



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: March 10, 2016
TO: Legislative Finance Committee
FROM: Kris Wilkinson, Lead Fiscal Analyst
RE: Oracle licensing agreement

Oracle undertook an audit of licenses earlier in fiscal year (FY) 2016 and determined that Montana requires additional Oracle licenses beyond what was currently being paid for. The Legislative Finance Committee (LFC) was notified of potential costs to state agencies for Oracle costs that were not included in the 2017 biennial budget. LFC requested additional information for the March report on the results of the agreement between Oracle and the State Information Technology Division (SITSD). The purpose of this memorandum is to provide the LFC with information regarding the final agreement between the state and Oracle, the associated cost of the agreement, and the impact of the costs on state agencies.

ORACLE AGREEMENT

Earlier in the fiscal year Oracle began an audit of the licenses of four state agencies:

- o Department of Labor and Industry (DOLI)
- o Department of Justice (DOJ)
- o State Auditor's Office (SAO)
- o Secretary of State (SOS)

Both DOLI and SOS are hosted on SITSD platforms. As a result SITSD was also included as part of the audit. Oracle determined that the methodology used by SITSD and other agencies for determining the number of licenses required for each server was unintentionally underreporting the number of licenses.¹

Once this was determined, Oracle stopped the audit process and SITSD conducted a review of each agency's licensing profile including virtualized servers requiring licenses and Oracle products utilized.

SITSD negotiated an agreement with Oracle for a period of three years beginning in February 2016. The agreement has a number of components including:

- o Renewal of the Oracle licensing agreement
- o Cloud component
- o Audit closure letter
- o Unlimited license agreement (ULA)

¹ The method used by SITSD and other agencies did not take into consideration the ability for virtualized servers to live migrate in the server environment. In the past servers were a physical entity with software that was loaded onto the server to run various programs. Today the number of servers is no longer tied to a physical presence but is "virtualized" meaning the server configurations can be "copied and pasted" to create additional servers within the computer processing unit rather than requiring a new physical server.

The change in licensing will cost the state an additional \$3.38 million including:

- o Additional unlimited licenses and cloud computing - \$2.91 million, \$1,509,650 for ULA and \$1,400,000 for cloud computing;
- o Ongoing maintenance - \$0.14 million in FY 2016 and \$0.33 million in FY 2017.

COSTS OF ADDITIONAL LICENSES – ALLOCATION TO AGENCIES

The cost of the unlimited license agreement, the cloud computing contract, and the ongoing maintenance of the program will be allocated to the state agencies using Oracle services. The following figure shows the Oracle licensing rates included in the budget, the proposed allocation, the total additional costs, the new biennial total costs and the % change in the costs from the original budget.

Oracle Licensing Costs								
Agency	Budgeted Rates		One-time FY 2016	Support Cos:		Total Additional	Total Biennial Cost	% Increase From Budget
	FY 2016	FY 2017		FY 2016	FY 2017			
State Information Technology Services Division	\$274,930	\$246,907	\$638,311	\$30,358	\$72,860	\$741,529	\$1,263,366	142.10%
Department of Administration	284,976	249,296	77,454	3,684	8,841	89,979	624,251	16.84%
Department of Agriculture	3,142	2,822	0	0	0	0	5,964	0.00%
Department of Corrections	12,059	20,522	28,199	1,341	3,219	32,759	65,340	100.55%
Department of Environmental Quality	26,685	45,412	42,805	2,036	4,886	49,727	121,824	68.97%
Department of Fish, Wildlife, and Parks	50,202	45,077	117,393	5,583	13,400	136,376	231,656	143.13%
Department of Justice	49,922	42,196	186,833	8,886	21,326	217,045	309,162	235.62%
Department of Labor and Industry	81,882	73,523	27,375	1,302	3,125	31,802	187,207	20.46%
Department of Livestock	3,142	2,822	0	0	0	0	5,964	0.00%
Department of Natural Resources and Conservation	2,095	1,881	0	0	0	0	3,976	0.00%
Department of Public Health and Human Services	104,622	93,931	1,281,894	60,968	146,322	1,489,184	1,687,736	750.02%
Department of Transportation	70,911	63,672	323,423	15,382	36,917	375,722	510,305	279.17%
Judicial Branch	114,076	102,430	0	0	0	0	216,506	0.00%
Legislative Branch	2,095	1,881	0	0	0	0	3,976	0.00%
State Auditor's Office	8,878	7,972	17,624	838	2,012	20,474	37,324	121.51%
Montana Interactive	4,522	4,060	0	0	0	0	8,583	0.00%
Montana Public Employees Retirement	4,190	3,762	0	0	0	0	7,952	0.00%
Montana State Fund	25,958	23,308	168,339	8,006	19,215	195,560	244,826	396.95%
Total	\$1,124,288	\$1,031,472	\$2,909,650	\$138,385	\$332,123	\$3,380,158	\$5,535,917	156.80%

According to SITSD staff, the unlimited license agreement, cloud computing contract, and the ongoing maintenance of the program will be allocated to the state agencies included in the ULA using Oracle services. The allocation of the Oracle unlimited licensing agreement and cloud computing is based on the agency's current usage of the products included in the Oracle ULA. Costs for agencies that receive services through SITSD are included in the \$741,529 allocation shown for SITSD.

AGENCY PLAN TO PAY FOR ADDITIONAL COSTS

Costs assigned to SITSD for the biennium are \$741,529 and include costs for state agencies that have all their servers hosted by SITSD. SITSD is still in the process of determining how it will allocate the additional costs to these state agencies.

SITSD's proprietary account does not have funding available for additional costs. In addition through January expenditures have exceeded revenues by about \$0.2 million. As a result, SITSD is unable to absorb the additional costs for its portion of the agreement. SITSD has obtained financing through a third party vendor for the ULA and cloud service portion of the additional costs, including those of the state agencies. The vendor is charging SITSD 2.4037% interest on the quarterly payments.

For the most part agencies are either absorbing the additional costs within current appropriations or using carry forward authority. The Department of Public Health and Human Services is still determining how it will pay for its Oracle allocation.