Mission Creep

VITA isn't delivering the savings that were promised to taxpayers. Perhaps that's because it has set higher goals for itself: providing a more robust, secure IT infrastructure.

During the 2003 General Assembly session, I think it was, I was standing in the foyer of the 9th Street Office Building and chatting with Paul Goldman, who was writing for *Bacon's Rebellion* at the time. Up walked Eugene Huang. With great passion, the then-Deputy Secretary of Technology urged Goldman, a former Democratic Party chairman, to use his influence with some Democratic legislator or another to support the consolidation of all state information technology functions into a unified Virginia Information Technology Agency.

The state budget was under considerable stress back then, and Huang emphasized the cost savings – tens of millions of dollars per year -- that consolidation could generate. Huang's sales pitch for VITA made quite an impression upon me at the time. Wouldn't it be great, I thought, if Virginia really could achieve the kind of budgetary savings that Huang was talking about? Maybe that would relieve the pressure for tax increases!

The General Assembly did approve the VITA proposal, and the Warner administration continued touting the consolidation as a money-saver for a while. As a 2003 fact sheet from the Governor's Office stated, "The initial stages of this reform will cost approximately $14 million. However, this initial investment will generate more than $37 million in savings [in 2004], leading to net savings of more than $23 million in Fiscal Year 2004." Elsewhere, Secretary of Technology George Newstrom claimed that VITA would save Virginia taxpayers "a minimum of $100 million" by 2005.(1)

Now 2005 has come and nearly gone. The Governor's publicity apparatus has been strangely silent regarding the subject of VITA cost savings. But, surely, inquiring minds would want to know if the Warner administration's claims have withstood the test of time. Has Virginia, recognized earlier this year as the Best Managed state in the nation, saved as much money through its IT reforms as it forecast it would?

The answer, coming from Eugene Huang, who succeeded Newstrom as Secretary of Technology last year: The state has saved about $50 million, accumulated over the life of VITA so far.

That's half the $100 million that Newstrom had promised. And it includes both hard savings and "avoided costs." *Avoided* costs? Those aren't savings in the traditional sense of the word -- funds that the state actually cut from its baseline budget. They represent money saved from new spending initiatives added to the base. And therein lies a great untold story...

Rather than viewing VITA reform as a mechanism for *reducing spending*, as it was originally billed, the Warner administration now appears to regard VITA primarily as a mechanism to build a *higher quality* IT system. There are important benefits to be sure: The new system will be more secure, provide business continuity in the event of disasters, and support a more mobile state workforce -- all attributes that any private business would insist upon, and ones that voters would expect from a government equipped to function in the 21st-century.

With massive surpluses pouring into the state Treasury, it appears that the impetus for cost-cutting reform has run its course in Virginia. The priority now is building a superior IT infrastructure. In a few years, the Old Dominion may be able to boast of the best state IT system in the country. Whether the phrase "gold plated" applies is a matter that I'll leave to the reader.

Huang and I met for coffee one morning two weeks ago. My main purpose was to get his take on the huge Northrop Grumman contract -- $2 billion over 10 years to maintain the state's telecommunications and information technology infrastructure -- that the state had recently announced. The conversation meandered into an overview of VITA reform and the difficulty of calculating how much money had been "saved" so far.

Here is what Huang had to say.

When Gov. Warner stepped into office four years ago, he said he wanted to bring the best practices of business to the government. IT reform was at the top of the list. Huang is proud of the administration's record of achievement. "I honestly think these changes will end up benefiting not only Gov.-elect Kaine," he said, "but future administrations for years to come."

One early success of IT reform -- an outgrowth of the Gilmore administration, incidentally -- made quite an impression on the Warner team. The executive branch had gone to the General Assembly three times for funds to upgrade the Department of Taxation's aging computer system, Huang said, but legislators balked at the $100 million price tag. AMS proposed forming a public-private partnership, funding the entire up-front cost out of its own pocket, and charging the state a fee. The state would more than make up that fee through enhanced tax collections.

It worked. In one instance of how the program exceeded expectations, the state had projected that a tax amnesty program would bring in $45 million, Huang said. "Thanks to new tools that AMS brought online, like data mining techniques that targeted specific individuals and corporations, [tax amnesty] brought in $90 million."
The AMS-Taxation success story suggested a way to accelerate the modernization of the rest of the state IT system. Consolidating all IT functions into a single agency, VITA, was only the first step.

In theory, VITA would eliminate redundant IT capabilities in dozens of different state depart-

ments and agencies, making it possible to deploy manpower more efficiently and to negotiate for better terms when purchasing hardware and telecom services. But it still was difficult prying funds out of the General Assembly to invest in upgrading capabilities. Said Huang: "We've never had, and probably never will have, the [legislative] funding to modernize the state's IT infrastructure to make it responsive to a 21st-century government business."

Public-private partnerships allow the private sector to raise funds outside the normal budget process and invest in public improvements without an immediate payback. For instance, said Huang, the state needs to think about protecting itself against a catastrophic failure of its IT system, without which the bureaucracy would largely cease to function.

For years, even before the 9/11 terror attacks, the state's data center in downtown Richmond was regarded as a security risk. "You could drive up a truck loaded with fertilizer and take out 95 percent of the Commonwealth's secured data," Huang said. "We could never do anything about it. Right now, our backup is sending our [data] tapes to SunGuard. They promise 48 hours [recovery]. I'm not holding my breath."

Another issue is business continuity, highlighted not only by the 9/11 terror attacks but a succession of natural disasters including the recent hurricanes in Louisiana and Texas. Even if the data is safe, it doesn't do much good if state employees can't access their computers. "What if there were an anthrax attack in the old Finance building?" Huang asked. Could state employees perform their jobs?

Right now, the infrastructure does not exist for state employees to carry on the business of government. The Commonwealth needs to build the infrastructure -- to make data Web accessible, equip employees with laptops, set up Wi-Fi access points, put different departmental systems on common platforms -- that would allow state workers to operate at different locations.

Huang cited other issues, such as system reliability. Employees in a 21st-century organization count on their cell phones and Internet access to have 99.9 percent uptime. But that, too, costs money.

In its 10-year contract with the state, Northrop Grumman will finance the massive up-front improvements to the IT infrastructure that the state could never afford to undertake on its own. The $2 billion covers the telecom contract, servers, work stations, notebook computers, mobile devices, maintenance and state-of-the-art security with redundant data storage.

To Huang's way of thinking, it is imperative that the Commonwealth move to a more robust, more secure IT system. Yes, it may be more expensive than a system without those safeguards, he said, but it will protect against catastrophic failure. "Is *not* doing security an option?" he asks. "Is *not* doing back-up an option?"

But what about the promised savings?

Huang insists that VITA has saved money, and it would have saved more if the General Assembly had been more cooperative.

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In both the 2003 and 2004 sessions of the General Assembly, the Governor requested start-up funding to launch some of the cost savings initiatives planned early on. In 2003, the legislature eliminated a $30 million line of credit for VITA that was targeted for specific cost-savings initiatives, Huang explained. A year later, the Governor asked for $7.3 million for e-mail consolidation and other programs, but the General Assembly turned him down again. Said Huang: "The General Assembly, through its actions, told us, 'We like the savings numbers, but we don't want to provide funding to get there.'"

The original $100 million in savings that Newstrom forecast back in 2003 "was based upon the IT reform plan as originally conceived," Huang insisted. "We've saved money - to the tune of approximately $50 million -- but haven't yet hit our original target due to circumstances beyond our control."

Claiming $50 million in savings is one thing, but proving it is quite another, as Huang readily conceded. When VITA saves money, part of the savings appears as free-up resources in agency budgets, he explained. "Agencies don't like talking about these savings, because they represent resources they can apply elsewhere." The IT efficiencies are real -- they just don't get converted into direct monetary savings for taxpayers.

In an ideal world, VITA would have a centralized budget that would show where all the savings occur and how much it all adds up to. But that's not possible. Because so many state agencies rely upon federal funds, they have to be able to account for every dollar they spend. And that includes IT.

Agencies would cry foul, Huang said, if VITA tried to claim the IT savings. Resolution of any disagreements would get mired in a swamp of arcane accounting issues.

The other type of savings is "avoided costs." If the Commonwealth had to pay for all the upgrades to its IT system that Northrop Grumman will put into place, Huang said, "we'd have to spend an additional $240 million-plus." That $240 million was never in any budget, so he can't claim it as hard savings. On the other hand, there's real value in the contract that can't be ignored.

That's Huang's story, and he's sticking to it.

Given what I know about government, I find it entirely plausible that the state was severely under-investing in its IT infrastructure, particularly in the areas of security and business continuity -- capabilities that are chronically under-appreciated until something goes wrong. In a post-9/11, post-Hurricane Katrina world, we now know that catastrophic disasters can occur. We have no excuse to fail to protect ourselves from them.

But it also seems clear that taxpayers will never see the cost savings promised from IT reform. The General Assembly apparently doesn't like approving capital spending projects for IT. Even when efficiencies occur, state agencies, hiding behind a veil of mind-numbingly complex accounting, claim them for their own purposes. And with an infinite list of plausible IT "needs," public-private partnerships tend to be used to deliver higher levels of service rather than to cut administrative expenses.

If the promise of major IT savings appears unlikely to ever materialize, Virginians can at least console themselves that the IT system underpinning the state bureaucracy won't crash and burn.

-- November 28, 2005

Footnote

(1). See "Bringing VITA to Life," Aug. 25, 2003:

The Warner administration contends that the state can both save money and make government more effective by consolidating IT missions, eradicating duplication of effort and better training employees to do their jobs. VITA will centralize purchasing, implementing a "seat management" system for maintaining PCs and software. It will consolidate help desks. It will have the authority to assign employees to projects that cut across multiple agencies. By Newstrom's calculations, VITA will save Virginia taxpayers a minimum of $100 million by 2005.

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