



COMMONWEALTH of VIRGINIA

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May 24, 2012

Mr. Glen Tittermary, Director  
Joint Legislative Audit and Review Commission  
Suite 1100  
General Assembly Building  
Richmond, VA 23219

Dear Mr. Tittermary:

Pursuant to Mr. Leone's letter of July 12, 2010 and continued guidance from Joint Legislative Audit and Review Commission (JLARC) staff, VITA is required to inform JLARC staff whenever it changes contractually-driven fees and/or reduces any surcharge. The purpose of this letter is to satisfy that requirement by informing JLARC staff of the following changes in VITA's contractually-driven fees and surcharges (collectively referred to as "rates") which will be effective July 1, 2012.

**Revisions to Rates Driven by Requirements in Northrop Grumman Contract**

Three aspects of the Comprehensive Infrastructure Agreement (CIA) with Northrop Grumman must be revisited each year and will likely make it necessary for VITA to revise its rates annually regardless of any other issues. First, Northrop Grumman's (NG) fees have fixed and variable components. As state agencies continue to increase their usage of information technology (IT) services, the fixed portion of NG's fees can be spread over a larger usage base. Second, for many IT services the fees charged by NG decrease whenever usage increases beyond a defined threshold; the inverse is true if usage slips below a certain threshold (CIA, Schedule 10.1, Section 5.3). Third, every year VITA is required to adjust NG's fees to account for a Cost of Living Adjustment, which we estimate will be \$800,000 in FY 2013 (CIA, Schedule 10.1, Section 12.0).

In addition to these recurring changes noted above, in FY 2013 VITA needs to recover additional contractually-driven costs. Due to increased consumption by state agencies, an upgrade in Internet bandwidth is needed for each of the two Internet circuits at the Chester Enterprise Service Center (CESC), from 300 megabits per second (Mbps) to 400 Mbps. This will result in an annual increase of \$17,253 (CIA, Attachment 10.1.13 to Schedule 10.1, Data Network Management).

Also, in response to business needs, VITA is adding two new IT infrastructure components. These additional costs, which are not contractually-required, will also increase aggregate costs. The first component is an IT security upgrade in the form of a new hardware device that will provide "Full Packet Capture." In the event that data are stolen, this device will enable VITA to respond much more effectively by allowing the Commonwealth to precisely determine which data were compromised and transferred to a third party via the Commonwealth's network. This upgrade results in a one-time cost of \$350,000. Second, a one-time deployment of Oracle's Java Runtime Environment Version 1.6 update 29 will be issued to certain state agency computers at a one-time cost of \$5,676.

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**Revisions to Rates as a Result of Reductions in VITA Surcharges**

For FY 2013, we project that revenues will increase by \$4 million over FY 2012 levels. The projection of FY 2013 revenues is entirely attributable to increased usage of IT services by state agencies (actual and forecasted). Based on this projected increase in revenue, VITA plans to reduce its surcharges. These surcharges are added to the contractually-required fees to create the rate for each IT service.

1. The surcharge to recover VITA's recurring operational costs will be lowered from 8.48% to 8.32%.
2. The surcharge to allow for debt repayment will be lowered from 2.09% to 1.99%. (This surcharge will expire once the debt is repaid, which is anticipated to be on June 30, 2014.)
3. The surcharge for processing pass-thru procurements will be lowered from 5.43% to 5.42%.

**Revisions to Rates as a Result of FY12 Over- and Under-recoveries**

In general, VITA as an Internal Service Fund is continually striving for a revenue recovery equal to its expenses. Thus, our FY13 rates incorporate projected FY12 over/under recoveries by service.

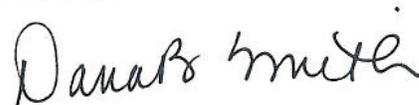
**Modification to VITA Rates Will Be Effective July 1, 2012**

To account for the changes outlined in the preceding sections, effective July 1, 2012 each of VITA's 379 rates will be modified. While some rates will be higher and some lower than last year, in the aggregate rates will decrease by 2.36 percent. As noted above, the VITA surcharge is decreasing and no part of any rate increase is due to an increase in VITA overhead.

We have attached our Proposed FY 2013 Commonwealth IT Rates spreadsheet for your review. As with last year's submission, the spreadsheet provides the make-up of each of the rates, along with a description of each service. Agency impacts are also included in an accompanying attachment.

We welcome the opportunity to discuss this information with you and your staff. If you have any questions, please give me a call at (804) 416-6009.

Sincerely,



Dana Smith  
Director, Finance and Administration

Attachments

cc: Jim Duffey, Secretary of Technology  
Sam Nixon, CIO of the Commonwealth  
Dan Timberlake, Director, Department of Planning and Budget