure and the use of a first-tier private sector IT infrastructure service provider, the largest 27 Texas agencies joined in a collaborative contracting effort to realize the state leadership's vision. Overcoming the unique challenges of a decentralized "commission" structure of state government, the participating agencies employed innovative and creative approaches to (1) build a base case, (2) develop and issue an enterprise request for offers, (3) carry out a broadly inclusive evaluation process, and (4) execute an enterprise services agreement.

The level of collaboration was remarkable. The DCS Project involved over 400 state employees (representing all 27 participating agencies) in an array of expert workgroups and governance advisory committees. Cross-agency teams guided the project, executed project work tasks, and prepared state government, as an enterprise, to enter into a very large IT infrastructure sourcing agreement. Emphasizing broad representation, working teams included executive and management advisory councils (governance), a dedicated full time project staff, transition workgroups composed of chief financial officers, human resource directors, federal funds experts, and IT infrastructure technical experts.

Applying the advice of leading sourcing advisory services, the DCS Project executed a procurement process that was ground-breaking in its sophistication, quality, and inclusiveness—which is designed to serve as a model for future large scale sourcing procurements. Over 60 evaluators worked on specialized evaluation teams to both develop the request for offer (RFO) specifications and evaluate bid responses. Employing a highly structured, iterative methodology of individual scoring followed by group analysis and consensus scoring, the evaluation process yielded thoroughly considered and fair evaluation results that delivered best value to the state.

In November 2006, the nearly two-year collaboration culminated in a signed agreement between the Texas Department of Information Resources (acting on behalf of the state) and IBM Global Services to deliver comprehensive data center and disaster recovery services. The seven-year contract, valued at \$863 million, is one of the largest public or private sector IT sourcing agreements signed in 2006. It addresses 31 independent data centers, 16 mainframes, approximately 7,000 servers located in 1,300 locations, and 563 full time equivalent (FTE) positions.

The contract leverages the buying power of the state to modernize and refresh the state's technology infrastructure, allows agencies to enjoy high-quality service at an affordable price, and provides flexibility to meet changing business requirements. Overcoming the previous lack of consistent levels of service, security, and disaster recovery preparation, the new agreement brings (1) heightened security levels for assets, (2) uniform, measured, and continuously improving service levels, (3) predictable costs based on actual resource units consumed, (4) standardized processes and governance based on internationally

recognized industry best practices, and (5) new information reporting not currently seen in Texas state government.

After taking all new and retained costs into account, the agreement is expected to save Texas \$25 million in 2008–09 and \$178 million over the seven-and-a-half-year base contract period. The arrangement will also return 210,000 square feet of reclaimed state-owned space to the state for alternative use.

PROBLEM STATEMENT

Prior to this project, state agencies talked about an enterprise approach to technology and acted in silos. Individual agencies operated more than 31 data centers, with varying levels of service, security, and disaster recovery preparation. Methodologies and procedures varied widely, best practices were not uniformly applied, and disaster recovery capabilities ranged from the sophisticated to the rudimentary. There were limited opportunities to leverage similar technology resources across the enterprise. Fulfilling basic requirements like replacing outdated equipment, upgrading to current software versions, and testing disaster recovery plans were often delayed or deferred depending on budget priorities. At the same time, government systems held personal citizen data, critical legal documents, and other confidential information. Ensuring reliable, secure, and recoverable data center systems is vital to the welfare of Texans.

PROJECT DESCRIPTION

The DCS Project consolidates the data center operations of Texas state agencies producing a cost reduction to the enterprise while upgrading the level of service, security and redundancy each agency enjoys. The end result will be enterprise-wide data center consolidation with a first-tier private sector IT infrastructure service provider offering pay-by-the-drink options to all state agencies.

The first steps in the DCS Project have set the collaborative framework that will support the transition to transformation to consolidation. Initially 27 of the largest state agencies are working with the Texas Department of Information Resources (DIR), the agency charged with leading this project, in this groundbreaking initiative. From data collection through proposal evaluation, more than 400 state agency participants, including executive leadership, IT leadership, technical specialists, and human resource professionals, dedicated significant time to the procurement activities. Agency subject matter experts dedicated thousands of hours and contributed extensive state and private sector experience.

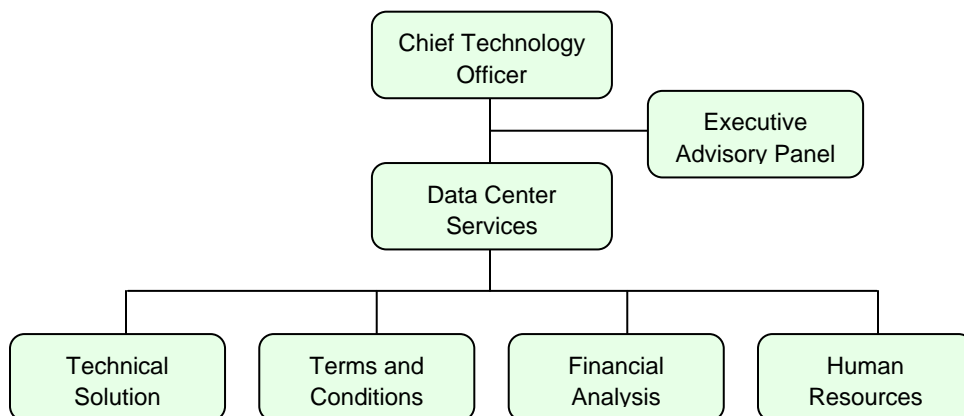
In its lead role, DIR created a dedicated Data Center Services team staffed with over 15 full-time personnel, who were actively recruited for the DCS Project. Most members had over 20 years of state government experience, much of it working directly with the 27 participating agencies, including extensive professional experience in information technology.

For almost two years, IT directors from participating agencies have been meeting as the DCS Advisory Council. The council established the guiding principles for data center consolidation and provided input to DIR on an ongoing basis. Additionally, members of the Advisory Council lead the communication with affected staff and coordination of all activities related to the DCS Project for their agencies.

The steps included in the first stage of this project—the solicitation and contracting for a private sector service provider—have been truly collaborative:

- **Data Gathering and Base Case.** The 27 participating agencies collectively dedicated thousands of hours gathering detailed data about the current enterprise infrastructure environment. This information, never before available in a consolidated format, documented the assets, resources, costs, contracts, and service levels that comprise the data center infrastructure for the state’s largest agencies. The comprehensive analysis revealed opportunities for consolidation, improvement, and greater statewide consistency in security and disaster recovery. Additionally, this detailed understanding of operations and costs formed an accurate benchmark from which to compare services, service levels, and pricing proposed by service providers.
- **Interagency Contract (IAC) Development.** In March 2006, a subcommittee of the DCS Advisory Council created the Interagency Contract, the mechanism that enabled the state to enter into a contract on behalf of the agencies.
- **Request for Offer Development.** In March 2006, over 60 staff from across the state enterprise collaborated in a series of nine full-day workshops to build the requirements, service levels, and governance structures for the Data Center Services RFO. Technical staff and IT management leadership worked side-by-side to ensure their agency’s requirements were fully documented.
- **RFO Evaluation.** The RFO document and evaluation process closely followed industry best practices for data center outsourcings and Texas procurement laws. The highly-structured process included “Quality Assurance” monitors in all evaluation team meetings and also outside expertise from Technology Partners International (TPI) and Mayer, Brown, Rowe, and Maw, LLP, both of Houston, Texas.

RFO Evaluation Structure



- **Broad Participation in Initial Bid Evaluation.** Approximately 60 agency representatives participated in five RFO evaluation teams. Each conducted an extensive, iterative, and tiered process of proposal review, analysis, and team meetings. The Technical Solution, Terms and Conditions, Financial

Analysis, and Human Resources evaluation teams were respectively composed of IT technical experts, contract experts, agency chief financial officers, and HR directors. Each team evaluated and scored bidder responses from their expert perspectives and applied scoring criteria focused on the team's specialized areas of expertise.

- Consensus Scoring. Team members first scored all bid responses individually, then participated in day-long "consensus" scoring sessions to share individual results, discuss assessments, identify clarification questions, and arrive at a team consensus set of scores for each criteria. The fifth team, composed of IT directors from all participating agencies, independently scored all bids from a management perspective, arrived at consensus scores, and then reviewed consensus evaluation results from the other four teams. The IT directors team forwarded the combined consensus scores and recommended finalists to an advisory council composed of agency chief executives as well as to the state's Chief Technology Officer. The Chief Technology Officer, with the input of the advisory council narrowed the field to two finalist service providers.
- Clarification Sessions with Finalists. All 60 evaluators met for four days of clarification sessions with the prospective service delivery teams from each of the two finalists. Meeting two full days with each service provider's team, panels of IT directors and DIR staff posed a highly detailed and customized script of clarification questions for the two final bidders.
- Evaluation of Clarified Responses and Final Offers. For the clarified and final offers from the two finalists, the same cross-agency team structure of evaluators, IT directors, and agency executives, repeated the exhaustive consensus scoring processes used for the initial evaluation. Based on the input from the evaluation teams and the executive advisory council, the Chief Technology Officer selected IBM Global Services as the awarded service provider.

SIGNIFICANCE OF THE PROJECT FOR IMPROVED GOVERNMENT OPERATION

In late-November 2006, DIR issued a 7.5 year contract for data center services that saves \$178 million over the term of the contract and delivers on all of the state's goals for the DCS Project. Some of the more important implications for improved government operations are:

- enterprise focused management of services
- agency resources focused on mission critical applications
- financial focus changed from capital expenses to operational expenses, allowing for predictable technology refresh while mitigating large capital requests
- coordinated approach that achieves Historically Underutilized Business (HUB) participation of 20 percent
- standardized security processes across agencies that increase physical and information security
- upgrades to the existing state-owned data center leverages prior investments
- standardized processes across agencies to promote consistent and effective operation based on industry best practices
- inclusive contractual definition of services that makes certain that all defined data center functions previously performed by state employees are considered "in-scope services" under the agreement, thus minimizing future change orders and contract disputes

- economical pricing, leveraging economies of scale across agencies and reflective of Texas volume
- meaningful service levels, uniformly applied to all agencies, that tie performance to financial consequences for the service provider
- extensive incident, request, chargeback and invoice reporting to allow agencies to oversee operations and view details when necessary
- inclusive governance comprising executive management and information technology experts representing all 27 participating agencies to promote collaboration and collective action in the state's best interest
- comparable job offers and benefits packages with immediate health coverage and a 5%–10% pay increase for all “affected” state employees transitioning to the service provider to maintain positive morale and support for the sourcing approach
- model Request for Offer evaluation processes as a basis for future multi-agency, multi-year mega contracts

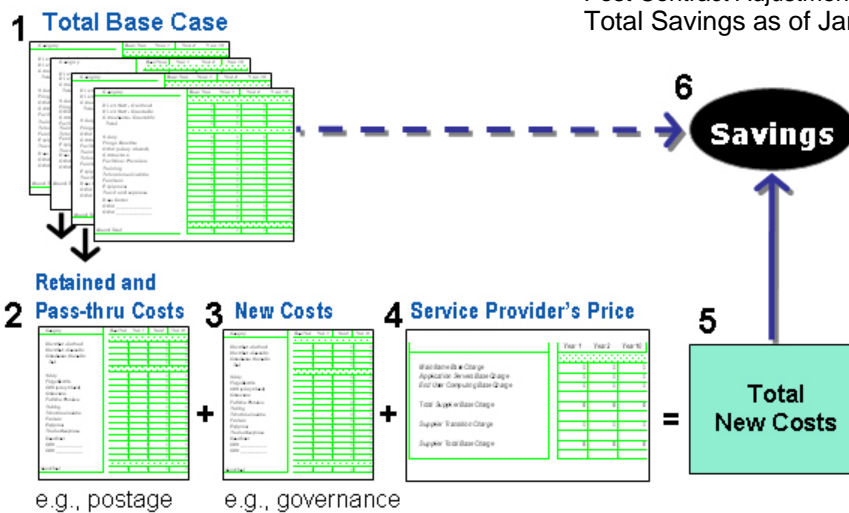
PUBLIC VALUE OF THE PROJECT

The DCS contract is designed to meet or exceed current agency requirements while adapting for future needs and technological changes. State agencies and taxpayers will benefit from contract features that offer high-quality, reliable data center services at an affordable and predictable cost.

Return on Investment/Cost Avoidance

- The seven-and-a-half-year contract is valued at \$863 million with three optional one-year extensions.
- After taking all new and retained costs into account, the agreement will save Texas state government \$25 million in 2008-2009 and \$178 million over the base contract period.
- The arrangement will also return 210,000 square feet of reclaimed state-owned space to the state for alternative use.

Total Savings Calculation (in millions)	
Total Base Case	\$ 1,191
Total New Costs (2) + (3) + (4) = (5)	-1,032
+ Retained/Pass-Thru Costs (2)	
Service Provider's Price (4)	
Savings (1) – (5) = (6)	\$ 159
Post Contract Adjustments	\$ 19
Total Savings as of January 2007	\$ 178



Predictable Costs

- Standardized service charges that are paid based on actual consumption, thus avoiding purchase of excess capacity that may be unused for substantial parts of the year or for many years after a capital purchase
- Increased flexibility to support demand peaks without capital expenditure and improved efficiency and economy of scale from leveraging resources across many agencies
- Reduced overhead for procurement and contract management of equipment, upgrades, and enhancements

Enhanced Security, Facilities, and Disaster Recovery

- Increased physical and information security, 7/24/365 security guards, tightly controlled data access, security monitoring through state-of-the-art tools
- Improved facilities with multiple structural improvements, reinforced building, generators, fire suppression systems, and dual cooling systems
- Expanded disaster recovery documentation, testing, and capability

Measured and Continuously Improving Service Levels

- Monitored service levels with built-in flexibility, consequences for inadequate performance, and explicit mechanisms for continuous improvement
- Detailed service level reporting for performance monitoring and long-term business and technology planning

Standardized Governance and Processes

- Established contractual requirements to follow internationally recognized processes and best practices in the delivery of services, including conformity with Information Technology Infrastructure Library (ITIL) best practices and ISO standards, thus promoting reliable and effective operational practices
- Extended governance team to include agency IT staff and management, executive leadership, and other stakeholder in advisory and technology planning councils

CONCLUSION

The DCS Project has taken collaboration in Texas state government to a new height. Although the consolidation of data centers was mandated, providing the initial incentive for participation, the inclusive process that has brought the project to this point sets a strong base for continued collaboration. As one participant stated in a recent interview, “As we went through the process, I was amazed at how well the process worked. We began to work together. It is amazing this has come together. On the first day, there were so many divergent opinions, I was still worried. But we are all moving in the same direction.” The DCS Project is true testament to the value of collaboration.