

**Schedule 13**

**Funding Request for the FY 2025-26 Budget Cycle**

State

Request Title

**R-02 Modernizing the IT Division Budget**

Dept. Approval By: Christopher Beall, Deputy Secretary of State

Supplemental FY 2024-25

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Change Request FY 2025-26

OSPB Approval By: OSPB Approval Not Required

Budget Amendment FY 2025-26

Summary Information	Fund	FY 2024-25		FY 2025-26		FY 2026-27
		Initial Appropriation	Supplemental Request	Base Request	Elected Official	Budget Estimate
	<b>Total</b>	<b>\$4,186,824</b>	<b>\$0</b>	<b>\$4,328,769</b>	<b>\$0</b>	<b>\$0</b>
<b>Total of All Line Items Impacted by Change Request</b>	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$4,226	\$0	\$4,254	\$0	\$0
	CF	\$4,186,824	\$0	\$4,324,515	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2024-25		FY 2025-26		FY 2026-27
		Initial Appropriation	Supplemental Request	Base Request	Elected Official	Budget Estimate
	<b>Total</b>	<b>\$788,937</b>	<b>\$0</b>	<b>\$779,656</b>	<b>\$3,545,438</b>	<b>\$0</b>
IT Operating Expenses	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$551	\$0	\$579	\$0	\$0
	CF	\$788,386	\$0	\$779,077	\$3,545,438	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Column 4 Total Funds

Column 5 Total Funds

				Column 4 Total	Column 5 Total	
				Funds	Funds	
	<b>Total</b>	<b>\$2,953,020</b>	<b>\$0</b>	<b>\$3,100,020</b>	<b>(\$3,100,020)</b>	<b>\$0</b>
	FTE	0.0	0.0	0.0	0.0	0.0
IT	GF	\$0	\$0	\$0	\$0	\$0
Hardware/Software	CF	\$2,953,020	\$0	\$3,100,020	(\$3,100,020)	\$0
Maintenance	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

				Column 4 Total	Column 5 Total	
				Funds	Funds	
	<b>Total</b>	<b>\$449,093</b>	<b>\$0</b>	<b>\$449,093</b>	<b>(\$445,418)</b>	<b>\$0</b>
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$3,675	\$0	\$3,675	\$0	\$0
IT Asset	CF	\$445,418	\$0	\$445,418	(\$445,418)	\$0
Management	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

CF Letternote Text Revision Required	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	<b>If Yes, see schedule 4 fund source detail.</b>
RF Letternote Text Revision Required	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	
FF Letternote Text Revision Required	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	
Requires Legislation?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	
Type of Request?	State Prioritized Request				
Interagency Approval or Related Schedule No Other Agency Impact					



## Department Priority: R-02 Modernizing the IT Division Budget

### Summary of Funding Change for FY 2025-26

Fund Type	FY 2025-26 Base Request	FY 2025-26 Incremental Request	FY 2026-27 Incremental Request
Total Funds	\$4,335,193	\$0	\$0
General Fund	\$4,254	\$0	\$0
Cash Funds	\$4,330,939	\$0	\$0
Reappropriated Funds	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0
FTE	0.0	0.0	0.0

### Summary of Request

**Problem or Opportunity:**

The budget for Department of State’s (Department) Information Technology (IT) Division currently is divided into three operating line items: Operating Expenses, Hardware/Software Maintenance, and IT Asset Management based upon on an outdated, obsolete operating and budgeting model. Historically, the IT Division maintained a significant data center and many of the software costs were based upon perpetual licenses. Virtually all IT vendors have transitioned to a software licensing model with monthly or annual payments. Further, the Department’s on-premises data center footprint continues to shrink as more servers and workstations are virtualized. In this environment, it no longer is logical or practical to split the division’s operating budget across three line items and, in fact, this structure makes it challenging for the division to optimize its budget.

**Proposed Solution:**

The Department proposes restructuring the division’s budget with the Operating Expenses, Hardware/Software Maintenance, and IT Asset Management line items consolidated into a single Operating Expenses line item to reflect the modern IT operating environment. This request does not propose any change to the IT Division Personal Services appropriation.

**Fiscal Impact of Solution:**

This request does not change the amount of spending authority in the IT Division. Instead, this request reorganizes existing spending authority, consolidating it into a single line item (Operating Expenses).

<b>Requires Legislation</b>	<b>Revenue Impacts</b>	<b>Impacts Another Department?</b>	<b>Statutory Authority</b>
No	No	No	§ 24-21-101 C.R.S. § 24-75-112(1)(l) C.R.S. § 24-37.5-102(28) C.R.S.

## **Background and Opportunity**

The Department’s IT division is responsible for operation and support of more than 30 custom-developed applications supporting businesses, voter registration, campaign finance, licensing, rules, notaries, charities, lobbyists, durable medical equipment, uniform commercial code, and others. While the division collaborates with and has provided support when required to the Governor’s Office of Information Technology (OIT), it effectively operates independently of OIT, as the Department is excluded from the definition of “state agency” in the OIT statutes.<sup>1</sup>

Today, the overwhelming majority of customers interact with the Department through its website and technology systems are used by every Department employee to serve our customers and to do their jobs. Secure, reliable, and modern IT systems are essential to our success.

For more than 20 years, the Department’s IT operating budget has included separate lines for Asset Management, Hardware/Software Maintenance, and Operating Expenses. This was driven by an IT industry that sold software using perpetual, long-term software subscription agreements and the Department’s maintenance of numerous hardware servers in an on-premises data center. This model is now obsolete as virtually all IT vendors have fully transitioned to a software licensing model with monthly or annual payments. Furthermore, the Department’s own data center footprint continues to shrink as more servers and workstations are virtualized. The IT Division’s budget structure must adapt to meet this change. This modernization will enable the division to continue to serve customers, including businesses, charities, and county governments, efficiently and effectively. It will also provide additional flexibility to the division in meeting emerging technology needs and threats.

## **Proposed Solution and Anticipated Outcomes**

This request proposes consolidating three line items in the IT Division: Asset Management, Hardware/Software Maintenance, and Operating Expenses into a single Operating Expenses line item. The Department is not seeking any additional spending authority and no statutory change is required. The table on the next page illustrates this request.

<b>IT Division Appropriation</b>	<b>Status Quo</b>	<b>Request</b>
Operating Expenses	\$786,080	\$4,335,193
Hardware/Software Maintenance	\$3,100,020	\$0
Asset Management	\$449,093	\$0
<b>Total</b>	<b>\$4,335,193</b>	<b>\$4,335,193</b>

By consolidating into a single Operating Expenses line item, the division is better positioned for the future for the following reasons:

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<sup>1</sup> § 24.-37.5-102(28) C.R.S.

- Operating dollars will easily transition to subscription-based models when and where needed as opposed to being dedicated to older physical hardware platforms.
- The budget will be modernized and better adapted to purchase software subscriptions now that perpetual licenses are no longer available from vendors.
- The division will be better able to address year-to-year fluctuations in needs rather than being restricted by obsolete budget categories.
- POs that combine technology assets and licensing can be charged to a single appropriation, reducing the complexity for procurement, accounting, and IT staff.

Absent this change, the IT Division will continue to operate using the existing budget structure based on an outdated IT business model. This structure will restrict the division's operating flexibility and may limit its ability to pursue opportunities to improve operations in coming fiscal years.

### **Assumptions and Calculations**

The Department assumes that the IT business model will continue to evolve in the coming years and that, therefore, it is in the State's best interest to modernize the IT Division budget structure by consolidating the Asset Management, Hardware/Software Maintenance, and Operating Expenses line items into a single Operating Expenses line item.