CALIFORNIA DEPARTMENT OF TECHNOLOGY
10860 Gold Center Drive,
Rancho Cordova, CA 95670
(916) 319-9223

Liana Bailey-Crimmins, Director
Jared Johnson, Chief Deputy Director

February 1, 2023

Honorable Nancy Skinner, Chair
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814

SUBJECT: IT CONTRACT CONSOLIDATION

Dear Senator Skinner:

Pursuant to Gov. Code section 11546.45(b)(4), the California Department of Technology (CDT) is required to submit a report to the Joint Legislative Budget Committee no later than February 1, 2023 on CDT's effort to consolidate information technology (IT) contracts for "shared services" as defined in statute.

CDT is directed to identify possible centralized shared service contracts for not less than $500,000 where potential cost savings could be achieved, and to develop and implement a plan to establish, manage and consolidate these identified contract vehicles for IT services.

CDT has established a program to collect and analyze information related to: (i) existing IT contracts not less than $500,000, and (ii) to explore new categories of IT shared services to identify opportunities for deeper discounts and efficiencies. The program will complement existing state IT contracting and procurement programs.

Given the state's sizeable operating budget, California has many opportunities for IT contract consolidation efficiencies and savings. However, exact cost savings and avoidances cannot be measured by CDT on a statewide level. As IT budgets are managed by individual entities, the accumulated statewide savings data does not exist. One would have to speculate on what the IT spend would have been without the efficiencies provided by CDT's policies, guidelines, and services. CDT-negotiated contracts for best pricing, due to statewide volume discounts, will enable all entities to obtain best-of-class pricing despite their size. In addition to optimized pricing, consolidated statewide contracts offer process efficiencies, ease of use, favorable contract terms and conditions, and improved spending access to products and services for all state entities.

In 2020, CDT established a statewide Microsoft services contract that contains multi-tiered discounts over five years providing a 25% average discount with the potential to increase the average discount to 29.4% for all participating entities. Due to higher-than-expected demand, CDT was able to reap the benefits of greater discounts for participating departments and agencies in year two of the contract. CDT plans to develop a similar model for consolidating other IT shared services currently utilized by state agencies.

Collection and analysis of IT Services contract information

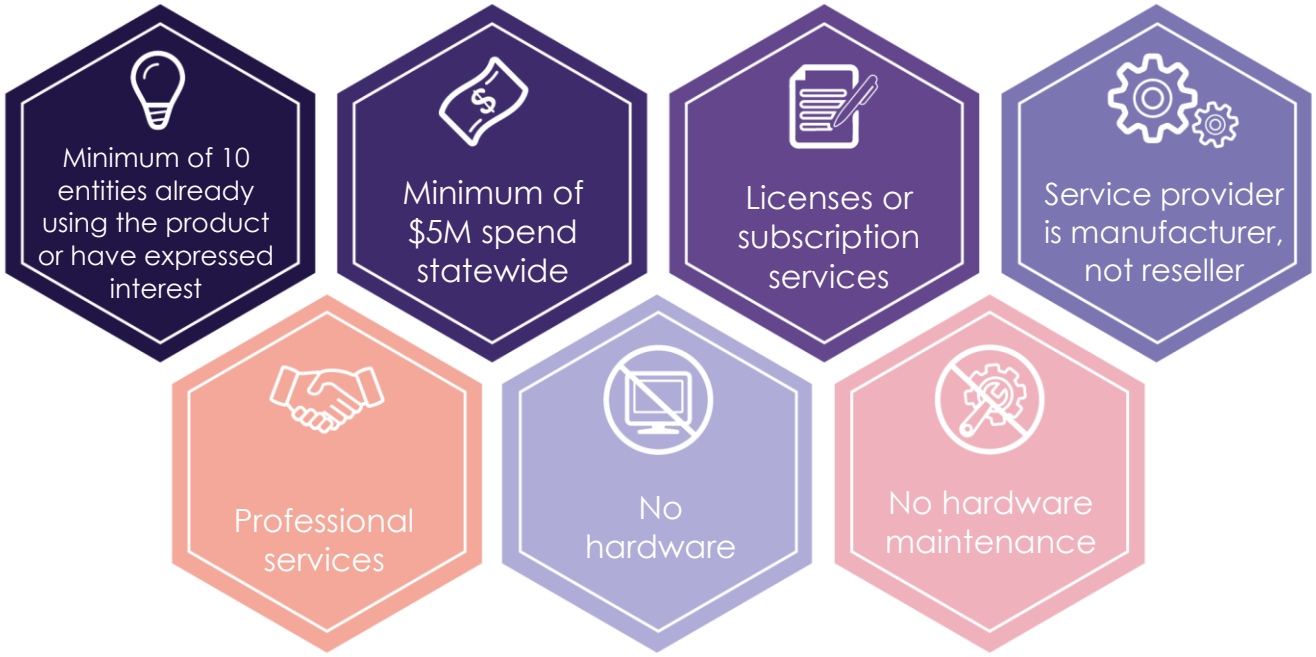
CDT leveraged its existing annual Information Technology Cost Report (ITCR) process, to collect information from state agencies pertaining to IT services contracts amounting to $500,000 or more. CDT analyzed the IT services contract data submitted by state agencies pursuant to Government Code section 11546.45(b) in February 2022 and is partnering with state agencies and departments to determine where savings can be achieved through a centrally managed shared service model.

Proposed plan for contract consolidation

State departments independently manage their IT budgets and have separate multi-year vendor service contracts. Once a statewide shared service is assessed and approved through the IT Executive Council (ITEC), which includes IT executive representation from all state agencies, CDT will centrally manage the solicitation, negotiation, and contract award process. CDT will also coordinate an approved cost-recovery rate structure, market the service offering and onboarding to departments, and be the vendors' sole point of contact for oversight and compliance.

A shared service contract typically requires a mandatory minimum volume to deliver steep discounts. CDT must fund the mandatory minimum even if the subscriber amount falls short. Therefore, the recovery model will be included in the approval process as state departments are not mandated to use CDT-shared service contracts.

CDT will partner with the Department of General Services, other state agencies and departments, the vendor community, and work under the oversight of the Government Operations Agency to collaboratively identify opportunities for price discounts due to volumes and efficiencies, prioritizing the areas of cybersecurity and additional cloud offerings including Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS), and Infrastructure-as-a-Service (IaaS). In addition, for non-delegated IT projects CDT will identify and establish consolidated contracts to meet the business needs of specific departments and agencies. The program has identified selection criteria in the graphic below:



The program will recommend at least one new shared service contract offering for state agencies and departments and will forecast adoption rates and savings by the end of 2023. In order to implement the establishment of statewide consolidated IT contracts, the following next steps have been identified:

[1]*Analyze existing leverage procurement agreements to identify gaps in services or additional opportunities for cost savings, specifically for contracts over $500,000 and identify new opportunities for cost savings, e.g., cybersecurity.*

Through the established program, CDT will develop the capability and a repeatable on-going processes necessary to annually consider contract consolidation opportunities that may achieve cost savings or streamline business processes providing ease of use to government entities.

CDT will provide all annual legislative reporting requirements in its Statewide IT Annual Report published in January each year, per Government Code section 11546.45.

If you have any questions or would like to discuss this report, please contact me at (916) 752-7808, or by email at Liana.Bailey-Crimmins@state.ca.gov.

Respectfully,

Liana Bailey-Crimmins

Liana Bailey-Crimmins
Director
California Department of Technology

cc: Hans Hemann, Consultant, Joint Legislative Budget Committee
Amy Tong, Secretary, Government Operations Agency
Ana Lasso, Director, Department of General Services
Joe Stephenshaw, Director, Department of Finance