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New Mexico Governor

Raja Sambandam

Acting Cabinet Secretary & State CIO

**State of New Mexico
Information Technology Rate Committee
State Capitol Building, Room 321
June 26, 2023
10:30 am – 11:30 am**

Chairman Wayne Propst, Secretary of Department of Finance and Administration (DFA) called the meeting to order at 10:29 am, followed by Roll Call

Committee Members Present:

- Raja Sambandam, Acting Secretary, Department of Information Technology (DoIT)
- Robert Doucette, Secretary, General Services Department
- Debra Garcia y Griego, Secretary, Department of Cultural Affairs
- Sarita Nair, Secretary, Department of Workforce Solutions (virtual)
- Ricky Serna, Secretary, Department of Transportation
- Stephanie Schardin Clarke, Secretary, Taxation and Revenue Department

Others Present: DoIT Staff - Eve Banner, Brenda Fresquez, Renee Narvaiz, Jason Johnson, Trish Trujillo, Jacqueline Lovato, and Michael Rohrbacher; Cecilia Mavrommatis, DFA and Jessica Hitzman, Legislative Finance Committee

Approval of Prior Year Meeting Minutes

Sec. Sambandam explained the file from the prior year meeting minutes was unintentionally deleted when a previous employee turned in equipment that was then wiped clean. He explained measures are being taken to ensure meeting minutes for this Rate Committee will be maintained and safeguarded.

Overview of Statutory Requirements

Sec. Sambandam provided an overview of statutory requirements; DoIT is required to follow Federal requirements and develop an equitable rate and fee schedule based on cost recovery. There were no questions from the committee.

Overview of Rate Development Process

Sec. Sambandam provided an overview of the rate development which includes direct and indirect costs, equipment replacement costs for capital purchases using the equipment replacement fund (ERF). Service costs and usage provide the basis for how the rates are developed - service costs, divided by service usage, equals service rate. There were no questions from the committee.

Presentation and Discussion of Rate Recommendations

Sec. Sambandam began discussion on Rate Recommendations for FY25. The Department looked at FY23 costs to set the data points for FY25. DoIT works two years in arrears. The summary of the proposed FY25 rate changes shows which service has an increase due to under recovery in FY23 or decrease due to under recovery in FY23. The presentation continued with FY25 proposed rates; Sec. stated the highlighted items indicated a change, both increases and decreases, and explained the reasons for the changes. Most increases 3% or less. DoIT CFO, Eve Banner then explained the comparison from FY 24 to proposed rates. The meeting continued with questions and discussion, prior to Secretary Sambandam requesting approval.

Questions and Comments:

Q: Sec. Nair: If the total cost is too small or the number of users is miscalculated, what is the methodology for over/under recovery?

A: Sec. Sambandam: Under recovery is a similar process based on data points, we determine the best rates, and two factors play a role: direct costs, and indirect costs. When DoIT has vacancies, indirect costs are down, when positions are filled indirect cost increase.

Q: Sec. Schardin Clarke: Do you adjust with the year in between?

A: Brenda Fresquez, DoIT Program Manager: DoIT is always in arrears by two years. We look at the prior year approved rates, to see if we are in line. DoIT factors in the prior years' rates to make sure it is not out of sorts.

Q: Sec. Schardin Clarke: Asked for information about the mainframe changes, and how will it roll into the cost for other agencies.

A: Jason Johnson, Deputy CIO: Explained the Mainframe sunset project, is in final stage. Final day is June 30, 2023; HSD is the only agency impacted. Explained Mainframe costs are fully depreciated. Mainframe staff will be absorbed into other areas.

C: Sec. Sambandam: The cost DoIT incurs for licensing, services and support services will go down and we are planning to take those resources and use them elsewhere, for example cloud services.

C: Sec. Sambandam: Stated the Adobe rate increase, due to licensing changes. Public Safety Radio Services are consistently reviewed.

Q: Sec. Serna: Do the price changes account for renewal/replacement? Can we assume we are in a good place? If we are in a good place, can we estimate the need to upgrade? How is the upgrade put into the price?

A: Michael Rohrabacher, Director of Public Safety Radio: Hardware is in a good spot for replacement, ERF covers part of the replacement. Ongoing project of P25 or DTRS, covering the replacement of the fleet of radios. For the system the money comes from the ERF or capital funding.

Sec. Sambandam: Proceeded to discuss additional funding changes line by line, describing the methodology and price changes based on licensing changes from vendors, etc. Sec. finished the presentation and then requested a motion for approval for FY 25 rates.

Discussion regarding request for approval of FY25 Rate Recommendations

Chairman Probst: Asked for further questions from the committee before moving to approval of rate recommendations.

Sec. Schardin Clarke: Requested for the next committee meeting that the materials be provided to members in advance. She would like to see for each service what the revenue changes are. The materials do not have a total per agency across the enterprise to see how it is justified, or summary of expected cost increases for the agencies.

Brenda Fresquez: Advised projections for state agencies are normally provided after the Rate Committee approves rates. Will work to get the requested information to the committee by end of week.

Sec. Schardin Clark: Stated theoretically this information can be prepared prior to approval.

Brenda Fresquez: Stated we will work to provide the information by the end of the week and will make sure the information is provided for next year's meeting. Brenda then advised information is statutorily required to be published until July 15th

Sec. Schardin Clark: The committee should not act on the interests of individual agencies but for the Enterprise as a whole. Sec. reiterated she does not have enough information to make the decision today.

Sec. Sambandam: Explained some items are out of DoIT's control such as vendors changing licensing and prices; for example. Adobe, Kiteworks.

Sec. Nair: Stated she shares same struggles as Sec Schardin Clarke and does not fully understand what the direct cost and indirect cost are.

Sec. Sambandam: Explained indirect/direct cost breakdown. Indirect costs include DoIT program support, ASD and Office of the Secretary, physical security, help desk, geospatial and partial cybersecurity. Direct costs are those specific to providing the service, including direct labor, hardware, software, and maintenance.

Sec. Nair: In looking at a rate of \$5.50, how much is direct, and how much is indirect?

Sec Serna: Do you use an indirect cost rate that can be applied to each of the proposed rates?

Brenda Fresquez: Each of the rates includes an indirect rate. The indirect rate was 12.5%, now 15%, because of additional hires, and the cost of doing business.

Sec. Sambandam: Explained majority of the 6% raises came out of DoIT's operating budget because DoIT is primarily funded by enterprise rates. Indirect cost and the cost of doing business have increased. DoIT does not charge more than going to an outside party.

Sec Serna: Have you done an analysis based on agency size and direct contracting for cost savings? Do you know what agencies are not leveraging enterprise rates?

Sec. Sambandam: As an example, Microsoft- DoIT signed up for an E3 License for security, with money from the cybersecurity budget to obtain a larger security functionality; Based on what we have agreed to use the rate is approximately \$36.00, stating you cannot get that rate elsewhere.

Sec Serna: Asking for clarification with the largest agencies and rates.

Sec. Sambandam: Explained how cost savings are managed.

Sec. Doucette: Stated he will abstain from a vote because of a lack of details needed to make a fully informed decision. He requested the numbers to be broken down in more detail.

Sec. Sambandam: Clarified committees ask of what the costs of increase per agency could be based on the changes that are expressed here only using FY23 data and adjust for projections.

Cecilia Mavrommatis: FY24 rates and FY23 data are currently listed on the DFA website to see Agency cost projections. With today's attachments provided and information on the website it can provide insight for the time being.

Sec. Schardin Clarke: Requested new columns to be added to the table including agency costs; percent change, including zeros, estimated revenue. There is not a grand total for revenue at the bottom and more transparency the better. Further stating she does not have enough information to make a decision.

Sec. Sambandam: Agreed to work with the CFO to obtain the data requested.

Sec. Serna: Please summarize what the cost impact is of the last four years of legislative increases; Sec. Serna would like to see the establishment of a general fund appropriation for DoIT/ DOT increases.

Sec. Sambandam: Last year raises were taken into consideration and are a part of the 12.5%. Further stating, this is why the indirect rate is now 15%. Overall, the cost of doing business has increased; raises, pay parity adjustment, hiring. All this leads to an increase of cost.

Sec. Nair: Would like to see how much of DoIT's total budget comes out of general funds. This number would be interesting for the committee. Please remember to add indirect/direct cost or blended average indirect cost rate.

Sec. Sambandam: Clarified indirect cost. Smaller agencies do not have an IT department and DoIT runs the IT for them. This needs to be taken into consideration. If DoIT does not receive general funds, then where do the funds come from. We will work to get details.

Sec. Schardin Clarke: Requested the general fund total.

Sec. Sambandam: Two of DoIT's groups are general funded; \$1.8 million for EPMO and Cyber in FY23 and doesn't believe it exceeds \$3 million.

Brenda Fresquez: P772 is partially general funded; the compliance project management program includes EPMO, Cybersecurity, GIS, and the other project management office. In the past it has been \$1.8 million. In FY24 there was a \$4 million general fund increase due to the Office of Cybersecurity.

Jessica Hitzman and Ms. Mavrommatis: Clarified the response to Sec. Schardin Clark - That is the amount that agencies are paying DoIT. Seventeen percent of indirect costs are from the general fund and include \$6.5 million Federal funds - based on LFC analysis.

Sec. Sambandam: Bottom line is DoIT needs some flexibility to scale with services and hiring and should be able to do so.

Sec. Schardin Clarke: Every agency is in the same position.

Sec. Serna: DoIT has more flexibility than other agencies with the ability to apply costs to other agencies.

Sec. Sambandam: Do we need to continue the efforts after Cecilia's information?

Sec. Schardin Clarke: Yes, we need the requested information.

C: Sec. Griego y Garcia: States her observation- every year same theme, the committee needs more information, and needs it sooner for us to feel comfortable and not question how Sec Sambandam runs the agency (DoIT).

Approval of FY25 Rate Recommendations

Chairman Propst: Asked if it is the committee's preference to table the recommendation decision. The Committee agreed and the rate recommendation and approvals are pending DoIT providing additional information requested to the committee. The Committee agreed to table the vote and reconvene the meeting the week of July 10, 2023.

Other Business – None.

Motion to Adjourn was made by Schardin Clarke, and 2nd by Garcia y Griego; Meeting adjourned by Chairman Probst at 11:35 am

Reconvened Regular IT Rate Committee Meeting Minutes

The FY25 IT Rate Committee reconvened the regular meeting held June 26, 2023, at the request of the Chair on July 14, 2023, from 9:00 am – 10:00 am. The meeting was initially scheduled at the State Capitol, Room 321 and was held virtually instead due to a security concern and closure of the Capitol.

Chairman Secretary Wayne Propst, DFA, called the meeting to order at 10:29 am, followed by Roll Call.

Committee Members Present

Raja Sambandam, Acting Secretary, DoIT
Robert Doucette, Secretary, General Services Department
Debra Garcia y Griego, Secretary, Department of Cultural Affairs
Sarita Nair, Secretary, Department of Workforce Solutions
Ricky Serna, Secretary, Department of Transportation
Stephanie Schardin Clark, Secretary, Taxation and Revenue Department

Introductions of DoIT staff and others

Jason Johnson, Deputy CIO
Trish Trujillo, ASD-General Ledger
Brenda Fresquez, Special Projects Coordinator, Office of the Secretary
Gerald Clokey, ASD-Budget Director
Jacqueline Lovato, Executive Assistant, Office of the Secretary
Renee Narvaiz, PIO
Michael Rohrbacher, Director Public Safety Radio
Eve Banner, ASD-CFO (virtual)
Others Present - Cecilia Mavrommatis, Fiscal Analyst, DFA
Invited, not present: Jessica Hitzman, Legislative Finance Committee

Rate Development Overview

Sec. Sambandam explained how DoIT arrives at the rate calculations. Two elements drive the total cost of service - indirect and direct cost. Direct cost is identified specifically with the final cost objective. The indirect costs are the cost incurred for common or a joint purpose benefiting for more than one cost objective. Most indirect cost comes from ASD, data center, help desk support, partial cybersecurity, and geospatial. Direct cost includes specific cost to provide service to other agencies; Software licenses, such as adobe, Motorola radios, maintenance costs, and direct labor costs. Service Rate is equal to the total cost of service divided by the number of units/usage consumed. DoIT follows federal guidance to break even.

Summary of FY25 Rate Changes and Usage Impact

Sec. Sambandam explains the summary of changes from last year to this year. He provided the background, context, and process in the development of the rates. DoIT uses prior years data to project rates. For the FY25 projections we use FY23 billed data. Last year for FY24, we used FY22 data; it is always two years data in arrears. These are unaudited numbers. He apologized for the delay in providing the information requested during the prior meeting. FY23, June 2023 data is not available because year end is still in process. The data utilized is June 2022- May 2023. Key element: usage, we project the rates based on unit cost. If we are offering a service, based on usage, the number of people using the service and the cost can fluctuate.

Q: Sec. Nair: Asked if it is a snapshot on the number of users at end of the year.

A: Brenda Fresquez: The snapshot of billing for the 12th month, is an average of the 11 months.

Discussion of Rate Recommendations and Agency Projections

DoIT provided the committee with FY25 Agency Projections for Enterprise Services and SHARE ahead of time as requested during the meeting on June 26 2023.

Sec. Serna: Questioned the numbers and why they don't reconcile to the revenue in the Rate schedule. Secretary Schardin Clarke asked the same question in an email previously.

Sec. Sambandam: Explained the first two pages are agency projections for enterprise, while the last two pages are specific to SHARE.

Brenda Fresquez: Regarding the change in revenue - one of the deltas is due to no longer having Mainframe in FY25 and is one of the reconciling items.

Sec. Serna: I'll review the data. We can move on.

Brenda Fresquez: Referenced the proposed unit rates document; decreases/increases, yellow highlights represent changes, purple highlights represent rates that did not change. DoIT added revenue totals by service types to show the total revenue.

Sec Serna: Asked how it is reconciled with the change in cost of SHARE.

Brenda Fresquez: Regarding SHARE, it has to do with the change in FTE and strictly that, because the SHARE rate did not change. Brenda continued to review the FY25 Agency Projections sheet; Sec. Sambandam advised the committee of subtle variations on the numbers and noted some of the variations. Eve Banner then explained how data was pulled and the reason for variations. Brenda continued to explain that Federal guidance is to break even. DoIT is always trying to get to that middle ground where we break even. Sec Serna commented at a high level, some agencies are taking double digit increases and there are big fluctuations. Brenda stated the comparison is FY24 to FY25 usage and that represents the change. Keep in mind that FY24 projections were based on FY22 data. In FY22 most of us were at home, so usage was down in certain areas. Now that everyone's back in the office, more services are being utilized. FY23 data was used to project FY25 and the increase in usage is why you see the big changes.

Sec Serna: If I look at Tax and Rev, why would they see a 3.3% decrease relative to the telework and resources? Brenda stated it's based on usage being lower in FY22, a decrease in services at TRD, in FY23, it changes service by service.

Sec. Schardin Clarke: Stated she is curious what service TRD is using less of. TRD asked for a hard look at email and phone usage. We did an agency wide initiative to eliminate services to get an email address/ email discontinued and taken off their bill. TRD manages their Adobe licensing, so we are not paying per unit. I doubt the active management is decreasing to make up the 3%, it must be something bigger in our IT department.

Sec. Sambandam: Two factors play a role in the cost difference for the usage. 1) Year over year, we've cut the costs down, and 2) usage of service. For example, during covid VPN usage was up as everyone dialed in through VPN. The cost of landline went down. More people signed up for mobile cell service and mobile cell service changed. These count towards the fluctuation. DoIT has compared their costs to other states. Other states that utilize chargeback system, is an average close to 25 percent. Explains cost of doing business has increased across the globe.

Jason Johnson: Explained the cost involved with "housekeeping" for different services. States that DoIT is working on an offboarding process with all CIOs to reduce costs when employees leave an agency. Highlights DoITs progress with State Cloud service/storage and reducing the cost since he has been in role.

Sec. Nair: Questioned revenue numbers on the Rate sheet and believes it should be explained in this public meeting.

Sec. Sambandam: Explained the data used for analysis and the results in cost differences that need to be reconciled. DoIT does not have the last months' billing results. We used FY23 data usage to project FY25. Agencies may have reached out after FY23 books are closed, to notify us about changes.

Chairman Propst: Asked if Secretary Serna and Secretary Nair are done with their questions. They both accepted the explanations provided and the Chairman moved ahead to continue.

Sec. Schardin Clarke: Thanked DoIT for additional information provided. We have details for the estimates on what it means for each agency. She feels confident with the information DoIT has provided.

Sec. Sambandam: Thanked Sec. Schardin Clarke for comments and support. Asked if there are any other questions and confirms Sec. Nair is comfortable moving forward.

Sec Nair: When we talked about indirect costs and how they are calculated, some portion of indirect and direct are personnel. Then asked if it is based on actuals personnel costs or budgeted? Brenda clarified that Personnel cost is based on actual costs. Everything is actual costs with the one month's FY23 annualized, direct and indirect. Sec Nair stated it would be helpful to look at the relationship to market price. We understand there is a standard 15% markup because of indirect cost, but we need to be able to understand when these things would be less expensive. You're asking for such a modest increase that it cannot all be attributable to the overhead. So, in the future, not today, it would be great to understand how the bundling of the services is benefiting the agencies. Ms. Fresquez emphasized the increase also has to do with direct costs, not just indirect.

Sec Sambandam: Then explained bundling/package pricing and how DoIT can secure a better value and cost with this model. He then asked if there were any other questions from the committee. There were no other questions.

Approval of FY25 Rate Recommendation

Chairman Propst then moved on to the Rate Recommendations and asked if there were further discussions or questions. There were no other questions or comments; he then requested a motion to approve the FY25 rate recommendations. A motion was made by Secretary Schardin Clark and Secretary Serna seconded the motion. The vote was taken by roll call:

- Sec. Schardin Clark: Yes
- Sec. Serna: Yes
- Sec. Nair: Yes
- Sec. Garcia y Griego: Yes
- Sec. Doucette: Yes
- Sec Sambandam: Yes

Chair Propst - We have approval of DoIT's FY25 Rate Recommendations. First time doing it as the DFA Secretary and is impressed by the diligence of looking at the rates, especially Secretary Schardin Clarke. The committee feels more comfortable than the last time we met. The Chair thanked Raja for his patience, and his staff, spending more time on this. This will lead to a better process in a year from now. Thank you for that.

Other Business – None.

Meeting adjourned by Chairman Propst at 9:49 am.