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Office of MN.IT Services

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AT A GLANCE

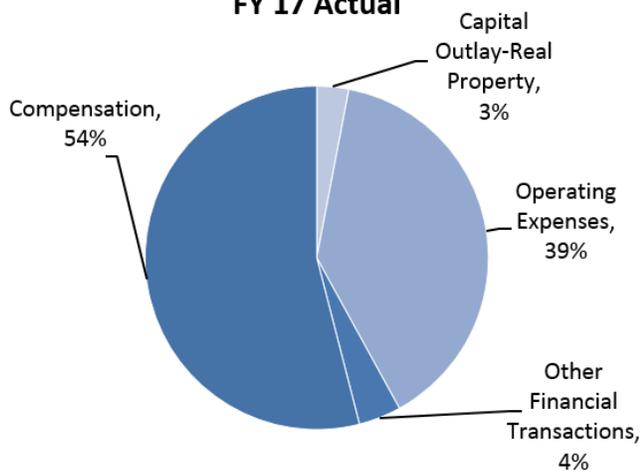
- Provides all information technology (IT) services to 64 executive branch entities and offers a sub-set of services to cities, counties and other non-executive branch entities
- Responsible for 2,271 IT employees in FY 18
- Hosting and support of more than 2,800 agency applications in FY 18
- Manages security for systems and applications at 135 locations
- Oversight of executive branch IT application and project portfolio

PURPOSE

We partner with Minnesota state agencies to deliver technology solutions that transform how government connects to provide services for the people of Minnesota. As the State’s provider of efficient and cost-effective IT services for agencies and citizens, MN.IT Services directly contributes to the State’s results-based outcome of: **Efficient and accountable government services**. In addition, we support all of the results-based outcomes, including health, public safety, employment and economic development, education and natural resources, by providing IT computing and telecommunications resources to support agency business goals, and by managing the applications that run agency programs.

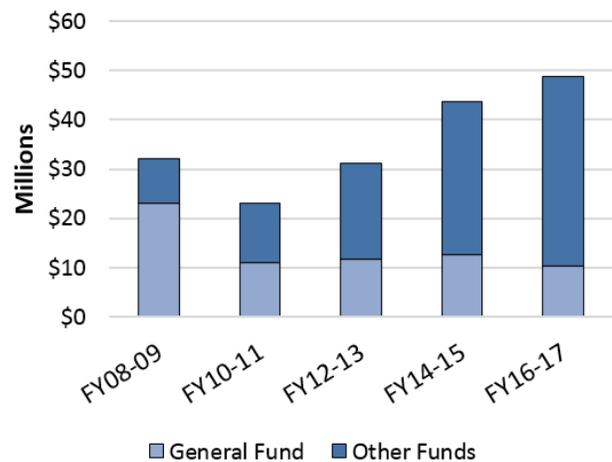
BUDGET

**Spending by Category
FY 17 Actual**



Source: Budget Planning & Analysis System (BPAS)

Historical Spending



Note: This chart excludes enterprise chargebacks to agencies and includes other agency funds dedicated to Information and Telecommunications Account projects.

Source: Consolidated Fund Statement

MN.IT spending is primarily funded by chargebacks to agencies for IT services through the enterprise technology fund (excluded from Spending Chart above), which, in budget fiscal year 2017, totaled \$472.8 million. General fund appropriations provide funding for the Chief Information Officer (CIO) office, enterprise security, and geospatial (MNGeo) functions and some projects. General fund spending increased in FY 2008-09 primarily for enterprise security, which was reduced in subsequent biennia. The remaining spending occurs in the special revenue fund, which consists of agency contributions to enterprise IT projects.

Since the 2011 Legislature enacted IT consolidation, MN.IT consolidated finances, purchasing, and data centers to produce cost avoidance for the state. Current enterprise service projects focus on those IT functions that can be more efficiently delivered through a centralized service. These projects are managed in stages to avoid disruption to state business and for efficiency.

STRATEGIES

Securing the State – As part of MN.IT’s efforts to protect Minnesotans from cyber threats and protect the State’s sensitive data assets, MN.IT is currently implementing an Information Security Strategic Plan. The plan prioritizes initiatives for the management, control, and protection of assets, including:

- Proactively managing risk
- Improving situational awareness
- Having a robust crisis and incident response
- Partnering with public and private entities to ensure success

Optimizing Enterprise Services – As part of a multi-year effort to fully realize the benefits of IT consolidation, MN.IT is transitioning agencies from a diverse, decentralized IT delivery model to a common, centralized IT service model for a subset of IT services that can be more efficiently and effectively consumed as a commodity service. Maximizing shared technologies gives the state the opportunity to provide high value services to customers. This approach improves the security of agency systems and allows our agency partners to focus on serving citizens and building value-added business applications.

Strengthening IT Modernization Program Management – With Minnesota’s executive branch state agencies in the midst of several concurrent IT system modernization efforts, MN.IT is strengthening IT program management and oversight practices through its Enterprise Program Management Office (ePMO) to maximize the potential for project success, apply lessons learned across agency silos, bring consistency to project reporting and tracking, and ensure project risks are appropriately mitigated.

MN.IT Services legal authority comes from M.S. 16E
(<https://www.revisor.leg.state.mn.us/statutes/?id=16E&view=chapter>).

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base		Governor's Recommendation	
					FY20	FY21	FY20	FY21
<u>Expenditures by Fund</u>								
1000 - General	4,796	5,443	4,339	4,151	2,599	2,599	20,061	13,383
2000 - Restrict Misc Special Revenue	6,067	2,927	2,841	1,126	1,717	1,717	1,717	1,717
2001 - Other Misc Special Revenue	18,091	11,579	13,869	321,857	262,849	240,815	262,849	240,815
5000 - Master Lease	4,411	3,860	9,372	10,700	9,350	8,950	9,350	8,950
5500 - MN.IT Services	340,705	462,040	483,105	178,024	199,019	202,111	199,019	202,111
Total	374,069	485,848	513,526	515,858	475,534	456,192	492,996	466,976
Biennial Change				169,467		(97,658)		(69,412)
Biennial % Change				20		(9)		(7)
Governor's Change from Base								28,246
Governor's % Change from Base								3

Expenditures by Program

IT for Minnesota Government	374,069	485,848	513,526	515,858	475,534	456,192	492,996	466,976
Total	374,069	485,848	513,526	515,858	475,534	456,192	492,996	466,976

Expenditures by Category

Compensation	207,555	263,003	278,813	279,118	273,209	282,341	276,089	285,221
Operating Expenses	146,213	187,426	203,138	209,641	176,449	148,375	191,031	156,279
Grants, Aids and Subsidies	17	44	6					
Capital Outlay-Real Property	7,253	13,386	12,415	10,861	9,500	9,100	9,500	9,100
Other Financial Transaction	13,031	21,991	19,154	16,238	16,376	16,376	16,376	16,376
Total	374,069	485,848	513,526	515,858	475,534	456,192	492,996	466,976

Full-Time Equivalent

	1,753.39	2,197.66	2,271.37	2,354.86	2,312.85	2,312.85	2,334.85	2,334.85
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(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base FY20 FY21		Governor's Recommendation FY20 FY21	
1000 - General								
Balance Forward In	4,807	3,647	3,048	1,411				
Direct Appropriation	2,526	2,622	2,642	2,670	2,679	2,679	20,141	13,463
Transfers In	735	2,096	200	150				
Transfers Out	25	25	140	80	80	80	80	80
Cancellations		25						
Balance Forward Out	3,248	2,874	1,411					
Expenditures	4,796	5,443	4,339	4,151	2,599	2,599	20,061	13,383
Biennial Change in Expenditures				(1,748)		(3,292)		24,954
Biennial % Change in Expenditures				(17)		(39)		294
Governor's Change from Base								28,246
Governor's % Change from Base								543
Full-Time Equivalents	15.86	19.15	15.31	17.63	17.59	17.59	39.59	39.59

2000 - Restrict Misc Special Revenue

Balance Forward In	13,699	9,059	6,892	4,391	3,605	2,228	3,605	2,228
Transfers In	340	328	340	340	340	340	340	340
Cancellations		0						
Balance Forward Out	7,972	6,460	4,391	3,605	2,228	851	2,228	851
Expenditures	6,067	2,927	2,841	1,126	1,717	1,717	1,717	1,717
Biennial Change in Expenditures				(5,027)		(533)		(533)
Biennial % Change in Expenditures				(56)		(13)		(13)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	6.58	4.10	2.19	2.69	2.69	2.69	2.69	2.69

2001 - Other Misc Special Revenue

Balance Forward In	40,854	26,121	30,874	19,304	8,360	3,891	8,360	3,891
Receipts	2,712	3,178	2,300	310,913	258,380	239,155	258,380	239,155
Transfers In	23,344	12,048						
Transfers Out	25,030		5					
Cancellations		0						
Balance Forward Out	23,788	29,769	19,300	8,360	3,891	2,231	3,891	2,231
Expenditures	18,091	11,579	13,869	321,857	262,849	240,815	262,849	240,815

MN.IT Services

Agency Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY16	FY17	FY18	FY19	FY20	FY21	FY20	FY21
Biennial Change in Expenditures				306,056		167,938		167,938
Biennial % Change in Expenditures				1,032		50		50
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	26.70	22.01	25.86	1,527.80	1,452.84	1,452.84	1,452.84	1,452.84

5000 - Master Lease

Balance Forward In	0	0						
Receipts	4,411	3,859	9,372	10,700	9,350	8,950	9,350	8,950
Balance Forward Out	0							
Expenditures	4,411	3,860	9,372	10,700	9,350	8,950	9,350	8,950
Biennial Change in Expenditures				11,802		(1,772)		(1,772)
Biennial % Change in Expenditures				143		(9)		(9)
Governor's Change from Base								0
Governor's % Change from Base								0

5500 - MN.IT Services

Balance Forward In	11,753	14,583	20,011	117,279	7,203	8,749	7,203	8,749
Receipts	345,639	459,514	475,646	178,023	200,640	200,640	200,640	200,640
Transfers In	290,178	314,473	110,014					
Transfers Out	236,203	320,396	5,286	110,075	75	75	75	75
Balance Forward Out	70,662	6,133	117,279	7,203	8,749	7,203	8,749	7,203
Expenditures	340,705	462,040	483,105	178,024	199,019	202,111	199,019	202,111
Biennial Change in Expenditures				(141,615)		(259,999)		(259,999)
Biennial % Change in Expenditures				(18)		(39)		(39)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	1,704.25	2,152.40	2,228.01	806.74	839.73	839.73	839.73	839.73

(Dollars in Thousands)

	FY19	FY20	FY21	Biennium 2020-21
Direct				
Fund: 1000 - General				
FY2019 Appropriations	2,670	2,670	2,670	5,340
Base Adjustments				
Pension Allocation		9	9	18
Forecast Base	2,670	2,679	2,679	5,358
Change Items				
IT Portfolio and Project Management Oversight		2,050	2,050	4,100
Securing the State		15,412	8,734	24,146
Total Governor's Recommendations	2,670	20,141	13,463	33,604
Dedicated				
Fund: 2000 - Restrict Misc Special Revenue				
Planned Spending	743	1,377	1,377	2,754
Forecast Base	743	1,377	1,377	2,754
Total Governor's Recommendations	743	1,377	1,377	2,754
Fund: 2001 - Other Misc Special Revenue				
Planned Spending	321,857	262,849	240,815	503,664
Forecast Base	321,857	262,849	240,815	503,664
Total Governor's Recommendations	321,857	262,849	240,815	503,664
Fund: 5000 - Master Lease				
Planned Spending	10,700	9,350	8,950	18,300
Forecast Base	10,700	9,350	8,950	18,300
Total Governor's Recommendations	10,700	9,350	8,950	18,300
Fund: 5500 - MN.IT Services				
Planned Spending	178,024	199,019	202,111	401,130
Forecast Base	178,024	199,019	202,111	401,130
Total Governor's Recommendations	178,024	199,019	202,111	401,130
Revenue Change Summary				
Dedicated				
Fund: 2001 - Other Misc Special Revenue				
Forecast Revenues	310,913	258,380	239,155	497,535
Total Governor's Recommendations	310,913	258,380	239,155	497,535

(Dollars in Thousands)

	FY19	FY20	FY21	Biennium 2020-21
Fund: 5000 - Master Lease				
Forecast Revenues	10,700	9,350	8,950	18,300
Total Governor's Recommendations	10,700	9,350	8,950	18,300
Fund: 5500 - MN.IT Services				
Forecast Revenues	178,023	200,640	200,640	401,280
Total Governor's Recommendations	178,023	200,640	200,640	401,280

Change Item Title: IT Portfolio and Project Management Oversight

Fiscal Impact (\$000s)	FY 2020	FY 2021	FY 2022	FY 2023
General Fund				
Expenditures	2,050	2,050	1,200	1,200
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	2,050	2,050	1,200	1,200
FTEs	8	8	8	8

Recommendation:

The Governor recommends a \$2.050 million General Fund increase for the Minnesota IT Services (MNIT) Enterprise Program Management Office in FY 2020 and in FY 2021, and a \$1.2 million increase each fiscal year thereafter to boost oversight of the State IT project portfolio. Funding from this request will provide resources to yield a more robust and consistent approach to MNIT portfolio and project oversight across the Executive Branch.

This recommendation is equal to a 77% increase to MNIT’s General Fund base budget for the FY 2020-2021 biennium and a 45% increase in the FY 2022-2023 biennium.

Rationale/Background:

IT project management oversight is a significant challenge for large and widely-distributed IT project portfolios. To help mitigate risk and ensure portfolio and project governance, organizations spend tens of millions of dollars to govern their IT portfolios through enterprise project management offices, specialized project-audit departments, risk-mitigation strategists and carefully developed policies and automated processes to make IT project governance more effective. Mature organizations (Google, Facebook, and Microsoft, for example) are successful in their project delivery because of the vast amounts of time and money they devote to critical governance oversight.

Minnesota IT Services faces many of the same IT governance challenges. MNIT is a large and complex organization that serves the IT needs for 34,000 state employees and the 5.6 million residents of Minnesota. MNIT has 350+ complex IT projects in process at any given time, ranging from multi-month to multi-year, multi-million dollar projects. This is in addition to myriad IT maintenance, hardware modernization and troubleshooting activities taking place at any given time across Minnesota. MNIT project teams and technical service staff are distributed across 70+ agencies, boards and commissions, employing 2,300+ staff in 90 physical locations, connecting all 87 counties, 300 cities and 200 higher-education campuses.

MNIT has been making progress in portfolio and project management oversight. Over the past three years MNIT has implemented portfolio management programs that have:

1. Increased the transparency of MNIT’s IT portfolio through improved real-data reports to the Legislature.
2. Implemented online project management software as an enterprise-wide common repository for managing project data and project development activity in a software tool that all project managers can easily access.
3. Adapted the Information Telecommunications Account funding program to include a process for the review and approval of project/funding through the Legislative Advisory Council.

4. Implemented a comprehensive outreach program to connect MNIT Chief Business Technology Officers (CBTOs) and their project management leaders with information on Minnesota State project-management statutes and MNIT project management policies, standards, and best practices.

While project oversight has improved, wide gaps still exist between what MNIT is able to do with its limited number of current staff and the critical operations it still needs to put in place.

Proposal:

MNIT proposes to leverage this increased General Fund to support project oversight through investments and activities that will:

1) Deliver measurably improved project tracking and executive reporting of leading indicators for managing MNIT’s project portfolio, by:

- a. Allowing for proactive course-corrections and demonstrable improvements in portfolio and project monitoring and control,
- b. Providing MNIT executives with improved decision-making abilities, based on accurate and robust portfolio and project data,
- c. More fully controlling the Information Telecommunications Account funding program—based on Legislative Auditor findings, and,
- d. Engaging a dedicated outside contractor to 1) uncover and address systemic barriers to delivering successful projects, 2) develop and implement an action plan to improve the mitigation of project risks, and 3) ensure that IT project proposals include quantifiable performance and success criteria against a set of tangible, measurable business outcomes.

2) Strengthen enforcement of enterprise-wide project management standards, compliance to ensure that:

- a. Project-risk assessments and audits are more uniformly conducted and findings are addressed according to Minnesota statutory and other oversight body requirements,
- b. Project managers are working in an environment with clear project-management policies and standards, common project-management tools, and best practices consistent across agencies. (An added benefit of this environment will be a more robust portfolio and project reporting structure.),
- c. Project managers are properly trained and informed of MNIT’s project management policies and standards,
- d. Needed processes are in place to monitor and measure enterprise-wide compliance to State statutes, and MNIT project management policies and standards.

3) Assess and verify delivered project benefits to:

- a. Ensure that projects are not started without clear benefits and success criteria as part of the overall project plan,
- b. Measure and monitor project progress against specified success criteria to ensure that projects are on target to deliver the promised benefits to stakeholders.

This proposal includes one-time funding for a two-year professional service contract to investigate and analyze gaps in MNIT’s project management oversight process, create an improvement roadmap plan, set goals, and implement this plan, which will address existing oversight gaps, improve project oversight, and conduct periodic reviews of the program’s success and make adjustments, as needed.

This proposal’s ongoing funding will cover costs for eight staff to strengthen and better administer IT portfolio and project management oversight and control. Currently there are three staff funded by the MNIT Internal Service Fund, who have large portfolios to manage.

Equity and Inclusion:

Individuals who utilize government services of any kind rely on IT projects to improve and simplify their interactions with government offices.

IT Related Proposals:

This request is for ongoing information technology staff support, as well as professional services for analysis, training, and follow up. There are no associated IT system operations or maintenance costs.

<i>Category</i>	<i>FY 2020</i>	<i>FY 2021</i>	<i>FY 2022</i>	<i>FY 2023</i>	<i>FY 2024</i>	<i>FY 2025</i>
Payroll	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Professional/Technical Contracts	850,000	850,000				
Infrastructure						
Hardware						
Software						
Training						
Enterprise Services						
Total	2,050,000	2,050,000	1,200,000	1,200,000	1,200,000	1,200,000
MNIT FTEs	8	8	8	8	8	8
Agency FTEs						

Results:

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Current</i>	<i>Goal</i>
Quantity	Number of IT projects reviewed by MNIT's Executive Steering Team	4	15
Quality	Percentage of IT monthly project status reports submitted on time	68%	90%

Statutory Change(s):

None.

Change Item Title: Securing the State

Fiscal Impact (\$000s)	FY 2020	FY 2021	FY 2022	FY 2023
General Fund				
Expenditures	15,412	8,734	8,234	8,234
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	15,412	8,734	8,234	8,234
FTEs	14	14	14	14

Recommendation:

The Governor recommends a \$15.412 million General Fund increase in FY 2020, an \$8.734 million increase in FY 2021, and an \$8.234 million increase each fiscal year thereafter to support a robust cybersecurity program at Minnesota IT Services (MNIT) to defend state systems and information. FY 2020 funding will reduce the state’s cyber risk by shrinking the number of datacenters and improving MNIT’s cybersecurity program. The recommended ongoing funding allows MNIT to maintain a baseline security posture and capability through a combination of internal staff, licensed tools, and outsourced consultation and services. These investments will prevent more low-sophistication attacks and expedite detection and response to moderate- and higher-sophistication attacks.

This recommendation is equal to a 451% increase to MNIT’s General Fund base budget for the FY 2020-2021 biennium and a 307% increase in the FY 2022-2023 biennium.

Rationale/Background:

Entities in both the public and private sector face unprecedented and continuously advancing cybersecurity challenges. Low-to-moderate sophistication attacks are more effective and profitable than ever, giving rise to significant increase in their frequency. Investments in offensive cyber operations by both criminal organizations and nation states has also led to an increase in the most sophisticated attacks. Further, the pervasiveness of information systems in everything government does increases the effectiveness, impact, and disruption resulting from such attacks. Studies by lead researchers in the field suggest this trend is unlikely to reverse any time soon.

Government faces the particular challenge of not only attracting the attention of profit-motivated attackers but also politically motivated activists. Minnesota experiences an average of 83 security incidents every month, a quarter of which are email phishing attacks. Some incidents become data breaches which cost the state time, money, and the confidence of citizens. On average, comparably-sized private sector organizations spend greater than 6% of their overall IT budget on cybersecurity, a value that increases year over year. Despite facing the same or, in many cases, greater challenges, Minnesota spends less than 2%.

While some agencies have historically invested in security, most have not, and before certain efficiencies can be realized, those agencies must be brought up to a minimum supportable standard. A first-year investment sets up the state to more effectively leverage longer-term security spend. In recent years, all agencies have benefited by sharing resources that result in broader availability of deeper expertise. Bringing under-investing agencies up to a minimum baseline will free more resources to improve services for all agencies, regardless of historical spend.

Proposal:

MNIT's "Securing the State" proposal will decrease the frequency and impact of security and data breaches by executing two separate but related initiatives:

Reduce the Attack Surface

Bring agency IT into enterprise-grade, physically secure, and robust datacenters.

- Consolidate the physical aspect of information systems, improving the resilience of many IT systems against weather or power interruption
- Simplify the technology by reducing the number of systems and distance over which state systems must communicate to perform basic functions
- Integrate physical security, monitoring tools, and vulnerability management solutions into the enterprise environment

Reinforce and Equip the State's Cybersecurity Team

Staff the security program and equip that staff with tools and consultants that make them more effective.

- Mature agency application security capabilities
- Jumpstart statewide PCI compliance initiative
- Improve detection and blocking of attacks on State employees
- Develop System Security Plans for new systems under development
- Conduct ongoing security risk assessments of existing agency business systems
- Expand security awareness training for the state workforce
- Improve access management capabilities, including expanded oversight of people with powerful system administrator accounts
- Use independent assessors to confirm the adequacy of security controls
- Secure appropriate cyber insurance coverage for the State of Minnesota
- Invest in and deploy advanced cybersecurity tools to detect security anomalies faster and mitigate the risk of distributed denial of service attacks
- Improve situational awareness and response times through around the clock monitoring
- Develop and perform ongoing tests of disaster recovery strategies

This recommendation upgrades the state's existing cybersecurity toolset and adds 14 security professionals to the state's enterprise cybersecurity team. The funding would also allow for the procurement of commercial professional/technical services in the areas of monitoring, vulnerability management, incident response/forensics, risk and compliance, and state employee security training. This funding would also enable the acceleration of existing data center consolidation efforts which improve IT system economy, resiliency, and facilitate security.

This proposal includes what can reasonably be implemented in FY 2020 and FY 2021, after which further assessment against the evolving threat landscape will be required to determine residual risk and what further investment is warranted. Funding for ongoing performance assessments is part of this recommendation.

Equity and Inclusion:

Individuals who utilize government services of any type are disproportionately at risk of their private data being breached in the event of a cyber-attack on Minnesota state government. In addition, individuals who rely on government services would be disproportionately impacted if a cyber-attack were to render government technology systems inoperable. This proposal includes one-time funding to bolster the state's cyber defenses to combat such an attack and includes ongoing funding to help ensure the security of state systems and citizen data held by executive branch state agencies.

IT Related Proposals:

This proposal is for ongoing information technology staff support, as well as tools and services including infrastructure, hardware, software and training.

<i>Category</i>	<i>FY 2020</i>	<i>FY 2021</i>	<i>FY 2022</i>	<i>FY 2023</i>	<i>FY 2024</i>	<i>FY 2025</i>
Payroll	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000	1,680,000
Professional/Technical Contracts	3,596,400	725,000	225,000	225,000	225,000	225,000
Infrastructure						
Hardware	3,604,052					
Software	5,146,150	4,944,275	4,944,275	4,944,275	4,944,275	4,944,275
Training	385,000	385,000	385,000	385,000	385,000	385,000
Enterprise Services						
Other Operating Expenses	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total	15,411,602	8,734,275	8,234,275	8,234,275	8,234,275	8,234,275
MNIT FTEs	14	14	14	14	14	14
Agency FTEs						

Results:

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Current</i>	<i>Target</i>	<i>Dates</i>
Quantity	Number of state data centers	16	6	
Quantity	Ratio of phishing attacks received by state employees versus systematically blocked per week	N/A	<1:100	
Quantity	Average vulnerability score of MNIT managed computers or systems	N/A	<5,000	

Statutory Change(s):

None.

Change Item Title: Cash Flow Assistance

Fiscal Impact (\$000s)	FY 2020	FY 2021	FY 2022	FY 2023
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	0	0	0	0
FTEs	0	0	0	0

Recommendation:

The Governor recommends authorization of cash flow assistance of up to \$50 million for the FY 2020-2021 biennium and repayment with interest by the end of the fiscal year 2021 closing period.

Rationale/Background:

Minnesota Management and Budget (MMB) is authorized by Minnesota Statute 16A.129 to provide cash flow assistance to agencies within a budget period. In 2013, MMB was first specifically authorized to provide cash flow assistance to Minnesota IT Services (MNIT) of up to \$110 million within the FY 2014-2015 biennium. (See Laws of 2013, Chapter 142, Article 1, Section 10.)

The assistance was authorized to address working capital needs due to a lengthy cash conversion cycle: the time between MNIT incurring expenses on behalf of agencies, such as procurement and payroll expenses, and receipt of agency payments for those expenses. MNIT has learned over the past several years that the volume of purchases processed on behalf of larger agencies places significant pressure on the cash flow conversion cycle. The current cash conversion cycle ranges between 30-90 days.

MNIT is requesting a reduced amount of cash flow assistance for the FY 2020-2021 biennium. Previously, MNIT has requested \$110 million. The reason for the reduction is that the Agency IT Services budgets have moved to the Special Revenue Fund.

There is no net cost impact to the General Fund since this is a cash assistance that will be repaid with interest.

Proposal:

This proposal provides cash flow assistance of up to \$50 million for the FY 2020-2021 biennium and provides the General Fund repayment with interest by the end of the fiscal year 2021 closing period. The proposed cash assistance is needed to manage MNIT's cash flow effectively.

Equity and Inclusion:

N/A

IT Related Proposals:

N/A

Statutory Change(s):

None.

Program: IT for Minnesota Government

Activity: IT Services

mn.gov/mnit/

AT A GLANCE

- Internal service fund consisting of enterprise and shared IT services provided to agencies through rates
- Data center management for 2 enterprise data centers
- Service desk and desktop support for 40,000 customers
- Enterprise communication/collaboration tools for 38,700 users
- MNET (Minnesota's Network for Enterprise Telecommunications)- the State network for education, local governments and agencies with 1,300 locations and 36 regional network hubs
- Local and long distance telephone service delivered by 70 different vendors to 100 customers

PURPOSE & CONTEXT

This activity meets the need for an effective, secure and reliable IT infrastructure capable of providing the wide range of IT services and business functionality required by agencies to meet program goals and objectives. The activity is comprised of both enterprise standard services and those that are provided at the agency-based office level. The primary customers are state government entities and, by extension, the citizens of Minnesota.

SERVICES PROVIDED

IT Services include all of the computing, telecommunications, and Wide Area Network (WAN) services that underlie and support the program applications upon which state agencies rely:

- Mainframe and server infrastructure required to run agency applications, as well as data center management
- Client Computing (worker support): Service Desk, Mobile Device Management, Workstation Management
- Contracted Telecom Services: local and long distance voice services contracted through third party telephone vendors
- Internet protocol (IP): the state's voice over internet phone system
- Contact Center Minnesota: call center providing customer solutions
- Wide Area Network Services (WAN): services that enable the use of the state's communications network for voice, data, and video
- Local Area Network (LAN): communications network connecting devices within a building or campus
- Enterprise Unified Communication and Collaboration (EUCC): email, instant messaging, SharePoint, video and voice conferencing

Priorities are aimed at making the IT infrastructure more efficient so we can focus MN.IT's staff, budget and creativity on the application-layer services that most directly make a difference for customers and citizens.

Priorities for the coming biennium include:

- Combine all agency user active directory (AD) systems and resources into a single executive branch active directory system. An active directory (AD) authenticates and authorizes all users and computers in a Windows domain type network.
- Increase resiliency and versatility in the State network core in order to improve performance and to facilitate the movement to cloud-based services.

- Design and create an enterprise server environment and a managed hosting service that is delivered by a dedicated enterprise team, allowing the state to decrease the number of data centers it operates and to improve the security of the State’s data assets.
- Initiate and operate a common mobile device management service to manage state and personally owned mobile devices that are permitted to have access to state resources and data.
- Create a centrally managed service desk and work management function for all executive branch agencies.
- Combine individual agency SharePoint and other collaboration tools in order to leverage our investment in the cloud-based EUCC infrastructure.
- Embed security functionality and monitoring into enterprise infrastructure services such as hosting and storage.

RESULTS

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Number of data centers	27	16	FY 2016, FY 2018
Quality	Digital State Survey by the Center for Digital Government, a review of all 50 states’ electronic government capabilities	B+	A-	Sept 2016, Sept 2018
Quality	% of MN.IT services rated as ‘Reasonable’ to ‘Best Value’ vis a vis other states as determined by independent rates analysis study	77%	93%	FY 2016 FY 2017
Results	Customer Survey Results. Percent of respondents reporting they are generally satisfied with the technology and support received from MNIT.	N.A.	66%	August 2017
Results	State network core. On an annual basis, the percent of time the network is available to users.	99.99%	99.99%	FY 2016, FY 2018
Quantity	Disk capacity in PetaBytes (PB). Increase in capacity meets growth in demand for storage.	2.5 PB	8.4PB	Jul 2016, Jul 2018
Quantity	Email mailboxes. Expanded capacity accommodates a greater number of users.	45,362	46,617	Jul 2016, Aug 2018

MN.IT Services legal authority comes from M.S. 16E
<https://www.revisor.leg.state.mn.us/statutes/?id=16E&view=chapter>

IT Services

Activity Expenditure Overview

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base FY20 FY21		Governor's Recommendation FY20 FY21	
<u>Expenditures by Fund</u>								
5000 - Master Lease	4,411	3,860	9,372	10,700	9,350	8,950	9,350	8,950
5500 - MN.IT Services	340,705	462,040	483,105	178,024	199,019	202,111	199,019	202,111
Total	345,115	465,899	492,478	188,724	208,369	211,061	208,369	211,061
Biennial Change				(129,813)		(261,772)		(261,772)
Biennial % Change				(16)		(38)		(38)
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Category

Compensation	201,659	257,801	273,630	72,777	91,676	94,770	91,676	94,770
Operating Expenses	124,414	173,808	187,598	96,729	94,431	94,429	94,431	94,429
Grants, Aids and Subsidies	17	44	6					
Capital Outlay-Real Property	6,917	13,051	12,273	10,700	9,350	8,950	9,350	8,950
Other Financial Transaction	12,108	21,195	18,971	8,518	12,912	12,912	12,912	12,912
Total	345,115	465,899	492,478	188,724	208,369	211,061	208,369	211,061

Full-Time Equivalent

	1,704.25	2,152.40	2,228.01	806.74	839.73	839.73	839.73	839.73
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IT Services

Activity Financing by Fund

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base FY20 FY21		Governor's Recommendation FY20 FY21	
5000 - Master Lease								
Balance Forward In	0	0						
Receipts	4,411	3,859	9,372	10,700	9,350	8,950	9,350	8,950
Balance Forward Out	0							
Expenditures	4,411	3,860	9,372	10,700	9,350	8,950	9,350	8,950
Biennial Change in Expenditures				11,802		(1,772)		(1,772)
Biennial % Change in Expenditures				143		(9)		(9)
Governor's Change from Base								0
Governor's % Change from Base								0
5500 - MN.IT Services								
Balance Forward In	11,753	14,583	20,011	117,279	7,203	8,749	7,203	8,749
Receipts	345,639	459,514	475,646	178,023	200,640	200,640	200,640	200,640
Transfers In	290,178	314,473	110,014					
Transfers Out	236,203	320,396	5,286	110,075	75	75	75	75
Balance Forward Out	70,662	6,133	117,279	7,203	8,749	7,203	8,749	7,203
Expenditures	340,705	462,040	483,105	178,024	199,019	202,111	199,019	202,111
Biennial Change in Expenditures				(141,615)		(259,999)		(259,999)
Biennial % Change in Expenditures				(18)		(39)		(39)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	1,704.25	2,152.40	2,228.01	806.74	839.73	839.73	839.73	839.73

Program: IT for Minnesota Government
Activity: Applications, Projects and Initiatives

mn.gov/mnit/

AT A GLANCE

- Responsible for management and oversight of 2,800 agency applications
- MNIT’s FY18 project portfolio included:
 - Approximately 375 actively managed projects at any point in time.
 - Projects associated with biennial IT (BIT) appropriations to agencies.
 - 92 agency-funded Information Technology Account (ITA) project budgets addressing specific agency needs—\$28.6 M budgeted in FY18.
- Special revenue initiatives set aside for a specific purpose

PURPOSE & CONTEXT

MNIT is responsible for the development and management of IT applications that meet the business requirements of executive branch agencies. The Enterprise Program Management Office (ePMO) and Project Management Office (PMO) provide oversight of approved IT projects, both enterprise and agency-specific. This activity focuses on development of citizen-facing systems as well as smaller, internal systems development, upgrades, and operational improvements. An example of a citizen-facing system is the Department of Employment and Economic Development’s Unemployment Insurance system, which enables citizens to apply for and obtain unemployment insurance benefits through an online, self-service system.

SERVICES PROVIDED

Applications and Projects include all of the activities related to the development, implementation, and support of the IT application and project portfolio of the executive branch. This includes:

- Oversight and monitoring of agency applications by MNIT executive management in partnership with agency customers
- Enterprise project and portfolio management, including creation of standards for project management, business analysis, and quality assurance
- FY 2020-21 biennial IT (BIT) business application projects for agencies and agency-contributed funds to the Information Technology Account (ITA) also known as Odyssey projects
- Special revenue initiatives set aside for a specific purpose
 - BUY.IT group that negotiates software license agreements on behalf of the enterprise
 - Special appropriation that addresses enterprise accessibility requirements-Telecommunications Access MN (TAM)
 - MMIS Service Contract (DHS)
 - Enterprise e-licensing surcharge account
 - Homeland Security grant

RESULTS

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	Completed projects	241	240	FY15, FY17

MN.IT Services legal authority comes from M.S.16E (<https://www.revisor.leg.state.mn.us/statutes/?id=16E&view=chapter>).

Applications, Projects and Initiatives

Activity Expenditure Overview

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base		Governor's Recommendation	
					FY20	FY21	FY20	FY21
<u>Expenditures by Fund</u>								
1000 - General	2,643	2,505	2,109	1,289				
2000 - Restrict Misc Special Revenue	5,779	2,549	2,544	743	1,377	1,377	1,377	1,377
2001 - Other Misc Special Revenue	18,091	11,579	13,869	321,857	262,849	240,815	262,849	240,815
Total	26,513	16,633	18,521	323,889	264,226	242,192	264,226	242,192
Biennial Change				299,264		164,008		164,008
Biennial % Change				694		48		48
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Category

Compensation	3,934	2,948	3,124	204,305	179,374	185,360	179,374	185,360
Operating Expenses	21,329	12,789	15,093	111,741	81,254	53,234	81,254	53,234
Capital Outlay-Real Property	336	335	143	161	150	150	150	150
Other Financial Transaction	915	561	162	7,682	3,448	3,448	3,448	3,448
Total	26,513	16,633	18,521	323,889	264,226	242,192	264,226	242,192

Full-Time Equivalent

	33.09	25.99	26.34	1,527.86	1,452.84	1,452.84	1,452.84	1,452.84
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Applications, Projects and Initiatives

Activity Financing by Fund

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base		Governor's Recommendation	
					FY20	FY21	FY20	FY21
1000 - General								
Balance Forward In	4,807	3,283	3,048	1,139				
Transfers In	735	2,096	200	150				
Cancellations		1						
Balance Forward Out	2,899	2,874	1,139					
Expenditures	2,643	2,505	2,109	1,289				
Biennial Change in Expenditures				(1,751)		(3,398)		(3,398)
Biennial % Change in Expenditures				(34)		(100)		(100)
Governor's Change from Base								0
Governor's % Change from Base								
Full-Time Equivalents	1.81	1.88	0.29	0.06				

2000 - Restrict Misc Special Revenue

Balance Forward In	13,699	9,006	6,892	4,348	3,605	2,228	3,605	2,228
Transfers In		3						
Cancellations		0						
Balance Forward Out	7,921	6,460	4,348	3,605	2,228	851	2,228	851
Expenditures	5,779	2,549	2,544	743	1,377	1,377	1,377	1,377
Biennial Change in Expenditures				(5,041)		(533)		(533)
Biennial % Change in Expenditures				(61)		(16)		(16)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	4.58	2.10	0.19					

2001 - Other Misc Special Revenue

Balance Forward In	40,854	26,121	30,874	19,304	8,360	3,891	8,360	3,891
Receipts	2,712	3,178	2,300	310,913	258,380	239,155	258,380	239,155
Transfers In	23,344	12,048						
Transfers Out	25,030		5					
Cancellations		0						
Balance Forward Out	23,788	29,769	19,300	8,360	3,891	2,231	3,891	2,231
Expenditures	18,091	11,579	13,869	321,857	262,849	240,815	262,849	240,815
Biennial Change in Expenditures				306,056		167,938		167,938
Biennial % Change in Expenditures				1,032		50		50

Applications, Projects and Initiatives

Activity Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY16	FY17	FY18	FY19	FY20	FY21	FY20	FY21
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	26.70	22.01	25.86	1,527.80	1,452.84	1,452.84	1,452.84	1,452.84

Program: IT for Minnesota Government

Activity: Leadership

mn.gov/mnit/

AT A GLANCE

Leadership includes general funded functions that support the enterprise:

- State Chief Information Officer (CIO) office (strategy, direction, planning)
- Enterprise Security Services
- MN Geospatial Information Office

PURPOSE & CONTEXT

IT leadership covers the administrative and oversight functions of an agency with more than 30 locations. It provides the management strategy and high-level tactics that help MN.IT Services fulfill its mission and provides organizational management based on the agency's key priorities. In addition, IT leadership develops and guides IT consolidation priorities and projects. Key partners include the Governor's Office, the legislature, agency business leadership, and MN.IT services management and staff.

SERVICES PROVIDED

The CIO Office, Enterprise Security, and MN Geospatial Office listed provide the leadership, planning, and support that allow IT services to be delivered to customers in a high-value, cost-effective and safe manner. IT leadership funded by general appropriations for the FY 2020-21 biennium are:

- The State CIO Office provides the overall strategy, direction and planning over executive branch information technology. This responsibility includes management of the migration of infrastructure from agency-based offices to enterprise services.
- The Enterprise Security Office (ESO) provides the vision and strategy necessary to secure the state.
 - Implement the security foundation for the executive branch that includes a comprehensive Service Delivery Model, Policy and Standard Framework and an Information Security Strategic Plan
 - Promote collaboration and partnership Provide with other levels, units, and branches of government, in order to more effectively address the increasing barrage of advanced and persistent threats.
 - Improve Minnesota's cybersecurity workforce through partnerships with academia, promotion of cybersecurity careers, and innovative programs like Scholarship for Service.
- MnGeo's primary role is to provide geospatial coordination and collaboration and to act as a service bureau to the state agencies on geospatial matters. This involves outreach and communication between state agencies, with local and national government agencies, as well as with non-government organizations and citizens. It also involves data coordination efforts, especially stewardship of important statewide datasets, fostering use of data standards, and identification and prioritization of data gaps. These coordination efforts have led to MnGeo and several partners creating the Minnesota Geospatial Commons, <https://gisdata.mn.gov>, a collaborative place for users and publishers of geospatial resources about Minnesota.

RESULTS

<i>Type of Measure</i>	<i>Name of Measure</i>	<i>Previous</i>	<i>Current</i>	<i>Dates</i>
Quantity	<p>IT Spend percent of total state expenditures. By comparison, Gartner, a marketing research firm, reported IT Spend (as a % of expenditures) for state/local government entities (greater than \$10B in expenditures) as follows: FY14, 2.25%; FY15, 2.1%.</p> <p>Note: IT Spend ratio to expense is a key measure of the amount of IT resources relative to the size of an organization. Therefore, it can be seen as a measure of IT efficiency and relative IT funding.</p>	1.56%	1.28%	FY17, FY18
Quantity	Number of agencies contributing data to the Geospatial Commons	24	29	FY17, FY18

MN.IT Services legal authority comes from M.S. 16E
<https://www.revisor.leg.state.mn.us/statutes/?id=16E&view=chapter>.

Leadership

Activity Expenditure Overview

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base FY20 FY21		Governor's Recommendation FY20 FY21	
<u>Expenditures by Fund</u>								
1000 - General	2,152	2,938	2,230	2,862	2,599	2,599	20,061	13,383
2000 - Restrict Misc Special Revenue	288	378	297	383	340	340	340	340
Total	2,441	3,316	2,527	3,245	2,939	2,939	20,401	13,723
Biennial Change				16		106		28,352
Biennial % Change				0		2		491
Governor's Change from Base								28,246
Governor's % Change from Base								481
<u>Expenditures by Category</u>								
Compensation	1,962	2,253	2,059	2,036	2,159	2,211	5,039	5,091
Operating Expenses	470	829	447	1,171	764	712	15,346	8,616
Grants, Aids and Subsidies	0							
Other Financial Transaction	8	234	21	38	16	16	16	16
Total	2,441	3,316	2,527	3,245	2,939	2,939	20,401	13,723
<u>Full-Time Equivalents</u>								
	16.05	19.27	17.02	20.26	20.28	20.28	42.28	42.28

Leadership

Activity Financing by Fund

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base		Governor's Recommendation	
					FY20	FY21	FY20	FY21
1000 - General								
Balance Forward In		364		272				
Direct Appropriation	2,526	2,622	2,642	2,670	2,679	2,679	20,141	13,463
Transfers Out	25	25	140	80	80	80	80	80
Cancellations		24						
Balance Forward Out	349		272					
Expenditures	2,152	2,938	2,230	2,862	2,599	2,599	20,061	13,383
Biennial Change in Expenditures				2		106		28,352
Biennial % Change in Expenditures				0		2		557
Governor's Change from Base								28,246
Governor's % Change from Base								543
Full-Time Equivalent	14.05	17.27	15.02	17.57	17.59	17.59	39.59	39.59

2000 - Restrict Misc Special Revenue

Balance Forward In		53		43				
Transfers In	340	325	340	340	340	340	340	340
Balance Forward Out	52		43					
Expenditures	288	378	297	383	340	340	340	340
Biennial Change in Expenditures				14		0		0
Biennial % Change in Expenditures				2		(0)		(0)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalent	2.00	2.00	2.00	2.69	2.69	2.69	2.69	2.69

MNIT Services

Enterprise Technology Fund (5500)

Revenues, Expenses and Changes in Net Assets (Dollars in Thousands)

	Actual 2018	Projected 2019	Projected 2020	Projected 2021
Operating Revenues:				
Net Sales	\$ 450,702	\$ 168,665	\$ 200,640	\$ 200,640
Rental and Service Fees				
Insurance Premiums				
Other Income				
Total Operating Revenues	\$ 450,702	\$ 168,665	\$ 200,640	\$ 200,640
Gross Margin	\$ 450,702	\$ 168,665	\$ 200,640	\$ 200,640
Operating Expenses:				
Purchased Services	\$ 135,233	\$ 77,616	\$ 81,587	\$ 81,587
Salaries and Fringe Benefits	\$ 264,636	\$ 70,130	\$ 91,676	\$ 94,770
Depreciation and Amortization	\$ 12,634	\$ 6,589	\$ 8,340	\$ 8,340
Supplies and Materials	\$ 17,893	\$ 11,866	\$ 15,775	\$ 15,775
Repairs and Maintenance	\$ 9,661			
Indirect Costs	\$ 1,352	\$ 1,361	\$ 1,360	\$ 1,360
Other Expenses	\$ 57			
Total Operating Expenses	\$ 441,465	\$ 167,562	\$ 198,738	\$ 201,832
Operating Income (Loss)	\$ 9,237	\$ 1,103	\$ 1,902	\$ (1,192)
Nonoperating Revenues (Expenses):				
Investment Income	\$ 171	\$ 200		
Interest and Financing Costs	\$ (1,072)	\$ (641)	\$ (280)	\$ (280)
Other Nonoperating Expenses				
Gain (Loss) on Disposal of Capital Assets	\$ (3,813)			
Total Nonoperating Revenues (Expenses)	\$ (4,714)	\$ (441)	\$ (280)	\$ (280)
Income (Loss) Before Transfers and Contributions	\$ 4,523	\$ 662	\$ 1,622	\$ (1,472)
Capital Contributions				
Transfers in	\$ (48,058)			
Transfers out			\$ (75)	\$ (75)
Change in Net Assets	\$ (43,535)	\$ 662	\$ 1,547	\$ (1,547)
Net Assets, Beginning as Reported	\$ 39,048	\$ (17,800)	\$ (17,138)	\$ (15,591)
Change in Accounting Principle	\$ (13,313)			
Net Position Beginning as Restated	\$ 25,735			
Net Assets, Ending	\$ (17,800)	\$ (17,138)	\$ (15,591)	\$ (17,138)
Rate increase/(decrease)				
Full Time Equivalentents (FTE)			839.7	839.7

Note:

1. These financials do not include pension liability adjustments
2. FY20-21 financials are based on the submitted rate package

MNIT Services

Enterprise Technology Fund (5500)

Net Assets

(Dollars in Thousands)

	Actual 2018	Projected 2019
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$66,744	\$87,701
Investments		
Accounts Receivable	\$97,214	\$51,560
Accrued Investment/Interest Income		
Inventories		
Prepaid Expenses	\$16,705	\$9,180
Total Current Assets	\$180,663	\$148,441
Noncurrent Assets:		
Prepaid Expenses	\$7,088	\$871
Depreciable Capital Assets (Net)	\$28,198	\$29,463
OPEB Deferred Out	\$871	\$871
Total Noncurrent Assets	\$36,157	\$31,205
Total Assets	\$216,821	\$179,646
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$36,436	\$7,785
Interfund Payables	\$110,257	\$110,000
Unearned Revenue	\$29,613	\$18,891
Loans Payable	\$4,564	\$4,564
Compensated Absences Payable	\$3,417	\$3,417
Total Current Liabilities	\$184,287	\$144,657
Noncurrent Liabilities:		
Loans Payable	\$7,355	\$9,147
Compensated Absences Payable	\$27,049	\$27,049
Other Liabilities	\$15,930	\$15,930
Total Noncurrent Liabilities	\$50,334	\$52,126
Total Liabilities	\$234,622	\$196,783
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$16,279	\$15,752
Unrestricted	(\$34,080)	(\$32,890)
Total Net Assets	(\$17,801)	(\$17,138)

Note:

1. These financials do not include pension liability adjustments

MNIT Services

Enterprise Technology Fund (5500)

Brief Narrative

Background:

MN.IT Services (Fund 5500) operates as an internal service fund and provides enterprise IT services mainly to the executive branch and some enterprise services to other Minnesota government customers.

Detail of any loans from the general fund, including dollar amounts:

As per Legislation of 2017 (Special Session), Chapter 4, Article 1, Section 10, Subd. 2 authorizes MMB to provide cash flow authority up to 110 million to MNIT Services. MNIT has borrowed 110 million and this will be repaid with interest by the end of FY19 hard close.

Proposed investments in technology or equipment of \$100,000 or more:

The FY20-21 budget includes Master Lease expenditures for replacement of Local Area Network (LAN), server, and storage equipment (end-of-life) and maintenance contracts associated with new and existing equipment.

Explanation of changes in net assets (formerly retained earnings increases, operating losses):

Net Asset change from FY16 to FY18 is primarily due to GAAP accounting principle change for Other Post Employment Benefits (OPEB) liability as well as increase in compensated absence liability. No change to net asset is projected for FY19 and later years.

Explain any reasons for rate changes:

For the FY20-21 rate package, MNIT continued to establish rates based upon forecasted volume and expenses. Volumes are based upon agency demand estimates and expenses take into account contractual salary and vendor cost increases. 84% of FY20 rates were lower or unchanged compared to FY18 rates due to increased volume and/or a shift of certain overhead activities into administrative charges that are direct billed to agencies. Product line margins are monitored on a quarterly basis to assess the potential over or under recovery that may require a rate adjustment or rebate/bill. As a result of the quarterly review process, six (6) enterprise service rates were adjusted in FY19 resulting in \$3.4 million savings to agencies. MNIT will continue to monitor product line net margins for the remainder of FY19 and into FY20 which may result in further rate or billing adjustments.

Impact of rate changes on affected agencies:

The overall impact of FY20 enterprise rates to agencies (excluding volume changes) is favorable. Beginning in FY18/19 MNIT changed the method of overhead allocation to be fairer to small agencies and boards. Some overhead, e.g. HR, procurement, for instance, is direct billed to agencies while other overhead is allocated to services. As a result, some larger agencies may experience an increase in their overhead costs. However an agencies' total IT costs depends upon: (1)the type of services consumed, (2)the consumption level (volume) of those services, (3)overhead shifts due to allocation methodology change, and (4)agency pass-through expenses, which consists primarily of applications and projects. An agency impact analysis of proposed FY20-21 enterprise service rates and underlying assumptions was submitted to MMB on September 14, 2018 followed by a complete rate package on October 31, 2018. MNIT communicated with individual agencies about the impact of proposed FY20-21 rates in order to accommodate their need to submit biennial change item requests or make adjustments to service levels if necessary.