

Title of Nomination: COMMONWEALTH OF VIRGINIA INFORMATION TECHNOLOGY
TRANSFORMATION INITIATIVE

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CATEGORY: State_IT_Management_Initiatives

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2003 NASCIO Recognition Awards Program
State IT Management Initiatives
Nomination for:
Commonwealth of Virginia Information Technology Transformation Initiative

— Executive Summary —

The Commonwealth of Virginia Information Technology Transformation Initiative is one of the nation's most aggressive and comprehensive reforms of information technology (IT) in state government. Traditionally highly decentralized, Virginia is consolidating IT services and IT employees into a single agency, the Virginia Information Technologies Agency (VITA). With the creation of VITA, three state agencies are abolished and the independent IT divisions within 94 Executive branch agencies are consolidated.

The organizational and cultural changes to the structure and function of state government results in numerous benefits, including:

1. Streamlining government structure and increasing efficiencies.
2. Ability to leverage the Commonwealth's significant buying power.
3. Promoting an integrated, enterprise approach to information technology.
4. Long term cost savings, estimated in excess of \$100 million.
5. Creating greater accountability and transparency for the funding and implementation of technology projects.
6. Investing in future technology projects.
7. Multiple alternatives for funding IT projects.
8. Providing increased opportunities for state government IT employees.
9. Reengineering the state IT workforce.

Through the IT Transformation Initiative, Virginia Governor Mark R. Warner positions the Commonwealth as a leader in the global digital economy and in the use of technology for delivering cost-effective and convenient government services.

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A. Description of Project

One of the nation's most aggressive and comprehensive reforms of information technology (IT) in state government—the Commonwealth of Virginia Information Technology Transformation Initiative—was prompted by two simple questions at the start of Governor Mark R. Warner's administration:

1. How much money does Virginia's state government spend annually on IT?
2. How many IT professionals does Virginia employ?

Answers to these straightforward questions were not forthcoming in Virginia's highly decentralized state government and were far from precise: initial estimates of Virginia's annual spend on IT ranged from \$800 million to \$1.2 billion, and the estimate of the number of state IT employees was between 2,000 and 3,000 individuals. In addition to a lack of accurate data on IT spend and employment levels, Virginia Secretary of Technology George C. Newstrom faced other significant challenges, including:

- Numerous reports detailing costly IT project failures, mismanagement of major projects, unnecessary duplication of effort, and inefficient allocation of resources.
- New demands in the areas of information security and homeland security, electronic government, integration, and an aging workforce.
- The largest cumulative budget deficit in Virginia's history – a \$3.8 billion budget deficit grew to nearly \$6 billion for a \$50 billion biennial state budget during the first six months of Governor Warner's administration.

As the first step in addressing these challenges, Secretary Newstrom established a working group on June 1, 2002, to develop Virginia's strategic plan for technology. Released on September 25, 2002, *Virginia in the Global Digital Economy* articulates the vision for IT in the Commonwealth: to establish Virginia as a global leader in the use of technology in government. The Plan presented four initiatives, as follows:

1. Revolutionize service delivery to citizens with a customer-facing Internet portal and online services.
2. Consolidate IT infrastructure and provide centralized services as a technology utility.
3. Plan, budget, and track IT expenditures by developing a capital planning and funding process and governance model.
4. Manage IT procurement with a best practices model.

The next step was the ‘due diligence’ project, established in Fall 2002, to collect, verify, and analyze data on IT resources in Virginia state government. The results of the analysis confirmed that Virginia: does not leverage its significant buying power; invests millions of dollars in stand-alone, duplicative systems and resources; is unable to promote and adopt best practices; and allocates resources inefficiently. The analysis also provided accurate, current information on how much money Virginia spends on IT products, services, and employees (\$448 million excluding colleges and universities, \$902 million total) and IT employment levels (2,580 IT professionals).

On December 10, 2002, Governor Warner unveiled the details of the IT reform legislation, which, with some amendments, passed the state legislature on February 20, 2003. The major aspects of the reform legislation are:

- 1. Consolidation of IT services and IT employees into a single agency, the Virginia Information Technologies Agency (VITA).** With the creation of VITA, three state agencies are abolished and the independent information technology divisions within 94 Executive branch agencies are consolidated into VITA.
- 2. Expansion of project planning, implementation, and management activities.** The legislation creates the Information Technology Investment Board, charged with reviewing and prioritizing enterprise-wide technology investments across state government. The legislation also calls for the creation of a project management division within VITA to instill best practices for the management and oversight of large-scale IT projects.
- 3. Establishment of a new governance structure.** In addition to the creation of the Information Technology Investment Board, the legislation calls for the Board to appoint a Chief Information Officer (CIO) to serve as VITA’s chief administrative officer under a special five-year employment contract to ensure continuity across administrations.

Governor Warner signed the legislation creating VITA on May 5, 2003, and plans are well underway for VITA’s grand opening on July 1, 2003, the effective date of the IT reform legislation. The transfer of staff and resources into VITA will occur through a stakeholder-driven process over a phased implementation schedule for the next 18 months. Recognizing that significant structural and cultural change can be highly disruptive, Governor Warner and Secretary Newstrom have committed to no net layoffs of state IT employees, to “do no harm” and assure business continuity of current operations, to strive for operational excellence, and to meet and exceed service expectations.

More information about the Strategic Plan for Technology in Virginia is available at <http://www.techplan.state.va.us>. Additional information about the VITA transition effort can be found at <http://www.to-vita.com>.

B. Significance to the Improvement of The Operation of Government

Virginia’s IT Transformation effort significantly changes the structure of state government and creates a culture of excellence in service delivery, reliability, and transparency. Furthermore, the IT Transformation in Virginia is viewed by other states as a model for state government reform

efforts – not only in information technology, but also in areas such as human resources, finance, and procurement, functions typically handled on an agency-by-agency basis. The results of Virginia’s efforts are:

- 1. Streamlining government structure and increasing efficiencies.** The Transformation Initiative reduces the overall size of government by eliminating three agencies and consolidating the staffs and resources of more than 90 Executive branch agency IT organizations. Rather than building systems and infrastructure 94 different ways 94 times, Virginia will reduce redundancy and deploy flexible, standard-based systems and tools that can be used, adapted, and re-used throughout the Commonwealth.
- 2. Ability to leverage the Commonwealth’s significant buying power.** The Commonwealth of Virginia is the equivalent of a Fortune 300 company. Current procurement practice, however, is decentralized and results in diminished buying power. For example, various agencies of the Commonwealth have negotiated 15 different contracts with Dell Computer Corp., with different pricing schemes. Through the IT Transformation Initiative, Virginia can leverage its buying power through consolidated procurement authority to drive costs down while increasing quality and value.
- 3. Promoting an integrated, enterprise approach to information technology.** The creation of VITA provides a framework of coordination and consistency to develop and deploy fully integrated systems and services based on standards, best practices, and clear methodologies. In the current ‘silo’ environment, coordination across the enterprise was virtually impossible, resulting in a hodge-podge of hardware and software. A recent study found the Commonwealth expended more than \$560 million over the last five years on duplicative, independent, stand-alone administrative systems. VITA will oversee the enterprise architecture to ensure all the “pieces” fit together and support the mission and business of government agencies.
- 4. Long term cost savings, estimated in excess of \$100 million.** By consolidating the annual IT spend (approximately \$450 million), Virginia will generate millions in savings by eliminating redundant activities. For example, Virginia has reduced redundancy, improved security, and saved nearly \$600,000 annually by consolidating six separate software licenses with a single business partner into one master license.
- 5. Creating greater accountability and transparency for the funding and implementation of technology projects.** In most state governments, IT budgets are hidden within the overall administrative budgets for state government agencies. This lack of transparency hinders efforts to account accurately for investments in IT and ensure costly duplication of IT projects is avoided. To ensure the structural changes to IT are embedded into Virginia state government, the state budget that will be released in December 2003 will contain line item aggregate expenditures for IT for all state government agencies that will reconcile with the aggregate budget for VITA. As a result, expenditures on IT products, services, and staff will be transparent for the first time.
- 6. Investing in future technology projects.** To fund future information technology projects, a portion of the unobligated savings generated by the information technology transformation effort is invested in the Virginia Information Technology Fund. The Fund is overseen by the Information Technology Investment Board. New information

technology projects that are sponsored by the fund will demonstrate enterprise-wide cost-savings or efficiency improvements.

- 7. Multiple alternatives for funding IT projects.** In addition to the Information Technology Fund, the legislation authorizes two alternative methods for funding new IT projects, including bonds and public-private partnerships. For the latter, Virginia has the authority to form innovative partnerships where all parties share in the risks, the costs, and the benefits. The private partner, for example, would provide most of the up-front financing and receive repayment through revenue enhancements, cost savings, or efficiency improvements that accrue to state government.
- 8. Providing increased opportunities for state government IT employees.** The creation of VITA and its entrepreneurial approach to technology investments includes significant training and re-training of Virginia's IT professionals, while providing access to tools and resources, new job opportunities, and career and advancement opportunities not available in a decentralized environment.
- 9. Reengineering the state IT workforce.** The IT Transformation Initiative reduces the Commonwealth's dependency on contract staff by converting contractors to full time state employees where appropriate. Contractors cost the state nearly twice as much as a state employee: at the aggregate level, contractors represent 14% of the state IT workforce yet account for 28% of the cost; at the individual level, contractors cost an average of \$116,000 annually while state IT employees cost an average of \$67,000 annually. In Virginia's Department of Social Services, approximately 75 contractors were converted to full time state employees, at a total savings of more than \$1.75 million annually.

C. Benefits Realized by Service Recipients, Taxpayers, Agency, or State

As a result of the significant organizational and cultural changes underway, the benefits of Virginia's IT Transformation initiative are enormous and extend to a broad range of stakeholders, including state government agencies, taxpayers and customers, state IT employees, and the Commonwealth.

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, in both good fiscal times and in bad fiscal times. 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, thus closing the gap between the technology "haves" and "have-nots."

Taxpayers and customers benefit from improvements in and deployment of seamless, integrated systems and services, particularly Web-enabled solutions promoting 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 the considerable cost-savings over the long-term, estimated in excess of \$100 million annually.

These savings 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 throughout their tenure with state government and help in accelerating their careers. State IT employees will also have unparalleled career opportunities for advancement, education, and relocation throughout the Commonwealth. Because the creation of VITA is a stakeholder-driven process, state IT employees will also have a hand in developing the agency'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 (particularly during the state's worst fiscal crisis). Virginia will also benefit from the lessons learned during the planning and implementation phases of the Initiative, and can apply them to parallel consolidation and centralization reform efforts in areas such as procurement, real estate, and mail services.

D. Return on Investment, Short-Term/Long-Term Payback

The project planning phase—creation of the Strategic Plan, completion of the 'Due Diligence' project, and creation of the implementation plan—cost approximately \$1 million in independent consulting fees and was staffed by approximately 25 core staff members and more than 200 employees across the Commonwealth. Start-up costs for the project implementation phase—establishment of the Virginia Information Technologies Agency (VITA), implementation of cost-savings initiatives, and staff training—are approximately \$14 million for fiscal year (FY) 2004. Funds for the start-up costs came from an anticipated \$37.4 million in gross savings during FY 2004 (starting from a base IT budget of \$448 million). As a result, net savings of \$23.4 million are being returned to the state's general fund in FY 2004.

Funds for the IT Transformation Initiative are self-generated, resulting from the reinvestment of a proportion of the gross savings generated from the base budget spend of approximately \$448 million for IT. Preliminary projections for costs, gross savings, and net savings over a three-year period are as follows:

	FY 2004	FY 2005	FY 2006	3-Year Total
<i>Costs</i>	\$14.0 million	\$24.3 million	\$11.23 million	\$49.53 million
<i>Gross Savings</i>	\$37.4 million	\$67.6 million	\$74.70 million	\$179.65 million
<i>Net Savings</i>	\$23.4 million	\$43.3 million	\$63.47 million	\$130.13 million

In summary, Virginia is uniquely positioned to generate cost savings at a time when the state – like most other states in the country – is grappling with one of the worst deficits in modern history.