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Office of MN.IT Services

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AT A GLANCE

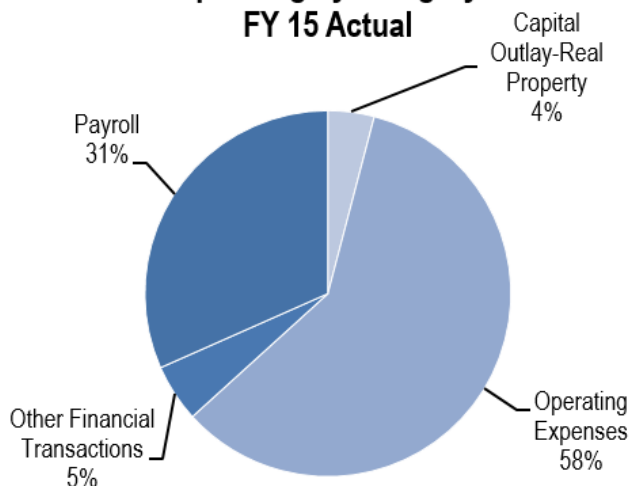
- Provides all information technology (IT) services to 64 executive branch entities and offers a sub-set of services to cities, counties and other non-executive branch entities
- Responsible for 2,254 IT employees in FY16
- Hosting and support of 2,300 agency applications in FY16
- Manages security for systems and applications at 135 locations
- Oversight of executive branch IT 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.

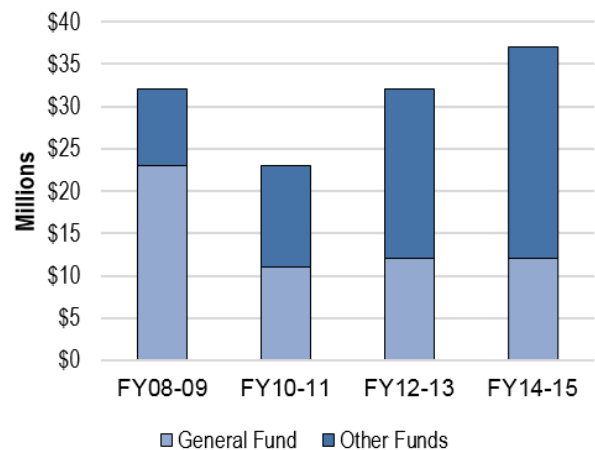
BUDGET

**Spending by Category
FY 15 Actual**



Source: 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). In FY 2015, this totaled \$221.6 million. General Fund appropriations for the Chief Information Officer (CIO) office, enterprise security, and geospatial (MNGeo) functions (\$2.36 million in FY 2015), and special revenue funds (\$5.6 million in FY 2015, excluding projects) comprise the remaining agency funding. The FY 2008-09 biennium was the first biennium that MN.IT had authority for the Special Revenue Fund that consists of agency contributions to enterprise IT projects. General fund spending increased in FY 2008-09 primarily for enterprise security, which was reduced in subsequent biennia.

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

Secure the State – As part of MN.IT’s efforts to protect Minnesotans from cyber threats and protect the State’s sensitive data assets, Commissioner Baden’s top priority is to implement a new strategic cyber security plan. The Commissioner’s plan will prioritize 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

Improving our services through collaboration – MN.IT will implement an enterprise governance structure that brings greater transparency to decision-making, and fosters collaboration to produce improved Information Technology services and solutions.

Shared Technology Services – Maximizing shared technologies gives the state the opportunity to provide a higher level of service at a lower cost. This approach improves the security of agency systems and allows our agency partners to focus on serving citizens and building value-added business applications.

Delivering Digital Services – The way Minnesotans find and use government services has changed. We will leverage technology to modernize service delivery and ensure that Minnesotans can easily access needed information and services.

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

Expenditures By Fund

| | Actual | Actual | Actual | Estimate | Forecasted Base | | Governor's Recommendation | |
|--------------------------------------|----------------|----------------|----------------|----------------|-----------------|----------------|---------------------------|----------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| 1000 - General | 4,355 | 8,197 | 4,796 | 5,818 | 4,385 | 3,152 | 27,149 | 8,084 |
| 2000 - Restrict Misc Special Revenue | 4,784 | 9,151 | 6,067 | 6,247 | 615 | 635 | 615 | 635 |
| 2001 - Other Misc Special Revenue | 8,685 | 8,514 | 18,091 | 15,471 | 9,099 | 4,828 | 9,099 | 4,828 |
| 3000 - Federal | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5000 - Master Lease | 4,105 | 4,669 | 4,411 | 7,032 | 6,002 | 6,087 | 6,002 | 6,087 |
| 5500 - MN.IT Services | 153,381 | 221,318 | 340,705 | 454,218 | 453,902 | 440,185 | 453,902 | 440,185 |
| Total | 175,395 | 251,848 | 374,069 | 488,786 | 474,002 | 454,887 | 496,766 | 459,819 |
| <i>Biennial Change</i> | | | | 435,612 | | 66,033 | | 93,729 |
| <i>Biennial % Change</i> | | | | 102 | | 8 | | 11 |
| <i>Governor's Change from Base</i> | | | | | | | | 27,696 |
| <i>Governor's % Change from Base</i> | | | | | | | | 3 |

Expenditures by Program

| | | | | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Program: IT For Minnesota Government | 175,395 | 251,848 | 374,069 | 488,786 | 474,002 | 454,887 | 496,766 | 459,819 |
| Total | 175,395 | 251,848 | 374,069 | 488,786 | 474,002 | 454,887 | 496,766 | 459,819 |

Expenditures by Category

| | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Compensation | 69,015 | 81,239 | 207,555 | 268,711 | 258,071 | 255,805 | 260,292 | 258,084 |
| Operating Expenses | 93,834 | 143,641 | 146,213 | 195,568 | 191,474 | 175,539 | 212,017 | 178,192 |
| Other Financial Transactions | 8,333 | 15,161 | 13,031 | 17,023 | 18,437 | 17,438 | 18,437 | 17,438 |
| Grants, Aids and Subsidies | 20 | 317 | 17 | 36 | 18 | 18 | 18 | 18 |
| Capital Outlay-Real Property | 4,193 | 11,491 | 7,253 | 7,449 | 6,002 | 6,087 | 6,002 | 6,087 |
| Total | 175,395 | 251,848 | 374,069 | 488,786 | 474,002 | 454,887 | 496,766 | 459,819 |
| Total Agency Expenditures | 175,395 | 251,848 | 374,069 | 488,786 | 474,002 | 454,887 | 496,766 | 459,819 |
| Internal Billing Expenditures | | | | 23 | 20 | 20 | 20 | 20 |
| Expenditures Less Internal Billing | 175,395 | 251,848 | 374,069 | 488,763 | 473,982 | 454,867 | 496,746 | 459,799 |
| <u>Full-Time Equivalents</u> | 630.8 | 723.6 | 1,753.4 | 2,376.9 | 2,383.9 | 2,382.6 | 2,401.9 | 2,400.6 |

1000 - General

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|--------------|--------------|--------------|--------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 0 | 7,330 | 4,807 | 3,248 | 1,232 | 0 | 1,232 | 0 |
| Direct Appropriation | 2,431 | 2,431 | 2,526 | 2,622 | 2,622 | 2,622 | 25,386 | 7,554 |
| Net Transfers | 8,897 | 3,297 | 710 | 1,180 | 530 | 530 | 530 | 530 |
| Cancellations | 0 | 65 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 4,355 | 8,197 | 4,796 | 5,818 | 4,385 | 3,152 | 27,149 | 8,084 |
| Balance Forward Out | 6,973 | 4,796 | 3,248 | 1,232 | 0 | 0 | 0 | 0 |
| <i>Biennial Change in Expenditures</i> | | | | (1,938) | | (3,077) | | 24,619 |
| <i>Biennial % Change in Expenditures</i> | | | | (15) | | (29) | | 232 |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 27,696 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 367 |
| Full-Time Equivalents | 15.9 | 26.9 | 15.9 | 17.3 | 16.8 | 16.5 | 34.8 | 34.5 |

2000 - Restrict Misc Special Revenue

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|--------------|--------------|--------------|--------------|---------------|------------|---------------------------|------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 5,517 | 11,430 | 13,699 | 7,972 | 2,065 | 1,790 | 2,065 | 1,790 |
| Receipts | 5,732 | 5,556 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Transfers | 3,270 | 3,092 | 340 | 340 | 340 | 340 | 340 | 340 |
| Cancellations | 0 | 21 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 4,784 | 9,151 | 6,067 | 6,247 | 615 | 635 | 615 | 635 |
| Balance Forward Out | 9,735 | 10,907 | 7,972 | 2,065 | 1,790 | 1,495 | 1,790 | 1,495 |
| <i>Biennial Change in Expenditures</i> | | | | (1,620) | | (11,065) | | (11,065) |
| <i>Biennial % Change in Expenditures</i> | | | | (12) | | (90) | | (90) |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |
| Full-Time Equivalents | 3.4 | 4.8 | 6.6 | 6.6 | 2.0 | 2.0 | 2.0 | 2.0 |

2001 - Other Misc Special Revenue

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|---------------------|--------------|--------------|---------------|---------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 19,829 | 16,061 | 40,854 | 23,788 | 10,870 | 3,471 | 10,870 | 3,471 |
| Receipts | 4,525 | 2,690 | 2,712 | 2,551 | 1,700 | 1,700 | 1,700 | 1,700 |
| Net Transfers | 22 | 28,967 | (1,686) | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 8,685 | 8,514 | 18,091 | 15,471 | 9,099 | 4,828 | 9,099 | 4,828 |

2001 - Other Misc Special Revenue

| | | | | | | | | |
|--|--------|--------|--------|--------|-------|----------|-------|----------|
| Balance Forward Out | 15,692 | 39,204 | 23,788 | 10,870 | 3,471 | 342 | 3,471 | 342 |
| <i>Biennial Change in Expenditures</i> | | | | 16,363 | | (19,635) | | (19,635) |
| <i>Biennial % Change in Expenditures</i> | | | | 95 | | (59) | | (59) |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |
| Full-Time Equivalents | 9.1 | 11.0 | 26.7 | 26.6 | 17.6 | 16.6 | 17.6 | 16.6 |

3000 - Federal

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|-----------|----------|----------|----------|---------------|----------|---------------------------|----------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Receipts | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Biennial Change in Expenditures</i> | | | | (85) | | | | |
| <i>Biennial % Change in Expenditures</i> | | | | (100) | | | | |
| Full-Time Equivalents | 0.4 | 0.0 | | | | | | |

5000 - Master Lease

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|--------------|--------------|--------------|--------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receipts | 4,105 | 4,669 | 4,411 | 7,032 | 6,002 | 6,087 | 6,002 | 6,087 |
| Net Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 4,105 | 4,669 | 4,411 | 7,032 | 6,002 | 6,087 | 6,002 | 6,087 |
| Balance Forward Out | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Biennial Change in Expenditures</i> | | | | 2,669 | | 645 | | 645 |
| <i>Biennial % Change in Expenditures</i> | | | | 30 | | 6 | | 6 |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |

5500 - MN.IT Services

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------------------|----------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 24,759 | 21,909 | 11,753 | 70,662 | 12,334 | 16,185 | 12,334 | 16,185 |
| Receipts | 143,974 | 215,980 | 345,639 | 455,935 | 457,781 | 436,305 | 457,781 | 436,305 |
| Net Transfers | (2,662) | (7,571) | 53,974 | (60,045) | (28) | (28) | (28) | (28) |
| Expenditures | 153,381 | 221,318 | 340,705 | 454,218 | 453,902 | 440,185 | 453,902 | 440,185 |

5500 - MN.IT Services

| | | | | | | | | |
|--|--------|-------|---------|---------|---------|---------|---------|---------|
| Balance Forward Out | 12,690 | 9,000 | 70,662 | 12,334 | 16,185 | 12,277 | 16,185 | 12,277 |
| <i>Biennial Change in Expenditures</i> | | | | 420,224 | | 99,164 | | 99,164 |
| <i>Biennial % Change in Expenditures</i> | | | | 112 | | 12 | | 12 |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |
| Full-Time Equivalents | 602.0 | 680.8 | 1,704.2 | 2,326.4 | 2,347.5 | 2,347.5 | 2,347.5 | 2,347.5 |

MN.IT Services

FY18-19 Biennial Budget Change Item

Change Item Title: Securing the State

| Fiscal Impact (\$000s) | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|-----------|-----------|-----------|-----------|
| General Fund | | | | |
| Expenditures | 22,168 | 4,778 | 4,778 | 4,778 |
| Revenues | 0 | 0 | 0 | 0 |
| Other Funds | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact = (Expenditures – Revenues) | 22,168 | 4,778 | 4,778 | 4,778 |
| FTEs | 18 | 18 | 18 | 18 |

Recommendation:

The Governor recommends \$22.168 million general fund budget increase in FY18 and a \$4.778 million increase each fiscal year thereafter to boost cybersecurity defenses. One-time funding will enable MN.IT to consolidate its data center footprint and build more robust, sustainable security into standard technology services. The ongoing portion of this initiative will allow MN.IT to hire more staff with specialized cybersecurity skills to perform monitoring, remediation, forensics and disaster recovery work. This request will also fund deployment of sophisticated software to combat increasingly complex hacker attacks and procure services for continuous security monitoring, penetration tests, and independent security audits.

Rationale/Background:

Entities in both the public and private sector face unprecedented cybersecurity challenges. Every day, attackers use increasingly sophisticated techniques to test the defenses of the State of Minnesota and other entities. The most recent Verizon Data Breach Investigation Report paints a very telling picture: cyber threats today are more numerous, more targeted, and more sophisticated. When hackers launch attacks, unmitigated vulnerabilities frequently lead to system compromises within minutes. And once breached, cascading compromises almost always occur within 24 hours. Organizations that are not advancing their cybersecurity programs are quickly losing ground to well-funded and highly skilled adversaries.

Recent reports by Deloitte Consulting and NASCIO concluded that most state government entities have not made appropriate cyber security investments, and therefore may not be up to the challenge. Government entities are now seeing an increase in embarrassing data breaches that erode citizens' confidence and cost significant dollars. A 2012 breach at the South Carolina Department of Revenue led to the loss of social security numbers and financial data for 3.8 million taxpayers and 1.9 million dependents (more than three-quarters of the state population). The breach has already cost South Carolina over \$25 million, with lawsuits continuing to unfold.

Minnesota state agency IT operations grew over time, with each agency managing its own data center operations and hosting environments. MN.IT Services inherited this distributed technology footprint, and the daunting challenge of securing an extremely vast attack surface with inconsistent controls, competing technologies and limited resources. This initiative will move the State forward by creating highly-secure hosting services that can be leveraged by all agencies, with a goal of being both better and more cost effective. This initiative also includes funding to acquire specialized security tools and migrate state agencies to secure datacenters.

Minnesota spends about 2% of its IT budget on cybersecurity, as opposed to 5% or more in the private sector and federal government civilian agencies. This initiative will help MN.IT improve its cybersecurity services and keep pace with advancing threats by increasing the percentage of the IT budget spent on cybersecurity to approximately 3% in FY18 and beyond.

Proposal:

The Governor proposes to leverage this increased general fund support to mitigate the risk of a successful cyber-attack through the following investments and activities:

Reduce the Attack Surface

- Consolidate the foundational elements of state agency IT operations (data centers, hosting environments) into a reduced “enterprise-level” footprint, reducing the risk portfolio and complexity of operations while achieving ROI on space and energy costs
- Integrate physical security, monitoring tools, and vulnerability management solutions into the enterprise environment

Reinforce and Equip the State’s Cyber-Security Team

- 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
- Expand use of multifactor authentication
- Use independent assessors to confirm the adequacy of security controls
- Secure appropriate cyber insurance coverage for the Executive Branch
- 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 request enables the acceleration of existing data center consolidation efforts, upgrades the State’s existing cybersecurity toolset, and adds 18 security professionals to the State’s enterprise cybersecurity team. The request would also fund the procurement of professional/technical services in the areas of monitoring, vulnerability management, incident response/forensics, risk and compliance, identity management, and state employee security training.

IT Related Proposals:

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

Results:

| <i>Type of Measure</i> | <i>Name of Measure</i> | <i>Current</i> | <i>Target</i> |
|------------------------|--|----------------|---------------|
| Quantity | Number of state data centers | 28 | 6 |
| Quality | Average vulnerability score for government computers | N/A | N/A |

Change Item Title: Application Accessibility Assessment

| Fiscal Impact (\$000s) | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|----------|----------|----------|----------|
| General Fund | | | | |
| Expenditures | 500 | 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) | 500 | 0 | 0 | 0 |
| FTEs | 0 | 0 | 0 | 0 |

Recommendation:

The Governor recommends \$500,000 in FY 2018 from the General Fund to fund an external assessment of state agency technology applications to determine their level of accessibility when used by individuals with disabilities, as well as to fund the development of remediation plans for major IT systems. This work is not currently budgeted.

Rationale/Background:

In 1998, Congress amended the Rehabilitation Act of 1973 to require federal agencies to make their electronic and information technology accessible to people with disabilities. Minnesota Statutes 16E.03, Subd. 9, requires the State’s Chief Information Officer to develop accessibility standards applicable to technology, software and hardware procurement, incorporate section 508 of the Rehabilitation Act and Web Content Accessibility Guidelines 2.0 (“WCAG”) into those standards, and require state agencies to adhere to those standards unless an exception is approved. A refresh of Section 508 is expected to take effect in July of 2017 that will incorporate WCAG 2.0, Level AA into Section 508, further aligning state and federal standards.

When Minnesota’s 2011 IT consolidation law went into effect, MN.IT Services inherited support of a host of executive branch technology applications that were purchased, customized and/or developed with varying levels of accessibility for users with disabilities. Insufficient levels of accessibility create significant challenges for citizens and state employees with disabilities, who must regularly use executive branch technology applications to utilize government services or perform their work.

While relatively new technology applications are generally more accessible, older applications will require significant levels of investment in order to achieve compliance with technology accessibility standards through upgrade or replacement.

Proposal:

The Governor proposes \$500,000 to fund an external accessibility assessment of state agency technology applications and the development of remediation plans for major systems. Through such an assessment, future application upgrade or replacement can be prioritized based on relative levels of accessibility and the scope of the application’s use by citizens and state employees. An assessment will also help to inform state agency business leaders on options for remediation of systems that are used by a significant number of citizens or state employees. This assessment would be the first standardized, statewide assessment of application accessibility and would be led by MN.IT’s Chief Information Accessibility Officer, in partnership with all Minnesota state agencies. An RFP would be issued in the fall of 2017 and assessment work would be targeted to begin in early 2018.

Equity and Inclusion:

This proposal positively impacts individuals with disabilities by enabling the State to prioritize the upgrade or replacement of applications that are lacking in terms of accessibility, ultimately allowing individuals with disabilities to equally access state government services and state government employment opportunities.

IT Related Proposals:

This request includes funds for information technology professional/technical services but does not include IT project or development funds.

Results:

| <i>Type of Measure</i> | <i>Name of Measure</i> | <i>Previous</i> | <i>Current</i> | <i>Dates</i> |
|------------------------|--|-----------------|----------------|--------------|
| Quantity | Number of applications assessed | N/A | N/A | |
| Quality | Percent of applications deemed sufficiently accessible | N/A | N/A | |

MN.IT Services

FY18-19 Biennial Budget Change Item

Change Item Title: Cash Flow Assistance

| Fiscal Impact (\$000s) | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|-----------|----------|-----------|----------|
| General Fund | | | | |
| Expenditures | (110,000) | 0 | (110,000) | 0 |
| Revenues | 110,000 | 0 | 110,000 | 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:

MNIT requests authorization of cash flow assistance of up to \$110 million for the 2018-2019 biennium and repayment with interest by the end of the fiscal year 2019 closing period.

Rationale/Background:

Cash Flow Assistance: 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 specifically authorized to provide cash flow assistance to MNIT of up to \$110 million across fiscal years, within the 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. MN.IT 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 60-90 days.

MN.IT is requesting the same cash flow assistance for the 2018-2019 biennium. There is no net cost impact to the general fund since this is a cash assistance that will be repaid with interest.

Proposal:

The proposed cash flow assistance of up to \$110 million for the next biennium has been requested in prior years. While this proposal relates to fiscal policy, it does not require any new appropriations. All funds will be returned to MMB on the approved date with interest. This proposal is needed to support MNIT as the sole IT procurement entity for executive branch agencies.

Equity and Inclusion:

The request for cash flow assistance and the amended timelines do not impact equity and inclusion.

IT Related Proposals:

There are no project costs or funding recommendations associated with this proposal.

Statutory Change(s):

The proposal does not require statutory changes.

MN.IT Services

FY18-19 Biennial Budget Change Item

Change Item Title: Operating Adjustment

| Fiscal Impact (\$000s) | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|----------|----------|----------|----------|
| General Fund | | | | |
| Expenditures | 96 | 154 | 154 | 154 |
| Revenues | 0 | 0 | 0 | 0 |
| Other Funds | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact = (Expenditures – Revenues) | 96 | 154 | 154 | 154 |
| FTEs | 0 | 0 | 0 | 0 |

Recommendation:

The Governor recommends additional funding of \$96,000 in FY2018 and \$154,000 each year following to maintain the current level of service delivery at Minnesota IT Services (MN.IT).

Rationale/Background:

Each year, employer-paid health care contributions, pension contributions, FICA and Medicare, along with other salary and compensation-related costs increase. Other operating costs, like rent and lease, fuel and utilities, and IT and legal services also grow. This cost growth puts pressure on agency operating budgets that remain flat from year to year.

Agencies face challenging decisions to manage these costs within existing budgets, while maintaining the services Minnesotans expect. From year to year, agencies find ways to become more efficient with existing resources. However, cost growth typically outstrips efficiencies, and without additional resources added to agency budgets, service delivery erodes.

MN.IT receives a very small fraction of its overall funding from the General Fund. However, services financed with General Fund appropriations, such as computer forensics, provide broad benefits to cities, counties, and other government entities that are outside MN.IT's executive branch customer base. As personnel and software costs rise, it has become increasingly difficult for MN.IT to provide the same level of service with a fixed General Fund appropriation. A base funding adjustment will help MN.IT continue important work, such as computer forensic assistance to other government entities in times of crisis.

Proposal:

The Governor recommends increasing agency operating budgets to maintain the delivery of current services. For MN.IT this funding will cover expected and anticipated employee compensation growth, including anticipated compensation increases and employer-paid pension costs.

Results:

This proposal is intended to allow agencies to continue to provide current levels of service and information to the public.

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 and by agencies via pass-through
- Data center management for 4 enterprise data centers
- Service desk and desktop support for 35,000 customers
- Enterprise communication/collaboration tools for 33,500 users
- MNET (Minnesota's Network for Enterprise Telecommunications)- the State network for education, local governments and agencies with 1,290 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
- Management of all enterprise and agency IT applications (development and support) and IT projects
- Client Computing (worker support): Service Desk, Mobile Device Management, Workstation Management
- Contracted Telecom Services: local and long distance voice services contracted through 3rd 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 | Total data center space (square feet). Increased efficiency comes as a result of consolidating data centers into fewer square footage. | 65,217 | 23,636 | FY 2015, FY 2016 |
| Quality | Digital State Survey by the Center for Digital Government, a review of all 50 states' electronic government capabilities | B+ | B+ | Sept 2014, Sept 2016 |
| Quality | % of MN.IT services rated as 'Reasonable' to 'Best Value' vis a vis other states as determined by independent rates analysis study | 77% | TBA | FY 2015 FY2016 |
| Results | Customer Survey Results. Percent of respondents reporting they are 'Very Satisfied, Satisfied, or Somewhat Satisfied'. | 97% | TBA | March 2014, Oct 2016 |
| Results | State network core. On an annual basis, the percent of time the network is available to users. | 99.99% | 99.99% | FY 2015, FY 2016 |
| Quantity | Disk capacity in PetaBytes (PB). Increase in capacity meets growth in demand for storage. | 2,25 PB | 2.5 PB | Jul 2014, Jul 2016 |
| Quantity | Email mailboxes. Expanded capacity accommodates a greater number of users. | 40,388 | 45,362 | Jul 2014, Aug 2016 |

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)

Expenditures By Fund

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------------------|----------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| 5000 - Master Lease | 4,105 | 4,669 | 4,411 | 7,032 | 6,002 | 6,087 | 6,002 | 6,087 |
| 5500 - MN.IT Services | 153,381 | 221,318 | 340,705 | 454,218 | 453,902 | 440,185 | 453,902 | 440,185 |
| Total | 157,486 | 225,986 | 345,115 | 461,250 | 459,903 | 446,271 | 459,903 | 446,271 |
| <i>Biennial Change</i> | | | | 422,893 | | 99,809 | | 99,809 |
| <i>Biennial % Change</i> | | | | 110 | | 12 | | 12 |
| <i>Governor's Change from Base</i> | | | | | | | | 0 |
| <i>Governor's % Change from Base</i> | | | | | | | | 0 |

Expenditures by Category

| | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Compensation | 65,783 | 76,043 | 201,659 | 262,965 | 253,534 | 250,817 | 253,534 | 250,817 |
| Operating Expenses | 80,023 | 123,722 | 124,414 | 174,112 | 181,934 | 171,934 | 181,934 | 171,934 |
| Other Financial Transactions | 7,500 | 14,536 | 12,108 | 16,909 | 18,434 | 17,434 | 18,434 | 17,434 |
| Grants, Aids and Subsidies | 20 | 317 | 17 | 0 | 0 | 0 | 0 | 0 |
| Capital Outlay-Real Property | 4,160 | 11,368 | 6,917 | 7,264 | 6,002 | 6,087 | 6,002 | 6,087 |
| Total | 157,486 | 225,986 | 345,115 | 461,250 | 459,903 | 446,271 | 459,903 | 446,271 |
| Total Agency Expenditures | 157,486 | 225,986 | 345,115 | 461,250 | 459,903 | 446,271 | 459,903 | 446,271 |
| Internal Billing Expenditures | 0 | 0 | 0 | 23 | 20 | 20 | 20 | 20 |
| Expenditures Less Internal Billing | 157,486 | 225,986 | 345,115 | 461,227 | 459,883 | 446,251 | 459,883 | 446,251 |
| <u>Full-Time Equivalents</u> | 602.0 | 680.8 | 1,704.2 | 2,326.4 | 2,347.5 | 2,347.5 | 2,347.5 | 2,347.5 |

1000 - General

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|---------------|--------|--------|--------|----------|---------------|------|---------------------------|------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Net Transfers | | | | 0 | 0 | 0 | 0 | 0 |

5000 - Master Lease

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|--------------|--------------|--------------|--------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receipts | 4,105 | 4,669 | 4,411 | 7,032 | 6,002 | 6,087 | 6,002 | 6,087 |
| Net Transfers | | 0 | | | | | | |
| Expenditures | 4,105 | 4,669 | 4,411 | 7,032 | 6,002 | 6,087 | 6,002 | 6,087 |
| Balance Forward Out | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Biennial Change in Expenditures</i> | | | | 2,669 | | 645 | | 645 |
| <i>Biennial % Change in Expenditures</i> | | | | 30 | | 6 | | 6 |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |

5500 - MN.IT Services

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|---------------------------|----------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 24,759 | 21,909 | 11,753 | 70,662 | 12,334 | 16,185 | 12,334 | 16,185 |
| Receipts | 143,974 | 215,980 | 345,639 | 455,935 | 457,781 | 436,305 | 457,781 | 436,305 |
| Net Transfers | (2,662) | (7,571) | 53,974 | (60,045) | (28) | (28) | (28) | (28) |
| Expenditures | 153,381 | 221,318 | 340,705 | 454,218 | 453,902 | 440,185 | 453,902 | 440,185 |
| Balance Forward Out | 12,690 | 9,000 | 70,662 | 12,334 | 16,185 | 12,277 | 16,185 | 12,277 |
| <i>Biennial Change in Expenditures</i> | | | | 420,224 | | 99,164 | | 99,164 |
| <i>Biennial % Change in Expenditures</i> | | | | 112 | | 12 | | 12 |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |
| Full-Time Equivalents | 602.0 | 680.8 | 1,704.2 | 2,326.4 | 2,347.5 | 2,347.5 | 2,347.5 | 2,347.5 |

Program: IT for Minnesota Government

Activity: Projects & Initiatives

mn.gov/mnit/

AT A GLANCE

- MN.IT’s portfolio included 400 actively managed projects in FY16
- MN.IT’s project portfolio includes:
 - 7 biennial IT (BIT) projects requested by agencies and managed by MN.IT—\$3.6m in FY16
 - 103 agency-funded Information Technology Account (ITA) projects addressing specific agency needs—\$38.6M in FY16
 - 4 Telecommunications Access MN (TAM) projects addressing enterprise accessibility needs—\$34.8K in FY16
- BUY.IT establishes standards and negotiates enterprise software agreements

PURPOSE & CONTEXT

Projects & Initiatives is responsible for the on-time and on-budget delivery 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

Projects & Initiatives include all of the activities related to the development and operation of IT project and portfolio management for the executive branch. This includes:

- Enterprise project and portfolio management, including creation of standards for project management, business analysis, and quality assurance
- Projects that stem from agency-contributed funds to the Information Technology Account (ITA)
- FY 2018-19 biennial IT (BIT) business application projects for agencies
- Special appropriation that addresses enterprise accessibility requirements-Telecommunications Access MN (TAM)
- BUY.IT group that negotiates software license agreements on behalf of the enterprise

RESULTS

| <i>Type of Measure</i> | <i>Name of Measure</i> | <i>Previous</i> | <i>Current</i> | <i>Dates</i> |
|------------------------|--|-----------------|----------------|--------------------------|
| Quantity | Number of projects completed | 100 | 241 | FY 2013-14 FY 2015-16 |
| Quality | Number of BIT / Odyssey projects initiated | 15 | 28 | FY 2015 FY 2016 |

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)

Expenditures By Fund

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| 1000 - General | 2,074 | 5,826 | 2,643 | 2,872 | 1,788 | 555 | 1,788 | 555 |
| 2000 - Restrict Misc Special Revenue | 4,784 | 9,151 | 6,067 | 6,247 | 615 | 635 | 615 | 635 |
| 2001 - Other Misc Special Revenue | 8,685 | 8,514 | 18,091 | 15,471 | 9,099 | 4,828 | 9,099 | 4,828 |
| 3000 - Federal | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 15,628 | 23,490 | 26,802 | 24,590 | 11,501 | 6,018 | 11,501 | 6,018 |
| <i>Biennial Change</i> | | | | 12,273 | | (33,872) | | (33,872) |
| <i>Biennial % Change</i> | | | | 31 | | (66) | | (66) |
| <i>Governor's Change from Base</i> | | | | | | | | 0 |
| <i>Governor's % Change from Base</i> | | | | | | | | 0 |

Expenditures by Category

| | | | | | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|---------------|--------------|
| Compensation | 1,415 | 3,240 | 4,143 | 3,748 | 2,562 | 3,012 | 2,562 | 3,012 |
| Operating Expenses | 13,392 | 19,509 | 21,401 | 20,510 | 8,920 | 2,985 | 8,920 | 2,985 |
| Other Financial Transactions | 789 | 619 | 921 | 111 | 2 | 3 | 2 | 3 |
| Grants, Aids and Subsidies | 0 | 0 | 0 | 36 | 18 | 18 | 18 | 18 |
| Capital Outlay-Real Property | 32 | 122 | 336 | 185 | 0 | 0 | 0 | 0 |
| Total | 15,628 | 23,490 | 26,802 | 24,590 | 11,501 | 6,018 | 11,501 | 6,018 |
| <i>Full-Time Equivalents</i> | 12.9 | 27.1 | 35.1 | 34.6 | 21.4 | 20.1 | 21.4 | 20.1 |

1000 - General

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|--------------|--------------|--------------|--------------|---------------|------------|---------------------------|------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 0 | 7,123 | 4,807 | 2,899 | 1,232 | 0 | 1,232 | 0 |
| Net Transfers | 8,926 | 3,532 | 735 | 1,205 | 555 | 555 | 555 | 555 |
| Cancellations | 0 | 33 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 2,074 | 5,826 | 2,643 | 2,872 | 1,788 | 555 | 1,788 | 555 |
| Balance Forward Out | 6,852 | 4,796 | 2,899 | 1,232 | 0 | 0 | 0 | 0 |
| <i>Biennial Change in Expenditures</i> | | | | (2,384) | | (3,173) | | (3,173) |
| <i>Biennial % Change in Expenditures</i> | | | | (30) | | (58) | | (58) |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |
| Full-Time Equivalents | 0.0 | 11.2 | 1.8 | 1.5 | 1.8 | 1.5 | 1.8 | 1.5 |

2000 - Restrict Misc Special Revenue

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|--------------|--------------|--------------|--------------|---------------|------------|---------------------------|------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 5,517 | 11,430 | 13,699 | 7,972 | 2,065 | 1,790 | 2,065 | 1,790 |
| Receipts | 5,732 | 5,556 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Transfers | 3,270 | 3,092 | 340 | 340 | 340 | 340 | 340 | 340 |
| Cancellations | 0 | 21 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 4,784 | 9,151 | 6,067 | 6,247 | 615 | 635 | 615 | 635 |
| Balance Forward Out | 9,735 | 10,907 | 7,972 | 2,065 | 1,790 | 1,495 | 1,790 | 1,495 |
| <i>Biennial Change in Expenditures</i> | | | | (1,620) | | (11,065) | | (11,065) |
| <i>Biennial % Change in Expenditures</i> | | | | (12) | | (90) | | (90) |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |
| Full-Time Equivalents | 3.4 | 4.8 | 6.6 | 6.6 | 2.0 | 2.0 | 2.0 | 2.0 |

2001 - Other Misc Special Revenue

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|---------------------|--------------|--------------|---------------|---------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 19,829 | 16,061 | 40,854 | 23,788 | 10,870 | 3,471 | 10,870 | 3,471 |
| Receipts | 4,525 | 2,690 | 2,712 | 2,551 | 1,700 | 1,700 | 1,700 | 1,700 |
| Net Transfers | 22 | 28,967 | (1,686) | | | | | |
| Expenditures | 8,685 | 8,514 | 18,091 | 15,471 | 9,099 | 4,828 | 9,099 | 4,828 |
| Balance Forward Out | 15,692 | 39,204 | 23,788 | 10,870 | 3,471 | 342 | 3,471 | 342 |

2001 - Other Misc Special Revenue

| | | | | | | | | |
|--|-----|------|------|--------|------|----------|------|----------|
| <i>Biennial Change in Expenditures</i> | | | | 16,363 | | (19,635) | | (19,635) |
| <i>Biennial % Change in Expenditures</i> | | | | 95 | | (59) | | (59) |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 0 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 0 |
| Full-Time Equivalents | 9.1 | 11.0 | 26.7 | 26.6 | 17.6 | 16.6 | 17.6 | 16.6 |

3000 - Federal

| | Actual | | Actual | | Forecast Base | | Governor's Recommendation | |
|--|-----------|----------|----------|---------------|---------------|----------|---------------------------|----------|
| | FY14 | FY15 | FY16 | Estimate FY17 | FY18 | FY19 | FY18 | FY19 |
| Receipts | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Biennial Change in Expenditures</i> | | | | (85) | | | | |
| <i>Biennial % Change in Expenditures</i> | | | | (100) | | | | |
| Full-Time Equivalents | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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 priorities for the FY 2018-19 biennium are:

- Migrate all agency geospatial infrastructure to the new shared infrastructure (Minnesota Geospatial Commons)
- Deliver core security services to the executive branch as efficiently and effectively as possible by reorganizing staff and optimizing security service delivery processes
- Manage the migration of infrastructure from agency-based offices to enterprise services

RESULTS

| <i>Type of Measure</i> | <i>Name of Measure</i> | <i>Previous</i> | <i>Current</i> | <i>Dates</i> |
|------------------------|---|-----------------|----------------|------------------|
| Quantity | 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%. | 1.56% | 1.25% | FY15, FY16 |
| Results | Annual customer survey-‘Very Satisfied/Satisfied/Somewhat Satisfied’ | 97% | TBA | March 2014, FY16 |
| Quantity | Number of agencies contributing data to the Geospatial Commons | 17 | 19 | FY15, FY16 |

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)

Expenditures By Fund

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| 1000 - General | 2,281 | 2,371 | 2,152 | 2,946 | 2,597 | 2,597 | 25,361 | 7,529 |
| Total | 2,281 | 2,371 | 2,152 | 2,946 | 2,597 | 2,597 | 25,361 | 7,529 |
| <i>Biennial Change</i> | | | | 446 | | 96 | | 27,792 |
| <i>Biennial % Change</i> | | | | 10 | | 2 | | 545 |
| <i>Governor's Change from Base</i> | | | | | | | | 27,696 |
| <i>Governor's % Change from Base</i> | | | | | | | | 533 |

Expenditures by Category

| | | | | | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|
| Compensation | 1,817 | 1,957 | 1,753 | 1,999 | 1,976 | 1,976 | 4,197 | 4,255 |
| Operating Expenses | 420 | 409 | 397 | 945 | 620 | 620 | 21,163 | 3,273 |
| Other Financial Transactions | 44 | 5 | 2 | 2 | 1 | 1 | 1 | 1 |
| Grants, Aids and Subsidies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 2,281 | 2,371 | 2,152 | 2,946 | 2,597 | 2,597 | 25,361 | 7,529 |
| <u>Full-Time Equivalents</u> | 15.9 | 15.7 | 14.0 | 15.9 | 15.0 | 15.0 | 33.0 | 33.0 |

1000 - General

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|--------------|--------------|--------------|--------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 0 | 207 | 0 | 349 | 0 | 0 | 0 | 0 |
| Direct Appropriation | 2,431 | 2,431 | 2,526 | 2,622 | 2,622 | 2,622 | 25,386 | 7,554 |
| Net Transfers | (29) | (235) | (25) | (25) | (25) | (25) | (25) | (25) |
| Cancellations | 0 | 32 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 2,281 | 2,371 | 2,152 | 2,946 | 2,597 | 2,597 | 25,361 | 7,529 |
| Balance Forward Out | 121 | 0 | 349 | 0 | 0 | 0 | 0 | 0 |
| <i>Biennial Change in Expenditures</i> | | | | 446 | | 96 | | 27,792 |
| <i>Biennial % Change in Expenditures</i> | | | | 10 | | 2 | | 545 |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 27,696 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 533 |
| Full-Time Equivalents | 15.9 | 15.7 | 14.0 | 15.9 | 15.0 | 15.0 | 33.0 | 33.0 |

**MN.IT Services
IT Services
ENTERPRISE TECHNOLOGY FUND (5500)
Revenues, Expenses and Changes in Net Assets
(Dollars displayed in Thousands)**

| | Actual 2016 | Projected 2017 | Projected 2018 | Projected 2019 |
|--|----------------|-------------------|-------------------|-------------------|
| Operating Revenues: | | | | |
| Net Sales | 346,960 | 455,935 | 457,781 | 436,305 |
| Rental and Service Fees | | | | |
| Insurance Premiums | | | | |
| Other Income | | | | |
| Total Operating Revenues | 346,960 | 455,935 | 457,781 | 436,305 |
| Gross Margin | 346,960 | 455,935 | 457,781 | 436,305 |
| Operating Expenses: | | | | |
| Purchased Services | 112,721 | 145,452 | 151,228 | 141,228 |
| Salaries and Fringe Benefits | 211,183 | 262,686 | 253,534 | 250,817 |
| Claims | | | | |
| Depreciation and Amortization | 9,381 | 7,475 | 6,149 | 6,149 |
| Repairs and Maintenance | 6,936 | 14,630 | 10,027 | 10,027 |
| Supplies and Materials | 11,495 | 18,670 | 27,895 | 27,895 |
| Indirect Costs | 1,038 | 1,457 | 1,417 | 1,417 |
| Other Expenses | 34 | | | |
| Total Operating Expenses | 352,788 | 450,370 | 450,250 | 437,533 |
| Operating Income (Loss) | -5,828 | 5,565 | 7,531 | -1,228 |
| Nonoperating Revenues (Expenses): | | | | |
| Investment Income | 80 | | | |
| Interest and Financing Costs | -436 | -355 | -651 | -651 |
| Other Nonoperating Expenses | -2,454 | -3,750 | -3,000 | -2,000 |
| Gain (Loss) on Disposal of Capital Assets | | | | |
| Total Nonoperating Revenues (Expenses) | -2,810 | -4,105 | -3,651 | -2,651 |
| Income (Loss) Before Transfers and Contributions | -8,638 | 1,460 | 3,880 | -3,879 |
| Capital Contributions | | | | |
| Transfers in | 0 | 0 | 0 | 0 |
| Transfers out | -24 | 0 | -28 | -28 |
| Change in Net Assets | -8,662 | 1,460 | 3,852 | -3,907 |
| Net Assets, Beginning as Reported | 11,751 | 3,089 | 4,550 | 8,401 |
| Net Assets, Ending | 3,089 | 4,549 | 8,402 | 4,494 |
| Rate increase/(decrease) | | | | |
| Full Time Equivalent | 1,704 | 2,327 | 2,348 | 2,348 |

* Pension Expense is excluded

**MN.IT Services
IT Services
ENTERPRISE TECHNOLOGY FUND (5500)
Net Assets
(Dollars in Thousands)**

| | Actual 2016 | Projected 2017 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | 13,539,000 | 28,177,233 |
| Investments | | |
| Accounts Receivable | 88,423,000 | 109,381,534 |
| Accrued Investment/Interest Income | | |
| Inventories | | |
| Prepaid Expenses | 13,786,000 | 15,786,000 |
| Total Current Assets | <u>115,748,000</u> | <u>153,344,767</u> |
| Noncurrent Assets: | | |
| Prepaid Expenses | 1,149,000 | 1,809,938 |
| Nondepreciable Capital Assets | 13,465,000 | 20,051,000 |
| Depreciable Capital Assets (Net) | 22,055,000 | 20,975,577 |
| Total Noncurrent Assets | <u>36,669,000</u> | <u>42,836,515</u> |
| Total Assets | 152,417,000 | 196,181,282 |
| Deferred Pension Outflows | | |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 22,022,000 | 28,136,238 |
| Interfund Payables | 60,017,000 | 97,667,793 |
| Unearned Revenue | 32,992,000 | 32,992,000 |
| Loans Payable | 5,101,000 | 5,101,000 |
| Compensated Absences Payable | 2,506,000 | 2,506,000 |
| Total Current Liabilities | <u>122,638,000</u> | <u>166,403,031</u> |
| Noncurrent Liabilities: | | |
| Loans Payable | 4,867,000 | 4,867,000 |
| Compensated Absences Payable | 21,155,000 | 21,155,000 |
| Other Liabilities | 667,000 | 667,000 |
| Total Noncurrent Liabilities | <u>26,689,000</u> | <u>26,689,000</u> |
| Total Liabilities | <u>149,327,000</u> | <u>193,092,031</u> |
| Deferred Pension Inflows | | |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 25,552,000 | 31,058,577 |
| Unrestricted | <u>(21,795,000)</u> | <u>(34,816,326)</u> |
| Total Net Assets | <u><u>3,089,252</u></u> | <u><u>3,089,252</u></u> |

**MN.IT Services
IT Services
ENTERPRISE TECHNOLOGY FUND (5500)
Brief Narrative**

Background:

MN.IT Services (Fund 5500) operates as an internal service fund and provides enterprise IT services (central services) and agency based IT services (agency 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 2015 (Regular Session), Chapter 77, Article 1, Section 10 authorizes MMB to provide cash flow authority of up to 110 million to MNIT. Of this MNIT has borrowed 97.7 million that will be repaid with interest by the end of FY17 close period.

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

Various IT investments are proposed in Datacenter consolidation, Security and upgrades to Hosting environments(mainframe and server)

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

In FY2016 Net Assets decreased from \$12 million to \$3 million primarily due to the increase in compensated absence liability and expense as a result of additional personnel transitioning to MNIT from other agencies due to IT consolidation. It is projected that change to net assets for FY18-19 biennium will be minimal as a result of rebalancing of rates and completion of financial IT consolidation.

Explain any reasons for rate changes:

MNIT has been in the process of rebalancing its rates starting in FY16 and continuing through FY19. As a result rates for some IT services will increase and other services will decrease. Services that have been underrecovering will see a rate increase and vice versa. The net impact to MNIT's service portfolio is minimal.

Impact of rate changes on affected agencies:

Agencies will be impacted depending on the services they consume. Some agencies will benefit from the rate reductions and other agencies will see increases in their IT spending. MNIT has communicated with individual agencies about the proposed FY18-19 rate and has provided a rate change impact analysis early enough to accommodate the possible submission of biennial change item requests or adjustments to service levels if necessary. MMB officially approved the proposed FY18-19 enterprise service rates on November 23, 2016 and will be effective July 1, 2017.